Grant Thornton

# Financial Statements

## University of Victoria Staff Pension Plan

December 31, 2013

# Contents

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# Independent Auditors' Report

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To the Investments and Administration Committee

We have audited the accompanying financial statements of the University of Victoria Staff Pension Plan, which comprise the statement of financial position as at December 31, 2013 and the statement of changes in net assets available for benefits and the statement of changes in obligations for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Victoria Staff Pension Plan as at December 31, 2013, and its financial performance for the year then ended in accordance with Canadian accounting standards for pension plans.

Grant Thornton LLP

Victoria, Canada
May 13, 2014

Chartered accountants

# University of Victoria Staff Pension Plan
# Statement of Financial Position

| December 31 | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Cash | $ 204,056 | $ 3,324 |
| Investments (Note 4) | | |
| Short-term notes | 3,493,770 | 3,156,813 |
| Canadian bonds | 72,962,037 | 69,035,549 |
| Mortgages | 5,350,970 | 4,704,302 |
| Canadian equities | 28,543,260 | 33,263,895 |
| Foreign equities | 63,522,256 | 41,834,131 |
| Currency hedging fund | 114,569 | 154,908 |
| Real estate | 22,862,361 | 21,191,689 |
| Infrastructure | 11,007,169 | 12,812,532 |
| | 207,856,392 | 186,153,819 |
| Receivables | | |
| Members' contributions | 184,236 | 197,299 |
| University contributions | 470,321 | 547,236 |
| Accrued interest and dividend income | 160,054 | 190,787 |
| Other | 20,552 | 28,964 |
| | 835,163 | 964,286 |
| | 208,895,611 | 187,121,429 |
| **Liabilities** | | |
| Payables and accruals | 234,520 | 157,520 |
| Net assets available for benefits | | |
| Available for supplementary benefits | 11,107,035 | 9,738,224 |
| Available for accrued pension benefits | 197,554,056 | 177,225,685 |
| | 208,661,091 | 186,963,909 |
| Obligations for benefits | | |
| Voluntary contribution accounts | 1,121,641 | 977,606 |
| Supplementary benefits (Notes 7 and 9) | 11,107,035 | 9,738,224 |
| Accrued pension benefits (Note 6) | 183,355,440 | 173,868,744 |
| Net assets available for benefits less obligations for benefits | $ 13,076,975 | $ 2,379,335 |

See accompanying notes to the financial statements.

# University of Victoria Staff Pension Plan
## Statement of Changes in Net Assets Available for Benefits

| Year ended December 31 | 2013 | 2012 |
|---|---|---|
| **Change in net assets** | | |
| Net return on investments (Note 5) | | |
| Interest income | **$ 3,814,133** | $ 3,105,818 |
| Dividends | **759,540** | 408,070 |
| Realized net gains | **15,342,984** | 4,624,788 |
| Unrealized net gains | **3,285,176** | 8,435,879 |
| Investment fees | **(721,387)** | (708,147) |
| | **22,480,446** | 15,866,408 |
| Contributions (Note 1(b)) | | |
| Members | | |
| Basic | **2,101,362** | 2,131,245 |
| Supplementary | **114,708** | 116,128 |
| Additional voluntary | **58,427** | 35,722 |
| University | | |
| Basic | **5,389,542** | 5,456,954 |
| Supplementary | **114,708** | 116,128 |
| CV transfer deficiency | **436,671** | 503,136 |
| | **8,215,418** | 8,359,313 |
| Total change in assets | **30,695,864** | 24,225,721 |
| Payments to or on behalf of members | | |
| Pensions to retired members | | |
| Basic | **5,887,537** | 5,322,143 |
| Supplementary | **31,789** | 34,329 |
| Pensions to disabled members | **225,973** | 245,097 |
| Termination payments and transfers to other plans | **2,601,377** | 3,010,955 |
| | **8,746,676** | 8,612,524 |
| Operating expenses | | |
| Actuarial fees | **12,759** | 4,623 |
| Office and administrative | **201,227** | 167,122 |
| Consulting and audit fees | **26,024** | 25,385 |
| Provincial registration fees | **11,996** | 12,054 |
| | **252,006** | 209,184 |
| Total reductions of assets | **8,998,682** | 8,821,708 |
| Increase in net assets | **21,697,182** | 15,404,013 |
| Net assets available for benefits, beginning of year | **186,963,909** | 171,559,896 |
| Net assets available for benefits, end of year | **$ 208,661,091** | $ 186,963,909 |

See accompanying notes to the financial statements.

