UNIVERSITY OF REGINA
ACADEMIC AND ADMINISTRATIVE BENEFITS COMMITTEE
ANNUAL REPORT
for the year 1997

Errors of commission and omission excepted. This is not a legally binding version of this document.

About the Academic and Administrative Pension Plan

The Academic and Administrative Pension Plan was established on 1 July 1965. The plan is a defined-benefit plan, meaning that a member's pension is calculated using a formula based on the member's salary history and years of service at retirement. The plan also allows the transfer of entitlements -- including the portion of the accumulated contributions contributed by the University -- out of the plan upon retirement, death or resignation.

Membership in the plan is compulsory for academic and administrative staff. The plan currently has about 900 members, of whom more than 20% are retired members receiving pension benefits under the plan.

Profile of the Committee

The Academic and Administrative Benefits Committee is a standing committee of the Board of Governors. The mandate of the Committee is to advise the Board on matters relating to benefit plans for academic and administrative staff, including:

- The Academic and Administrative Pension Plan
- The Group Life Insurance Plan
- The Salary Continuance Plan
- The Travel Insurance Plan
- The Dental Plan.

Message from the Chair

On behalf of the Academic and Administrative Benefits Committee, I am pleased to report that 1997 was another good year for the pension fund. The 1997 rate of return on the fund's assets was 13.3%, and total assets rose above $200 million. The fund earned 13.2% per year (on an annualized basis) over the past four years. The one-year performance of the fund was healthy in an absolute sense, but was on the low side when compared to market indices. However, the four-year return was well ahead of the benchmark return (12.4%) which the committee uses as a frame of reference for the fund's performance.

1997 was a busy year for committee members. The Academic and Administrative Benefits Committee met ten times during 1997. In addition, the Joint Investment Committee, which is a combination of the Academic and Administrative Benefits Committee and the Committee on Employee Benefit Plans, met nine times during 1997. The Joint Investment Committee oversees the Master Trust Fund, which contains the assets of all three of the University's pension plans.

As explained in the 1996 annual report, with the support of the Board of Governors, the committee has embarked on a thorough review of the pension plan -- the first such comprehensive review in more than thirty years. After reviewing proposals from six actuarial firms, William M. Mercer Ltd. was engaged to assist in this review. The committee expects to propose significant changes to the pension plan to the membership in 1998. The general goal of the pension plan review is to ensure the adequacy and tax-effectiveness of members' pension entitlements, while preserving the best features of the current plan. The committee is simultaneously conducting a review of the group life, dental and salary continuance insurance policies, also with the assistance of William M. Mercer Ltd. It is anticipated that the review will be completed in the spring of 1998.

The firm of Phillips, Hager and North Limited of Vancouver continues as our primary investment manager, with responsibility for the investment of nearly 90% of the assets of the Master Trust. As always, it is a pleasure to thank PH&N, and Tom Bradley and Rick Brooks-Hill in particular, for another successful year.

Wayne Hopkins, Janet Julé and Jeff Stepan of James P. Marshall, Inc. have again been of great assistance to the committee by helping to monitor the performance of the fund and providing advice about investments and investment policy.

The committee is grateful, too, to Aon Consulting (formerly the Alexander Consulting Group) for actuarial work and assistance in the administration of the plan; special words of thanks go to David Keet, Louis Martel, Shannan Keet Corey and Donna Mitchell. We want to pay tribute, too, to Jim Giesinger, Wes Peters and Gord Simle of William M. Mercer for their helpful and creative work on the pension and benefits review.

1997 was an especially busy time in the Personnel Office. In addition to the normal, day-to-day administrative tasks associated with the pension and insurance plans, the workload increased dramatically because of the Faculty Renewal /Voluntary Severance Plan and the pension and insurance reviews. Bonnie Dobni and Louise Doan accepted these increased demands on their time without complaint, and carried out both their ordinary and extraordinary duties with their usual high level of competence and patience. The committee is especially grateful to Bonnie and Louise for these contributions.

R.J. Tomkins
Chair
March 1998

The Pension Plan

Review of 1997 Investment Performance

Despite fears that markets were getting ahead of themselves, 1997 turned out to be another excellent year for both bond and equity markets. The University of Regina's Master Trust Fund, which contains the assets of all three of the pension plans, achieved a 13.3% rate of return in 1997. The fund earned 13.2% per year (on an annualized basis) during the four-year period ending 31 December 1997

Despite double-digit returns in 1997, the fund's performance is, in fact, a little disappointing. The 13.3% return did not achieve the benchmark return (14.1%) established in the fund's investment policy and was below the median return reported in the Canadian Trust Universe Comparison Service (CTUCS) survey of Canadian pension funds. This relative underperformance can be attributed to average or below-average performance in bonds and U.S. equities, and to the allocation of the fund's assets to different types of investments.

