UNIVERSITY OF REGINA

ACADEMIC AND ADMINISTRATIVE BENEFITS COMMITTEE

ANNUAL REPORT

for the year 2003

April 2, 2004

About the Academic and Administrative Pension Plan

The Academic and Administrative Pension Plan was established on 1 July 1965. Until January 1, 2000, the plan was solely a defined-benefit plan, meaning that a member's pension was calculated using a formula based on the member's salary history and years of service at retirement. The plan also allowed the transfer of entitlements -- including the portion of an individual's account arising from the accumulated contributions of the University -- out of the plan upon retirement, death or resignation. As of January 1, 2000, the University closed the defined benefit component of the pension plan to new members and introduced a defined contribution component for eligible individuals who joined the University on or after January 1, 2000. Members of the defined benefit component were allowed to choose between remaining with defined benefit or transferring either future service or past and future service to the defined contribution component.

Membership in the plan is compulsory for academic and administrative staff. As of December 31, 2003 the plan had about 430 defined contribution members, 355 defined benefit members, and 28 defined contribution/defined benefit members. Approximately 200 retired members are receiving pension benefits under the plan. The market value of the Academic and Administrative Pension Plan at year end totalled $226.7 M., with approximately 90% of the assets attributed to the defined benefit component and 10% of the assets attributed to the defined contribution component.

Mandate of the Committee

The Academic and Administrative Benefits Committee (AABC) is a sub-committee of the Human Resources Committee of the Board of Governors. The mandate of the AABC 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

Master Trust

The assets of the three University of Regina pension plans – the Academic and Administrative Pension Plan, the Non-Academic Pension Plan and the Pension Plan for Part-Time Employees – have been combined into a single investment portfolio called the Master Trust Fund. The Board of Governors has approved the wind-up of the Pension Plan for Part-Time Employees effective December 31, 2003. Arrangements are being made for the transfer out of assets from this Plan. The investment of funds in the Master Trust Fund is overseen by the Joint Pension Investment Committee (JPIC), which is comprised of all members of the AABC and the Non-Academic Benefits Committee (NABC). Each plan has its own investment policy statement and a separate accounting for its assets.

Message from the Chair

The AABC met on twelve occasions in 2003. In addition, the JPIC met five times in 2003. The JPIC oversees all aspects of the investment of the Master Trust Fund, including monitoring investment performance with the assistance of external consultants and meeting with representatives of the investment companies employed by the Fund.

In 2003, the AABC:

- Completed a comprehensive review of the long term disability plan, as well as obtaining new premium quotes for the policy. The review led to the Committee's recommending to the Board and URFA that the plan be changed to require pension contributions from both the beneficiary and the Employer during the time of disability. The marketing exercise brought about significantly lower premiums;
- Amended the Plan text to increase the pensionable income limits to conform with changes made to *The Income Tax Act*;
- Conducted an interim evaluation of the Plan's financial status, given concerns about poor investment returns in 2001 and 2002;
- Investigated the possibility of offering an Extended Health Plan for retired members and reported our results to the Joint Relations Committee;
- Initiated a review of benefit plan governance.

The year 2003 started out as a continuation of the challenging times of 2001 and 2002. The annual rate of return for 2002 was –6.7%, well under the target rate of return required to sustain the plan. The Master Trust Fund sustained another investment loss of 4.6% during the first quarter of 2003.

At that point, the Committee was concerned about the financial position of the plan and asked the plan actuary to undertake an interim assessment of the plan's financial position. This assessment indicated that the plan had a deficit on a going concern basis (taking into account expected patterns of future contributions and liabilities) but had a surplus on a wind-up basis (if the plan was to be ended). Given that, the Committee felt comfortable with going ahead with full indexation in 2003 for those retirees receiving a pension.

Fortunately, the Master Trust's investment performance experienced a significant turnaround during the last three quarters of 2003. At the end of the year, the Master Trust had made 13.0% before expenses during the calendar year, well above the targeted rate of return. The four year annualized rate of return to the end of 2003 was 4.0%, about 1% below the real return target of the plan. Investment performance will be discussed in depth in subsequent sections of this report.