# University of Victoria Staff Pension Plan
# Statement of Changes in Obligations for Benefits

| Year ended December 31 | **2013** | 2012 |
|---|---|---|
| **Change in obligations for benefits – accrued pension benefits** | | |
| As previously stated, obligations for accrued pension benefits | **174,846,350** | 165,935,571 |
| Prior period adjustment (Note 14) | **(977,606)** | (910,211) |
| Beginning balance, obligations for accrued pension benefits | **$ 173,868,744** | $ 165,025,360 |
| Interest accrued on benefits | **10,572,195** | 10,057,766 |
| Benefits accrued | **7,596,665** | 7,312,617 |
| Benefits paid | **(8,682,164)** | (8,526,999) |
| Change in obligations for benefits | **9,486,696** | 8,843,384 |
| Ending balance | **$ 183,355,440** | $ 173,868,744 |
| **Change in obligations for benefits – supplementary benefits** | | |
| Beginning balance, obligations for supplementary benefits | **$ 9,738,224** | $ 8,733,627 |
| Interest accrued on benefits | **1,171,184** | 806,670 |
| Contributions | **229,416** | 232,256 |
| Benefits paid | **(31,789)** | (34,329) |
| Change in obligations for benefits | **1,368,811** | 1,004,597 |
| Ending balance | **$ 11,107,035** | $ 9,738,224 |
| **Change in obligations for benefits – voluntary contribution accounts** | | |
| Beginning balance, obligations for voluntary contribution accounts | **$ 977,606** | $ 910,211 |
| Interest accrued on benefits | **118,331** | 82,870 |
| Contributions | **58,427** | 35,722 |
| Benefits paid | **(32,723)** | (51,197) |
| Change in obligations for benefits | **144,035** | 67,395 |
| Ending balance | **$ 1,121,641** | $ 977,606 |

See accompanying notes to the financial statements.

## 1. Description of plan

The following description of the University of Victoria Staff Pension Plan is a summary only. For more complete information, reference should be made to the Plan text, which is available from the Pension Office in Accounting Services.

### (a) General

The Plan is primarily a defined benefit pension plan that covers primarily regular members of the Canadian Union of Public Employees (CUPE) locals 917, 951 and 4163 and exempt staff.

### (b) Funding

In accordance with the Plan text, members are required to contribute no less than 4.53% of their basic salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($51,100 in 2013), and 6.28% of their basic salary in excess of that amount to the Basic Plan to fund basic pension benefits. Members contribute an additional 0.25% of salary to the Supplementary Retirement Benefit Account (Note 9).

As a result of the December 31, 2010 valuation (filed with the Regulator September 2011), the University decreased its basic rate of contribution from 12.94% to 11.75% effective October 1, 2011, The University contributes an additional 0.25% of salary to the Supplementary Retirement Benefit Account (Note 9).

Subject to Canada Revenue Agency maximums, members may elect to make additional contributions to a voluntary contribution account through payroll deduction or by transfer from other registered vehicles. These contributions are much like RRSP contributions and do not increase the defined benefit pension payable from the plan.

If a future valuation requires contribution changes (up or down) as a result of normal cost changes, then the increase or decrease will be shared on a one-for-one basis between the University and plan members. If there is sufficient surplus in the plan, and the University decides to take a contribution holiday the employees will share equally in the surplus in the form of either a one-time benefit improvement and/or an employee contribution holiday.

Minimum contribution rates will be 10.5% for the University and 4.78% for the employee (6.53% on salary above the YMPE), except at a time when the plan has excess surplus as defined under the Income Tax Act and a further reduction in contributions becomes a requirement. The parties may also negotiate a one-time benefit improvement or a combination of an employee contribution holiday and one-time benefit improvement to use the employees' share of excess surplus. Notwithstanding the above, should the University be required to make contributions as a result of a solvency and/or going concern deficiency, the University will contribute 100% of the cost and the University will then be entitled to 100% of future surplus until the amount contributed is fully recovered.

