UNIVERSITIES ACADEMIC PENSION PLAN

# Communiqué

Spring 2017

## HIGHLIGHTS OF THE 2016 ANNUAL REPORT

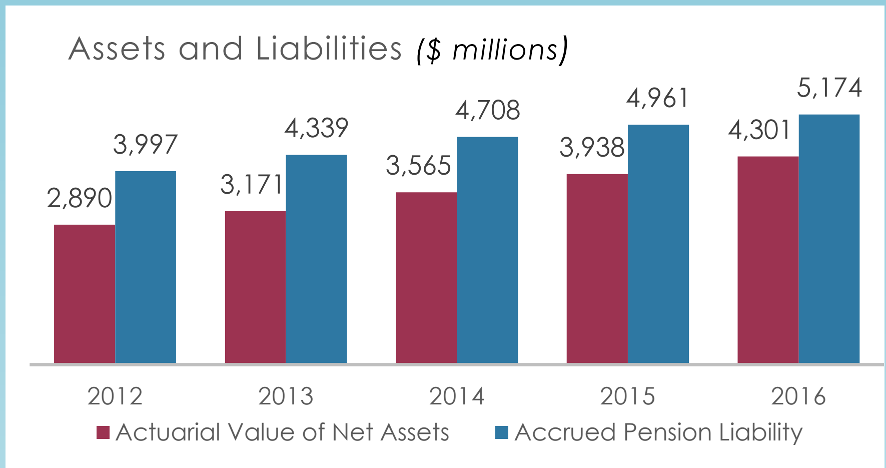
## 2016 ANNUAL REPORT

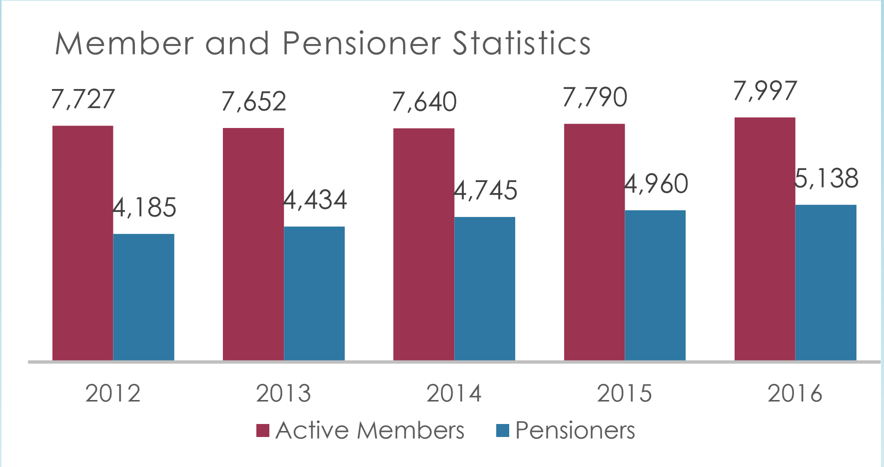
*The UAPP's Annual Report for the year 2016 has been released and this issue of the Communiqué provides financial, statistical and other summary highlights of the Report. The full Annual Report is available on the [UAPP website](#).*

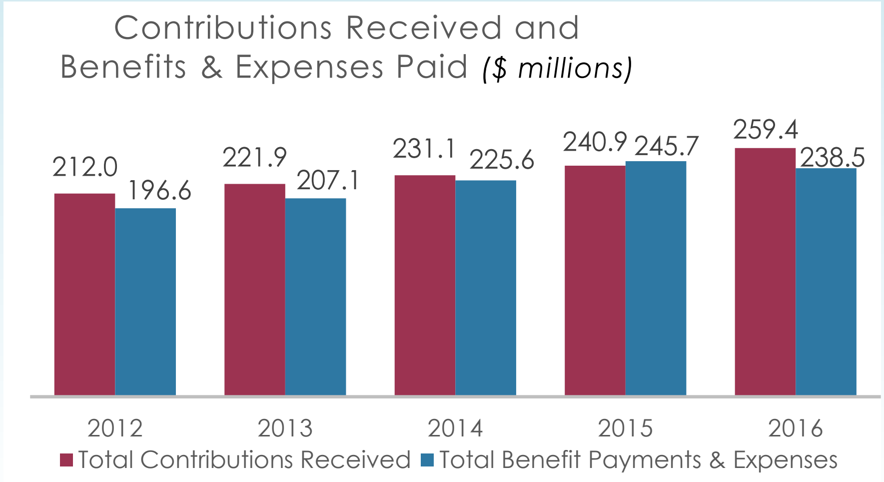
### Summary of Net Assets and Pension Liabilities *($ millions)*

