



University of Victoria Staff Pension Plan
2013 report to members

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INTRODUCTION

Dear Plan Members:

The Staff Pension Plan Report to Members for the year ended December 31, 2013 provides a summary of plan provisions, membership statistics, the plan's financial health at the end of the year, and highlights of the changes that have taken place in the plan during the year.

The Staff Pension Plan Investments and Administration Committee

PLAN GOVERNANCE

For the purposes of the British Columbia *Pension Benefits Standards Act*, the University is the "administrator" of the plan, and has ultimate legal responsibility for the administration of the plan and the investment of the Trust Fund. To enable the University to discharge these responsibilities, the Board of Governors has constituted the Governance Committee, the Investments and Administration Committee and the Pension Advisory Committee. Current membership in these committees is as follows:

Investments and Administration Committee

Purpose - oversight of investments, operations and benefits administration

Members -
Kristi Simpson (Chair)
Kane Kilbey
Don Barnhardt
Andrew Coward
Michael Gaudet
Jill Stringer
Kathryn MacLeod
Tony Eder
Janet McPherson (Secretary)

Governance Committee

Purpose - strategic planning (establishment and oversight of the plan's mission, goals and policies)

Members -
Kane Kilbey (Chair)
Gayle Gorrill
Kristi Simpson
Susan Service
John Gilfoyle
Janet McPherson (Secretary)

Advisory Committee

Purpose – to provide input on member communications and matters relating to administration of the plan and to promote awareness and understanding of the plan amongst members, former members and pensioners

Members -
Kristi Simpson (Chair)
Kane Kilbey
Shari Winter (Exempt)
Marina Baginski (CUPE 917)
Claude Champagne (CUPE 917)
Pat Shade (CUPE 951)
Kara White (CUPE 951)
Chris Spratt (Retiree)
Janet McPherson (Secretary)

DESCRIPTION OF MAIN PLAN PROVISIONS

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 document, which is available from the Pension Office or at <http://web.uvic.ca/pensions/staff/index.php>. If there is a discrepancy between this publication and the plan documents, the plan documents apply.

(a) General

The plan is 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

1) Member Contributions

In accordance with the plan text, members are required to contribute 4.53% of their basic salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) (\$52,500 in 2014), 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.

2) Employer Contributions

As a result of the December 31, 2010 valuation (filed with the Regulator in 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.

3) Voluntary Contributions

Subject to *Income Tax Act* maximums, members may elect to make additional contributions to a voluntary contribution account through payroll deduction or by transfer from other registered vehicles.

4) Overall Funding Policy (effective October 1, 2011)

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, 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.

5) Plan solvency

Under the *Pension Benefits Standards Regulation (BC)*, a pension plan must undertake a plan valuation to assess the financial health of the plan at intervals not exceeding 3 years. During 2011, the plan actuary conducted a valuation as at December 31, 2010. The next valuation of the plan as at December 31, 2013 is being conducted in 2014; the results of this valuation will be available in September 2014.

The solvency valuation assumes that the plan is terminated as at the valuation date. The following table compares the results of the solvency valuation as at December 31, 2010 with the previous valuation at December 31, 2007.

	December 31, 2010	December 31, 2007
A – Solvency Assets	\$166,410,444	\$151,179,529
B – Solvency Liabilities	199,392,948	150,118,653
Solvency Excess/ (Deficiency) (A-B)	(32,982,504)	1,060,876
Solvency Ratio (A/B)	0.83	1.01

As outlined in the table above, the Staff Pension Plan would have had a solvency deficit of \$32.98 million if the plan were wound up at December 31, 2010.

Section 35.1 of the Regulation permits a defined benefit plan to fund solvency deficiencies with a letter of credit, which the University has obtained. Therefore, contribution rates were not affected by the solvency deficiency noted above. All costs associated with the letter of credit (interest and fees) are the responsibility of the University. In 2013 the costs totaled \$102,296.

As well as carrying costs for the letter of credit, the University as employer also incurs costs when terminated plan members request a lump-sum (commuted value) payment from the plan. To summarize, the Regulation requires that when a letter of credit is used to fund solvency deficiencies, the employer must make a contribution into the plan of an amount that is equal to any transfer deficiency that exists (equal to 100% - 83% = 17%). For example, if the amount of a commuted value payment to a member is \$10,000, the employer must contribute \$1,700 into the plan to cover this deficiency. In 2013 the employer contributed \$436,671 for the commuted value transfer deficiency (\$503,136 in 2012).

If a subsequent actuarial valuation reveals that there is no longer a solvency deficiency, then the requirements to fund the solvency deficiency will no longer exist.