**1. Description of plan** (continued)

**(c) Normal retirement**

All members are eligible for a retirement benefit. Normal retirement is the end of the month in which the member reaches age 65. Pension benefits are calculated using the following formula:

Benefit accrual rate **x** highest five year average salary **x** years of credited service (full time equivalent).

The benefit accrual rates since the plan's inception in 1972 are as follows:

| | On average salary up to the average YMPE | On average salary over the average YMPE |
|---|---|---|
| On service up to December 31, 1989 | 1.65% | 2.00% |
| On service during 1990 and 1991 | 1.30% | 2.00% |
| On service from 1992 through 1999 | 1.50% | 2.00% |
| On service from January 1, 2000 | 1.70% | 2.00% |

**(d) Early retirement**

Members may elect early retirement at the end of any month following attainment of age 60 with no reduction provided that the member retired from active status. Members may retire between age 55 and 60 on a reduced pension. The reduction rates for retirement on an immediate pension are 3% for each year that the member is under age 60 when the pension commences. The reduction rates for retirement from inactive status (deferred) are actuarial and are between 5% and 6% for each year that the member is under age 65 when the pension commences.

**(e) Disability pensions**

Prior to April 1, 2006, members who became totally and permanently disabled and were in receipt of a disability pension from Canada Pension Plan were eligible to receive a disability pension from the plan equal to the pension they would have received had they continued to contribute to the plan to normal retirement. Only those members who met disability criteria prior to April 1, 2006 are in receipt of this benefit.

**(f) Adjustments to pensions**

Pensions are adjusted each January 1$^{st}$ by reference to the change in the Canadian Consumer Price Index (CPI) to a maximum of +/-3% per year since the member's last contribution date. The change in the CPI effective January 1, 2013 was 2.0%.

When the change in the CPI exceeds 3%, the Investments and Administration Committee may authorize additional indexing from the Supplementary Retirement Benefit Account (Note 9) to pensioners who are at least age 66, provided the actuary certifies that the increase can be financed by the assets of the Supplementary Retirement Benefit Account on a sound actuarial basis.

**1. Description of plan** (continued)

(g) **Termination and portability benefits**

Upon termination of employment, members may leave their contributions on deposit for a deferred pension or elect to transfer the lump sum commuted value of their pension to a locked-in Registered Retirement Savings Plan (RRSP) or another Registered Pension Plan. If the annual benefit is less than 10% of the YMPE or if the lump sum value is less than 20% of the YMPE in the year of termination, the member may transfer the commuted value on a non-locked-in basis or receive a cash payment, less withholding tax.

(h) **Survivor benefits before retirement**

The beneficiary of a member who dies before retirement is the member's spouse (if the member has a spouse) unless the spouse has completed and filed a Spouse's Waiver of Pre-Retirement Benefits with the Pension Office. If the member does not have a spouse or the spouse has completed a waiver, the beneficiary is the member's estate unless the member has designated another beneficiary. The survivor benefit for a spouse is either an immediate lifetime pension or, if the member was under 55 years of age, the lump sum commuted value of that benefit transferred to a locked-in RRSP or Life Income Fund, subject to the approval of Canada Revenue Agency. The survivor benefit for all other beneficiaries is a lump sum less withholding tax. The lump sum, before tax, is equal to the commuted value that would have been payable to the member had the member terminated employment on the member's date of death.

(i) **Survivor benefits after retirement**

The survivor benefit after retirement or commencement of a disability pension is determined by the optional form selected by the member when the pension commenced. The normal form for a member who has a spouse is a joint and last survivor pension where 50% of the benefit continues to the surviving spouse. The normal form for a member who does not have a spouse is a single life pension where payments continue for the member's lifetime with a guaranteed minimum of 10 years if the member does not survive for 10 years after retirement. The optional forms available are as follows:

- Joint and last survivor where 60%, 66.7% or 100% of the benefit continues to a surviving spouse (provided the member has a spouse).
- Single life where payments continue for the member's lifetime with a guaranteed minimum of 5, 10 or 15 years.

