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 about 25% are retired members receiving pension benefits under the plan.

Mandate of the Committee

The Academic and Administrative Benefits Committee is a sub-committee of the Human Resources 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 Extended Health Plan
- The Family Dental Plan

Message from the Chair

The year 1999 was a busy one for the Academic and Administrative Benefits Committee (AABC). The Committee met eleven times during 1999. In addition, the Joint Investment Committee, which is a combination of the AABC and the Committee on Employee Benefits, met five times during the year. The Joint Investment Committee oversees the Master Trust Fund, which contains the assets of all three of the University's pension plans.

A number of significant changes to the pension and insurance plans occurred during 1999:

- It was decided to add a defined-contribution (DC) component to the pension plan on 1 January 2000; membership in the DC component will be mandatory for all academic and administrative staff hired in 2000 and afterwards. This is the most significant structural change to the pension plan since its creation in 1965.
- The dental plan was expanded to include members' spouses and certain dependents.
- An extended health care plan was introduced for members and their families.
- The pension plan reported another surplus.
- Pension indexing was improved again.

The decision to recommend the creation of the DC component and the subsequent discussions about the form and provisions of the DC component consumed the better part of the Committee's time in 1999. However, the Committee of course maintained its high priority on monitoring the investment performance of the pension fund. It was another very successful year for the fund, with a one-year rate of return equal to 12.8%. Investment performance will be discussed in depth in subsequent sections of this report, as will the various changes to the pension plan and insurance policies.

The Committee has received outstanding support from its actuarial consultants, Aon Consulting, both in the analyses leading to the decision to introduce the defined-contribution component and in the process of developing the details of that component. The plan's Actuary, Don Ireland, and his associate, Shannan Keet-Corey, merit high praise for their assistance during 1999.

It is again my pleasure to pay tribute to our primary investment managers, Tom Bradley and John Montalbano of Phillips, Hager and North, for achieving double-digit returns on the pension fund's assets. Janet Julé and John Myrah of James P. Marshall Inc. have continued to help the Committee to monitor investment performance and to provide advice about investment policy and the evolution of the pension industry. A special thank-you goes to the Committee's

recording secretary, Bonnie Dobni, and her associates Darlene Marchuk, Louise Doan and Jeanette Pageot of Human Resources, for their efficient day-to-day administration of the pension and insurance plans.

One membership change occurred during 1999, when the Board appointed Brian Johnson to replace Bob McCulloch. The Committee is grateful to Bob for his contributions during his 5 years as a member.

At my request, the Committee held an election early in 2000 and chose Gary Tompkins as my successor. (I will, however, remain a member of the Committee.) Thus, this will be my final report as Chair of the AABC. I have had the good fortune and the privilege to chair this committee for 25 years. During that period, I have worked with and learned from a succession of accomplished actuaries, consultants and fellow committee members. But I am particularly grateful for the support of the plan membership during my tenure as Chair. I am confident that similar support will be extended to Gary Tompkins as he assumes his new role on the Committee.

R.J. Tomkins

Chair

May 2000

REVIEW OF 1999 INVESTMENT PERFORMANCE

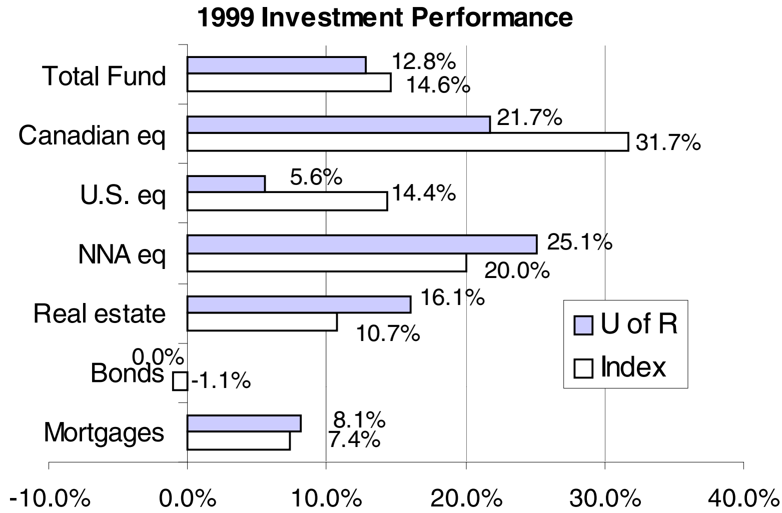
1999 provided a 12.8% return for the University Pension Plans

