Universities Academic Pension Plan

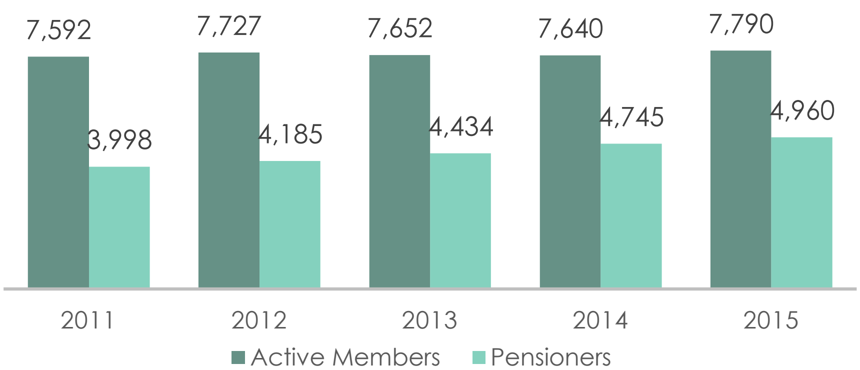
Communiqué

Spring 2016

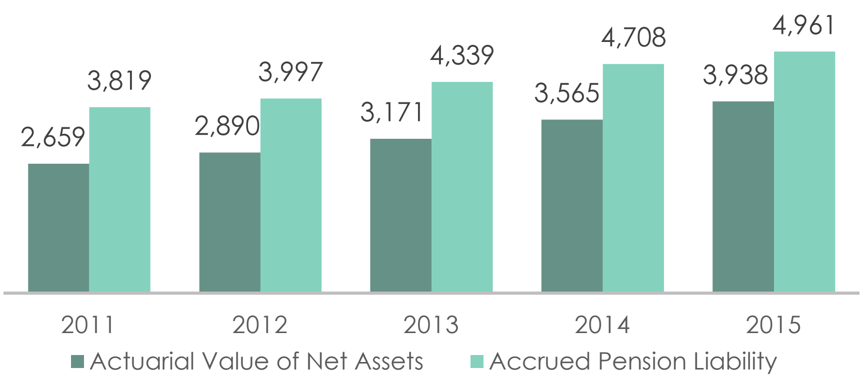
2015 Annual Report Highlights

UAPP's 2015 Annual Report is ready!

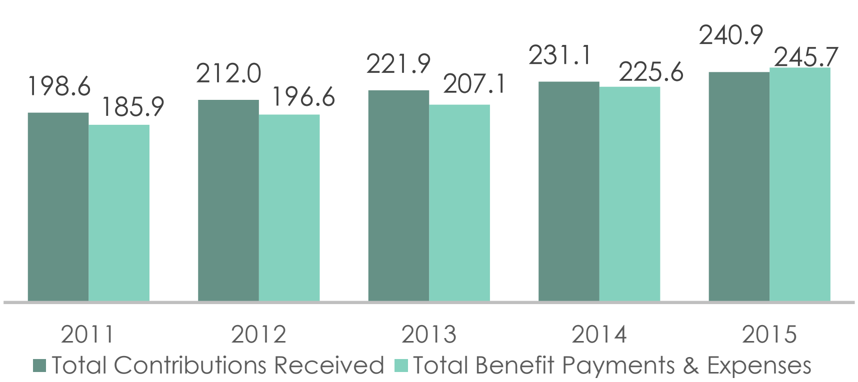
Member and Pensioner Statistics



Assets and Liabilities *($ millions)*



Contributions Received and Benefit Payments & Expenses *($ millions)*



2015 ANNUAL REPORT

This issue of the Communiqué is a brief summary of the key highlights from this year's Annual Report which is available on the UAPP website.

