ACADEMIC AND ADMINISTRATIVE MEMBERS

UPDATE

November, 2006

UNIVERSITY OF
REGINA

Introduction

I am pleased to provide Academic and Administrative members with a 2006 update. Two years ago, the Academic and Administrative Benefits Committee (AABC) undertook to provide members with a semi-annual informational bulletin in addition to its Annual Report.

This update provides information with respect to changes in membership of the Committee, the upcoming change to the pension plan contribution rate, pension fund performance, the pension plan valuation and governance.

Academic and Administrative Benefits Committee

During 2006, there were several membership changes on Committee. The Board of Governors, at its July meeting, appointed Garnet Garven, Dean of Business Administration to fill the vacancy created by Kathryn Laurin's departure from the University at the end of June. Lynnea Williams (Supply Management Services) joined Committee in April 2006 as the URFA representative for Academic, Administrative and Professional (APT) staff owing to Gaynor Kybett's retirement from the University in February 2006. Gaynor Kybett has served as the APT representative on Committee since 1996. She remained on Committee as an observer until her appointment as the University of Regina Academic and Administrative Pensioners Association (URAAPA) representative took effect. The Board of Governors confirmed her new appointment in October 2006. She replaces Norm Beirnes who has served the Committee for nearly fourteen years; seven of them as a representative of the University of Regina Faculty Association as well as serving as the URAAPA representative since 1999. Dr. Jim Tomkins' one-year observer status on Committee ended June 30, 2006 following his retirement. We would like to thank Kathryn and Norm for their service to the Committee as well as extend our best wishes to Jim and Lynn for a happy, healthy and lengthy retirement. Committee welcomes the continuing and new members to the AABC.

Flat Rate Contribution

The current contribution formula requires Employer and member contributions to the Plan on a monthly basis at a rate of 5.7% for earnings up to the Canada Pension Plan's Yearly Maximum Pensionable Earnings (YMPE) and 7.5% for earnings in excess of the YMPE up to the Defined Benefit maximum pensionable earnings limit in the year. The 2006 YMPE limit is $42,100 and the 2006 maximum pensionable earnings limit is $105,550.

The University and the Faculty Association (URFA) signed a Memorandum of Agreement (MOA) asking the Committee to review and recommend a single contribution rate that is cost neutral to the pension plan. The AABC was requested to provide a recommendation to the University and URFA with a view to implement the rate change effective January 1, 2007.

One of the rationales for the change was the inequity of having higher salaried members of the plan receiving higher percentage pension contribution rates. However, this poses a problem when attempting to convert the two-step formula into a flat contribution rate for both Defined Benefit (DB) and Defined Contribution (DC) members. Since the average salary for DB members is higher than that for DC members, the two-step contribution formula yielded a higher average contribution rate for DB members than that of DC members. Therefore, changing all contributions to the same average would result in lower contributions for the DB plan.

The Plan's Actuary provided Committee with information regarding a uniform flat contribution rate for all members based on two different interpretations of the MOA's reference to "cost neutrality."

a) **Equal contributions in aggregate**: If cost neutrality means that a flat rate should result in aggregate member and Employer contributions being equal to current levels then a 6.45% contribution rate would be required (a reduction in aggregate contributions to the DB component would result), reducing the plan's surplus by $572,000 at December 31, 2005.
b) **Cost neutral to the pension plan**: If cost neutrality means that a flat rate should result in no reduction in the plan's surplus, then the flat rate would increase University and Other Employer contributions by $100,000 in 2007. Members would also have to contribute an additional $100,000.

Since it became evident that a uniform flat rate for all members could not be achieved without resulting in an increase in aggregate contributions or a reduction in plan surplus, it was concluded that all conditions of the MOA could not be achieved by any single flat rate. Therefore an alternative proposal, recommended by the AABC and supported by the University and URFA was put forward to the Board of Governors. This proposal was viewed as a middle-ground solution in this situation, providing a slight increase in the average contribution rate and a consequent mitigation of the impact on the surplus of the DB portion of the plan and provides the following benefits:

a) a contribution rate of 6.5%. This would use both additional contributions and the pension plan surplus to achieve the goal of a single rate;
b) a single flat rate contribution would assist in communicating the pension benefit, and is common practice in the pension industry.

