University of Victoria
Long Term Disability Plan for Faculty and Administrative and Academic Professional Staff

ANNUAL REPORT

YEAR ENDED MARCH 31, 2015

LONG TERM DISABILITY PLAN – 2015 ANNUAL REPORT

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Message from the Chair

The Trustees are pleased to provide this annual report to the members of the Long Term Disability Plan for faculty and administrative and academic professional staff of the University of Victoria.

The report provides an overview and update of the Plan for the year ended March 31, 2015.

Financial Highlights

The Trust's financial position improved significantly during 2014/15 with plan assets available for benefits growing by $2.1 million due to extraordinary investment returns. Plan assets now total $12.2 million (2014-$10.1million). Conversely, liabilities grew by only $0.7 million to $14.7 million resulting in a net $1.4 million decrease in the unfunded liability. This decline in the unfunded liability improved the funded ratio to 82% (2014-72%).

Operating Highlights

The Plan's investments transitioned from the PH&N Bond Fund to the PH&N Core Plus Bond Fund as of April 1, 2014 to take advantage of several yield-enhancing strategies which augmented and diversified the Plan's universe bond holdings. Investments returned a remarkable 10.83% for the year ended March 31, 2015 although it is very unlikely this level of return will be replicated in future years.

The July 1, 2014 actuarial valuation was completed in the fall of 2014 which confirmed the continued improvement in the Plan's financial position and provided a recommendation to marginally reduce the contribution rate, the first reduction in contribution rates in the Plan's history. The reduced contribution rate of 2.05% was implemented as of January 1, 2015.

Looking Ahead

The Plan's next actuarial valuation will be July 1, 2017.

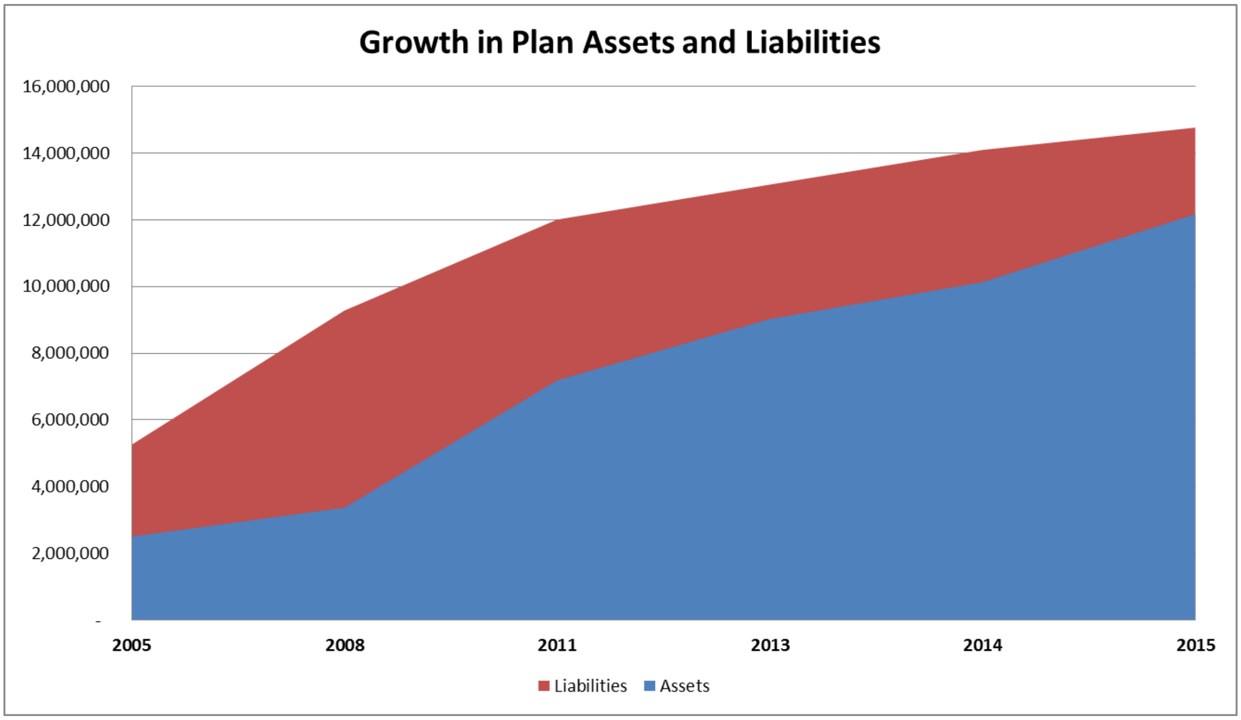
Murray Griffith
Chair, Trustees of the UVic LTD Trust
November 4, 2015