If the member has a spouse, the member must select a form which provides at least a 60% survivor benefit unless the spouse completes a waiver.

(j) **Income taxes**

The Plan is a registered pension plan as defined in the Income Tax Act (Canada) and is not subject to income taxes.

## 2. Statement of compliance with Canadian accounting standards for pension plans

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

## 3. Summary of significant accounting policies

### Basis of presentation

As indicated in Note 2, these financial statements have been prepared in accordance with Canadian accounting standards for pension plans. Accounting standards for pension plans require entities to select accounting policies for accounts that do not relate to its investment portfolio or pension obligations in accordance with either International Financial Reporting Standards ("IFRS") or Canadian Accounting Standards for Private Enterprises ("ASPE"). The University selected IFRS for such accounts on a consistent basis and to the extent that these standards do not conflict with the requirements of the accounting standards for pension plans.

### Investments

Investments are stated at fair value. Fair value is determined using market values where available. Fair value for international investments held by BC Investment Management Corporation, are estimated based on preliminary market values supplied by the BC Investment Management Corporation, and any differences between the estimated values and final market values are adjusted in the subsequent period. Where listed market values are not available, estimated values are calculated by discounted cash flows or based on other approved external pricing sources. Price comparison reports are used to compare the prices of the bonds and publicly traded equities held in pooled funds against a secondary source. Mortgages are valued at the end of each month based on a discounted cash flow model. Real estate investments are valued quarterly by BC Investment Management Corporation's real estate investment managers and, at least once every ten to eighteen months, by accredited independent appraisers to establish current market values. At the end of each quarter BC Investment Management Corporation uses financial statements provided by the external managers and general partners or valuation reports to calculate the share values and the unit values for the externally managed holding corporations and limited partnerships. Investment sales and purchases are recorded on trade date.

### Investment income

Investment income is recorded on the accrual basis. Any adjustments to investments due to the fluctuation of market prices are reflected as part of the return on investments in the statement of changes in net assets available for benefits.

## 3. Summary of significant accounting policies (continued)

### Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management, within the assumption parameters regarding pension liabilities approved by the Plan's actuaries, to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments.

## 4. Investments fair value

Short-term notes consist of Canadian money market securities, such as treasury bills, with terms of 12 months or less. Canadian and foreign bonds consist of government and corporate bonds and debentures. Equities consist of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East. Mortgages consist of commercial, industrial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Infrastructure investments refer collectively to the roads, bridges, rail lines, and similar public works that are required for an industrial economy, or a portion of it, to function. Investments may be segregated or consist of units of pooled investment portfolios of the investment manager. The Plan invests in the BC Investment Management Corporation's Currency Hedging Fund.

The Plan's investments are recorded at fair value or at amounts that approximate fair value. Fair value is the amount at which the investment could be exchanged in a current financial transaction between willing parties. The investments are categorized according to a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 – Inputs that are unobservable for the asset or liability.

## 4. Investments (fair value) (continued)

The Plan's proportionate share of investments in each fund, categorized according to the fair value hierarchy, is as follows:

| | | 2013 | 2012 |
|---|---|---|---|
| Short-term notes | Level 1 | $ 3,493,770 | $ 3,156,813 |
| Canadian bonds | Level 1 | 43,911,195 | 39,643,848 |
| Canadian bonds | Level 2 | 29,050,842 | 29,391,701 |
| Mortgages | Level 1 | 5,350,970 | 4,704,302 |
| Canadian equities | Level 1 | 28,543,260 | 33,263,895 |
| Foreign equities | Level 1 | 63,522,256 | 41,834,131 |
| Currency contracts | Level 2 | 114,569 | 154,908 |
| Real estate | Level 3 | 22,862,361 | 21,191,689 |
| Infrastructure | Level 3 | 11,007,169 | 12,812,532 |
| | | $ 207,856,392 | $ 186,153,819 |
| Fair value hierarchy | | | |
| Level 1 | | $ 144,821,451 | $ 122,602,989 |
| Level 2 | | 29,165,411 | 29,546,609 |
| Level 3 | | 33,869,530 | 34,004,221 |
| | | $ 207,856,392 | $ 186,153,819 |

