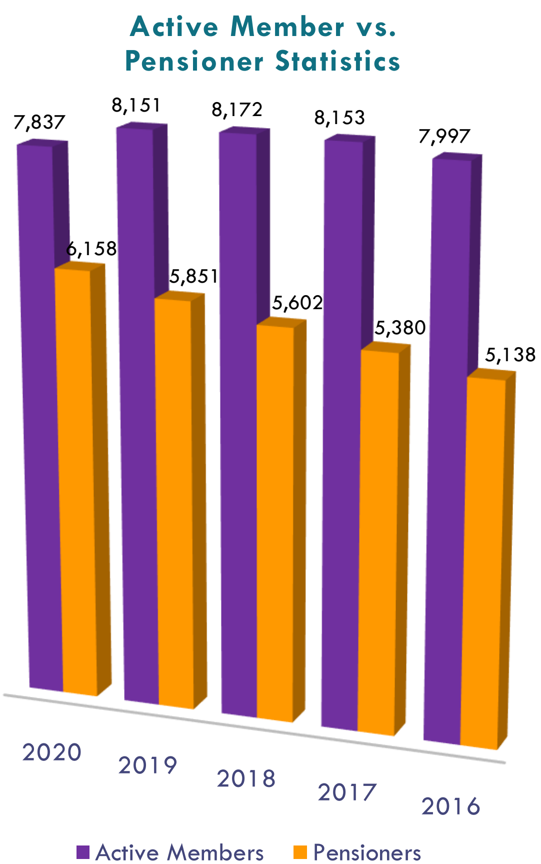
# Communiqué

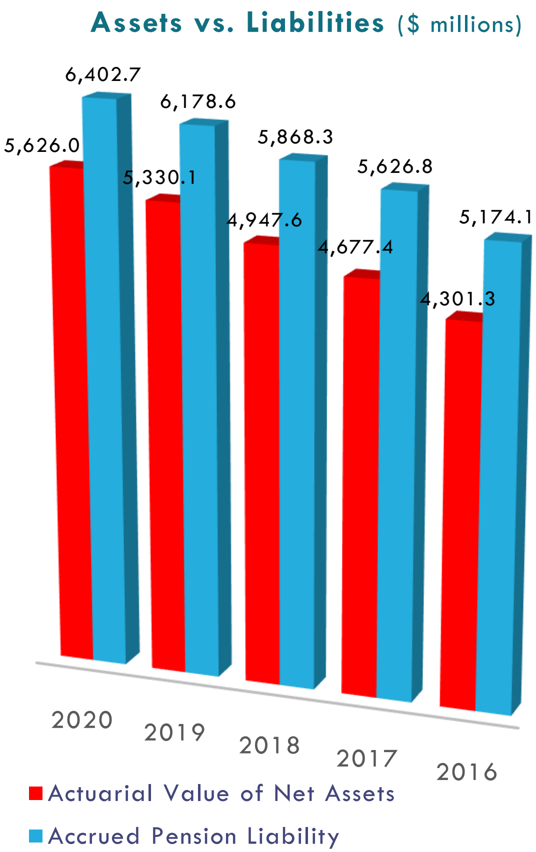
## Spring 2021

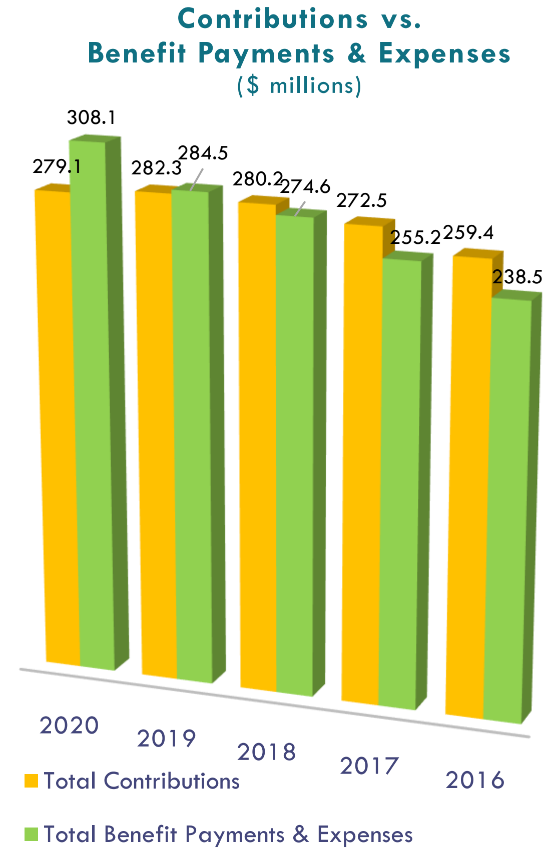
### Highlights of the 2020 Annual Report

