



**Annual Report of  
The Memorial University Pension Plan**

**April 1, 2014 to March 31, 2015**

Department of Human Resources,  
Memorial University of Newfoundland  
St. John's, NL  
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September 2015

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## Board of Regents

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August 31, 2015

Honourable Clyde Jackman  
Minister of Advanced Education and Skills  
West Block, Confederation Building  
P.O. Box 8700  
St. John's, NL A1B 4J6

Dear Minister Jackman:

I am pleased to submit the 2014-15 Annual Activity Report of the Memorial University Pension Plan. This report covers the period April 1, 2014 to March 31, 2015.

This is the first performance-based report to be presented under the Memorial University Pension Plan's Activity Plan for 2014-2017. This document sets forth in clear language how the University has addressed the objectives that were outlined in the plan.

My signature below is on behalf of the Board of Regents and is indicative of our accountability for the actual results reported.

Respectfully submitted,

A handwritten signature in blue ink that reads "Iris Petten".

**Iris Petten**  
Chair, Board of Regents

## Pension Plan Overview

The three-year Activity Plan prepared for the Memorial University Pension Plan (the “Plan”) set out the Plan’s objectives for the period April 1, 2014 to March 31, 2017. This Annual Report will discuss the outcome of those objectives for the period April 1, 2014 to March 31, 2015 and provide additional information on the operation of the Plan for the year then ended.

### Mission and Vision

The Board of Regents, as trustee of the Fund, is responsible to ensure compliance with the *Memorial University Pensions Act*.

#### Mission

By 2017, the Memorial University Pension Plan will have ensured the provision of secure, affordable and competitive retirement incomes for employees of Memorial University of Newfoundland.

**Measure:** Ensured the provision of secure, affordable and competitive retirement incomes

**Indicator:** Reduced unfunded liability

#### Vision

The vision of the Memorial University Pension Plan is of stable retirement incomes for participating employees.

#### Mandate

The mandate of the Board of Regents of Memorial University, acting as the trustee for the Pension Plan, is set out in the *Memorial University Pensions Act*. In this role, the Board is responsible for the administration of the pension fund and has delegated certain administrative activities to the University’s Department of Human Resources.

Administration of the pension fund involves:

- collecting and depositing employee and employer contributions into the fund;
- investing funds in accordance with the Act;
- paying pensions to eligible retired employees or their beneficiaries as per the Act; and,
- keeping complete books of account detailing all transactions of the fund.

For further details please refer to the legislation at the following website address:  
<http://assembly.nl.ca/Legislation/sr/statutes/m08.htm>

## **Pension Plan Design**

The Plan is a contributory defined-benefit pension plan, established in 1950 under statute of the provincial legislature. It is designed to provide retirement benefits to full-time permanent employees and qualifying contractual employees of the University. In addition, employees of certain separately incorporated entities of the University and affiliated employers are eligible to participate in the Plan. Benefits, which are integrated with the Canada Pension Plan, are based upon employees' years of pensionable service, best five-year average pensionable salary and a two per cent accrual factor.

## **Authority and Administration**

The Plan operates under authority of the *Memorial University Pensions Act*, which prescribes the Board of Regents of the University as trustee. To assist with its responsibilities as trustee, the Board has established a University Pensions Committee to provide advice on matters relating to the Plan. This advisory committee, which has representation from across the entire University community, operates under terms of reference set out by the Board. The actual administration of the Plan is carried out by the University's Department of Human Resources.

## **Investments**

All contributions from employees and the University are paid into the Memorial University Pension Fund (the Fund) for investment by external investment managers. The Statement of Investment Policy and Objectives that has been developed to guide the investment of the Fund sets out a policy asset mix with the objective of maintaining predictable and stable benefit costs and contributions.

The Fund is invested in 10 separate investment mandates that include equities, traditional fixed income, real estate and mortgages. Of the total investment, 31 per cent has been allocated to foreign markets. For a more detailed description of the investment structure please refer to Tables 1 and 2 on page 6.

During the 2014-2015 fiscal year, the Pensions Committee reviewed the Fund's Statement of Investment Policy and Objectives and recommended several amendments. Among the more significant changes approved by the Board were: i) a reduction in the Fund's long-term expected return from 7.5 per cent to 6.3 per cent (this is the discount rate used in annual Plan valuations); ii) conversion of the remaining Canadian balanced mandate with Jarislowsky Fraser to segregated specialty Canadian equity and Canadian fixed income mandates and, iii) updated re-balancing rules. In addition several changes of a housekeeping nature were made as well as improvements to investment monitoring procedures.