Summary of Net Assets and Pension Liabilities*

As at December 31

	2015	2014
Investments	$4,025	$3,749
Net receivables	19	18
Net assets	4,044	3,767
Actuarial adjustment for fluctuation in fair value of net assets	(106)	(202)
Actuarial value of net assets	3,938	3,565
Actuarial deficiency	1,023	1,143
Accrued pension liability	$4,961	$4,708

($millions)

FINANCIAL POSITION OF THE PLAN

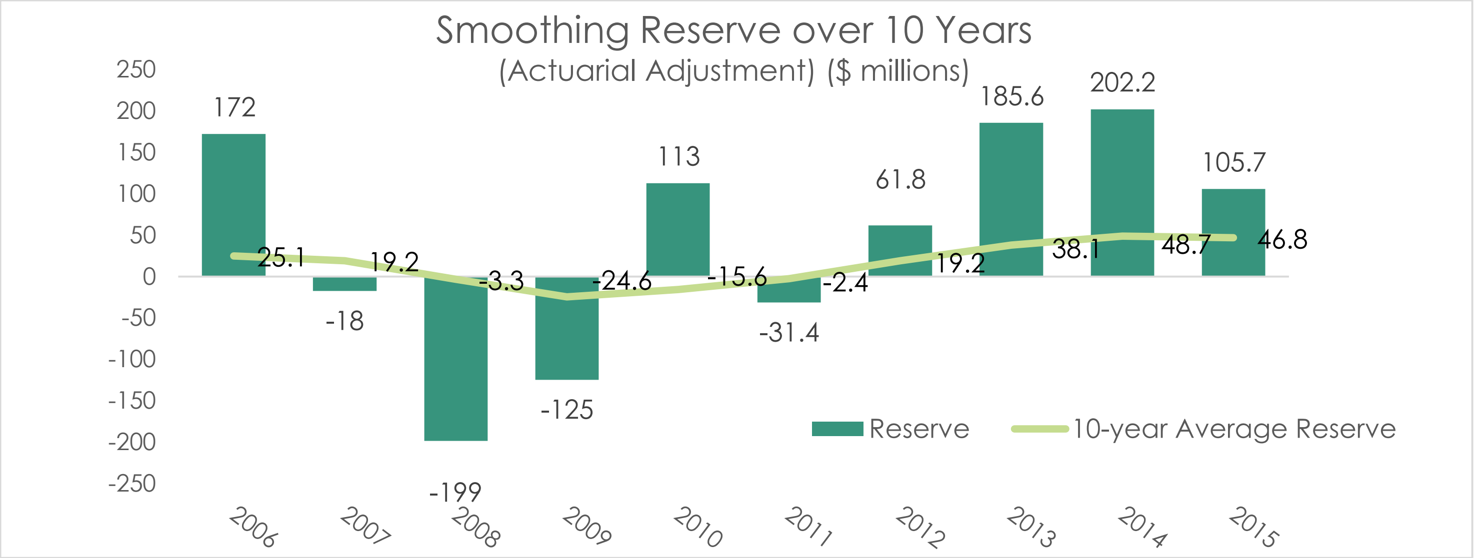
The Plan's Assets

The market value of the Plan's assets grew to $4,043.7 million at December 31, 2015 from $3,767.6 million at the end of 2014, reflecting an increase of $276.1 million. The Fund achieved an investment return of 7.6% for 2015. The discount rate used in the most recent actuarial valuation is 5.95% per year starting in 2015. Despite exceeding the expected return for 2015, actual returns were lower than in recent years when the fund earned 12.2% in 2014 and 13.1% in 2013. The year 2015 marked the first time since 2008 that benefit payments ($243.6 million) exceeded contributions ($240.9 million).

$ Millions	**December 31, 2015**			**December 31, 2014**		
	Pre-92 Service	Post-91 Service	Total Service	Pre-92 Service	Post-91 Service	Total Service
Fair Value of Net Assets	787.6	3,256.1	4,043.7	824.9	2,942.7	3,767.6
Actuarial Adjustment	(25.5)	(80.2)	(105.7)	(51.0)	(151.2)	(202.2)
Actuarial Value of Net Assets	762.1	3,175.9	3,938.0	773.9	2,791.5	3,565.4
Accrued Pension Liability	1,627.0	3,334.0	4,961.0	1,677.6	3,030.4	4,708.0
Actuarial Surplus (Deficiency)	(864.9)	(158.1)	(1,023.0)	(903.7)	(238.9)	(1,142.6)
Funded Ratio	46.8%	95.3%	79.4%	46.1%	92.1%	75.7%