On the other hand, the fund's performance over the latest four-year period is excellent, with all benchmark objectives being achieved except in the bond market -- and, even there, the fund's returns exceeded the market index. The four-year rate of return of 13.2% puts our fund into the second quartile of all funds surveyed by CTUCS.

After lagging behind Canadian markets in 1996, the U.S. stock markets came to the fore again in 1997, with an astonishing 39.2% return (in Canadian dollars) on the Standard and Poor's 500-stock Index during the year. The 15.0% return on the Toronto Stock Exchange, while respectable in absolute terms, was a poor cousin compared to American indices. Returns from stock markets outside North America, as measured by the Europe, Australia, Far East (EAFE) Index, came in at 6.3% on the year. The the ScotiaMcLeod Universe Bond Index (SCMUBI) rose by 9.6% in 1997. After several years of sub-par performance, the real estate markets came to life in 1997 with a 16.2% return, as measured by the Russell Canadian Property Index.

The Consumer Price Index rose by only 0.7% in 1997. Consequently, the pension fund produced a very high real rate of return of 12.6% (i.e., 13.3% less 0.7%), and all asset classes reported strong real returns.

The market value of the assets of the Academic and Administrative Pension Plan crossed the $200-million mark during 1997.

Value of Pension Fund Assets at Year-end

	1997	1996
Market Value of Assets	**$216,839,827**	$197,840,220

The market value of the assets of the Academic and Administrative Pension Plan rose by $26.330 million during 1997. Nearly two-thirds of this increase was due to capital gains on the assets, with the remaining third attributable to dividends, interest and real estate distributions. The 26-million increase in the plan's assets was offset by a net withdrawal of $7.330 million, mainly because of transfers out of the fund on behalf of members who retired or resigned during 1997. Consequently, the net increase in the fund's assets during 1997 was $18.0 million.

This rise in the value of the fund's assets was assisted by strong performance in each of the various asset classes, as is evident from the following table:

1997 Rates of Return

Asset class	**1997 return**	Return on Index	Name of Index
Canadian equities	**15.6%**	15.0%	TSE 300
U.S. equities	**30.8%**	39.2%	S&P 500
Non-N.A. equities	**12.1%**	6.3%	EAFE
Bonds	**9.7%**	9.6%	SCMUBI
Real Estate	**11.0%**	16.2%	RCPI
Mortgages	**9.9%**	6.6%	SCMMTG

Some members have wondered why recent annual reports have not indicated relative rates of performance in each asset class. Providing such information when all of the fund's assets were overseen by a single investment manager was relatively easy. However, now that the fund has real estate and non-North American investments through managers other than Phillips, Hager and North, obtaining relative performance numbers is more expensive and complicated. The Joint Investment Committee relies on James P. Marshall Inc. for performance measurement, and uses the CTUCS survey as an additional check on the performance of the 89% of the fund's assets managed by PH&N. However, using CTUCS results, the following partial assessment of relative performance can be provided:

1997 Relative Rates of Return

Asset class	**1997 percentile[1]**	**4-year percentile[1]**
Canadian equities	**68**	**29**
U.S. equities	**80**	**n/a[2]**
Non-N.A. equities[3]	**59**	**n/a[2]**
Foreign equities[3]	**71**	**57**
Bonds	**61**	**42**
Mortgages	**25**	**5**
Total fund[3]	**66**	**23**

[1] - indicates the percentage of funds in the CTUCS survey that reported better performance than the U of R fund. Small numbers signify excellent performance relative to other funds, while numbers close to 100 indicate

poor relative performance.
[2] - information not available
[3] - refers to assets managed by PH&N only

The four-year comparative results are particularly interesting, since the assets managed by PH&N achieved first-quartile performance (i.e., in the top 25% of all Canadian pension funds in the CTUCS survey), even though performance in none of the major individual asset classes was first-quartile. (The excellent relative performance in mortgages is overshadowed by the fact that only 2% of the fund's assets are invested in mortgages.) This apparent anomaly is the result of our heavy commitment to stocks, as compared to other funds, at a time when stock markets have produced much stronger returns than the bond markets.