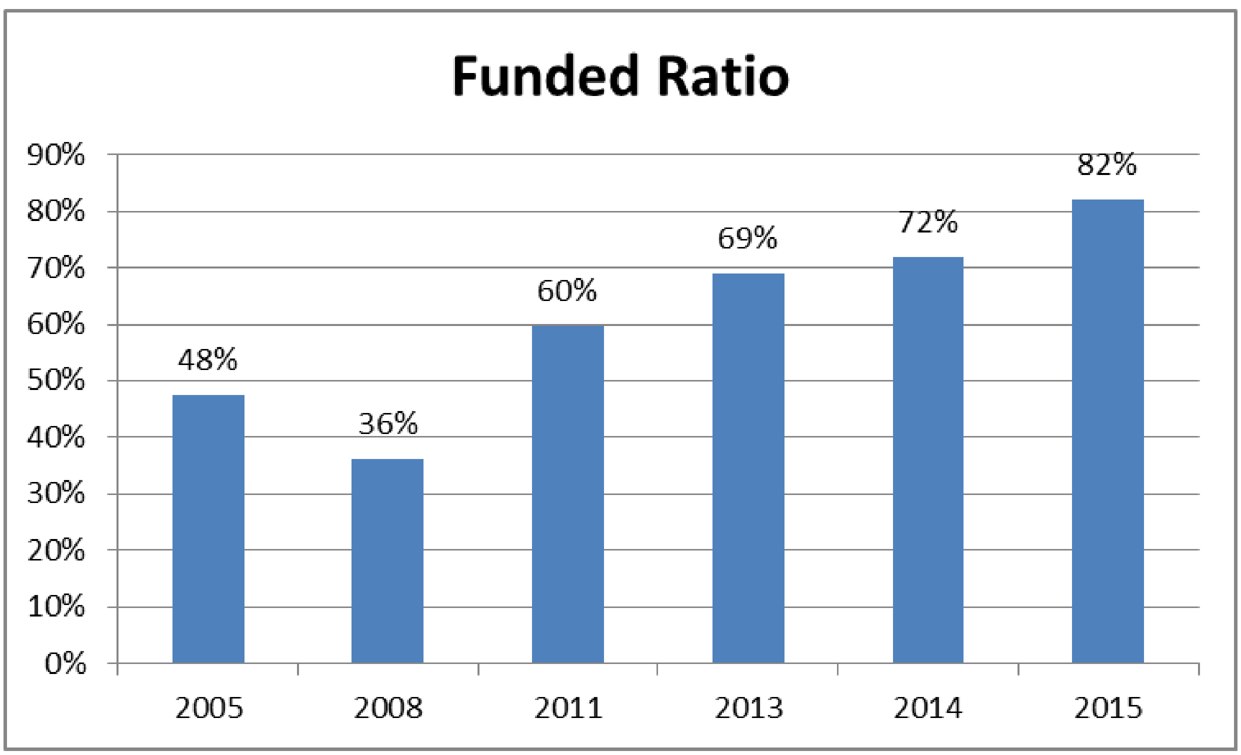
Governance and Service Providers

Trustees Appointed by the University Board of Governors	Murray Griffith – Chair Executive Director, Financial Services Mary Ellen Purkis (to June 30, 2015) Dean, Human and Social Development Kane Kilbey Associate Vice President Human Resources Laura Cowen Faculty Member, Mathematics and Statistics Sheryl Karras Director of Administration, Gustavson School of Business
Secretary	Teresa Rush Administrative Assistant, Financial Services
Investment Manager	Phillips, Hager & North Investment Management Ltd - Vancouver
Custodial Services	RBC Investors Services Limited – Vancouver
Actuarial Services	Mercer (Canada) Limited – Vancouver
Auditor	Grant Thornton LLP – Victoria