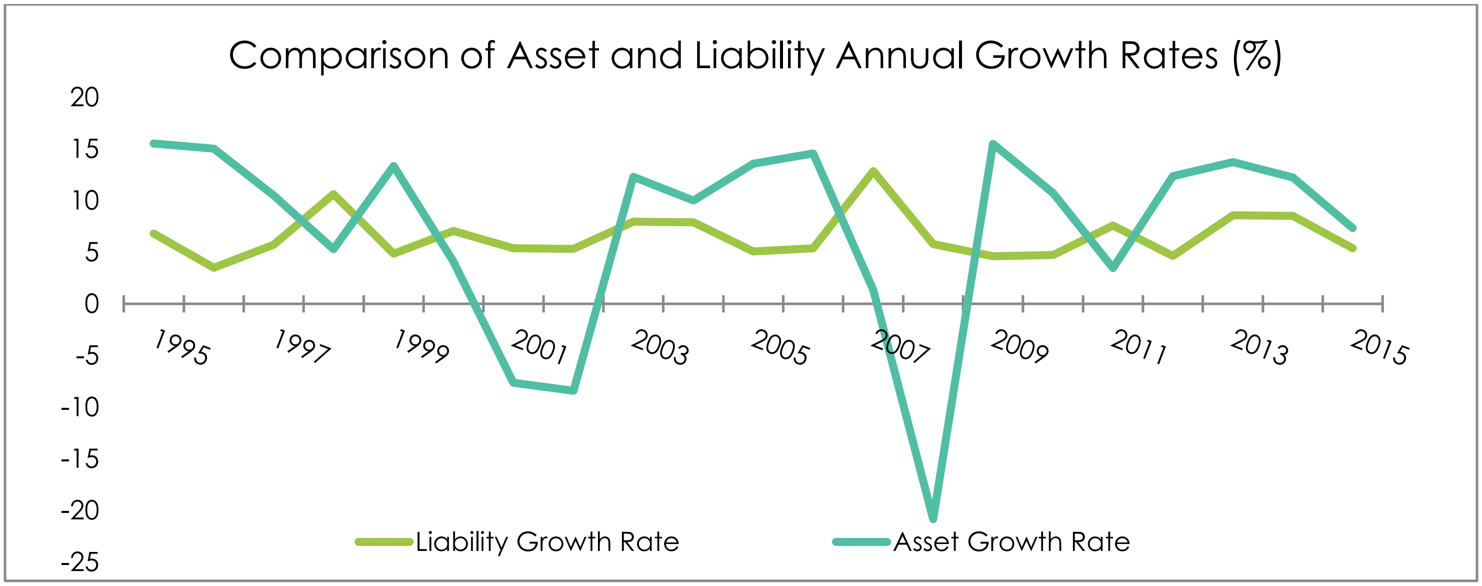
When calculating the Plan's funding requirements under the Employment Pension Plans Act, the market value of the assets are smoothed to soften the impact of market volatility. UAPP uses 3-year averaging of the differences between the assumed and actual market rates of return. The actuarial value of the Fund grew to $3,938.0 million at the end of 2015 from $3,565.4 million at the end of 2014. The December 31, 2015 actuarial value is $105.7 million lower than the market value. In years when actual returns exceed the assumed returns, the Fund builds up a reserve that can be used when markets perform below the assumed rate. In 2015, the investment return was higher than the assumed discount rate of 5.95%. As such, the Plan had a smoothing reserve of $105.7 million to offset future lower-than-expected returns. Since the investment return in 2014 was higher than the assumed discount rate of 6.25%, the smoothing reserve was $202.2 million.

For the fourth consecutive year, the actual return on plan assets exceeded the assumed return, resulting in continued positive reserves. The smoothing reserve has fluctuated from a high of $202.2 million (2014) to a low of -$199 million (2008), averaging $46.8 million over the last 10 years.



The Plan's Liabilities

The Plan's total pension obligation as at December 31, 2015 is calculated to be $4,961.0 million as compared to $4,708.0 million at the end of 2014, increasing 5.4% over the year. The December 31, 2015 liability is based on an extrapolation from the December 31, 2014 actuarial valuation while the liability from last year's financial statements is based on an extrapolation from the December 31, 2012 actuarial valuation. The Plan has historically undertaken an actuarial valuation every two years with the next scheduled for December 31, 2016.