The following table summarizes the changes in the fair value of the Plan’s financial instruments classified as level 3 investments:

| | Real Estate | Infrastructure | Total |
|---|---|---|---|
| Beginning balance, January 1, 2013 | $ 21,191,690 | $ 12,812,532 | $ 34,004,222 |
| Purchases | - | 768,247 | 768,247 |
| Sales | - | (4,210,303) | (4,210,303) |
| Unrealized gains | 1,670,671 | 1,636,693 | 3,307,364 |
| Ending balance, December 31, 2013 | $ 22,862,361 | $ 11,007,169 | $ 33,869,530 |
| Beginning balance, January 1, 2012 | $ 18,177,951 | $ 9,015,664 | $ 27,193,615 |
| Purchases | 1,296,418 | 2,000,735 | 3,297,153 |
| Unrealized gains | 1,717,321 | 1,796,133 | 3,513,454 |
| Ending balance, December 31, 2012 | $ 21,191,690 | $ 12,812,532 | $ 34,004,222 |

### 5. Net return on investments

The Plan earned a gross rate of return of 12.46% (2012: 9.62%) and a net rate of return of 11.91% (2012: 9.13%). Net returns are as follows:

| | **2013** | 2012 |
|---|---|---|
| Interest | | |
| Cash and short-term notes | **$ 23,459** | $ 34,784 |
| Bonds | **3,310,742** | 2,792,838 |
| Mortgages | **206,773** | 214,136 |
| Other | **273,159** | 64,060 |
| Dividends from Canadian equities | **-** | 408,070 |
| Net realized gains | **15,082,252** | 4,624,788 |
| Net unrealized gains | **4,305,448** | 8,435,879 |
| | **23,201,833** | 16,574,555 |
| Investment costs | | |
| Manager fees | **533,004** | 445,937 |
| Custodial fees | **66,750** | 64,564 |
| Other | **121,633** | 197,646 |
| | **721,387** | 708,147 |
| Total net investment return | **$ 22,480,446** | $ 15,866,408 |

### 6. Obligations for pension benefits

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and administrator's best estimated assumptions. An actuarial valuation was made as of December 31, 2010 by Towers Watson Canada Inc., a firm of consulting actuaries, and was then extrapolated by the actuary to December 31, 2013. The next required actuarial valuation for funding purposes will have an effective date of December 31, 2013.

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were:

| | | |
|---|---|---|
| Interest assumption – Assets | **6.00%** | 6.00% |
| Interest assumption – Liabilities | **6.00%** | 6.00% |
| Salary escalation | **3.25%** | 3.25% |
| Cost of living increase | **2.25%** | 2.25% |

## 6. Obligations for pension benefits (continued)

The actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends (consistent with assumptions underlying the valuation of the accrued pension benefits). The actuarial present value of accrued pension benefits includes both the accrued pension benefit and the voluntary contribution accounts. The actuarial value of net assets is based on market values.

| **Actuarial present value of accrued pension benefits** | **2013** | 2012 |
|---|---|---|
| Actuarial present value of accrued pension benefits, beginning of year | **$ 174,846,350** | $ 165,935,571 |
| Increase (decrease) during the year due to: | | |
| Interest accrued on benefits | **10,690,526** | 10,140,636 |
| Benefits accrued | **7,655,092** | 7,348,339 |
| Benefits paid | **(8,714,887)** | (8,578,196) |
| Net increase in actuarial present value of accrued pension benefits | **9,630,731** | 8,910,779 |
| Actuarial present value of accrued pension benefits, end of year | **$ 184,477,081** | $ 174,846,350 |
| **Actuarial present value of net plan assets available for benefits** | | |
| Net assets at fair value available for benefits | **$ 208,661,091** | $ 186,963,909 |
| Assets at fair value available for supplementary benefits | **(11,107,035)** | (9,738,224) |
| Value of net assets at fair value available for benefits | **$ 197,554,056** | $ 177,225,685 |
| Excess of net assets over actuarial present value of accrued pension benefits | **$ 13,076,975** | $ 2,379,335 |

