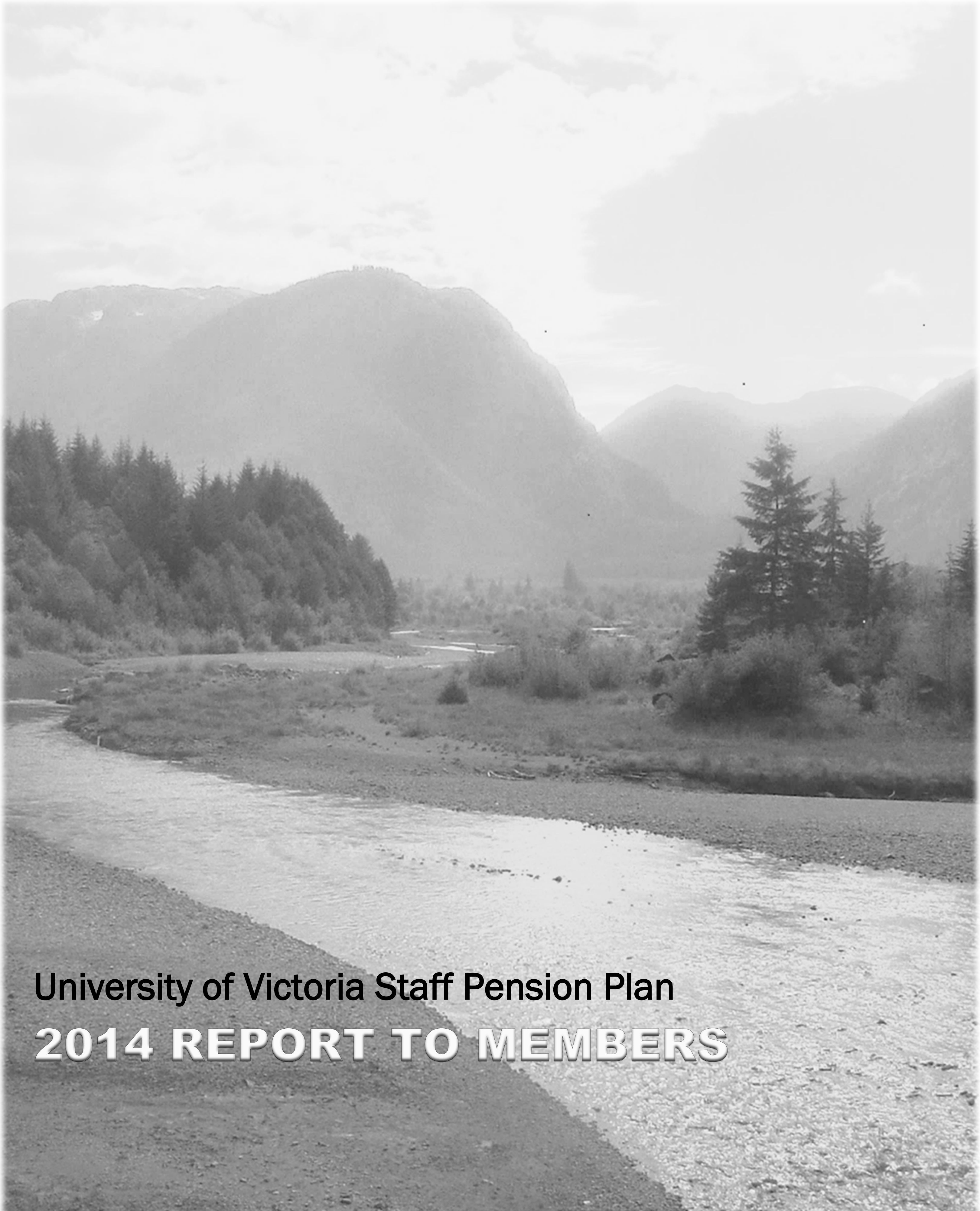

University of Victoria Staff Pension Plan

2014 REPORT TO MEMBERS

CONTENTS

INTRODUCTION

Dear Plan Members:

The Staff Pension Plan Report to Members for the year ended December 31, 2014 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
Stefan Grbavec
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) *term ended December 31, 2014*
Janet McPherson (Secretary)

DESCRIPTION OF MAIN PLAN PROVISONS

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://www.uvic.ca/financialplanning/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

A valuation for the plan was completed for the year ended December 31, 2013 and no change to the university contribution rate of 11.75% was required. The University also contributes an additional 0.25% of salary to the Supplementary Retirement Benefit Account. Please refer to Page 9 for more details about the results of the valuation.