As at December 31

| | 2016 | 2015 |
|---|---|---|
| Investments | $4,329 | $4,025 |
| Net receivables | 20 | 19 |
| Net assets | 4,349 | 4,044 |
| Actuarial adjustment for fluctuation in fair value of net assets | (48) | (106) |
| Actuarial value of net assets | 4,301 | 3,938 |
| Actuarial deficiency | 873 | 1,023 |
| Accrued pension liability | $5,174 | $4,961 |



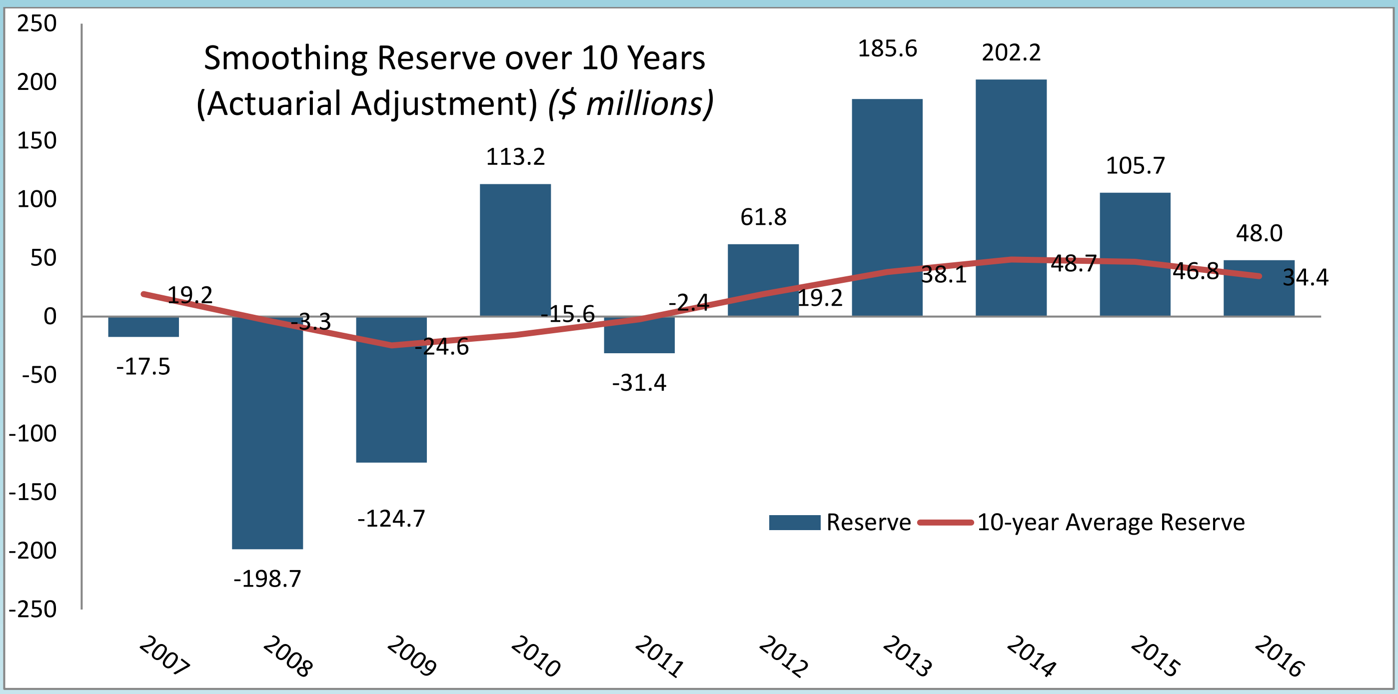
# FINANCIAL POSITION OF THE PLAN

## The Plan's Assets

During 2016, the market value of the Plan's assets grew by $305.6 million, from $4,043.7 million at the end of 2015 to $4,349.3 million at December 31, 2016. The discount rate used in the most recent actuarial valuation is 5.95% per year and the investment return achieved by the Fund was 7.1% for 2016. This return marks the fifth consecutive year in which the Plan's investments grew more than expected yet it was the lowest annual return since the 3.2% attained during 2011. Unlike in 2015, contributions to the Fund ($259.4 million) exceeded benefit payments ($236.3 million) during 2016.