Investment returns in 1999 were characterized by generally strong equity markets and weak bond results. Globally, telecommunications and technology stocks drove equity markets higher. This was particularly apparent in Canada, where over 80% of the 31.7% TSE 300 Index return was provided by the index's largest companies, Nortel Networks (up 280%) and its major shareholder, BCE (up 127%). The impact of these and other technology-related stocks, plus improvement in some of the resource sectors, allowed the TSE 300 to outpace the core U.S. equity market index, the S&P 500, and many other international markets. This was the first calendar year since 1996, and only the third time since 1988 that the TSE 300 outperformed the S&P 500.

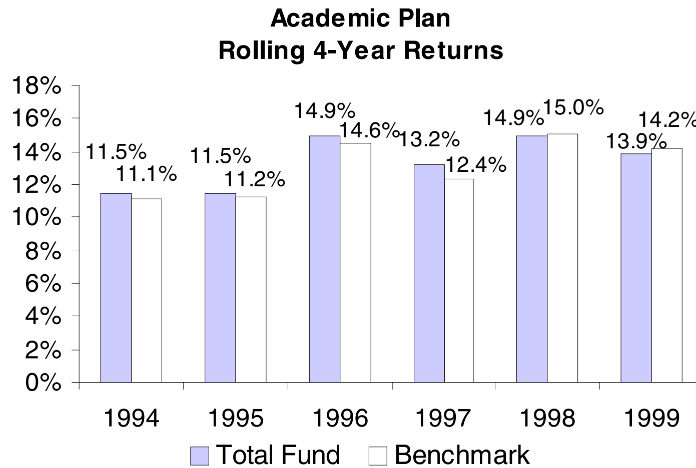
The Canadian dollar rose along with improved economic growth and commodity prices. The relative strength of the Canadian dollar dampened the return on foreign investments. In the U.S., the 21% S&P 500 return converted to 14.4% in Canadian dollars. International markets, as measured by the Europe, Australia and Far East (EAFE) Index returned 33.5%, which declined to 20% in Canadian dollar terms. Geographically, the Pacific region was up almost 50%, with Japan earning a strong 53%. Emerging markets also rebounded from a weak 1998, posting a 55% return in 1999.

Rising interest rates were bad news for bond markets in the year, as increasing yields caused longer term bond values to decline. The average yield on Canadian bonds rose from 5.13% at the end of 1998, to 6.41% at December 31, 1999. As a result, the Scotia Capital Markets Universe Bond Index (SCMUBI) lost 1.1% in the year; the index's first negative return since 1994. Short term bonds offered some protection, providing a modest 2.3% return.

The University of Regina Master Trust provided a 12.8% return for 1999. This annual result trailed the 14.6% return on the benchmark portfolio, as set out in the Plan's investment policy. The Master Trust benefited from an above benchmark exposure to strong performing Canadian and non- North American equity markets and an offsetting below benchmark weight to the poor performing bond market. These positive moves in asset mix were further aided by strong relative performance in the bond and non-North American equity markets. More than offsetting these areas of strength were below index returns in the narrowly focused North American equity markets. The chart that follows shows the total return and asset class returns relative to the benchmark and relevant index returns.



The Plan's primary investment objective is to exceed the benchmark return over rolling four-year periods. Over the past four years, the Total Fund return trailed the objective by 0.3%. The following chart provides the longer term track record of the Fund.



In addition to monitoring performance relative to the benchmark return, the Fund performance can be put in perspective by comparing the result against those of a universe of pension funds. The 1999 result of 12.8% tracked well ahead of the median fund return of 10.4% in the Canadian Trust Universe Comparison Service (CTUCS). As in past years, the University's result benefited from having a greater foreign equity exposure than the median fund. In the most recent year, the bias to Canadian equities at the expense of bonds also boosted relative performance. Over the past four years, the Fund also placed ahead of the median fund return of 12.7%, with a 13.9% result.

Performance of the 80% of the Master Trust assets managed by Phillips, Hager and North Limited (PH&N) is compared in the following table to other funds in the CTUCS survey over the past year and four-year periods.