(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:

$$[\text{Benefit accrual rate}] \times [\text{highest consecutive five year average salary}] \times [\text{years of credited service (full time equivalent)}].$$

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 are actuarial for retirement from inactive status (deferred) 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 eligible or are in receipt of this benefit.

(f) Adjustments to pensions

Pensions are adjusted each January 1st 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 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.

(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. In the year of termination, if the annual benefit is less than 10% of the YMPE or the lump sum present value of future benefit payments is less than 20% of the YMPE, 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 commuted value less withholding tax. The lump sum commuted value, before tax, is equal to the lump sum 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. In addition to the normal forms, the following optional forms are also available:

- 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 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.

Further details about the pension plan can be found at <http://web.uvic.ca/pensions/staff/index.php>

MEMBERSHIP DATA

Year ended	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	% Change over 10 year period	% Change over last 5 year period
Active members	1,077	1,105	1,123	1,137	1,188	1,189	1,215	1,218	1191	1152	7	(3)
Inactive members	221	247	300	359	380	417	407	422	426	419	90	10
Pensioners	<u>445</u>	<u>471</u>	<u>496</u>	<u>513</u>	<u>531</u>	<u>542</u>	<u>569</u>	<u>592</u>	<u>612</u>	<u>639</u>	<u>44</u>	<u>20</u>
Totals:	<u>1,743</u>	<u>1,823</u>	<u>1,919</u>	<u>2,009</u>	<u>2,099</u>	<u>2,148</u>	<u>2,191</u>	<u>2,232</u>	<u>2229</u>	<u>2210</u>	<u>27</u>	<u>5</u>

	<u>2013</u>	<u>2012</u>
Number of withdrawals prior to retirement and small benefit refunds at retirement	85	92
General consumer price index increase applied to pensions on January 1, 2013	2.0%	2.8%
Supplemental increase applied to pensions on January 1, 2013	0.0%	0.0%

YEAR IN REVIEW

SUMMARY OF INVESTMENT POLICY

The University of Victoria Staff Pension Fund is invested in accordance with the requirements of the *Pension Benefits Standards Act (BC)*. As required, the University has established a Statement of Investment Policies and Goals for the pension fund. The policy takes into account factors that may affect the funding and solvency of the plan and the ability of the plan to meet its financial obligations. The policy is reviewed at least annually by the investments and Administration Committee and is either amended or re-affirmed by the University's Board of Governors.

It is important to understand the nature of the obligations that are being funded. Pension plans, including this one, have long-term investment horizons and should focus on the longer term. As a result, the plan holds a diversified portfolio of debt and equity instruments that facilitates prudent management of risk. The policy sets out the categories of permitted investments, diversification, asset mix and rate of return expectations.

The long-term investment goal of the fund is to achieve a minimum annualized rate of return, after taking account of investment expenses, of three and one-half percentage points in excess of the Canadian Consumer Price Index. This 3.5% real return objective is consistent with the overall investment risk level that the fund could assume in order to meet the pension obligations of the plan, and normally will be assessed over longer time periods; i.e. over ten years or more. Progress towards this goal will be monitored on a rolling 4-year basis.

To achieve this long-term investment goal, the fund has adopted an asset mix that has a bias to equity investments. Risk is controlled by investing in a well-diversified portfolio of asset classes and managers, and may include hedging of foreign currency. The fund employs an active management style. Active management provides the opportunity to outperform specific investment benchmarks.

ASSET MIX		
	Benchmark Portfolio%	Approved Ranges %
Equities		
Canadian equities	13	8 - 18
Foreign equities	27	22 - 32
Debt		
Bonds	40	30 – 50
Mortgages	0	0 – 5
Short term investments	0	0 – 15
Alternatives		
Infrastructure	10	0 – 15
Real estate	10	0 – 15

FINANCIAL SUMMARY

	<u>2013</u>	<u>2012</u>
CONTRIBUTIONS		
Members:		
Current service	2,101,362	\$2,131,245
Voluntary	58,427	35,722
Supplementary retirement benefit	114,708	116,128
University:		
Current service	5,389,542	5,456,954
Supplementary retirement benefit	114,708	116,128
Commutated value transfer deficiency	436,671	503,136
	8,215,418	8,359,313
Plus INVESTMENT GAIN	22,480,446	15,866,408
Minus BENEFIT PAYMENTS		
Retirement pensions	5,919,326	5,356,472
Disability pensions	225,973	245,097
Lump sum withdrawals and transfers on termination and death	2,601,377	3,010,955
	8,746,676	8,612,524
Minus OPERATING EXPENSES		
UVic administration	201,227	167,122
Actuarial fees	12,759	4,623
Consulting, audit & legal fees	26,024	25,385
Provincial registration fees	11,996	12,054
	252,006	209,184
Equals NET INCREASE IN THE FUND	21,697,182	15,404,013
Plus TOTAL FUND AT THE BEGINNING OF THE YEAR	186,963,909	171,559,896
Equals TOTAL FUND AT THE END OF THE YEAR	<u>208,661,091</u>	<u>\$186,963,909</u>
FUNDS AVAILABLE FOR BENEFITS		
Basic Plan	196,432,415	176,248,079
Supplementary Retirement Benefit Account	11,107,035	9,738,224
Members' Additional Voluntary Contribution Accounts	1,121,641	977,606
TOTAL FUNDS	<u>208,661,091</u>	<u>\$186,963,909</u>