| $ Millions | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Pre-92 Service | Post-91 Service | Total Service | Pre-92 Service | Post-91 Service | Total Service |
| *Fair Value of Net Assets* | 750.4 | 3,598.9 | 4,349.3 | 787.6 | 3,256.1 | 4,043.7 |
| *Actuarial Adjustment* | (11.1) | (36.9) | (48.0) | (25.5) | (80.2) | (105.7) |
| *Actuarial Value of Net Assets* | 739.3 | 3,562.0 | 4,301.3 | 762.1 | 3,175.9 | 3,938.0 |
| *Accrued Pension Liability* | 1,577.7 | 3,596.4 | 5,174.1 | 1,627.0 | 3,334.0 | 4,961.0 |
| *Actuarial Surplus (Deficiency)* | (838.4) | (34.4) | (872.8) | (864.9) | (158.1) | (1,023.0) |
| *Funded Ratio* | 46.9% | 99.0% | 83.1% | 46.8% | 95.3% | 79.4% |

Due to the point-in-time nature of market values, pension plans are permitted to "smooth" asset values when determining funding requirements under the Employment Pension Plans Act of Alberta. The actuarial value of the assets is derived using 3-year averaging in an attempt to remove some of the volatility experienced by market values. The method used by the Plan is summarized in Note 14 of the Financial Statements and in the most recent actuarial valuation report. During 2016, the actuarial value of the Plan's assets grew by $363.3 million, from $3,938.0 million at December 31, 2015 to $4,301.3 million at December 31, 2016. The actuarial value of the Fund is $48.0 million lower than the market value at the end of 2016. In 2015, the actuarial value was $105.7 million lower than the market value. The fact the actual return exceeded the assumed discount rate of 5.95% contributed to the market value exceeding the actuarial value. In general terms, in years when the opposite is true and assumed returns are higher than actual returns, the Fund will see the actuarial value exceed the market value. The smoothing reserve has fluctuated from a high of $202.2 million at the end of 2014 to a low of - $198.7 million at the end of 2008, averaging $34.4 million over the last 10 years. The smoothing reserve of $48.0 million for 2016 is just 1.1% of the actuarial value, the smallest gap in percentage terms since 2011.