1999 Relative Performance

Asset Class	1999 Percentile [1]	4-Year Percentile [1]
Canadian equities	59	58
U.S. equities	83	N/A [2]
Non-N.A. equities [3]	55	N/A [2]
Bonds	10	27
Total Fund [3]	43	33

[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 PH&N portfolio result was above median over the past year. Non-North American equities and bonds managed by PH&N fared well compared to the universe, while Canadian equities slipped back in the pack and U.S. equities struggled. On a total fund basis, their portfolio return benefited from an above median exposure to Canadian equities. This was part policy driven and part active asset allocation.

INVESTMENT PERFORMANCE OBJECTIVES

A number of performance objectives are set out for the pension plans. The primary objective is that the Total Fund return exceeds a benchmark portfolio return over rolling four-year periods.

The benchmark portfolio return is calculated by using index returns and asset class weights, which are currently: Canadian equities 38%; U.S equities 9%; Non North American equities 9%; Real Estate 3%; Bonds 39%; and short term investments 2%.

Within the various asset classes, the objective is to exceed the relevant index return. For Canadian and U.S. equities the return objective is at least 110% of the index return. For bonds and mortgages, the value added objective is 105%.

The pension plans also have a long term objective of earning a real return (net of inflation) of 3% per year.

In addition, the returns are evaluated on a relative basis to a universe of other pension plan returns.

The Master Trust

The University of Regina Pension Plan assets are invested in a "mini mutual fund" format. All of the assets are invested in a Master Trust, which in turn are invested by the various managers under different mandates. Each of the pension plans: the Academic and Administrative Plan, The Non-Academic Plan and the Eligible Part Time Employees Plan buys (sells) units in the Master Trust based on the net inflows (outflows) for that plan. At the end of 1999, the Master Trust assets had a market value of $285.6 million.

The market value of the assets of the Academic and Administrative Pension Plan increased by $19.4 million over the past year. Growth from income and capital gains more than offset by the impact of net withdrawals from the plan by members.

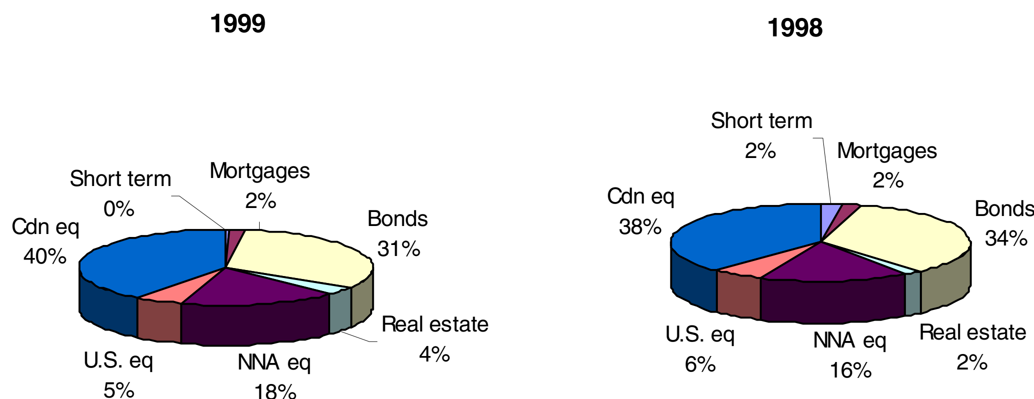
	December 1999	December 1998
Academic Plan Market Value	**$233,072,075**	$213,638,021

Asset Mix Summary

The Master Trust maintained a higher than benchmark equity weight over the past year, in part based on the balanced manager's (PH&N) preference for Canadian and international equities and underweight in bonds. In addition, the Joint Investment Committee allocated more funds to non- North American equities early in 1998, in order to more fully diversify the Master Trust into foreign equities. As noted earlier in the report, the Master Trust benefited from the additional international exposure, as well as PH&N's Canadian equity exposure. The following graphs show the asset mix of the Master Trust as of December 1999 and 1998.

Distribution of Assets

(as a percentage of year-end market values)



Distribution of Assets by Manager

Throughout 1999, Phillips, Hager & North continued to manage a balanced mandate and most of the Master Trust assets. The exposure to PH&N was reduced slightly in the year, with increased investments in real estate mandates. Baring and Templeton manage non-North American equities for the University. The other three specialty managers oversee real estate investments.