*The UAPP's 2020 Annual Report 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.*

UNIVERSITIES ACADEMIC PENSION PLAN



# UAPP SPRING 2021 COMMUNIQUÉ

## Financial Position of the Plan

### The Plan's Assets

The market value of the UAPP Fund's assets was $5,778.3 million at the end of 2020, an increase of $301.0 million from the end of 2019. The growth in assets was driven by the Plan's investment income, net of investment costs, of $330.0 million, offset by Plan benefit payments and administrative expenses exceeding total contributions by $29.0 million. The uncertainties of the COVID-19 pandemic significantly impacted the investment markets during the first quarter of 2020, however, markets recovered strongly throughout the remainder of the year. At the start of the pandemic, pension plans across the world braced for a very difficult year for investments. As 2020 unfolded, the Plan benefited from the partial economic recovery and ended the year with an improvement in its asset values and funded ratio.

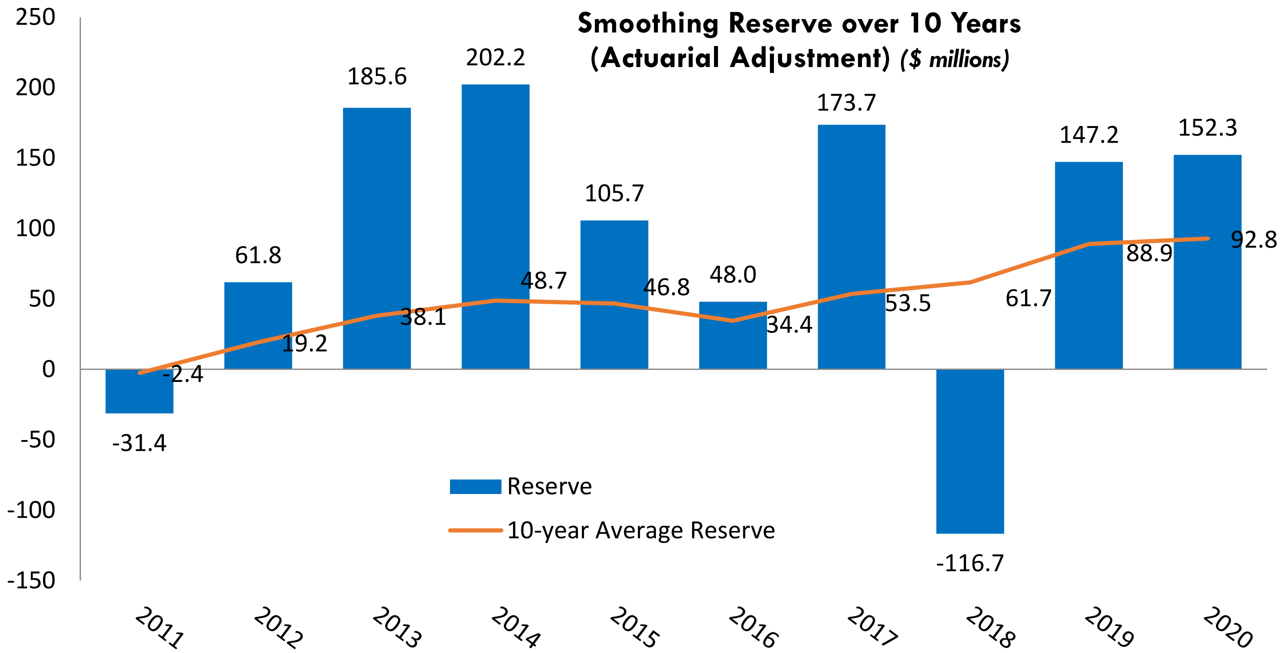
| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Pre-1992 | Post-1991 | Total | Pre-1992 | Post-1991 | Total |
| Fair Value of Net Assets | 596.5 | 5,181.8 | 5,778.3 | 647.8 | 4,829.5 | 5,477.3 |
| Actuarial Adjustment | (22.3) | (130.0) | (152.3) | (20.6) | (126.6) | (147.2) |
| Actuarial Value of Net Assets | 574.2 | 5,051.8 | 5,626.0 | 627.2 | 4,702.9 | 5,330.1 |
| Accrued Pension Liability | 1,415.3 | 4,987.4 | 6,402.7 | 1,478.8 | 4,699.8 | 6,178.6 |
| Actuarial Surplus (Deficiency) | (841.1) | 64.4 | (776.7) | (851.6) | 3.1 | (848.5) |
| Funded Ratio | 40.6% | 101.3% | 87.9% | 42.4% | 100.1% | 86.3% |