In 2003, the AABC conducted a review of the Salary Continuance Plan. The Plan pays recipients 75% of their gross salary. However, if the replacement ratio was calculated based on net income, the ratio would be higher, since disability benefits are not subject to Canada Pension Plan (CPP) or Employment Insurance (EI) premiums. In addition, under the previous plan, members on disability did not pay pension contributions. The contributions they would have made, as well as the contributions the Employer would have made on their behalf, were "deemed" to have been paid. In other words, members on disability continued to earn pension credit as if they were working and the cost was covered by the pension plan surplus.

With the introduction of the DC component of the plan, this feature of the Salary Continuance Program was no longer sustainable in the long term since, by their nature, DC plans do not earn surplus. As an interim measure, the AABC decided to continue the practice of paying the contributions of disability recipients from plan surplus, pending our review of the Salary Continuance Plan.

The LTD review established two key points. First, our 75% benefit was higher than the equivalent benefit in most LTD plans across Canada. Second, with the recent increases in CPP and changes to EI premiums, the net income replacement ratio has increased. Given the increasing cost of the program, the AABC recommended to the Joint Relations Committee that the LTD program be changed so that during periods of disability both the recipient and the Employer continue to pay pension contributions. This would lower the replacement ratio by approximately 6%, depending on individual circumstances. URFA and the University agreed to implement the recommendation, which took effect July 1, 2003. Individuals on short term disability at June 30, 2003 continue to be covered under the benefit structure in place at the time of their disability.

Another issue that engaged the Committee is governance. We have begun a complete review of the governance of the pension plan. So far, this review has led to minor changes in the plan with respect to definitions of plan administrator, plan sponsor, employer, and others to conform to current practice. In addition, we have reviewed our compliance monitoring with respect to our investment managers. Currently, we require our managers to attest in writing that they have complied with our investment policy. We now also have our investment advisor, James P. Marshall, provide an independent summary of our investment portfolio compliance with the key policy guidelines on a quarterly basis.

It takes a variety of skills and knowledge to run a large pension plan efficiently in a complex and ever-changing investment and regulatory environment. In order for our voluntary committee to be able to perform this task, it needs to rely on the expertise of a number of consultants. The AABC has been well-served by the people who we have contracted to assist us and are pleased to pay tribute to:

1. John Montalbano and his colleagues at Phillips, Hager and North of Vancouver, our primary investment manager;
2. Janet Julé and her colleagues at James P. Marshall, who assist the Committee in assessing investment performance.
3. Don Ireland, the Plan's actuary, and the staff of Aon Consulting Inc., in Saskatoon who provided actuarial and benefit advice.
4. Ryan Duesing and his associates at Aon Consulting Inc., in Regina for their benefits expertise.

Special thanks go to the Committee's recording secretary, Darlene Marchuk, who is also Manager of Pension and Benefits in Human Resources. Darlene and her associates in Human Resources - Jeanette Pageot and Temple Howat – have provided efficient day-to-day administration of the pension and insurance plans.

As Co-Chair of the JPIC, it is my sad duty to report the passing on October 15, 2003, of Mary Rollefson, who was a long-time representative of retired non-academic members on the JPIC. Mary's significant contributions to the University community continued beyond her retirement with her work on the JPIC and the Non-Academic Benefits Committee. She will be missed.

I would like to thank the members of both the AABC and JPIC for their dedicated and effective service to the membership of the plan and the University as a whole. In 2003, Peter Hemingway left the AABC and JPIC and I would like to thank Peter for his contributions to the Committees' work over the years. Larry Miller, Department of Mathematics and Statistics, was appointed by the Board of Governors to take Peter's place effective July 1, 2003 and we look forward to his contributions to the work of the Committee.

Gary Tompkins, Chair

The Pension Plan

Review Of 2003 Investment Performance

The University Pension Plans gained 13% in 2003

Investment returns for 2003 were positive for both the equity and bond markets. In world equity markets, 2003 saw a strong recovery after negative returns in the prior two years.