The Master Trust maintained its traditional relatively-high commitment to equities, with nearly 62% of the assets invested in stocks in Canada and abroad at the end of 1997. Bonds and mortgages accounted for 36% of the assets, with real estate and cash accounting for the remaining 2%. As the following table shows, there was little change in the allocation of funds to the various asset classes in 1997.

Distribution of Assets
(as a percentage of year-end market value)

	1997	1996
Cash (including short-term notes)	**1.0%**	3.5%
Canadian stocks	**45.2%**	43.4%
U.S. stocks	**4.4%**	3.7%
Non-North American stocks	**12.4%**	12.3%
Bonds and Debentures	**34.2%**	32.4%
Real Estate	**0.8%**	2.1%
Mortgages	**2.0%**	2.6%

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Detailed Analysis of Investment Returns

Canadian Stocks. The fund benefitted from another excellent year of performance by Canadian stocks, with the Toronto Stock Exchange 300

Index rising by 15.0% during 1997. The 1997 rate of return on the fund’s Canadian equity holdings was even better, at 15.6%. This return, nevertheless, was slightly disappointing, since it was below the committee’s investment objective of 16.5% (i.e., 110% of the change in TSE 300 Index). What is important to a pension fund, though, is long-term performance, and our manager’s 16.7% annualized return on Canadian equities handily exceeded our investment objective (15.4%) over the past four years. Compared to most other Canadian pension funds, our fund’s 45.2% commitment of assets to Canadian stocks is very high, and the fund has been rewarded well in recent years for making such a heavy commitment to stocks.

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U.S. Stocks. The return on the fund’s investment in U.S. stocks was a remarkable 30.8%. This performance, however, was less impressive when compared to the rise in the Standard and Poor’s 500-stock Index (39.2% in Canadian dollars) or to the median performance of other Canadian pension funds (35.3%). Nonetheless, the fund’s rate of return on U.S. stocks was the highest achieved in any asset class during 1997 and thus certainly added value, though this positive effect was dampened somewhat by our relatively-low commitment of assets to U.S. equities.

Non-North American stocks. The Master Trust does not invest in individual stocks outside North America but, rather, has purchased units in global pooled funds sponsored by Baring Asset Management, the Templeton organization and Phillips, Hager & North. Stock-market performance around the world was a very mixed bag in 1997, with many European markets rising sharply, while markets in Asia sagged dramatically as a result of the well-publicized "Asian crisis". All told, non-North American markets produced a 6.3% return during 1997, as measured by the EAFE Index. The committee’s investment objective for its global investments is to match the EAFE Index, and this goal was achieved in 1997 with a combined return of 12.1%, nearly double the rise in EAFE. Both Baring and Templeton beat the EAFE comfortably, while PH&N lagged slightly behind the index. Over the past four years, the fund’s annualized rate of return on global investments was 12.0%, well ahead of the EAFE Index (8.7%). PH&N and Templeton outperformed the EAFE over four years, while Baring was just a whisker behind the index over that period.

The unitholders of the Baring GEM (Global Emerging Markets Fund) decided to close that fund in 1997, so our Baring holdings are now confined to the Baring Europac Fund.

The committee took note that the book value of non-Canadian investments had declined below the 15%-mark, compared to the 20% maximum allowed by the *Income Tax Act*. This has occurred because there is very little turnover in the plan's foreign assets, as compared to its Canadian stock and bond holdings; in rising markets, book value will increase as assets are bought and sold. A number of discussions were held with our consultants to devise a strategy to raise our foreign commitments toward the 20% limit, but no action was taken in this regard in 1997.

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Bonds. The fund earned 9.7% on its bond holdings during 1997, slightly outpacing the return of 9.6% on the ScotiaMcLeod Universe Bond Index (SCMUBI). PH&N was cautious in its bond investments in 1997 because of concerns about the potential for increases in inflation -- and interest rates -- as the economy continued to grow. The committee's objective is to earn 105% of the change in the SCMUBI, and this was not achieved in 1997 as a result of the manager's defensive stance in the bond market. Adding the desired 5% of value to bond performance is becoming increasingly difficult as demand for bonds increases at a time when issuers -- especially governments -- are not issuing many new bonds and, indeed, are actually reducing their net debt-loads in some cases.