*(all figures in $millions)*

Because of the timing differences between the short-term movement of investment markets and the long-term nature of the funding of pension plans, legislation permits plans to smooth the market value of assets when completing an actuarial valuation. The method used to calculate the actuarial value of assets is detailed in the actuarial valuation report posted on our website www.uapp.ca, and in Note 14 of the Financial Statements. For 2020, the plan has a smoothing reserve of $152.3 million, versus a reserve of $147.2 million for 2019. The actuarial value of the assets increased by $295.9 million to $5,626.0 million at December 31, 2020 from $5,330.1 million at the beginning of the year.

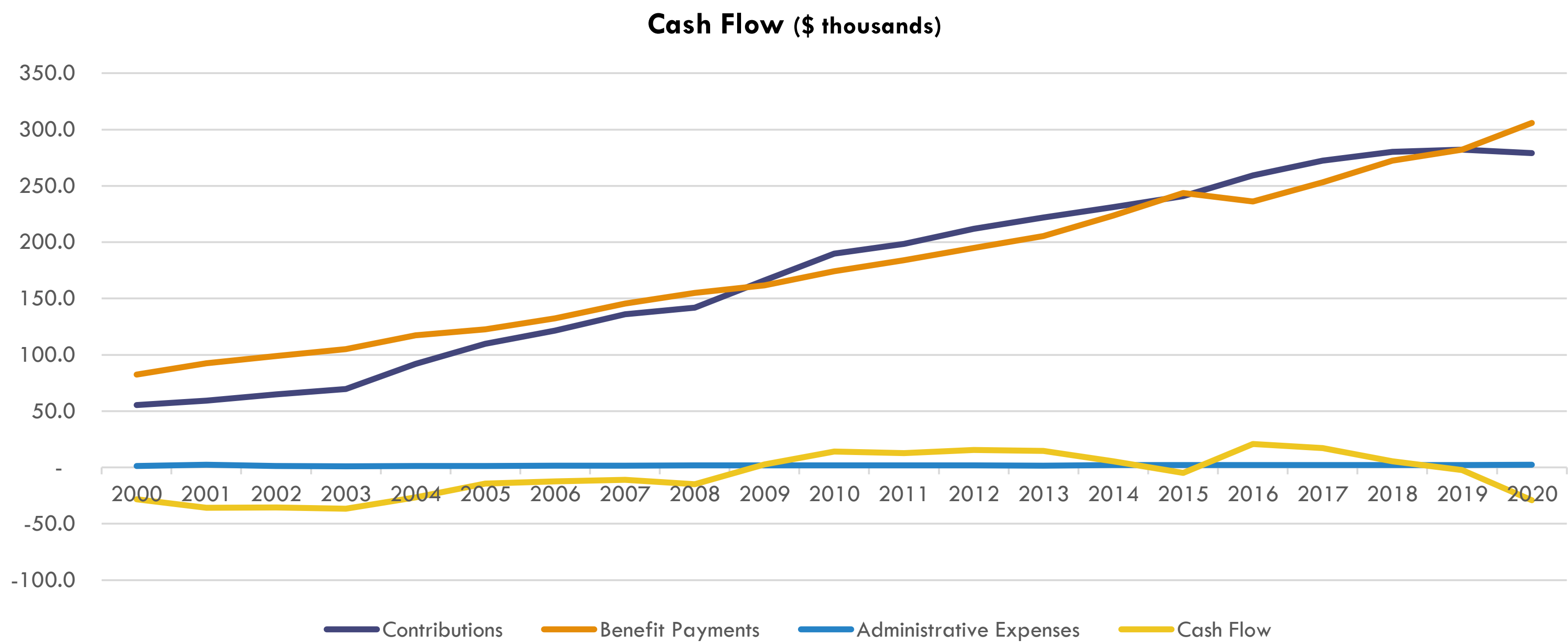
Over the past 10 years, the annual reserve has ranged from a low of a negative reserve of $116.7 million in 2018 to a high positive reserve of $202.2 million in 2014. The 10-year average smoothing reserve has increased from $88.9 million to $92.8 million over the past year.