The Board of Governors, at its October 17, 2006 meeting, approved this proposal. A flat rate amount of 6.5% would reduce the surplus at December 31, 2005 by $318,000 as fewer contributions in total will be going into the DB component of the Plan. This option would increase University and Other Employer contributions by an estimated $40,000 in 2007. Overall, members would also have to contribute an additional estimated $40,000. As it is estimated that approximately $7.6 M of combined Employer and member contributions will be remitted to the plan, the combined total contributions (Employer and member) of approximately $80,000 does not represent a significant contribution increase.

The Pension Plan amendment will be considered by the Board of Governors at its December meeting with a view to have the Superintendent of Pensions' approval in place to implement the proposed 6.5% contribution rate up to the Defined Benefit maximum pensionable earnings limit (which in 2007 is $111,100) effective January 1, 2007.

Actuarial Valuation of the Pension Plan

Provincial law requires the University to file an actuarial valuation with the Superintendent of Pensions every three years, or more often at the option of the Board of Governors. The AABC has followed the practice of filing a valuation every two years after ensuring that the Plan is neither in a deficit or excess surplus situation. An actuarial valuation is prepared to determine if the plan had been terminated on the evaluation date, would there be sufficient plan assets to pay all benefits earned to that date (wind-up financial position) and if the accumulated assets and the contribution rate is expected to be sufficient to meet the plan's past and future pension obligations (going-concern position).

Summary of Valuation Results

Membership

Only the Defined Benefit Component of the plan is subject to actuarial valuations. Defined Contribution members' entitlement is based on the value of the Employer and Employee account balances at the time of termination, retirement or death.

At December 31, 2005 there were 307 active members in the Defined Benefit Component of the plan and 219 pensioners. There were also 14 temporary pensioners (members who are receiving a pension from the plan for a defined period of time) and 53 members whose participation in the plan had ended as a result of termination and had yet to make arrangements to transfer their funds from the plan.

Going-Concern Financial Position as at December 31, 2005

The financial position of the plan on a going-concern basis is measured by comparing the actuarial value of assets to the actuarial value of liabilities assuming the plan is continuing for the long term for all current members of the DB component of the plan. The difference between the actuarial value of assets and liabilities is a funding excess or surplus if positive and an unfunded liability if negative. The plan's going-concern financial position at December 31, 2005 was $1.1M which is much less than the amount of surplus reported in the December 31, 2003 valuation.

Actuarial value of assets		$257,112,000
Actuarial liability		255,996,000
Surplus/(Deficit)	**$**	**1,116,000**

While the surplus is very small compared to the total value of the assets, the surplus calculation would be higher by slightly more that $16M if we did not employ the asset smoothing adjustment described below. A sharp rise or drop in investment markets just before the date a valuation report must be filed could force a plan to take measures such as improving pensions in the case of an upward spike in the markets, or increasing contributions in the case of a sharp decline when it may be the case that neither adjustment was necessary and/or sustainable from a long term perspective. Actuaries often use smoothing to "smooth" these market spikes, but the use of this method is somewhat controversial within the pension industry.

Some view smoothing as beneficial since it protects pension plans from sudden movements in the market, supports the longer-term investment horizons of pension plans and counteracts the problems arising from the (some argue) excessively narrow limits on excess surplus imposed by the Canada Revenue Agency. Others indicate it may result in significantly overstating the amount of surpluses following a period of poor investment returns and after a period of good market returns underestimating the plan's true position.

Our plan actuary uses a smoothing method based on a benchmark real rate of return (rate of return less inflation). Since the valuation analysis assumes the plan will earn 6.25% per year in the future and that inflation will rise at a rate of 3.25% per year; the difference, 3% is the assumed real rate of return. Therefore any difference between the actual real rate of return and the assumed rate, positive or negative, is recognized by the valuation in equal amounts over a four-year period, the same length of time the plan uses to determine the interest rates credited to members' accounts. The AABC limits the impact asset smoothing may have through under- or overstating plan assets to a maximum of 10% of their actual market value.