Canadian equity markets posted double-digit gains in 2003 following two years of losses. As is often the case in market rebounds, smaller capitalization companies, as represented by the Nesbitt Burns Small Cap Index (42.7%) outpaced the larger cap S&P/TSX Composite Index (26.7%). The large cap market was led by Information Technology (67.1%), as these stocks rallied from low levels in 2002. The Financials (28.0%) and Materials (27.5%) sectors were the other sectors that led the overall index in the year. The small cap market leadership was fairly narrow with Materials (62.0%), which benefited from higher commodity prices, leading other sectors.

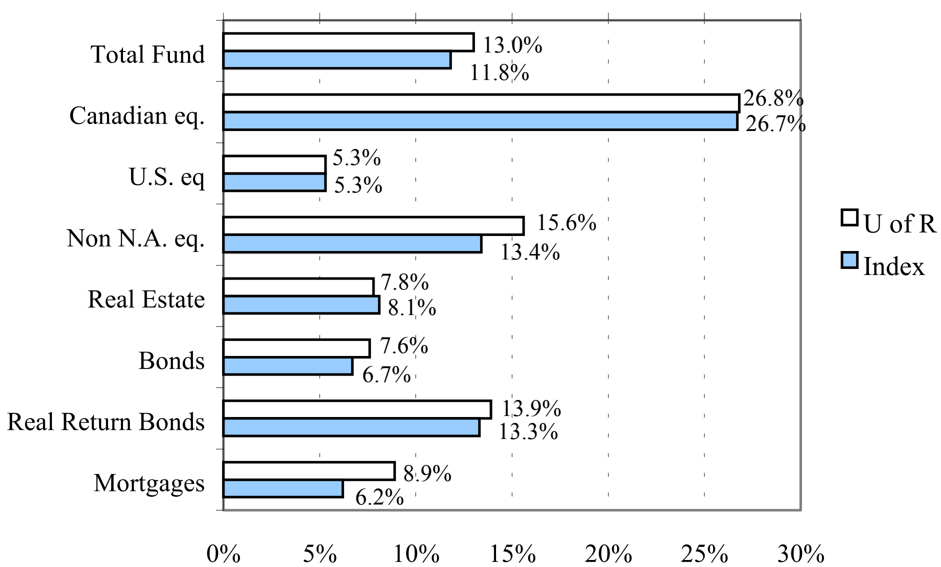
Equity markets were also strong outside of Canada. The U.S. large cap S&P 500 Index posted 28.7% (USD) in 2003, following three years of losses. From a Canadian perspective, the weakening of the U.S. dollar dramatically dampened returns to 5.3% when converted to Canadian dollars. Similar to the Canadian equity market, Information Technology led the large cap index. In addition, small and mid cap stocks led the larger cap names.

Outside of North America, equity market gains were evident, with the companies represented by the MSCI Europe, Australia and Far East (EAFE) Index up 20.3% in local currency terms. Currency movements had a negative impact, pulling the Canadian dollar investors result down to 13.4%. The double-digit result was, nonetheless, welcome following three years of losses for the index. Sector performance was similar across the globe, as the Information Technology (21.6%) and Materials (21.6%) sectors finished close to the top. Industrials (21.7%) topped the index in the year.

Fixed income market returns were positive, if somewhat muted compared to the previous two years. Generally speaking, bond holders were rewarded for taking on interest rate and credit risk in the past year, with long bonds (10+ years returned 9.1%) and corporate bonds (8.5% for all maturities) leading the overall Scotia Capital Market Universe Bond Index (6.7%).