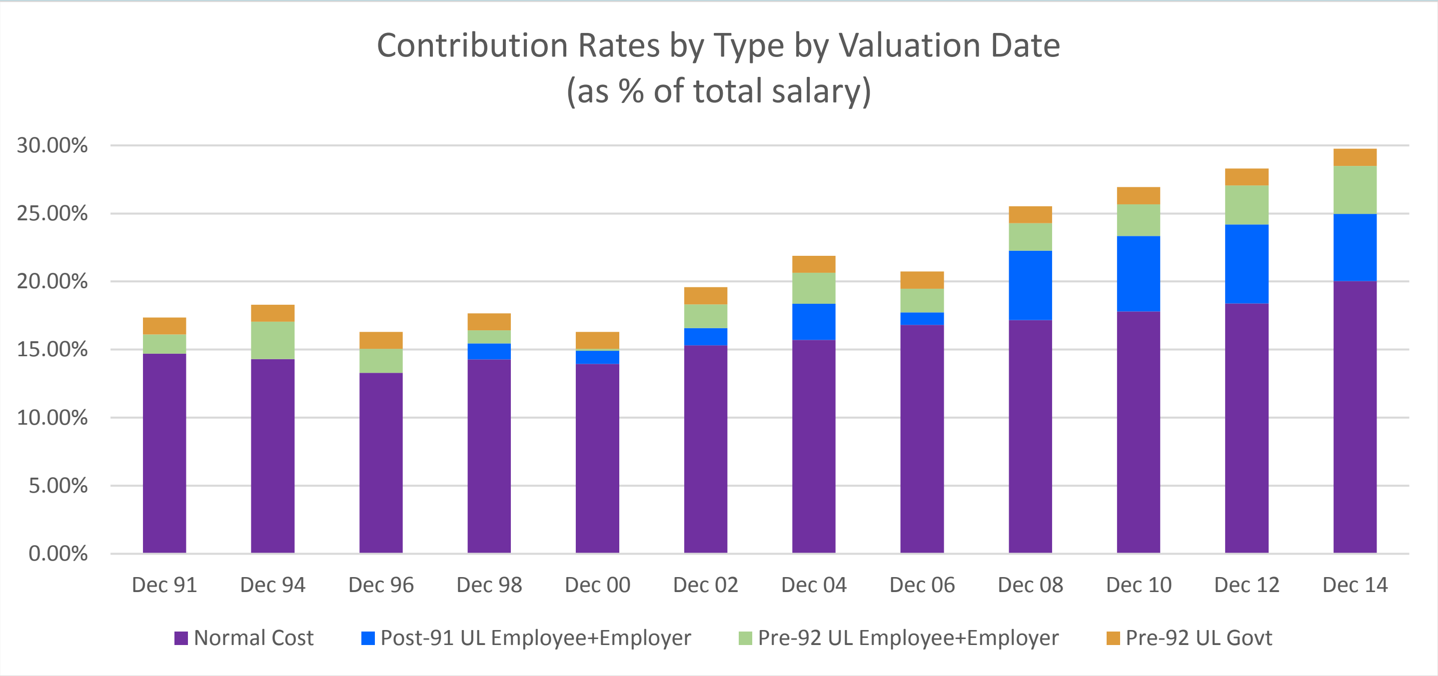



## The Plan's Liabilities

The present value of all benefits accrued at a particular date in a pension plan is referred to as the plan's liability for the purposes of a funding valuation though accounting standards instead use the term pension obligation. As at December 31, 2016, the Plan's total liability is determined to be $5,174.1 million, reflecting growth of 4.3% over the year from $4,961.0 million at December 31, 2015. The last full actuarial valuation was completed as at December 31, 2014 and those results have been extrapolated to obtain the liabilities at both December 31, 2015 and December 31, 2016. The Plan has historically undertaken an actuarial valuation every two years with the next one scheduled as at December 31, 2016.