PENSION FUNDS ARE INVESTED AS FOLLOWS

	2013	2012
Cash, short term notes and accounts receivable	4,298,469	\$ 3,966,903
Bonds - Canadian	72,962,037	69,035,549
Bonds - Foreign	0	0
Mortgages	5,350,970	4,704,302
Currency hedging funds	114,569	154,908
Common stocks - Canadian	28,543,260	33,263,895
Common stocks - US	16,064,795	6,935,471
Common stocks - EAFE	47,457,461	34,898,660
Real estate	22,862,361	21,191,689
Infrastructure	11,007,169	12,812,532
	<u>208,661,091</u>	<u>\$186,963,909</u>

Investment gain after deducting all expenses **11.91%** **9.1%**

A full set of audited financial statements is available on the Plan website at <http://web.uvic.ca/pensions/staff/index.php> , or you can request a copy by contacting the Pension Office.

FOUR-YEAR PERFORMANCE OBJECTIVES AND ANNUALIZED TOTAL FUND RETURNS:

	<i>Long-term objective of CPI + 3.5%</i>	<i>Return of Benchmark Portfolio*</i>	<i>Actual fund returns (net of all fees)</i>
2010 - 2013	5.2%	7.3%	8.0%
2009 - 2012	5.3%	7.6%	7.8%
2008 - 2011	5.3%	3.0%	2.3%

*comprised of a composite of market indices.

FOUR YEAR ANNUALIZED RETURNS¹ VERSUS BENCHMARK BY ASSET CLASS AND INVESTMENT MANAGER

Asset class and fund manager	Benchmark	% Return of Benchmark	% Actual portfolio returns*
Canadian equity:			
Burgundy Asset Management Ltd ² ; SRI/PCJ; BC Investment Mgmt Corp (bcIMC)	S&P/TSX Capped Composite Index	6.8	6.5 ³
Foreign equity:			
BC Investment Management Corp.	MSCI World ex-Canada Net Index (Cdn. \$)	12.4	12.9
Canadian fixed income:			
Phillips, Hager & North Investment Management .	DEX Universe Bond Index total return	4.6	5.3
Real Estate:			
BC Investment Management Corp.	Change in the Canadian CPI + 4% per annum	5.7	12.3

¹ All returns shown are gross of fees except Macquarie which are net of fees

² Burgundy Asset Management was hired in December 2013 replacing both SRI/PCJ and bcIMC. Consolidation to one manager occurred given the allocation to Canadian equity declined to 13% as noted above. Burgundy was hired for their investment approach which generally results in more protection in negative market conditions.

³ Returns shown represent combined return of all Canadian managers during 2013.

Infrastructure:

Macquarie Infrastructure.	Change in the Canadian CPI + 5% per annum	6.8	9.5
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SERVICE PROVIDERS AT THE END OF DECEMBER 2013

Investment Managers	<u>BC Investment Management Corporation</u> - manages the global equity and real estate portion of the fund <u>Phillips, Hager & North</u> - manages the fixed income portion of the fund <u>Burgundy Asset Management Ltd.</u> - manages the Canadian equity portion of the fund (effective December 2013) <u>Macquarie Infrastructure</u> - manages the infrastructure investments of the fund
Trustee of Fund	<u>RBC Investor Services Trust</u> - acts as the trustee of the plan assets (under the direction of the plan) and provides payment service for pensions and lump-sum payments
Investment Consultant	<u>Towers Watson</u>
Performance Measurement	<u>Towers Watson</u>
Actuary	<u>Towers Watson</u>
Auditor	<u>Grant Thornton LLP</u>

PLAN ADMINISTRATION

General enquiries or requests for statements can be directed to the Pension Office at pensions@uvic.ca, by phone to (250) 721-7030 or to:

Mailing address	Physical address/courier
Pension Services University of Victoria PO Box 1700, STN CSC Victoria BC V8W 2Y2	Pension Services University of Victoria ASB—Room B278 3800 Finnerty Road Victoria BC V8P 5C2