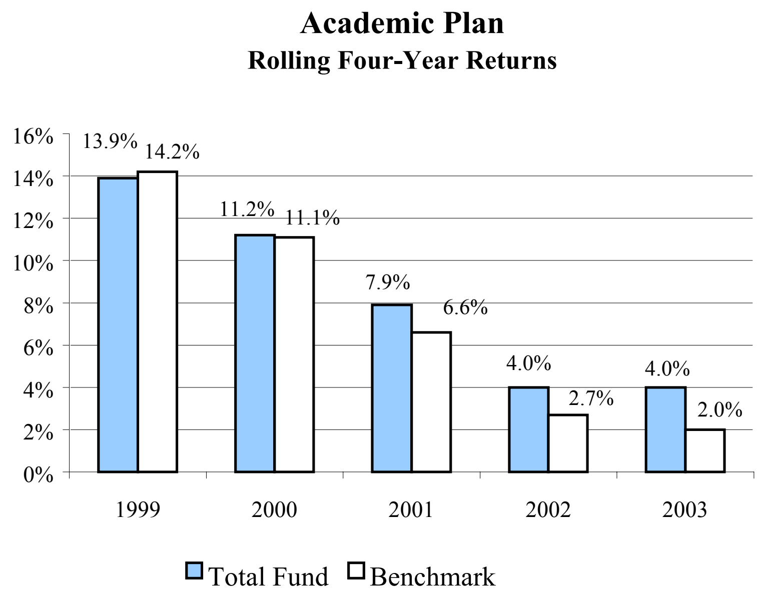
The University of Regina Master Trust generated a 13.0% result, which tracked ahead of the 11.8% benchmark return. As shown below, performance within asset classes generally added value, particularly in non-North American equities and fixed income. The non-North American equity portfolio was well positioned in the sectors that led the market. The fixed income portfolio has a bias to corporate bonds, mortgages and some high yield bond exposure, which were all beneficial in the past year. Other asset classes closely tracked the relevant index results. Asset mix was also a positive influence in the year, due to an overweight position versus target weights in Canadian equities and an offsetting underweight in bonds.

Investment Performance
For the Year Ended December 31, 2003



The Plan's primary investment objective is to generate a return on the Plan assets sufficient to meet future pension obligations without taking on undue risk. In seeking to meet this objective, a long-term asset mix (or benchmark portfolio) is set. The expectation is that the actual return of the Plan assets will exceed the benchmark return over rolling four-year periods. Over the past four years, the Total Fund return exceeded the objective by 2.0%. Above index results in Canadian and non-North American equities, as well as bonds, was the source of the total value added by our investment managers over the past four years. 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 institutional funds. The following table shows the Total Fund relative to the Russell/Mellon Universe and individual asset class returns relative to other funds in the PALTrak Universe for Pooled Funds over the past year and four-year periods.

The 2003 result of 13% placed below the 14.3% median fund return in the Russell/Mellon Canadian Trust Universe. Over the past four years, the Fund slipped just below the 4.2% median with a 4.0% result.

On a relative basis, most asset classes are showing better than median results. Strong relative results were seen in bonds with a first quartile result (top 25% of funds in the survey). Strong performance in corporate bonds helped push returns above most bond mandates in the survey. Canadian equities tracked the index in the year, while more than half of the mandates in the survey trailed. The portfolio benefited from its above index exposure to the top performing Information Technology and Financials sectors. Over four years, the 7.8% Canadian equity return tracked ahead of the 6.9% PALTrak median and well above the 1.0% index return.

U.S. equity results were at the index level over the year and four years, and trailed the median manager slightly. The Master Trust added an index manager to the U.S. equity mandate two years ago, which has had the desired impact of improving the tracking in this asset class. Active management (Phillips, Hager & North) within the asset class also tracked closer to the index in the year.

Non-North American equity first quartile placement in the year reflects a rebound in relative performance by Templeton; longer term the manager has maintained a strong record. The four-year total non-North American equity result sits ahead of the median, aided by Templeton's return.

2003 Relative Performance

Asset Class [2]	2003 Quartile [1]	4-Year Quartile [1]
Canadian equities	2	2
U.S. equities	3	3
Non North American equities	1	2
Bonds	1	1
Total Fund	3	3

[1] Indicates the placement of the return relative to the PALTrak Universe for the asset classes. The Russell/Mellon Canadian Trust Universe is used for the Total Fund. Quartile 1 include the top 25% of funds by return, Quartile 2 represents firms in the 26-49% range, M is the median return, and so on.