## 7. Net assets available for benefits

The net assets available for benefits as at December 31 have been allocated as follows:

| | **2013** | 2012 |
|---|---|---|
| Basic Plan | **$ 196,432,415** | $ 176,248,079 |
| Supplementary Retirement Benefit Account | **11,107,035** | 9,738,224 |
| Additional Voluntary Contribution Accounts | **1,121,641** | 977,606 |
| | **$ 208,661,091** | $ 186,963,909 |

## 8. Actuarial valuation for funding purposes

An actuarial valuation of the Plan's assets and pension obligations is performed every three years on both a going concern and solvency basis (as required under the *British Columbia Pension Benefits Standards Act [PBSA])* to determine an appropriate contribution rate. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The most recent valuation for funding purposes was prepared by Towers Watson as of December 31, 2010 and a copy of this valuation is filed with the British Columbia Pension Standards Branch.

The valuation on a going concern basis disclosed an actuarial surplus of $9.9 million as at December 31, 2010 (December 31, 2007: $13.2 million). The solvency valuation at December 31, 2010 resulted in a solvency deficiency of $33 million (2007: $1.1 million solvency surplus), which, under the *PBSA Regulation*, must be amortized over a period of five years, unless an extension is granted, or a letter of credit is secured in lieu of making the payments. The University has arranged a letter of credit to secure the solvency deficiency payment.

The next required valuation will be as at December 31, 2013 in 2014.

## 9. Supplementary retirement benefit account

The Supplementary Retirement Benefit Account is a reserve to provide pensioners who have reached age 66 with increases that are supplemental to the increases provided under the Basic Plan (Note 1(f)). Supplementary increases are authorized by the Staff Pension Plan Investments and Administration Committee in consultation with the plan actuary and are subject to the availability of funds in the Supplementary Retirement Benefit Account. The increases are limited so that the total increase in any one year from the combined basic and supplementary provisions does not exceed the increase in the Canadian CPI.

## 10. Related party transactions

Administrative costs of $201,227 (2012: $167,122) represent a portion of the general administration costs incurred by the University and charged to the Pension Plan. The costs include salaries for the Pension Office and other operating and administrative costs.

## 11. Risk management

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, receivables, and payables and accruals. The fair value of these financial instruments approximates their carrying values. Fair values of investments are exposed to price risk, liquidity risk and credit risk.

### Price risk

Price risk is comprised of currency risk, interest rate risk, and market risk.

Currency risk: Currency risk relates to the possibility that the investments will change in value due to future fluctuations in US, Euro and other international foreign exchange rates. For example, a 5% strengthening (weakening) of the Canadian dollar against the US dollar at December 31, 2013 would have decreased (increased) the US equity value by approximately $803,000 (2012: $347,000).

The bcIMC Currency Hedging Fund is used for defensive purposes in order to protect clients' foreign investments from the impact of an appreciating Canadian dollar (relative to the foreign currency). The Fund purchases and sells currencies through the spot market, forward contracts, and/or futures. Unit values are calculated based on the net realized and unrealized gains/losses of the derivative financial instruments. The Fixed Income Manager, the Foreign Equity Manager and the Infrastructure Manager will (or may) purchase securities denominated in foreign currencies. The Investments and Administration Committee may give discretion to a manager to hedge some or all of its foreign currency exposures. The Committee will make such direction for either defensive or strategic reasons.

Interest rate risk: Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates and that pension liabilities are exposed to the impact of changes in long term market interest rates. Duration is an appropriate measure of interest rate risk for fixed-income funds as a rise in interest rates will cause a decrease in bond prices – the longer the duration, the greater the effect. At December 31, 2013, the average duration of the bond portfolio was 6.42 years (2012: 6.19 years). Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 6.42% (2012: 6.19%).