# UAPP SPRING 2021 COMMUNIQUÉ




During 2020, the UAPP completed the transition of its asset mix to the targets determined following the 2016 asset/liability study. The strategy saw an increase in investment allocations to the private equity and infrastructure asset classes with a corresponding decrease in public equities. The Board had planned to undertake a new asset/liability study during 2020 to review the Fund's current asset mix but the impact of the pandemic on investment markets in the Spring and the uncertainty regarding the timing of the economic recovery caused the Board to defer the study to 2021.

The study will need to consider the evolving cash flow situation of the Plan, defined as the difference between contributions and benefit payments. In most recent years, the Plan has received more funds through member, employer, and Government of Alberta contributions than it has paid out, through monthly pensions, lump sum benefit payments, and administrative expenses. However, due to a decrease in the number of active members in the Plan during 2020, the Fund paid out more than it received in the year. While uncommon in recent years, negative cash flow occurred for UAPP for several years, from the late-1990s through the financial crisis of 2008.




Despite the negative cash flow, the Fund has grown significantly during the 2000-2020 period, from a market value of assets of $1,751.5 million at December 31, 1999 to $5,778.3 million at December 31, 2020. That growth of $4,026.8 million over the past 21 years comes entirely from investment income since cash flow, as defined in the above context, has actually decreased the value of the Fund by $142.7 million during the same time frame.

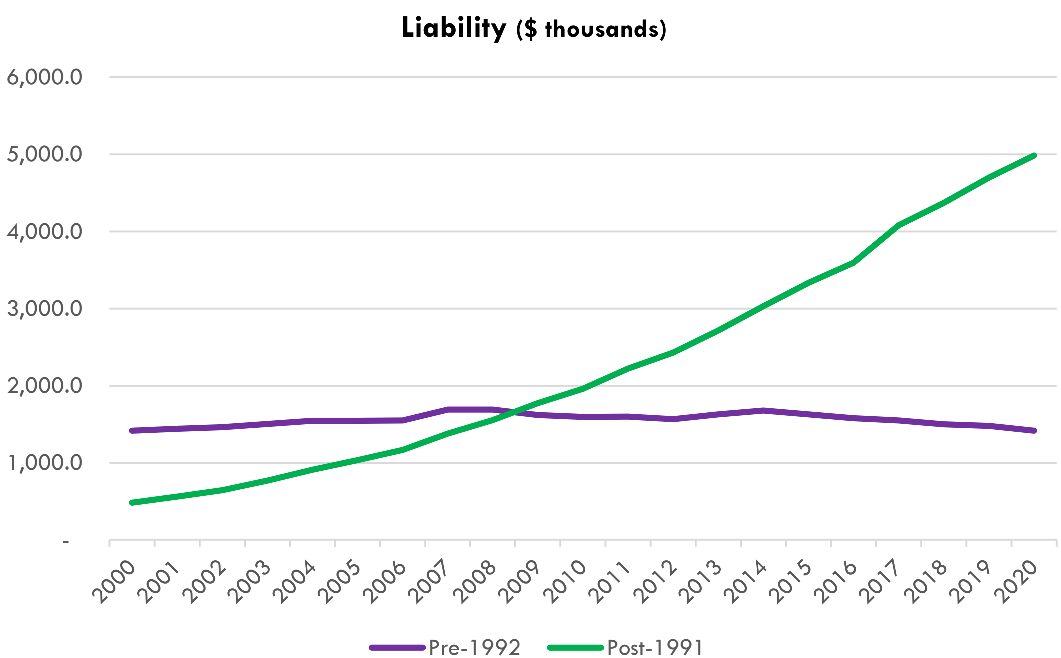
The Board, with the assistance of the Investment Committee, reviews the performance of the Fund's investment managers on an ongoing basis. In early December 2020, the Board elected to make a change to the management of the Fund's public equities.