	1999	1998
Phillips, Hager & North	**80.6%**	84.1%
Penreal Property Trust	**1.4%**	1.4%
Westpen Developments	**1.2%**	0.4%
Sun Life	**1.2%**	0.5%
Baring	**4.5%**	3.9%
Templeton	**11.1%**	9.7%
	100.0%	100.0%

Detailed Analysis of Investment Returns

Canadian Stocks. The TSE 300 rose 31.7% in 1999 despite negative returns for almost half of the index names. The Master Trust's Canadian equity return trailed the index return in 1999, after outperforming in the previous five years. The TSE 300 return was driven by very strong performance in a narrow group of stocks. In addition, since two of these strong performing names were the two largest names in the index, Nortel and BCE, most investment managers were faced with a challenging environment. These stocks represented 16.3% and 11.4% respectively of the index by year end. Investment policies, such as the Fund's, typically constrain the proportion of a portfolio that can be invested in a single holding. The intent of policy, as well as certain legislative constraints is to encourage diversification. The inability, or unwillingness, of managers to hold a full index weight in these stocks as they dominated the 1999 return hampered performance generally. The Fund's Canadian equity return was likewise influenced by this trend, and trailed the index with a 21.7% return. Relative to other funds, the University's result was below median. Over four years, the Fund's 16.5% return in Canadian equities was below the 17.6% index return and below median due to the impact of the past year.

U.S Stocks. The U.S. market closed the year with a 21% return, which was reduced to 14.4% in Canadian dollars. In 1999, currency movements reversed the past trend of enhancing the returns of foreign investments. The U.S. market continued to provide challenges for active managers, as strong advances were enjoyed by a relatively small number of technology, telecommunication and internet-related companies. The S&P 500

Index return masks the fact that the majority of names in the index were actually down over the year. The Fund's portfolio was underweight the high flying stocks and trailed with a 5.6% return. In the year, the index would have placed slightly below the top 1/3 of funds in the CTUCS survey, while the University's result was in the fourth quartile.

Non-North American Stocks. The last 12 months were strong for international markets, with the EAFE Index return at 33.5% measured in local currency. As with the U.S., currency movements tempered the Canadian dollar return, which was nonetheless a healthy 20%. Last year's European rally gave way to strength in the Pacific region in 1999. Japan's market showed signs of life with a 53% rebound. Emerging markets, which are not represented in the EAFE Index but often represent part of an active manager's portfolio, rebounded from a very weak 1998, to generate a 55% return for the Emerging Market Free Index. The objective for this asset class is to at least match the EAFE Index return; this was achieved with a 25.1% result. Each of the three managers investing offshore (Baring, Templeton, and PH&N) contributed with returns in the 24%-26% range. Longer term, the results have also been strong, with Templeton and Baring adding value in the past four-year period, while PH&N came within 0.1% of the 15% index return.

Real Estate. The real estate market provided double-digit returns in 1999 as measured by the Russell Canadian Property Index (RCPI™), which provided a return slightly above 10%. The fund's investments in real estate are made via Westpen Properties and Sun Life, which provided 19.7% and 10.3% respectively. The former return reflects the one time impact

of an additional investment in Westpen at a discount to the appraised value. As the trend in real estate returns has improved, the Fund's return has improved to 10.9% per year over the past four years. The Fund also has exposure to a real estate financing vehicle through Penreal Property Trust. The portfolio returned 10.2% over the past four years.

Bonds and Mortgages. In 1998, bonds were seen as a safe haven from the uncertainty surrounding the global impact of the Asian slowdown. In 1999, that scenario gave way to a focus on the strong pace of growth in the U.S. and elsewhere. Strong growth leads to inflation concerns, which has a negative impact on the bond market, and longer dated bonds in particular. The SCM Universe Bond Index lost 1.1% in value in 1999, with price declines more than offsetting coupon income. Inflation-linked Real Return Bonds, which are not in the index, responded well to a general shift in attitudes that there was the potential for inflationary pressures, and provided an 8% return. The Fund's bond return was flat at 0%, thereby preserving capital and outpacing the bond index. The bond portfolio outperformed through active trading, a small exposure to real return bonds, and an above index weighting in corporate bonds, which performed well in the year. Over the past four years, the fund's return (7.7%) was also ahead of the index return (7.4%). The value added objective to achieve at least 105% of the index return was not met in the past four years. The slimmer value added for the fund's bond portfolio is reflective of the trend for many funds. The fund's 1999 bond result was 10th percentile for the year, and close to the top ¼ of funds over four years.