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Real Estate. After years in the doldrums in the aftermath of the recession of the early 1990's, real estate investments finally lived up to their billing in 1997, at least as measured by the Russell Canadian Property Index (RCPI), which rose by 16.2% in 1997. The fund's investments in real estate, via Westpen Properties and a SunLife pooled fund, also came to life with respective returns of 10.2% and 14.6%, after years of low -- often negative -- results. Ironically, the fund's units in Penreal Property Trust, which is involved in real estate financing, rather than in real estate per se, was a drag on real estate returns for the first time. PPT earned a still respectable 10.6% return, but this was less than the combined 12.6% earned on the Westpen and SunLife investments during 1997. The fund's combined rate of return on all real estate-related investments was 11.0%.

Mortgages. The fund's modest investment in mortgages produced very nice returns, both on an absolute and relative basis. Our mortgage portfolio earned 9.9% during 1997, a rate of return that was exceeded by only 5% of the other Canadian pension funds in the CTUCS survey. Over four years, the annualized return from mortgages was 10.5%, nicely in excess of the 8.1% rise in the ScotiaMcLeod Mortgage Index (SCMMTG) and the committee’s objective for mortgages (8.5%, i.e., 105% of the change in the index.)

DISTRIBUTION OF ASSETS BY MANAGER

The investment management structure did not change during 1997. Phillips, Hager and North continues to manage the lion’s share of the assets, with exclusive responsibility for bonds, mortgages, and Canadian and U.S. equities, while five other managers oversee investments in real estate and foreign equities. The table shows the respective share of the fund’s assets, at market value, in the hands of each manager at the end of the year.

	1997	1996
Phillips, Hager and North	**89.4%**	89.6%
Penreal Property Trust	**1.3%**	1.3%
Westpen Developments	**0.3%**	0.4%
Sun Life	**0.4%**	0.4%
Baring	**3.2%**	3.3%
Templeton	**5.4%**	5.0%
	100.0%	100.0%

SUMMARY

While rates of return were not as dramatic as in the previous year and did not achieve investment objectives in some cases, 1997 was a still satisfactory year for the plan. The longer-term performance of the fund remains very good, with a four-year annualized rate of return of 13.2%, comfortably ahead of the committee’s benchmark objective.

Interest is credited to members’ accounts at the end of each (calendar) year at a rate equal to the four-year annualized rate of return, net of administrative expenses, less 0.5%. The interest rate to be applied to members’ account balances at the end of 1998 will be 12.24%. Members who transfer their account balances out of the plan during 1998 will receive the same rate of interest, *pro rata*.

Postscript on Bre-X Minerals

Like many other Canadian pension funds, the Master Trust held shares in Bre-X Minerals Limited when the value of its shares plummeted in late March, 1997. The Trust held nearly 50,000 shares of the ill-fated stock, at a cost of about $940,000, when the stock price collapsed to $2.50 from $15.00 on 27 March. In April, 8000 shares were sold at just over $4.00 per share, but the rest were sold for pennies in early May, after an independent audit confirmed that the Bre-X exploration property in Indonesia held only insignificant amounts of gold and suggested that samples from the property had been "salted" with gold. All told, the Master Trust lost nearly $900,000 on Bre-X stock.

While $900,000 is a lot of money, the ultimate effect of the Bre-X debacle on the Master Trust has been relatively small. Phillips, Hager and North estimate that the loss on the Bre-X investment reduced 1997 returns by about 35 basis points; i.e., by 35/100 of a percentage point. Put another way, this is like losing $35 on a $10,000 investment. While the Committee is concerned about this loss, there is some consolation in knowing that many other investment managers were duped by the Bre-X story and that the fund produced a healthy rate of return in spite of the Bre-X loss.

Other Committee Actions

Benefits Review

As reported in the 1996 Annual Report, the Academic and Administrative Benefits Committee has embarked on a review of the design and provisions of the current pension plan. The review is not rooted in any unhappiness with the current design but, rather, is motivated by a need to address some adverse effects of the *Income Tax Act* on some plan members. This pension review has been endorsed by the Board of Governors.

The committee has several reasons for conducting a pension review at this time, including:

- Because of limits on tax-sheltered transfers from the plan under Section 8517 of the *Income Tax Act*, some members who resign or retire are being forced to take sizeable partial contribution refunds into taxable income;
- For most members, the maximum allowable tax deduction for retirement savings (pension plan and RRSP’s) is less – sometimes considerably less – than would be the case under other types of pension plans;
- Entitlements under the plan are nearing the maximum benefits allowed by the *Income*

Tax Act;

- The design of the plan has not been examined since 1965.