# UAPP SPRING 2021 COMMUNIQUÉ

**The Plan's Liabilities**

The Plan's accrued liabilities as of December 31, 2020 are estimated at $6,402.7 million, a growth of 3.6% over the December 31, 2019 liability of $6,178.6 million as reported in the 2019 financial statements. Of the $6,402.7 million liability, a total of $1,415.3 million relates to the pre-1992 service period and $4,987.4 million relates to the post-1991 service period.

The UAPP reports liabilities separately for the pre-1992 and post-1991 periods because the Government of Alberta shares in the funding of the pre-1992 unfunded liability, which is amortized to 2043. Each year, the Plan's financial statements identify the assets, liabilities, and surplus/deficit for each of the two service periods. The pre-1992 liability grew for several years but is now in a period of decline since fewer and fewer active members have service from that period and the pensioners with pre-1992 service are getting older.




At December 31, 2000, the pre-1992 liability comprised 74.7% of the total Plan liability and the post-1991 liability 25.3%. Today, those proportions have virtually reversed as the pre-1992 liability has declined to 22.1% and the post-1991 has grown to 77.9%. Notwithstanding changes in the actuarial valuation assumptions, the pre-1992 portion of the Plan's liabilities will continue to decline until the last member or surviving spouse with pre-1992 service dies.

The December 31, 2020 liability calculations are determined by the Plan's actuary in an extrapolation prepared using the most recent actuarial valuation, dated December 31, 2018. The 2019 liability was determined from an extrapolation of the same actuarial valuation. The assumptions used in each extrapolation are reviewed as part of the year-end process and are summarized in Note 5 of the Financial Statements.