Financial information at a glance:

	March 2015	March 2014	March 2013
Number of plan members	1,685	1,659	1,616
Number of active claims	47	40	41
Total amount of benefits paid	1,905,703	1,895,773	1,936,679
Member contributions	3,160,974	3,040,684	2,751,386
Market Value of Investments	11,669,354	9,702,879	8,592,150
Gross investment income	1,102,955	153,334	369,727
One-Year investment return	10.83%	1.51%	4.66%
Operating expenses	154,509	105,090	133,707
Net assets available for benefits	12,168,644	10,132,260	9,025,344
Liabilities for future benefits	14,765,159	14,097,159	13,056,159
Funded ratio	82%	72%	69%


Growth in Plan Assets and Liabilities
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
2005
2008
2011
2013
2014
2015
Liabilities
Assets


Funded Ratio
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
48%
36%
60%
69%
72%
82%
2005
2008
2011
2013
2014
2015

Introduction

The LTD Trust was established in 2007 to manage the self-insured, employee-pay-all Long Term disability plan for Faculty and Administrative and Academic professional Staff of the University of Victoria ("the Plan").

The purpose of the Plan is to provide long term disability benefits to faculty, administrative and academic professional staff ("Qualified Employees") of the University who are enrolled and paying contributions within the Plan.

The Trustees

The Trustees have responsibility for the administration and overall management of the Plan as outlined in the Trust Agreement between the University and the Trust. The Board of Trustees currently consists of five members.

The duties and powers of the Trustees include:

- Maintaining an adequate reserve for the payment of future reimbursement sums to the benefit carrier, and for future administration expenses reasonably anticipated as likely to be incurred;
- Ensuring, at intervals to be agreed with the University, that actuarial valuations are undertaken;
- Determining the contribution rate, as guided by the Funding Policy and in light of the latest actuarial valuation, and informing the Board of Governors of the rate;
- Receiving from the University all LTD deductions from Qualified Employees' salaries;
- Authorize and direct monthly payment to the benefit carrier for the cost of LTD claims;
- Investing and re-investing Trust fund monies remaining after reimbursement of the benefit carrier, otherwise known as reserve monies;
- Retaining such investment, legal, actuarial or other expertise or assistance as considered necessary or appropriate.

Benefits

Long term disability benefits are calculated at 80% of monthly “net earnings” plus the amount required to maintain employee and University Pension Plan contributions. LTD benefits payable from the Plan are reduced by the amounts of any disability benefits payable from any University or government plan providing salary continuance or disability income paid during the disability period covered by this Plan. As the Plan is 100% funded by Qualified Employees, the benefits received are not taxable.

The definition of disability in the Plan Document is: “Means an employee who is wholly and continuously disabled due to sickness or injury and as a result is unable to perform the duties of his or her normal occupation or the duties of any occupation for which he or she is fitted by education, training or experience.” However, the long standing practice of the Plan is that claims are adjudicated only on a Qualified Employee’s “own occupation”, and there are no plans to change this practice for the foreseeable future.

Benefits are not paid to a Qualified Employee until the employee has been totally disabled for six months.

Benefits are indexed to the lower of:

- the annual increase in the Canada Consumer Price Index (“C.P.I.”); and
- the most recent annual across-the-board general salary adjustment granted to faculty or administrative and academic professional staff, as applicable.