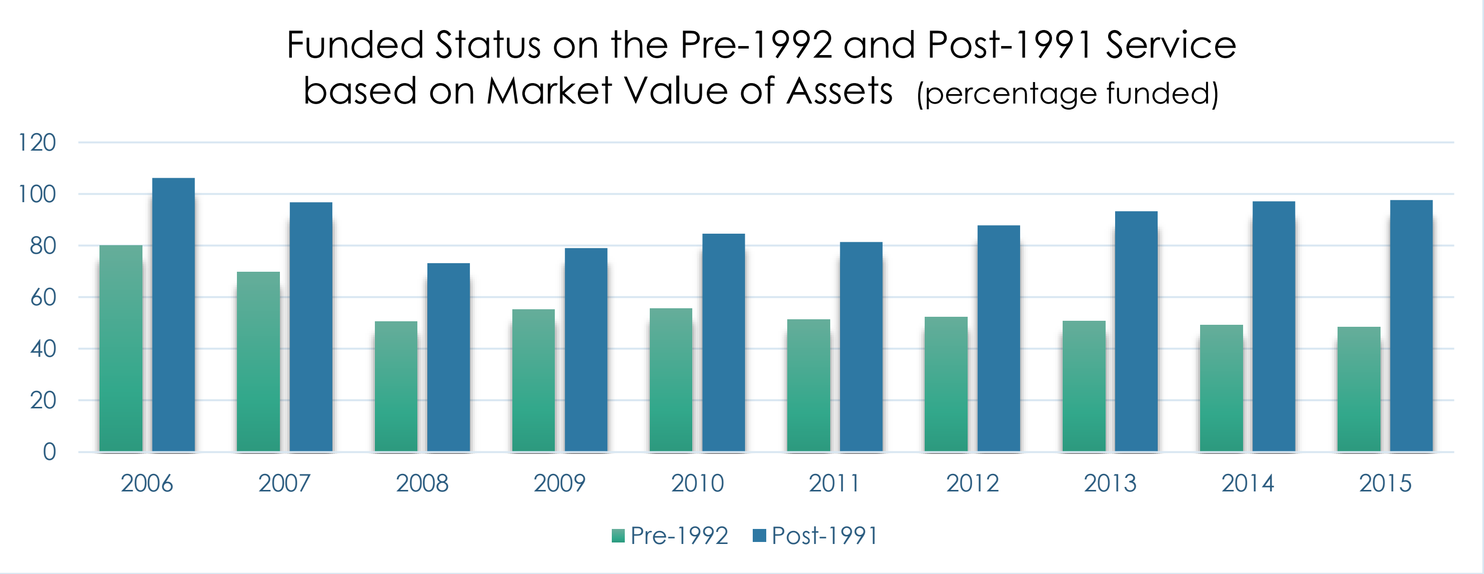
Because of the long-term nature of pension plans like UAPP, several economic and demographic assumptions are included in actuarial valuations and extrapolations. A number of assumptions have been changed from the 2014 to 2015 financial statement extrapolations.

As a result of a 2015 experience study, rates of termination, retirement, and merit increases on earnings have been revised to better reflect more recent experience. The other significant change is a reduction in the discount rate from 6.25% per annum to 5.95% per annum. As a result of this change, the asset real rate of return decreased by 30 basis points, from 4.0% per annum to 3.7% per annum. Other changes in assumptions include a decrease in the salary escalation rate from 1.5% for the first two years after valuation to 1.0%, an increase in the adjustment factor for female mortality rates from 95% to 100%, and a decrease in the percent of terminating members electing a deferred pension from 70% to 60%.

The Plan's Funded Ratio

The actual return on plan assets exceeded the increase in the extrapolated liability during 2015. As a result, the Plan's funded ratio on a market value basis increased to 81.5% in 2015 from 80.0% in 2014. The funded ratio on an actuarial value basis increased to 79.4% in 2015 from 75.7% in 2014.

Since the Government of Alberta contributes towards the pre-1992 unfunded liability but not the post-1991 unfunded liability, the Plan must account for these deficits separately. The funded ratio for pre-1992 service is 46.8% (2014: 46.1%) on the actuarial value basis while the funded ratio for post-1991 service is 95.3% (2014: 92.1%) on the same basis.