The fund's small exposure to mortgages was beneficial in the year, with an 8.1% return, which was ahead of the Scotia Capital Markets Mortgage Index return of 7.4%, and added value to the overall fixed income portfolio. The performance objective was handily met in the latest year, as well as over the longer term.

2000 Interest Rate

For members with entitlements under the defined-benefit component of the pension plan on 31 December 2000, interest will be credited on account balances at a rate of 12.89% on that date. As required by the plan document, this rate is equal to the annualized rate of return over the four calendar years from 1996 to 1999, less 0.5 percentage points, less administrative expenses.

Investment Policy Review

Changes have been made to the investment policy as a result of a review during 1999. The key changes increase the benchmark weighting and the investment limits on non-North American equities; increase the benchmark weighting for real estate investments; and increase the benchmark weighting on short-term investments. The first two changes are intended to promote greater diversification of investments, while the last one reflects the need to raise relatively significant amounts of cash to accommodate transfers out of the fund when members' resignations and retirements become effective each July. (Note: these amendments to the investment policy were determined before the 2000 Federal Budget raised the allowable limits on foreign investments. The policy will be reconsidered during 2000 in light of the Budget.)

A key concern facing many Canadian pension plans is the sudden predominance of Nortel Networks in the TSE 300 Index. Typically, pension investment policies restrict the investment in a single company to 10% of the equity portfolio, 5% of total fund value, or some similar limit. The University of Regina pension plans use a 10%-of-equities restriction. However, simply because of their strong investment showing in 1999, Nortel accounted for 16.3% of the index and indirectly for another 11.4% through BCE's stake in Nortel at the end of 1999. As noted above, the TSE 300 Index rose by 31.7% during the year or 29.7% excluding dividends. If Nortel and BCE were eliminated from the index, the remainder of the index - sometimes facetiously called the "TSE 298" - would have risen only 5.7%. Thus an investment manager's 1999 performance depended heavily on the proportion of funds committed to Nortel and BCE. Since most funds constrain investments in single stocks, it is not surprising that the majority of funds failed to match index returns. Because a manager's performance is often measured through comparisons with index returns, pension fund investment policies virtually guaranteed that most managers would fall short of expectations in 1999. The search for an index that would be fair to managers, while allowing prudent investment of pension funds, is a hot topic in Canada at this time.

Actuarial Valuation

The provincial *Pension Benefits Act* requires the Actuary to conduct a formal valuation of the pension plan every three years. The Committee has for many years followed the practice of conducting biennial valuations. Normally, there would have been a valuation at the end of 1997, but the Committee decided to use the full three years allowed by the law and delay the valuation until the end of 1998, because of the ongoing pension plan review.

An actuarial valuation is designed to assess the financial status of the pension plan and, in particular, to find out whether the plan's assets are sufficient to pay the promised benefits. Of necessity, the actuary must make assumptions about future investment performance, inflation rates, mortality rates, salary increases, and other unknowns. For the purpose of the valuation, the Actuary will use a smoothing technique to reduce the market value of assets when investment markets have exhibited strong performances. On the basis of these assumptions, the actuary can calculate the current value of all pension entitlements earned to date and in the future and then can compare that value with the pension fund's assets to see if there is a surplus or a deficit.

The plan's Acturary, Don Ireland of Aon Consulting, performed a valuation as at the end of 1998. The valuation showed the plan to be in a strong surplus position. The results of the valuation are summarized below.

Summary of Actuarial Valuation (as at 31 December 1998)

Assets	
Market value of assets	$209,443,000
Present value of future revenues	40,366,000
Total assets	$249,809,000
Liabilities	
Current liability for active members	$100,121,000
Present value of future benefits for active members	62,692,000
Present value of pensions being paid now	58,203,000
Present value of inactive members' benefits	1,265,000
Present value of temporary pensions	2,606,000
Other liabilities	173,000
Excess interest reserve	7,878,000
Total liabilities	$232,938,000
Surplus before reserve	$ 16,871,000
Less: Contingency Reserve	$ 10,663,000
Actuarial surplus	$ 6,208,000

The actuarial surplus before reserve ($16,871,000) is less than the maximum surplus allowed by *The Income Tax Act* ($17,025,000). The valuation reflects the full cost of the improvement of indexing described below.