As it prepared for the pension review, the committee decided that it would, in fact, be desirable to sponsor a review of all benefits plans available to academic and administrative staff. Subsequently, the Non-Academic Benefits Committee decided to conduct a similar review of benefits for CUPE 1975 members, and the two committees agreed to conduct the reviews together, under the aegis of the Joint Investment Committee. After a thorough search, William M. Mercer Limited was hired to assist the committees with the review.

Because of differences in the design of the University's two main pension plans, the pension reviews are being carried out independently of one another, but both with the help of Mercer. The Academic and Administrative Benefits Committee is considering one particular design proposed by Mercer which appears to preserve the best features of the current plan, reduce the negative effects of the Income Tax Act, and expand benefits for at least some members. No changes will be made to the plan without consulting the membership. The committee hopes to have a revised pension plan in place at the start of 1999.

The review of insurance plans is on a slower track, partly because the pension review is more urgent and partly because changes to insurance plans are subject to collective bargaining which is not expected to occur until fall 1998. The committee anticipates that it will, with the assistance of Mercer, present the University and the Faculty Association with a variety of options regarding the current plans (group life, dental and salary continuance), possible new plans, likely premium levels, and so forth. It will then be up to the negotiating teams to determine whether to make changes to current plans and what changes to make.

Actuarial Valuation

The Academic and Administrative Benefits Committee has traditionally sponsored an actuarial valuation of the pension plan every two years, at the end of odd-numbered years. The committee has decided to part from this tradition and defer the next full valuation of the plan until the end of 1998. (Provincial law requires the submission of a valuation to the Superintendent of Pensions at least every three years.) The committee has determined that, in view of the pension review currently under way, it would be preferable to take stock of the current plan on 31 December 1998, the day before a revised plan comes into being – if all goes according to plan. Any changes to pension benefits as a result of the 1998 valuation may be back-dated to the start of 1998, so that members should not be disadvantaged by the deferral of the valuation.

The committee will, however, ask the actuary to prepare an unofficial valuation for the committee's use when assessing options resulting from the pension review.

Amendments to the Plan

The Board of Governors approved two sets of amendments to the plan during 1997, and these have been described to members by means of a memorandum from the Committee. For the permanent record, the two amendments are summarized below.

Indexing Formula. Pensions are now indexed annually at the full rate of change in the Consumer Price Index (CPI) during the preceding calendar year when the change is less than 2.5%. Pensions will rise by 2.5% when the increase in the CPI is between 2.5% and 4.0%, and by the change in the CPI less 1.5 percentage points when the CPI increase exceeds 4.0%.

Pension Entitlements. Pensions are now calculated using the member's best three-consecutive-year average salary, instead of five years. Moreover, the formula pension is now payable for a minimum of ten years, instead of five.

Early-Retirement Eligibility. Early retirement on full pension is now available to any member whose age and years of university service add up to at least 80. Members who are 55 years old or more remain eligible for early retirement. Any member who wants to retire early must have at least three years of pensionable service at the University.

Credited Interest. The interest rate applied to members' accounts in a given year is now equal to the annualized rate of return over the four preceding calendar years, net of plan expenses, less 0.5 percentage points. Interest is still credited at the end of each year on the previous year's account balances.

Compliance with Legislation. A number of changes were made to reflect changes in federal and provincial pension legislation:

- The plan no longer contains any reference to the 35-year limit on the accumulation of pension credits that existed under prior legislation.
- The definition of "disability" has been changed to conform to the meaning of that term under the *Income Tax Act*.
- The plan now permits a retiring member to choose a pension option under which half of the member's pension would continue to the member's spouse if the member should die before the spouse. Under provincial law, this option can only be selected with the express agreement of the spouse.
- The definition of "spouse" has been changed. A "spouse" is a person who is legally married to the member or is a person of the opposite sex with whom the member has been living as husband and wife for at least one year.

Members of the Committee

- David Barnard, Vice-President (Administration)
- Keith Johnson, Chemistry
- Gaynor Kybett, Computing Services
- Stuart Mann, Associate Vice-President (retired)
- Bob McCulloch, Associate Vice-President (Academic)
- Jim Tomkins, Mathematics and Statistics
- Gary Tompkins, Economics and University Extension

Recording Secretary

- Bonnie Dobni, Personnel Office

Administrator

- David Barnard, Vice-President (Administration)

Actuary

- David Keet, Aon Consulting Group, Saskatoon

Pension Consultants

- James P. Marshall Inc., Regina

Primary Investment Managers

- Phillips, Hager and North Limited, Vancouver

Custodian

- CIBC Mellon Trust, Calgary

Measurement Service

- Canadian Trust Universe Comparison Service(CTUCS)