The pre-1992 unfunded liability is amortized such that it will be eliminated by December 31, 2043. The Government of Alberta makes contributions of 1.25% of total salary towards this unfunded liability with the remainder of the deficit funding shared between the employers and employees as determined at each actuarial valuation. The funded ratio for pre-1992 service continues to be significantly less than the funded ratio for post-1991 service due mainly to the long amortization period for the elimination of the pre-1992 unfunded liability. The Government of Alberta's share of the contributions was approximately 50% when the cost-sharing was first established in the early 1990s. It now stands at 30% of the total pre-1992 unfunded liability contribution.

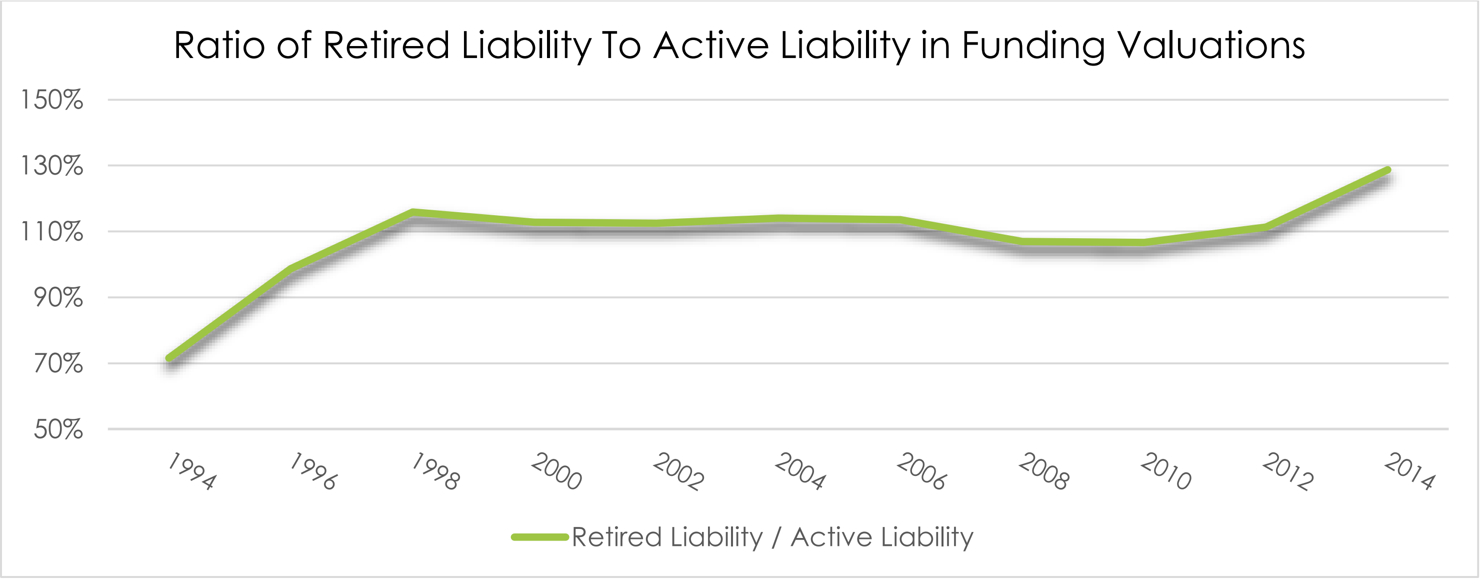
For post-1991 service, the Plan has been fully funded in the past and is expected to be fully funded in the future. The funded ratio for this service is significantly impacted by investment returns. Unfunded liabilities related to this service are amortized over 15 years in accordance with pension legislation and contributions are shared between employers and employees.

Looking Forward

Pension benefits earned in the UAPP are based on a member's highest average salary and include a guaranteed annual cost-of-living adjustment of 60% of the increase in the Alberta Consumer Price Index, applying to both deferred pensions and pensions-in-pay.