The assumptions used for the 2016 and 2015 financial statement extrapolations are the same as the assumptions adopted for the December 31, 2014 actuarial valuation. However, the Board will be reviewing the assumptions for the purposes of the actuarial valuation as at December 31, 2016.

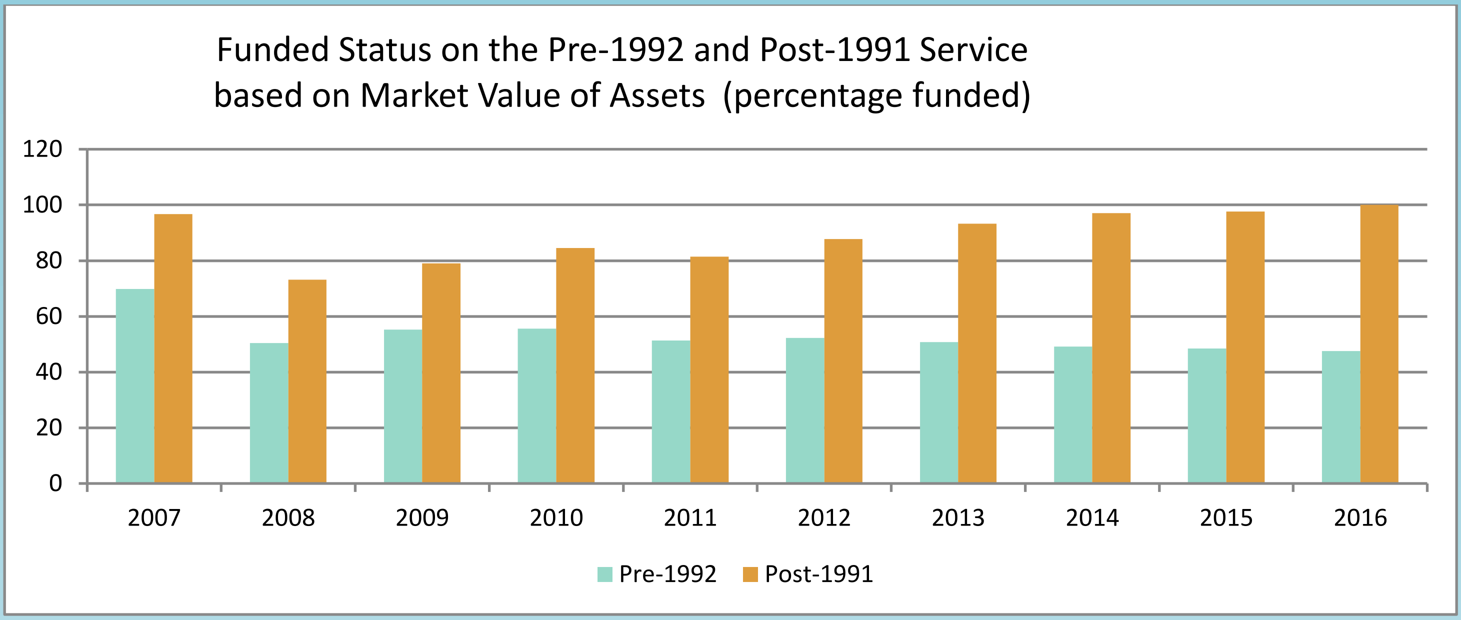
As part of the actuarial valuation, contribution rates may be adjusted to secure the future payment of the pension benefits. For plans like UAPP, contributions come in two distinct types: normal cost (also called current service) and unfunded liability (UL). Current service contributions fund pension benefits as they are earned during the current year. On the other hand, unfunded liability contributions go toward paying off past deficits, which are liabilities for which assets in the plan are insufficient. UAPP deficits are separated into a pre-1992 service portion and a post-1991 service portion because the Government of Alberta helps with some of the funding of the pre-1992 unfunded liability.