Contribution Holiday Process Negotiations

The Income Tax Act places limits on how generous a defined-benefit pension plan can be. The Academic and Administrative Pension Plan already provides the maximum pension formula permitted by law, and its early-retirement provisions cannot be improved. The

Committee has repeatedly stated its goal of providing full indexing of pensions and, after an indexing improvement approved in 1999, is close to that goal. Because of federal limits on pension benefits and on the amount of surplus a plan can carry, it may be desirable or necessary to declare a temporary moratorium on contributions at some point in the relatively near future. In light of this possibility, the Committee recommended to the Board and the Faculty Association that negotiations take place during 2000 to determine the process by which such a contribution holiday would be implemented, should one be declared. The Board and URFA have agreed to enter negotiations on this topic.

The New Defined-Contribution Component

As reported in previous annual reports, the Committee conducted a thorough review of the provisions of the pension plan over a period of more than two years. While the review was initially motivated by a desire to attempt to mitigate the effects of certain provisions of *The Income Tax Act*, the Committee also examined the long-term sustainability of the defined-benefit (DB) plan that had been in effect since 1965. The Committee ultimately concluded that the introduction of a defined-contribution (DC) component would ensure the sustainability of the plan, while providing members with maximal opportunities to shelter retirement savings from income tax. The Committee's rationale was explained in detail in the 1998 annual report.

In response to a recommendation from the Committee, the Board and the Faculty Association agreed to implement the defined-contribution component on 1 January 2000.

All academic and administrative staff hired on or after that date must join the DC component. Active members of the plan on 31 December 1999 are being given the option of transferring to the new DC component for all past and future service; transferring for future service only; or staying in the DB component for all service.

Amendments to the Plan

The pension plan was amended twice during 1999. Plan members have received detailed information about the amendments, but the amendments will be summarized here for completeness.

Amendment 99-01 made two changes that will increase the amounts that some members may transfer out of the plan into a tax-sheltered retirement-savings vehicle upon retirement or resignation; and gave the beneficiary of a joint-and-survivor pension with a fixed guarantee period the option of receiving the remaining pension payments, rather than a lump sum, if both the member and spouse should die during the guarantee period.

Amendment 99-02 improved the pension indexing formula. Retired members now receive full-CPI indexing in years when the Consumer Price Index (CPI) rises by less than 3.3% during the previous year; a 3.3% pension increase if the change in the CPI is between 3.3% and 4.0%; and a percentage increase equal to the change in the CPI, less 0.7%, when the CPI rises by 4.0% or more.

Audited statements

The Provincial Auditor audits the financial status of the pension plan each year. The Provincial Auditor provided an unqualified opinion of the 1998 financial statements of the Master Trust and the University's three pension plans. Any member who would like to receive a copy of any of the audited statements should contact Human Resources (4165) or consult the AABC web site.

Insurance Plan Changes

As a result of collective bargaining, the dental plan was extended to cover members' spouses and certain dependents. Previously, the plan covered only members' dental expenses. In addition, an extended health care plan was introduced for members, their spouses and certain dependents. Details of the plans were distributed to members during 1999. Questions about the plans should be directed to Human Resources.

The Committee intends to review both the group life plan and the salary continuance plans during 2000.

Members of the Committee

• Norm Beirnes	Mathematics and Statistics (retired)
• Brian Johnson	Member of Board of Governors
• Keith Johnson	Chemistry
• Gaynor Kybett	Computing Services
• Frank Proto	Member of Board of Governors
• Jim Tomkins	Vice-President (Administration)
• Gary Tompkins	Economics and Centre for Continuing Education

Recording Secretary

- Bonnie Dobni — Human Resources

Plan Administrator

- Jim Tomkins — Vice-President (Administration)

Actuary

- Don Ireland — Aon Consulting Group, Saskatoon

Pension Consulting Services

- James P. Marshall Inc., Regina

Investment Management Firms

- Phillips, Hager and North Limited, Vancouver
- Penreal Property Trust
- Westpen Developments
- Sun Life
- Baring
- Templeton

Custodian

- CIBC Mellon Trust, Calgary

Measurement Service

- Canadian Trust Universe Comparison Service (CTUCS)

Committee Web Site

- Visit the AABC web site at: www.cas.uregina.ca/~aabc/