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

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.

(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 consecutive 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 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, 2014 was 0.9%.

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://www.uvic.ca/financialplanning/pensions/staff/index.php***

MEMBERSHIP DATA

Year ended	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	% Change over 10 year period	% Change over last 5 year period
Active members	1,105	1,123	1,137	1,188	1,189	1,215	1,218	1,191	1,152	1,191	7.8	-2.0
Inactive members	247	300	359	380	417	407	422	426	419	435	76.1	6.9
Pensioners	471	496	513	531	542	569	592	612	639	674	43	18.5
Totals:	**1,823**	**1,919**	**2,009**	**2,099**	**2,148**	**2,191**	**2,232**	**2,229**	**2,210**	**2,300**	**26.2**	**7.1**

	2014	**2013**
Number of withdrawals prior to retirement and small benefit refunds at retirement	54	85
General consumer price index increase applied to pensions on January 1, 2014	0.9%	2.0%
Supplemental increase applied to pensions on January 1, 2014	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

	2014	2013
CONTRIBUTIONS		
Members:		
Current service	2,115,804	2,101,362
Voluntary	59,031	58,427
Supplementary retirement benefit	114,550	114,708
University:		
Current service	5,364,569	5,389,542
Supplementary retirement benefit	114,550	114,708
Commuted value transfer deficiency	284,370	436,671
	8,052,874	**8,215,418**
Plus **INVESTMENT GAIN**	**21,838,740**	**22,480,446**
Minus **BENEFIT PAYMENTS**		
Retirement pensions	6,416,010	5,919,326
Disability pensions	204,591	225,973
Lump sum withdrawals and transfers on termination and death	2,080,890	2,601,377
	8,701,491	**8,746,676**
Minus **OPERATING EXPENSES**		
UVic administration	208,835	201,227
Actuarial fees	107,485	12,759
Consulting, audit & legal fees	28,429	26,024
Provincial registration fees	11,846	11,996
	356,595	**252,006**
Equals **NET INCREASE IN THE FUND**	20,833,528	21,697,182
Plus **TOTAL FUND AT THE BEGINNING OF THE YEAR**	208,661,091	186,963,909
Equals **TOTAL FUND AT THE END OF THE YEAR**	**229,494,619**	**208,661,091**

	2014	2013
FUNDS AVAILABLE FOR BENEFITS		
Basic Plan	216,168,397	196,432,415
Supplementary Retirement Benefit Account	12,463,604	11,107,035
Members' Additional Voluntary Contribution Accounts	862,618	1,121,641
TOTAL FUNDS	**229,494,619**	**208,661,091**

PENSION FUNDS ARE INVESTED AS FOLLOWS	**2014**	**2013**
Cash, short term notes and accounts receivable	3,150,693	4,298,469
Bonds - Canadian	79,274,129	72,962,037
Bonds - Foreign	0	0
Mortgages	6,762,407	4,704,302
Currency hedging funds	389,682	114,569
Common stocks - Canadian	31,369,421	28,543,260
Common stocks - US	18,820,257	16,064,795
Common stocks - EAFE	53,461,722	47,457,461
Real estate	24,562,708	21,191,689
Infrastructure	11,703,600	11,007,169
	229,494,619	**208,661,091**
Investment gain after deducting all expenses	**10.31%**	**11.91%**

The full financial statements area available on the Plan website at
http://www.uvic.ca/financialplanning/pensions/staff/index.php **or you can request a copy by contacting the Pension Office.**

FOUR-YEAR PERFORMANCE OBJECTIVES AND ANNUALIZED TOTAL FUND RETURNS:

	Long-term objective of CPI + 3.5%	***Return of Benchmark Portfolio****	***Actual fund returns (net of all fees)***
2011 - 2014	5.0%	7.6%	8.4%
2010 - 2013	5.2%	7.3%	8.0%
2009 - 2012	5.3%	7.6%	7.8%

***comprised of a composite of market indices.

FOUR YEAR ANNUALIZED RETURNS[1] 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	5.1	4.9[3]
Foreign equity:			
BC Investment Management Corp.	MSCI World ex-Canada Net Index (Cdn. $)	14.7	15.0
Canadian fixed income:			
Phillips, Hager & North Investment Management .	FTSE TMX Universe Bond Index total return	5.1	5.7
Real Estate:			
BC Investment Management Corp.	Change in the Canadian CPI + 4% per annum	5.5	12.0
Infrastructure:			
Macquarie Infrastructure.	Change in the Canadian CPI + 5% per annum	6.5	11.6

[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...
[3] Returns shown represent combined return of all Canadian managers during the four year period.

DECEMBER 2013 ACTUARIAL VALUATION

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 2014, the plan actuary conducted a valuation as at December 31, 2013.

Valuation results

For each valuation cycle, two valuations scenarios are required; the first assumes that the plan is terminated as of the valuation date, and the second assumes that the plan continues indefinitely:

1) Solvency valuation

This type of 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, 2013 with the previous valuation at December 31, 2010.

Valuation date	**December 31, 2013**	**December 31, 2010**
A – Solvency Assets	**208,661,091**	$166,410,444
B – Solvency Liabilities	**250,527,301**	199,392,948
Solvency Excess/ (Deficiency) (A-B)	**(41,866,210)**	(32,982,504)
Solvency Ratio (A/B)	**0.83**	0.83

As outlined in the table above, the Staff Pension Plan would have had a solvency deficit of $41.87 million if the plan were wound up at December 31, 2013. This has a significant impact on the employer funding requirements as set out below.

2) Going concern valuation

This type of valuation assumes that the plan will continue indefinitely. The following table compares the results of the plan's funded position on a going concern basis as at December 31, 2013 with the previous valuation at December 31, 2010.

Valuation date	**December 31, 2013**	**December 31, 2010**
A – Actuarial Value of Assets	**$208,661,091**	166,410,444
B – Actuarial Liabilities	**$182,168,102**	156,468,663
Funded Position (A-B)	**$26,492,889**	9,941,781
Funded Ratio (A/B)	**1.15**	1.06

Funding Requirements

Funding requirements are determined as part of the actuarial valuation and are the sum of contributions to fund liabilities accruing on a going concern basis and contributions to fund any solvency deficiency. The requirements are subject to minimums and maximums set by statutes, plan provisions, and collective bargaining.

1) Solvency Contributions

Section 35.1 of the *Regulation* permits a defined benefit plan to fund solvency deficiencies with a letter of credit, which the University first obtained to fund the solvency deficiency for the 2010 valuation and has renewed for the

2013 valuation. 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.

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.

If a subsequent actuarial valuation (performed a minimum of every three years) reveals that there is no longer a solvency deficiency, then the requirements to fund the solvency deficiency will no longer exist.

2) Going Concern Contributions

The actuary calculated a slight decrease in the total required contribution rate (employer and employee) to 16.73% (16.84 at the December 31, 2010 valuation). This normal cost decrease is primarily the result of differences in future economic assumptions between the valuations. Under the cost sharing provisions of the funding agreement, the employer (UVic) would be able to reduce its contribution rate by 0.04% (employee contribution rates are already at their minimum under the agreement). However, the university considered potential future increases in liabilities due to mortality improvements and elected to maintain its current contribution rate of 12%.

SERVICE PROVIDERS AT THE END OF DECEMBER 2014

Investment Managers	BC Investment Management Corporation - manages the global equity and real estate portion of the fund
	Phillips, Hager & North - manages the fixed income portion of the fund
	Burgundy Asset Management Ltd. - manages the Canadian equity portion of the fund
	Macquarie Infrastructure - manages the infrastructure investments of the fund
Trustee of Fund	RBC Investor Services Trust - 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	Towers Watson
Performance Measurement	Towers Watson
Actuary	Towers Watson
Auditor	Grant Thornton LLP

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