[2] Real estate and mortgages are not shown, as universe comparisons were not available.

INVESTMENT PERFORMANCE OBJECTIVE

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. The benchmark portfolio was in transition toward a new long-term target mix during 2002 and 2003, with the current targets in place since July 1, 2003.

Asset Class	December 2002	Current Benchmark Weights
Canadian equities	22%	18%
U.S. equities	16%	18%
Non North American equities	16%	18%
Real estate & real return bonds	5%	5%
Nominal bonds	38%	38%
Short-term investments	3%	3%

Within the various asset classes, the objective is to exceed the relevant index return.

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 single fund, called the Master Trust, which in turn are invested by the various managers under different mandates. Each of the pension plans: the Academic and Administrative Plan (defined benefit and defined contribution components), The Non-Academic Plan and the Eligible Part Time Employees Plan buy (sell) units in the Master Trust based on the net inflows (outflows) for that plan. At the end of 2003, the Master Trust assets had a market value of $282.0 million.

The market value of the assets of the Academic and Administrative Pension Plan increased by $19,513.2 million over the past year. Growth from income and capital gains more than offset net withdrawals of $6.6 million from the plan by members.

	December 2003	December 2002

Academic Plan Market Value	**$226,723,981**	$207,250,602

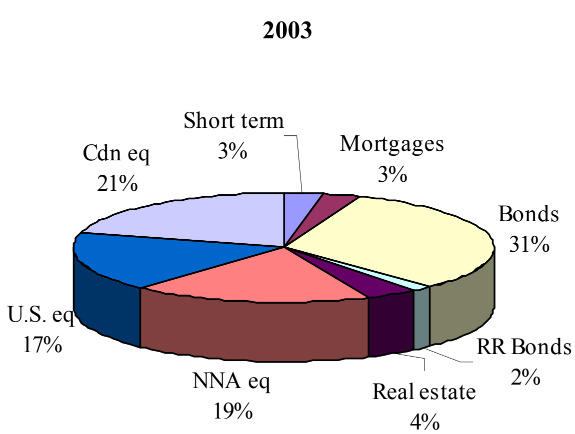
Asset Mix Summary

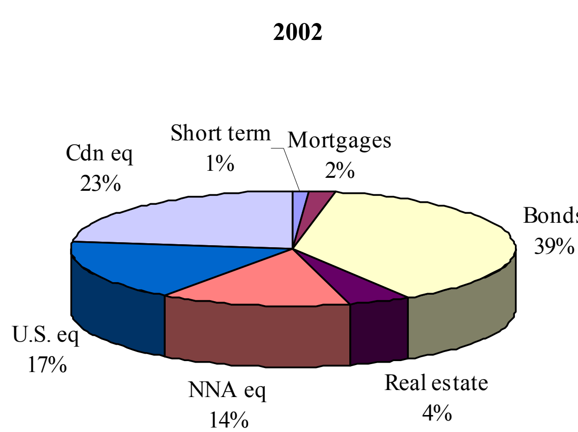
Investment activity in the year was driven in part by a benchmark change (effective July 1) as well asset mix rebalancing by the balanced manager. Net investments were made over the year in non-North American and U.S. equities, while Canadian equities were trimmed. Within fixed income, PH&N was a net buyer in mortgages and corporate bonds, and reduced government and high yield bonds.

At year-end, the total equity weight was above the 54% target at 56.8% of the Fund. Within that allocation, Canadian and non-North American equities were above the target weight, while U.S. equities were below. Throughout the year, asset mix calls relative to the long-term target were beneficial given the strong performance of equities in the last three quarters of the year.

Distribution of Assets

(as a percentage of year-end market values)





Distribution of Assets by Manager

Throughout 2003, Phillips, Hager & North continued to manage a balanced mandate and most of the Master Trust assets. Templeton manages non-North American equities.