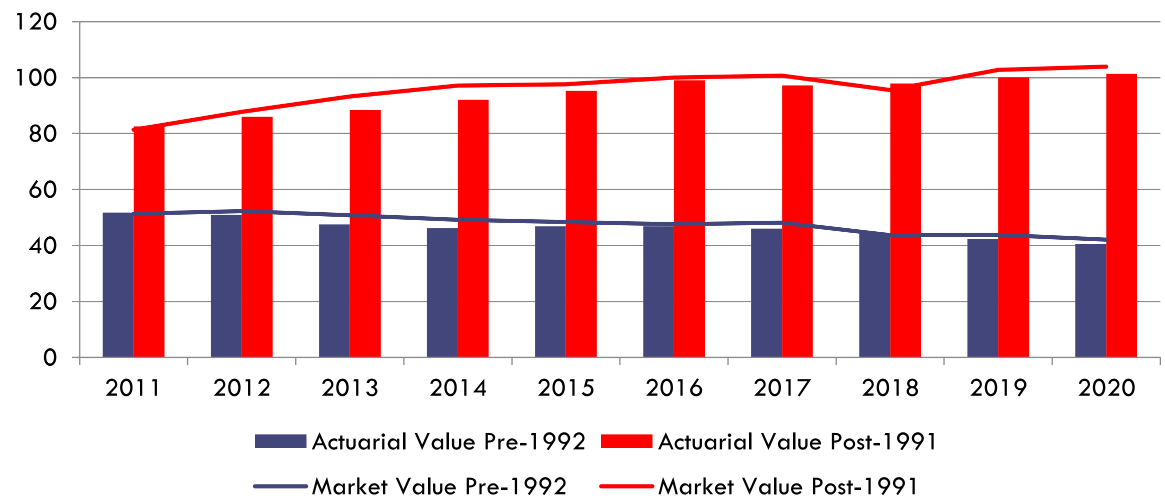
# UAPP SPRING 2021 COMMUNIQUÉ

**The Plan's Funded Ratio**

There was significant concern among pension plans around the world when investment markets first reacted to news of the COVID-19 pandemic. In the first quarter of 2020, the S&P/TSX Composite Index returned -20.9% and the S&P 500 returned -19.6% (in US dollars). However, the initial trepidation of investors would give rise to an impressive about-face later in the year. The UAPP Fund lost 12.1% in the first quarter of 2020 but bounced back to gain 6.2% over the full calendar year. Consequently, fears of a plummet in funded ratios did not come to fruition. In fact, on a market value basis, the Plan's overall funded ratio improved to 90.2% (2019: 88.6%) and on an actuarial value basis to 87.9% (2019: 86.3%) as at December 31, 2020.

As usual, the improvement in the Plan's funding position is driven by the assets and liabilities relating to post-1991 service, since this service epoch is by far the larger portion of the Plan. At the end of 2020, the funded ratio for this service period on a market value basis is 103.9% (2019: 102.8%) and the funded ratio on an actuarial value basis is 101.3% (2019: 100.1%). Post-1991 unfunded liabilities are amortized over 15 years from the date they are originally established with the costs shared equally between members and employers.

**Funded Ratio on the Pre-1992 and Post-1991 Service based on Actuarial and Market Value of Assets**
**(percentage funded)**




For the service period prior to 1992, several factors, including the long amortization period to 2043, longer life expectancies, and lower discount rates, contribute to the declining trajectory of the funding position. The funded ratios for pre-1992 service are 42.1% (2019: 43.8%) on a market value basis and 40.6% (2019: 42.4%) on an actuarial value basis. The Government of Alberta's original share of the pre-1992 unfunded liability contribution was approximately 50% but has fallen to around 30% today.

While the post-1991 portion of the Plan has attained full funding with funding ratios above 100%, the pre-1992 portion still struggles with the factors noted above. The post-1991 portion has benefited from the shorter amortization periods required by legislation.

# UAPP SPRING 2021 COMMUNIQUÉ

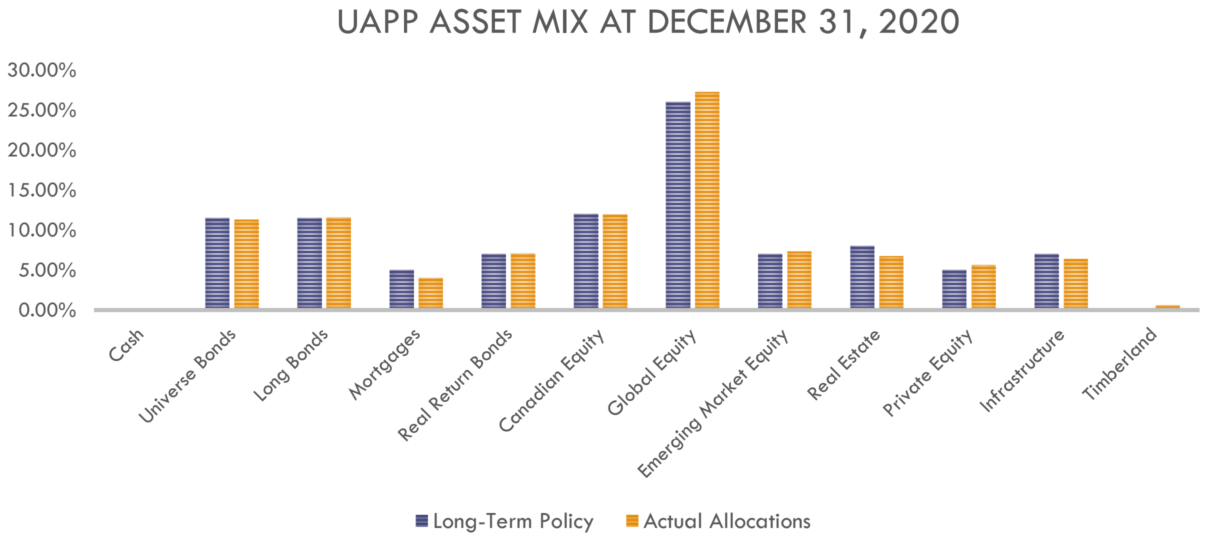
**Looking to the Future**

The coming year will be a busy one for the UAPP. In addition to managing the ongoing challenges presented by COVID-19 and monitoring the societal changes that will evolve from the pandemic, the Plan will be working on a number of important projects.