## The Plan's Funded Ratio

The Plan's funded ratio based on actuarial value of net assets increased to 83.1% at the end of 2016 from 79.4% at the end of 2015. The actual return on plan assets exceeded the assumed rate of return during 2016, contributing to the smoothing adjustment whereby the market value of net assets is greater than the actuarial value. On a market value basis, the funded ratio has increased from 81.5% to 84.1% during the year.

The funded ratio for pre-1992 service is 46.9% (2015: 46.8%) on the actuarial value basis and is 47.6% (2015: 48.4%) on the market value basis. The funded ratio for post-1991 service is 99.0% (2015: 95.3%) on the actuarial value basis and is 100.1% (2015: 97.7%) on the market value basis.




The unfunded liability for pre-1992 service is amortized such that it will be eliminated by December 31, 2043. The Government of Alberta makes contributions fixed at 1.25% of total salary towards this unfunded liability with the remainder of the deficit funding shared between the employers and employees. The required contribution rates from employers and employees are 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 26.1% 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.

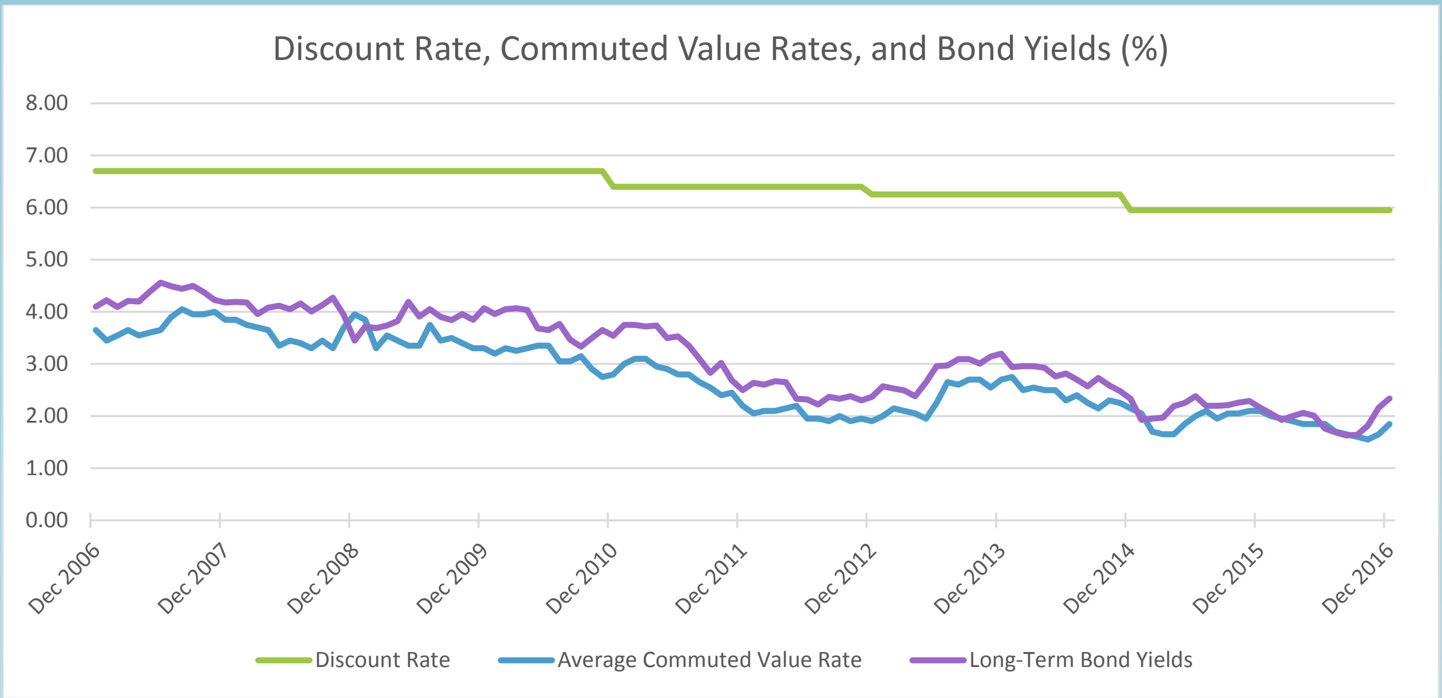
## Looking to the Future

A revised Statement of Investment Policies and Goals, commonly referred to as the SIP&G, was adopted by the Plan effective January 1, 2017. The new SIP&G reflects a transition of some assets in accordance with the results of an Asset Liability Modeling Study commissioned by the Board and completed in 2016. The purpose of the study was to update the risk/return profile that matches the Board's current risk tolerance which would then be incorporated into the Plan's asset mix policy. The result of changes to the asset mix policy should better enable the Plan to attain its investment objectives over the long term.

The active membership has grown by 2.7% since the end of 2015, marking the highest annual increase in the Plan since 2009. The average annual rate of active membership growth over the past 10 years is 2.0%. Over the same period, the retired membership has grown by an average of 4.9% per year. This group continued to grow in size during 2016 as it increased by 3.6%, though this annual increase was the lowest the Plan has experienced since 1999.