It should also be noted that some changes were made to the actuarial assumptions utilized for the December 31, 2005 valuation. Please refer to the following section regarding these changes.

	December 31, 2005	**December 31, 2003**
Assets		
Adjusted market value of assets	$ 217,777,000	$ 204,320,000
Adjusted market value of assets held for defined contribution component	30,749,000	21,805,000
Actuarial asset smoothing amount	(16,564,000)	5,704,000
Present value of future contributions	25,150,000	25,686,000
Total value of assets	**$ 257,112,000**	**$ 257,515,000**
Actuarial Liabilities and Surplus		
Actuarial present value of benefits for:		
• Active and disabled members – accrued benefits	$ 98,620,000	$ 103,431,000
• Active and disabled members – future benefits	44,775,000	45,341,000
• Suspended members– Defined Benefit component	5,984,000	7,131,000
• Inactive members – Defined Benefit component	1,760,000	1,198,000
• Pensioners (non-temporary)	72,337,000	67,512,000
• Temporary pensioners	1,757,000	981,000
• Voluntary contributions	14,000	11,000
• Defined contribution account balances	30,749,000	21,805,000
Total actuarial liability	**$ 255,996,000**	**$ 247,410,000**
Surplus / (Deficit)	$ 1,116,000	$ 10,105,000
Contingency reserve	1,116,000	10,105,000
Surplus (net of contingency reserve)	$ 0	$ 0
Total Actuarial Liability and Surplus	**$ 257,112,000**	**$ 257,515,000**

Going–Concern Normal Actuarial Cost

As noted below, one of the goals of an actuarial valuation is to assess the adequacy of contribution rates. In the valuation report, the actuary has estimated that the plan will require total contributions equal to 23.47% of pensionable earnings to deliver the pensions and other benefits promised by the plan. In reality, members and their employer each contribute 6.59% of earnings, for a total of only 13.18%. Thus, there is a gap of 10.29% between what the plan needs and what it receives. However, a reserve of $1,116,000 has been set aside within the plan in order to, in effect, contribute an extra 10.29% of future earnings for everyone who belonged to the plan at the end of 2005.

	Dollar Amount	Percent of Pensionable Earnings
Present value of benefits accruing in 2006	$ 5,500,000	23.47
Present value of fixed rate employee contributions in 2006	1,544,000	6.59
Present value of fixed rate University contributions in 2006	1,544,000	6.59
Present value of normal actuarial cost not covered by fixed rate contributions	2,412,000	10.29

Summary of Going-Concern Assumptions

Since the time of the last valuation, there were no plan amendments that materially affect the financial position of the plan.

However, there were a number of changes to the actuarial assumptions to reflect more current expectations of the future. Specifically:

- the mortality assumption was changed to the 1994 Uninsured Pensioner mortality table with mortality improvements projected to the year 2015;
- the annual inflation rate assumption was reduced to 3.25% from 4.0%;
- the interest rate assumption was reduced to 6.25% per annum from 7.0% per annum;
- the salary increase assumption was changed to a general increase of 3.75% per annum plus a service based seniority, merit and promotion increase from 5.0% per annum; and
- the increase in the maximum pension limit was updated to reflect changes to the *Income Tax Act* in 2005 (due to the 2005 federal budget).