Benefit payments from this Plan continue until the earliest of the following:

- the Qualified Employee is no longer considered to be “totally disabled;
- the Qualified Employee’s death;
- the Qualified Employee’s normal retirement, meaning June 30 coinciding with or following the Qualified Employee’s 65th birthday.

Contributions

The Plan is funded solely by contributions from Qualified Employees. Contribution rates are adjusted periodically to reflect the anticipated cost of new disabilities, the financial condition of the Plan, and the ongoing administration costs of the Plan. Following the 2014 actuarial valuation the contribution rate was reduced to 2.05% of gross salary representing the first reduction in contribution rates since the Plan's inception.

Historically, the Plan's contribution rate has been as follows:

Effective Date	Contribution Rate
January 1, 2015	2.05%
July 1, 2013	2.09%
January 1, 2009	1.93%
July 1, 2008	1.75%
July 1, 2007	1.54%
July 1, 2006	1.24%

Funding Policy

In June 2013, the University approved a Funding policy for the Plan which outlines key parameters the Trustees would follow in funding the plan.

In funding the Plan, the Trustees would ideally wish to accomplish four basic objectives:

1. Provide a high degree of certainty that the promised benefits will ultimately be delivered;
2. Contribution rates should be affordable for plan members;
3. The contribution rate as a percentage of salary should be stable and consistent over time;
4. The contribution rate should provide for intergenerational equity.

These basic objectives can be in conflict from time to time. The challenge facing the Trustees, therefore, is to operate the LTD Plan in a manner that provides a reasonable balance among these objectives.

The long term cost of the LTD Plan is influenced significantly by the number of members in receipt of benefits, the termination and recovery of disabled lives, the incidence of new disabilities, and the investment policy (and associated returns).

Benefit security is influenced significantly by the overall level of funding achieved by the LTD Plan, resulting from member contributions, the funding policy, the investment strategy employed by the Trustees and changes in plan liabilities. The contribution rate is influenced by:

- the recent plan experience related to termination and recovery of disabled lives;
- the recent plan experience related to incidence of disability;
- changes to government programs, such as Canada Pension Plan;
- demographic changes in the active membership;
- the overall funding target adopted by the Trustees;
- short to mid-term investment performance;
- the market value of assets; and
- the contribution setting methods used by the Trustees upon advice from the actuary.

Key funding parameters include:

- Liabilities will be valued on a going concern basis with an actuarial valuation every 3 years
- The target funding level for the plan is 100% of actuarial liabilities
- A deficit funded position exists when Plan assets are below 90% of actuarial liabilities
- Deficits (or unfunded liabilities) will be amortized over 10 years
- A surplus funded position exists when Plan assets exceed 110% of actuarial liabilities

Investments

The Trustees have developed a Statement of Investment Objectives and Guidelines (“the Investment Policy”) for the Plan. It is reviewed by the Trustees on an annual basis.

The purpose of the Investment Policy is to provide a framework for investment of the funds to achieve a return objective within levels of risk acceptable to the Trustees.