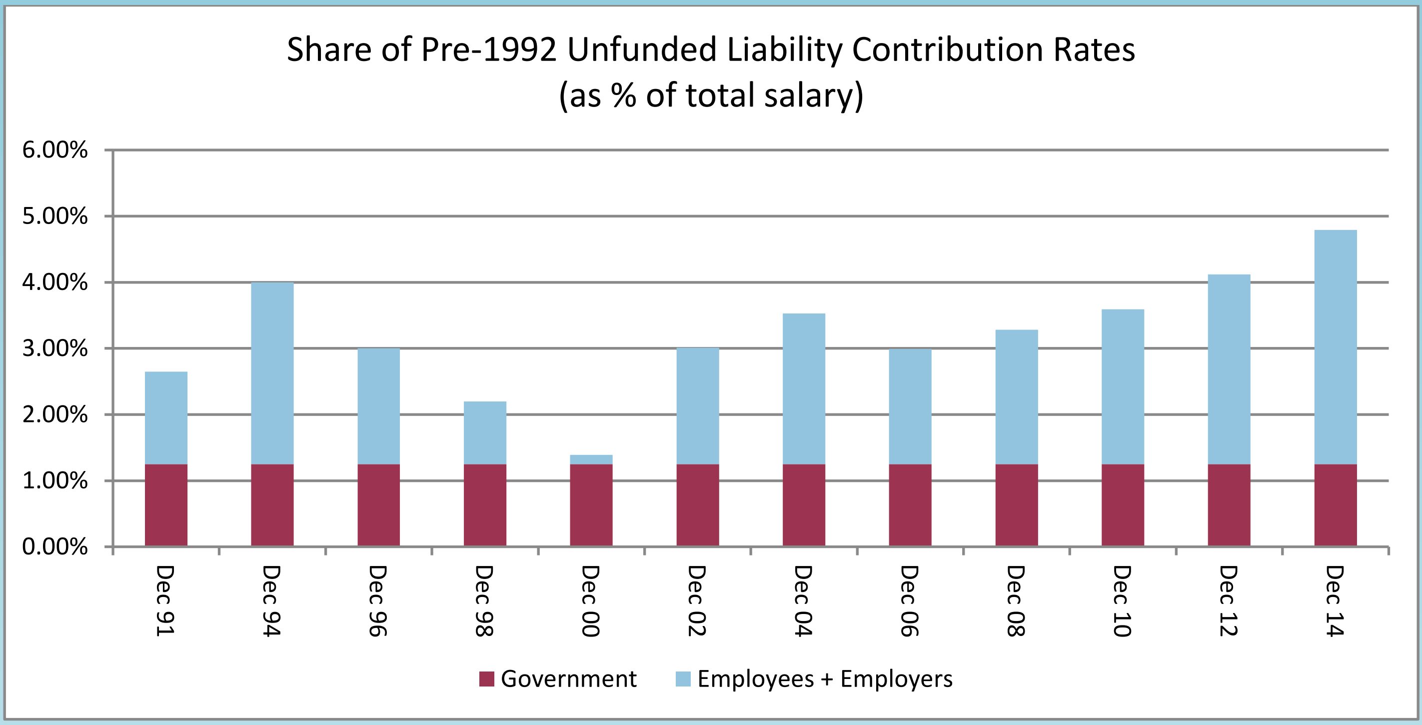
The actuary's extrapolation report at December 31, 2016 shows continued movement towards full funding on the Plan's post-1991 service period. The Board will undertake a full actuarial valuation as at December 31, 2016. Some of the challenges facing the Plan are expected to be highlighted once the valuation is complete. These challenges include continued low interest rates, improvements in life expectancy, and legacy costs associated with the funding arrangement for the pre-1992 deficit.

Interest rates have a direct impact on the funding of the Plan because yields on long bonds issued by the Government of Canada are used to determine the discount rate to value Plan liabilities and the interest rate to calculate commuted values. Bond yields remained low throughout most of 2016 but trended upwards to finish the year.




UAPP pensions are paid for the lifetimes of members and surviving spouses so the mortality assumption is crucial in estimating future benefit costs. Life expectancies have historically been shown to be increasing for Canadians over the last few decades. The Plan continues to focus on mortality, including in the most recent actuarial valuation when the Plan moved to the latest tables that incorporate the actual mortality experience of Canadians in the public sector. The new tables include projection assumptions that attempt to capture anticipated increases in future life expectancies.

One of the biggest issues facing the UAPP is the pre-1992 unfunded liability. The Plan was funded on a pay-as-you-go basis prior to 1992 when the deficit was amortized over 50 years until 2043 and the cost of the amortization split between the Government of Alberta (50%) and the participating employers and members (50%). Over time, the deficit has grown but the Government share of the contributions has remained fixed at 1.25% of total payroll of active Plan members. This deficit growth has resulted in a greater share of the deficit being funded by the employers and members.




The Board will review actuarial valuation results during 2017 and, if necessary, make any required adjustments to contribution rates. An accurate picture of the financial health of the Plan is revealed through the valuation as it involves extensive work in valuing liabilities associated with every single member with benefits in the Plan. A significant number of assumptions are required as benefits are projected several decades into the future. The valuation provides an updated look at recent plan experience and projected future activities from a wide variety of perspectives, including the demographic and economic composition of Plan members and investment performance of the fund.

## Keep your Contact Information Updated

- 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 Conduent Human Resource Services at 1.866.709.2092.

## Keep Your Beneficiary Information Updated

- 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 Conduent Human Resource Services, 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 write to us at board@uapp.ca. Other contact information is available on our website, [www.uapp.ca/contact-us/](www.uapp.ca/contact-us/).

## Questions About the Retirement Planner?

- Call Conduent Human Resource Services 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](www.uapp.ca). Your annual Member Statement can be accessed through the Retirement Planner.

## Questions About Your Pension?

- Call Conduent Human Resource Services 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 Leaves of Absence?

- Call the Human Resources Department at your institution or the UAPP Trustees' Office at 780.415.8868.

## Universities Academic Pension Plan Board of Trustees

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