Summary of Assumptions		
	December 31, 2005	**December 31, 2003**
Demographic		
Mortality	Use of Uninsured Pensioner Mortality Table projected to 2015 to better reflect current life expectancy	Previously used Group Annuity Mortality Tables
Economic		
Interest (Rate of Return)	6.25% per annum net of all expenses	7.00% per annum net of all expenses
Inflation	3.25% per annum	4.00% per annum
Canada Pension Plan -Yearly Maximum Pensionable Earnings (YMPE) increase	3.75% per annum	5.00% per annum
General salary increase	3.75% per annum	5.00% per annum
Seniority, merit and promotion increase	3% per annum for 1st 10 yrs of service, grading down to 0% after 20 years of service	n/a
Income Tax Act maximum pension limits	5.26% in 2007 5.00% in 2008 4.76% in 2009 3.75% per annum thereafter	9.09% in 2005 and 5.0% per annum thereafter

Solvency (Wind-up) Financial Position as at December 31, 2005

The solvency valuation is a financial assessment of the plan that is required by the provincial pension standards legislation and is performed in accordance with requirements prescribed by this legislation. It is intended to provide an assessment of the plan's financial position at the valuation date on the premise that the obligations of the plan are settled on the valuation date for all members.

The financial position of the plan on the solvency basis is measured by comparing the market value of the assets with the actuarial liability for benefits earned for service up to the valuation date assuming the plan is terminated on the valuation date. As noted below, at December 31, 2005 the plan had a solvency financial position of $16M.

	December 31, 2005
Assets	
• Adjusted market value of fund	$ 217,777,000
• Defined contribution account balances	30,749,000
• Estimated wind-up expenses	(250,000)
Actuarial value of assets	$ 248,276,000
Actuarial Liabilities	
Actuarial present value of benefits for:	
• Active and disabled members	$ 111,005,000
• Suspended	6,903,000
• Inactive members	2,050,000
• Pensioners (non-temporary)	79,619,000
• Temporary pensioners	1,793,000
• Voluntary contributions	14,000
• Defined contribution account balances	30,749,000
Total actuarial liabilities	$ 232,133,000
Surplus/(Deficiency)	**$ 16,143,000**
Total Actuarial Liability and Surplus	**$ 248,276,000**

Thus, if the plan had been wound up for some reason at the end of 2005 and funds set aside to ensure that all members would receive the entitlement they had earned up to that date, there would have been a surplus of $16.1M. This amount is less than the wind-up surplus position of $28.7M reported in the December 31, 2003 valuation.

Master Trust

The assets of the University of Regina pension plans – the Academic and Administrative Pension Plan and the Non-Academic Pension Plan – are combined into a single investment portfolio called the Master Trust Fund. 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.

As of June 30, 2006, the Master Trust assets totalled $313.6M, compared with $314M at December 31, 2005. The market value of assets attributed to the Academic and Administrative Pension Plan at June 30, 2006 was $250.1M compared to $251M at December 31, 2005.

The Master Trust's estimated year to date return at October is 8.75%, before expenses.

Governance Documentation

During the past six months, the AABC, with the assistance of the Plan Actuary, drafted two policy documents to compliment the Governance Document approved by the Board of Governors in June 2005. The Committee has just finalized its review of a Funding Policy and an Expense Policy. These policies will be submitted to the Board of Governors for its approval in December.

Following approval of the policies, copies will be available in either paper or electronic form by contacting Pension and Benefits, Human Resources Department (585-4167).

Agenda for the Upcoming Year

In the last interim report, I addressed the issue of investment policy. As noted above the pension assets of both University plans are jointly invested in the Master Trust. Both the Academic and Administrative Pension Plan and the Non-Academic Pension Plan share the same policy in spite of differences between the plans. Therefore the AABC will continue to monitor the feasibility of the Master Trust approach as a viable approach for investment considering the diverse benefit structures of the Plans.

As reported in the previous section, the AABC is developing policies/guidelines to compliment the Governance Document. Development of policies/guidelines (related to communications, strategic planning, etc) will continue in 2007.

The Committee's responsibilities also include the annual review of the Plan's Statement of Investment Policies and Goals, the confirmation of the annual net fund rate of return, regular monitoring of the Plan's investment managers performance as well as keeping abreast of regulatory changes to ensure the Plan is compliant with the relevant legislation.

Summary

I hope the topics covered in this bulletin are of interest to you. The AABC is committed to improving communication to plan members. Any feedback or suggestions on how we might improve this report (or any of the other forms of communication we use) would be greatly appreciated.

Gary Tompkins, Chair