Barclays manages a passive U.S. equity mandate, Penreal Advisors oversees both the equity real estate investment (Westpen) and Penreal Property Trust, which is a real estate financing vehicle. An investment in the Sun Life real estate pooled fund was wound up in 2003. The proceeds of the Sun Life wind up were allocated to real return bonds as a cost effective way of maintaining exposure to inflation-sensitive assets.

	2003	2002
Phillips, Hager & North	**67.7%**	72.9%
Real Return Bonds	**1.7%**	1.6%
Penreal Property Trust	**1.8%**	2.0%
Westpen Properties Ltd.	**2.0%**	2.2%
Sun Life	**0.0%**	0.2%
Templeton	**18.8%**	14.1%
Barclays	**8.0%**	7.0%
	100.0%	100.0%

Interest Rates

Defined Benefit Members

For members with defined benefit entitlements, on 31 December 2003, an interest rate of 2.97% will be credited on account balances on that date. As required by the plan document, this rate reflects the annualized return over the past four years, less .5%, less administrative expenses. The 2004 annualized rate of return will be 3.03%.

Defined Contribution Members

For members with defined benefit entitlements, on 31 December 2003, an interest rate of 12.52% will be credited on account balances on that date. This represents the actual investment return in 2003 less administrative expenses.

Amendments to the Plan

After seeking the advice of the Actuary, the AABC recommended, and the Board of Governors approved, the following changes to the pension plan.

1. The plan's maximum pensionable earnings limit was increased to reflect changes in CRA regulations. The ceiling on pensionable earnings increased to $91,667 in 2004, and will increase to $100,000 in 2005 and then be indexed in accordance with the Average Industrial Wage in 2006 and each of the following years.

2. The plan underwent housekeeping changes for the definitions of employer, plan administrator, etc. which reflected our actual circumstances and practice. The Committee's Terms of Reference were also amended.
3. Members disabled after June 30, 2003 and subsequently receiving salary continuance benefits will make pension contributions that are matched by the Employer.
4. The Plan now defines the Administrator as the Board of Governors.

Investment Policy

A new investment policy was approved by the Board of Governors in 2002. The changes were to be implemented in a two-stage process, which completed on July 1, 2003. The following table describes the benchmark allocations from this policy.

Benchmark Allocations

Canadian equities	18%
U.S. equities	18%
Non-N.A. equities	18%
Total equities	54%
Bonds	38%
Real-return bonds	1%
Real estate	4%
Short-term inv.	3%
Total	100%

This benchmark guides both the allocation of investment by the Committee across our managers as well as the allocation of investments by our primary manager, Phillips, Hager and North. We also use the benchmark to compare what the policy would have earned if invested in index funds compared with what our plan actually earned. In 2003, our benchmark would have earned 11.8% compared with our actual return of 13.0%.

Actuarial Evaluation of the Plan

Provincial law requires the University to file an actuarial valuation with the Superintendent of Pensions every three years, or more often, at the University's option. An actuarial valuation is intended to answer two key questions:

- ***If the plan had been wound up on a certain date, would the plan's assets have been sufficient to pay the benefits earned by members up to that date?***

To answer this question, the Actuary determines how much money the plan would have needed to make lump-sum termination payments to members and to pay lifetime pensions to those members eligible for early retirement or already retired. This amount is then compared with the value of the funds in the pension fund to determine whether there is a solvency surplus or a solvency deficiency.

- ***Is the current rate of contributions sufficient to ensure payment of benefits over the long term?***

To answer this question, the Actuary makes an estimate of the present value of benefits to be earned in the future by existing members, and adds this amount to the value of benefits earned to date to obtain an estimate of the total liabilities of the plan. The Actuary then estimates the present value of investment earnings and all future contributions to the plan by and on behalf of current members, and adds these amounts to the current value of the plan's assets to determine the total current and future assets of the plan. There is a going-concern surplus if the total assets meet or exceed the total liabilities of the plan; otherwise, there is a going-concern deficiency.