**11. Risk management** (continued)

**Price risk** (continued)

Market risk: Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. This risk is reduced by the investment policy provisions approved by the Board of Governors for a structured asset mix to be followed by the investment managers, the requirement for diversification of investments within each asset class and credit quality constraints on fixed income instruments. Market risk can be measured in terms of volatility, i.e., the standard deviation of change in the value of a financial instrument within a specific time horizon. Based on the volatility of the Plan's current asset class holdings shown below, the expectation is that over the long-term, the Plan will return around 6.3% (2012: 6.1%), within a range of +/- 8.2% (i.e., results ranging from -1.9% to 14.5%). The volatility measures are calculated as average annual standard deviations over 20 years.

| | Estimated volatility % |
|---|---|
| Canadian equities | +/- 21.1 |
| Foreign equities | +/- 17.5 |
| Real estate | +/- 10.0 |
| Short-term holdings | +/- 2.0 |
| Bonds | +/- 4.9 |
| Infrastructure | +/- 15.0 |

| **Benchmark for investments** | % change | Net impact on market value (in thousands) |
|---|---|---|
| DEX 91-day Treasury Bill Index | +/- 2.0 | +/- 70 |
| DEX Universe Bond Index | +/- 4.9 | +/- 3,575 |
| S&P/TSX Capped Composite Index | +/- 21.1 | +/- 6,023 |
| MSCI World ex-Canada Net Index | +/- 17.5 | +/- 11,116 |
| Canadian Consumer Price Index (real estate) | +/- 10.0 | +/- 2,286 |
| Canadian Consumer Price Index (infrastructure) | +/- 15.0 | +/- 1,651 |

**Liquidity risk**

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost effective manner in order to meet commitments as they come due. The primary liabilities in the Plan are future benefit obligations (Note 6) and operating expenses. Liquidity requirements are managed through income generated by monthly contributions and investing in sufficiently liquid (eg. publicly traded) equities, pooled funds and other easily marketable instruments.

**Credit risk**

Credit risk relates to the possibility that a loss may occur from failure of a fixed income security issuer or derivative contract counter-party to meet its debt obligations. At December 31, 2013, the maximum risk exposure for this type of investment is $81,806,778 (2012: $76,896,664).

## 11. Risk management (continued)

**Credit risk** (continued)

The Plan limits the risk in the event of non-performance related to derivative financial instruments by dealing principally with counter-parties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

The following shows the percentage of fixed income holdings in the portfolio by credit rating:

| Rating | Allocation |
|---|---|
| Cash and short-term securities | 6.8% |
| AAA | 11.0% |
| AA | 41.4% |
| A | 18.1% |
| BBB | 13.6% |
| BB and below | 3.1% |
| Mortgages | 5.9% |
| Unrated | 0.1% |
| Total | 100.0% |

## 12. Capital disclosures

The purpose of Plan is to provide benefits to plan members. As such, when managing capital, the objective is to preserve assets in a manner that provides the Plan with the ability to continue as a going-concern. With the assistance of an outside consultant, the Plan's Investments and Administration Committee and Pension Office regularly monitor the asset mix to ensure compliance with the Statement of Investment Policies and Goals so that both immediate and long-term obligations can be met within an acceptable level of risk. An Asset-Liability Modeling Study (ALM) was also completed in 2012 for the purpose of determining a strategic asset mix that meets the objectives of the Plan given its underlying liability structure. The results of the study are being used in the development of a strategic asset mix that meets the objectives of the Plan given its underlying liability structure.

The Plan is also subject to the Pension Benefits Standard Act (BC) regulations, which require that solvency and going concern actuarial valuations are performed every three years, at which time the Plan must take measures to eliminate any funding deficiencies that may arise.

## 13. Comparative figures

Comparative figures have been adjusted to conform to changes in the current year presentation.

### 14. Prior period adjustment

The Plan has determined that the accrued pension benefits that were reported in 2012 were overstated due to the additional voluntary contribution accounts being incorrectly included.

As a result of the correction, the following financial statement items as at December 31, 2012 have been increased (decreased) by the following amounts:

| **Statement of Financial Position** | As previously reported | Adjustment | As restated |
|---|---|---|---|
| Accrued pension benefits | $ 174,846,350 | $ (977,606) | $ 173,868,744 |
| Net assets available for benefits less obligations for benefits | $ 1,401,729 | $ 977,606 | $ 2,379,335 |