Given the Plan's long-term nature, assumptions are required in the actuarial valuations when calculating the liability, representing the value of benefits already earned by members, and the current service cost, representing the value of benefits to be earned in the future. Economic assumptions used include rates of inflation, salary increases, and return on Plan assets, among others. Demographic assumptions used include rates of retirement, termination and mortality; spousal profile, etc.

Like most defined benefit pension plans, the UAPP has "aged" from a young plan, with a majority of members actively accruing benefits and making contributions to the plan, to a more mature plan, with a growing group of members retired and in receipt of monthly pensions. The maturing of a pension plan can be seen in changes in the ratio of liabilities for retired members against the liabilities for active members. The UAPP has seen a noticeable increase in the number of retirements, particularly over the past three years. As a result, this ratio has recently increased dramatically.



Despite poor investment returns during the 2nd and 3rd quarters of 2015, the full year yielded a return greater than assumed. Combined with strong asset returns in 2012 through 2014, the Plan's financial position has improved on the asset side of the ledger over the past four years. However, the Plan continues to struggle with other factors that have prolonged the unfunded liabilities.

Among these factors is the decreasing discount rate used to value Plan liabilities. The discount rate has been reduced as a result of an extended period of low Government of Canada long bond rates. Interest rates used to calculate lump sum values of pension benefits are derived from these low bond rates. When these rates are low, the lump sums are high. In the mid-1990s, Government of Canada long bonds yielded over 8%. At the end of 2015, the same bond yielded only 2.2%.

A study by the Canadian Institute of Actuaries indicated that Canadians are living longer than expected and that improvements to mortality have been happening faster than previously thought. As a result, the Plan adopted the most recent mortality tables for the latest actuarial valuation. The greater longevity in these tables results in higher Plan liabilities.

Contributions depend upon the number of active members in the pension plan. All contributions, whether from employees, employers, or the Government of Alberta, are calculated based on earnings of the active membership. Despite a 2.0% year-over-year increase in the size of this group during 2015, growth in active membership has recently lagged behind growth in the retired membership.

The Board begins 2016 in the final stages of an asset/liability study to review the Plan's target asset mix in the context of the liabilities. The end result should better enable the Plan to attain its investment objectives over the long-term. The Board is also working with the pension administrator, Buck Consultants, on upgrades to the Retirement Planner and its platform which is used for member calculations. Employees and employers should see improvements in the user experience once the upgrades are in place.

Contribution Rate Changes

As noted on the Fall 2015 Communique, contribution rates are scheduled to increase effective July 1, 2016. The total contribution rate increase is 1.44% of salary and will be shared equally between employees and employers. For specific contribution rates by employer, please refer to the Fall 2015 Communique on our website.

Keep Your Contact Information Current

It is important that you keep your contact information current. Active members should notify their employer about any changes to their address. It is vital that pensioners and other terminated members ensure UAPP has their current contact information in case the UAPP needs to contact them about their pension. Pensioners or their agents should contact CIBC Mellon directly by telephone at 1.800.565.0479 to update their information. Other terminated members should contact Buck Consultants at 1.866.709.2092.

Keep Your Beneficiary Information Current

If you leave employment and leave your funds with the UAPP, keep your Designation of Beneficiary and the addresses of your beneficiaries up-to-date with the UAPP. Doing so will help expedite payment to your beneficiaries. Make sure your family or your executor knows you are entitled to a benefit from the UAPP.

Comments/Suggestions

If you recently used the services of any group (such as Buck Consultants, the Human Resources Department at your institution, or the UAPP Trustees' Office) on a matter related to the UAPP and would like to comment on the service you received, please feel free to contact us through any of the means provided at www.uapp.ca/contact-us.

Questions About the Retirement Planner? Call Buck Consultants at 1.866.709.2092 if you need help accessing the Retirement Planner, or for login or password inquiries. The Retirement Planner can be accessed through the link on our homepage at www.uapp.ca. Your annual Member Statement can be accessed through the Retirement Planner.

Questions About Your Pension? Call Buck Consultants at 1.866.709.2092, the Human Resources Department at your institution, or the UAPP Trustees' Office at 780.415.8868.

Questions About Purchasing Prior Service or Periods of Leaves of Absence? Call the Human Resources Department at your institution or the UAPP Trustees' Office at 780.415.8868.