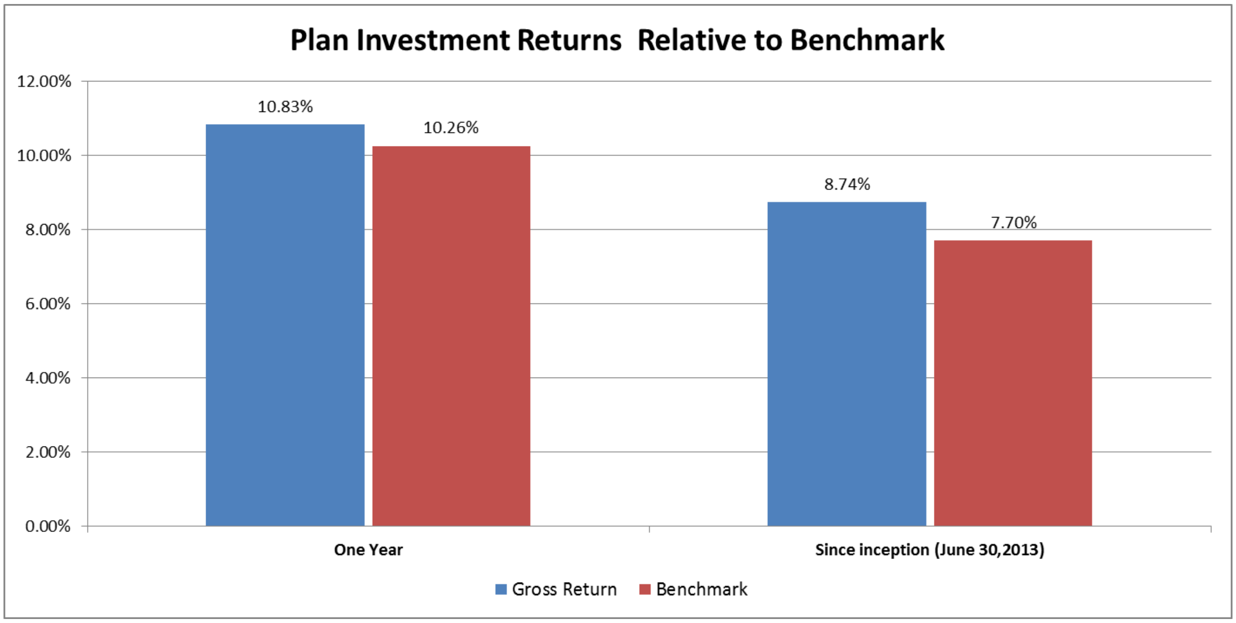
Given the purpose of the Plan, the Trustees have adopted an investment framework that emphasizes a Liability Driven Investment (“LDI”) approach while meeting the general investment objectives of preserving capital in real terms and generating sufficient annual cash flow to meet expenditure requirements.

An LDI approach takes into consideration both assets and liabilities on a plan’s balance sheet and shifts investment goals away from asset benchmarks and the relationships among asset classes that have no direct relationship to the liabilities. Instead, LDI focuses on managing the funded status of the plan (Assets/Liabilities).

The goal of a LDI strategy is to match the interest rate sensitivity of the assets to the interest rate sensitivity of the liabilities. This immunizes the Plan and its funded status from interest rate risk as asset movements will be highly correlated with movements in liabilities.

As of April 1, 2014 the assets of the Plan were 100% invested in the Phillips Hager & North (PH&N) Core Plus Bond Fund and the RBC Institutional Cash Fund. The Core Plus Bond Fund utilizes several yield-enhancing strategies, which serve to augment and diversify universe bond holdings. It is also consistent with the Plan’s LDI strategy.

The PH&N Core Plus Bond Fund is benchmarked against the FTSE TMX Universe Bond Index and added value relative to its benchmark. As indicated on page 3, investment returns were extraordinary in 2014/15 but can vary from year to year. The trustees remain focused on sustainable long term returns. While the one year return was 10.83% in 2014/15 due to the continued low level of interest rates, it is very unlikely that the fund will return 5% over the next 4 years.



Administration

Claims adjudication and benefit payment services are contracted under an Administrative Services Only (ASO) agreement to British Columbia Life & Casualty Company. Membership and general administration, including the collection of member contributions, is undertaken by the University. BC Life's expenses and other administration costs are funded by the contributions to the Plan.

The Trustees have engaged Mercer Canada Limited to provide actuarial services to the Plan. In addition to a year-end estimate of Plan liabilities done each March 31 for financial reporting purposes, Mercers provides a full actuarial valuation every three years. The last valuation was completed as of July 1, 2014 and resulted in a modest reduction in contribution rates.

Financial Statements

The Plan's annual financial statements are prepared by the Accounting Office of the University of Victoria and audited by the accounting firm of Grant Thornton LLP.

Contact Information

Plan enquiries can be directed to any of the Trustees as follows:

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Sheryl Karras	250-721- 6056
Laura Cowen	250-721-6152