Early in the year, the Plan will work with its actuary to prepare a study of Plan experience with respect to the actual versus expected retirement and termination of employment rates of its members. As a general rule, actuaries recommend this type of study be done every few years and the last one for UAPP was conducted in 2015. This project will then lead into the biennial actuarial valuation to be undertaken as at December 31, 2020. The updated retirement and termination rates from the study will be used to fine tune the valuation assumptions. The valuation itself will provide the Board with updated information about the financial position of the Plan and the contribution rates required to help ensure the long-term sustainability of its pensions.

The Board will also be reviewing the mandates of the Plan's investment managers upon the completion of the asset/liability study. Due to the change in investment management of the public equities, investment manager searches are anticipated after the completion of the asset/liability study.

Unfortunately, for the third consecutive year, the Fund's investments have fallen short of the policy benchmark return. The Board will continue to monitor the Plan's investment performance and will adjust the asset allocation in line with the coming asset/liability study as necessary to also help ensure the Plan remains sustainable. In the meantime, the Board is pleased to have attained all of its long-term policy targets as identified in the previous asset/liability study.




The asset/liability study will give the Board a greater sense of how the Plan should balance risk and reward with respect to the investments held in the Fund. Since the Plan provides lifetime pension commitments to all its members, it is crucial that the Plan's investment policies and goals are reviewed and updated regularly so they continue to meet those long-term promises in an ever-changing market landscape.

# UAPP SPRING 2021 COMMUNIQUÉ

UNIVERSITIES ACADEMIC PENSION PLAN

**Administration Service Provider**

**Buck (UAPP Administration Centre)**
Member Pension Inquiries:
201 City Centre Drive
Suite 1000
Mississauga, ON L5B 4E4
Phone: 1.866.709.2092
Email: uapp.pensions@buck.com

**Pensioner Payroll Provider**

**CIBC Mellon**
Pensioner Payroll Inquiries:
CIBC Mellon Pension Benefits Dept.
PO Box 5858, Station B
London, ON N6A 6H2
Phone: 1.800.565.0479
Website: www.CIBCMellon.com

**Board of Trustees**

**UAPP Trustees' Office**
#1002, Park Plaza
10611 98 Avenue
Edmonton, AB T5K 2P7
Fax: 780.415.8871
Website: www.uapp.ca

**Questions About Your Pension Or The Retirement Planner**

Call the UAPP Administration Centre toll-free at 1.866.709.2092 if you have questions about your pension or if you need help accessing the Retirement Planner. The Retirement Planner can be accessed through the link on our website at www.uapp.ca. Your annual Member Statement can be accessed through the Retirement Planner.

For new members of the plan, please spend some time reviewing our website. You will find lots of information in the "Publications" section, including our Member Handbook and a "New Member Basics" Information Sheet. Questions about UAPP can also be directed to the UAPP Trustees' Office at 780.415.8868.

If you recently used the services of any group (the UAPP Administration Centre, CIBC Mellon, 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 at www.uapp.ca/contact-us/.

For members thinking about retirement, you can run an unlimited number of estimates on the Retirement Planner, adjusting for important details like retirement dates and future salary adjustments. Also, please read the Information Sheet "Preparing For Retirement", available at our website under "Publications".

Once you leave employment with a participating employer of the UAPP and leave your funds in the plan, it is very important that you keep your contact information up to date. Active members should notify their employer about any changes to their address. Pensioners and other terminated members must ensure UAPP has their current contact information in case the UAPP needs to contact them about their pension, including for the purposes of issuing your annual tax slip. Pensioners or their agents should contact CIBC Mellon directly by telephone toll-free at 1.800.565.0479 to update their information. Other terminated members should contact the UAPP Administration Centre at 1.866.709.2092.

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.