As indicated in the Chair's remarks, the actuary was asked to perform an interim evaluation of the plan as of December 31, 2002 as a result of concerns over the effect of the poor investment returns in that year.

The valuation showed that the plan had a solvency surplus of $18,682,000, being the difference between assets of $204,186,000 and liabilities of $185,504,000 as of 31 December 2002. However, the plan had a going-concern deficiency of $6,671,000 as of that date. The calculation of the going-concern deficiency is summarized below:

	December 31, 2002
Assets	
Adjusted market value of assets	$186,344,000
Adjusted market value of assets held for defined contribution component	18,092,000
Present value of future contributions	25,978,000
Total value of assets	**$230,414,000**
Actuarial Liabilities and Surplus	
Actuarial present value of benefits for:	
• Active and disabled members – accrued benefits	$100,775,000
• Active and disabled members – future benefits	44,168,000

	December 31, 2002
• Suspended	7,062,000
• Inactive members	977,000
• Pensioners (non-temporary)	64,551,000
• Temporary pensioners	1,431,000
• Voluntary contributions	
• Defined contribution account balances	18,092,000
Total actuarial liability	**$237,085,000**
Surplus / (Deficit)	$(6,671,000)
Total Actuarial Liability and Surplus	**$230,414,000**

Despite the going-concern deficiency, the Actuary did not see the need to make changes to the plan to strengthen its financial position. While the Committee was and is concerned that the plan's financial position could change so quickly, it is likely that the 2003 investment performance will restore the plan to a sound financial position.

There is a delicate balance between the long-term time horizon inherent in pension investing and the shorter term horizon of the next actuarial evaluation as well as other regulatory restrictions on the operation of pension plans. Given the recent pension plan problems that have appeared in the news, it is likely that both plan sponsors and regulators will be reviewing how they operate to ensure that the goals of a pension plan do not conflict unduly with the regulatory environment.

Audited Statements

The Provincial Auditor audits the financial statements of the pension plan each year. The Provincial Auditor provided an unqualified opinion of the 2002 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 at 585-4167 or consult the Financial Services Website at: http://www.uregina.ca/fs/financial_statements.shtml.

The audited statements for 2003 should be available in late May 2004.

Changes in Benefits

Effective July 1, 2003 the basic life insurance benefit for faculty and eligible out of scope employees increased from a flat rate amount of $25,000 to one times annual salary rounded up to the nearest thousand dollars. The paramedical services offered under the Extended Health Care Plan were expanded to include acupuncture services received after July 1, 2003. The AABC reviewed the current salary continuance plan and recommended that pension contributions be paid by members on disability. (See discussion under Message from the Chair).

Insurance Plan Premiums

Premiums on the Salary Continuance Plan decreased to 1.7% of payroll effective 1 July 2003. The dental premiums increased 1 July 2003 by 6% and there was no premium change on the Extended Health Care Plan. These premiums are paid by the University.

The premiums on the optional life insurance plan decreased by 6.0% on 1 July 2003; these premiums are paid by all members who choose to participate in the plan.

Members of the Committee

• Norm Beirnes	Mathematics and Statistics (retired)
• Bonnie Dobni	Human Resources
• Peter Hemingway	Education (Term ended May, 2003)
• Larry Miller	Mathematics and Statistics (July, 2003)
• Gaynor Kybett	Computing Services
• Dale Schoffer	Financial Services
• Jim Tomkins	President's Office
• Gary Tompkins (Chair)	Economics

Recording Secretary

- Darlene Marchuk — Human Resources

Actuary

- Don Ireland — Aon Consulting Inc., Saskatoon

Pension Consulting Services and Performance Management

- James P. Marshall Inc., a Hewitt Company, Regina

Investment Management Firms

- Phillips, Hager and North Investment Management Limited
- Penreal Capital Management
- Franklin Templeton Investments
- Barclays Global Investors Canada Inc.

Custodian

- CIBC Mellon Trust, Calgary

Web Site

- http://www.uregina.ca/hr/Benefits/Academic.html