## Policy Asset Mix

**Table 1**

Asset Class	Percentage Allocation
Canadian Equity	25%
U.S. Equity	21%
International Equity	10%
Fixed Income	25%
Cash /Short term	3%
Real Estate	8%
Mortgages	8%

The actual distribution of assets will vary from the policy asset mix over time due to the impact of market forces. Once an asset class moves outside a pre-determined range a re-balancing will be performed by the University to move funds into or out of that asset class to bring it back in line with investment policy limits.

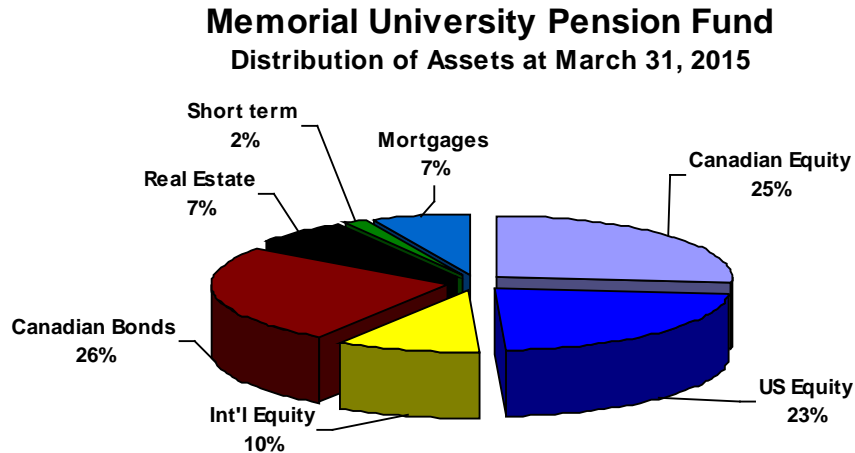
## Investment Manager Benchmark Distribution

**Table 2**

Manager	Mandate	Allocation
Jarislowsky Fraser Limited	Canadian Equity	12.5%
Connor Clark & Lunn	Canadian Equity	6.25%
Pyramis Global Advisors	Canadian Equity	6.25%
Greystone Managed Investments Inc.	Canadian Fixed Income	6.25%
Jarislowsky Fraser Limited	Jarislowsky Fraser Limited	6.25%
CIBC Global Asset Management Inc.	Indexed Bonds	12.5%
Alliance Capital Management Canada Inc.	US Equity	21%
Aberdeen Managed Investments	International Equity	10%
Greiner-Pacaud Management Associates	Real Estate	3.2%
Greystone Managed Investments Inc.	Real Estate	4.8%
Greystone Managed Investments Inc.	Mortgages	8%
--	Cash	3%

The relative distribution of assets across the entire Fund, as at March 31, 2015, is illustrated in the following chart:

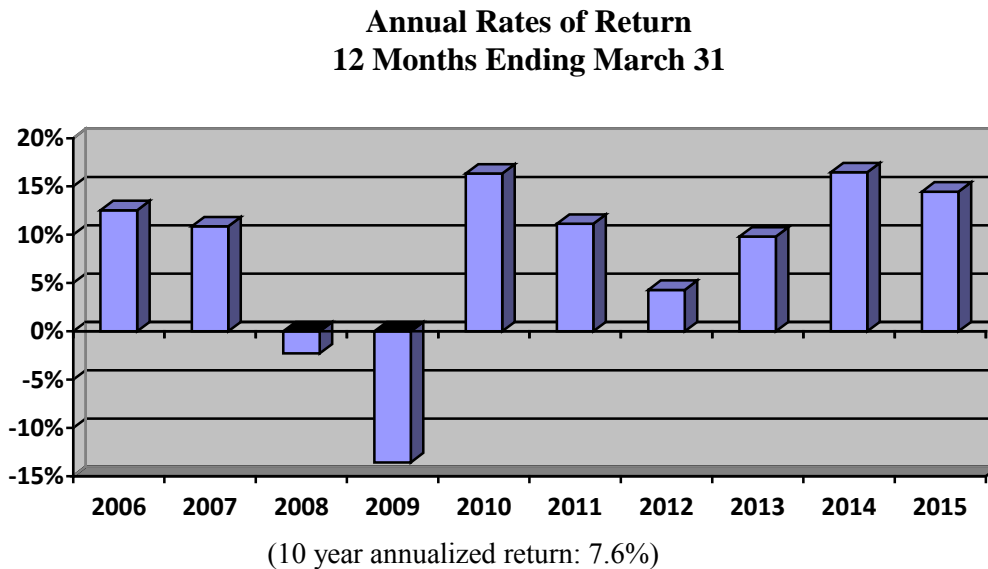
Figure 1



### Investment Performance

For the year ended March 31, 2015, the Fund posted a 14.5 percent annual return, ranking it in the 26<sup>th</sup> percentile as compared with other Canadian pension funds (1<sup>st</sup> percentile being the top performer and 100<sup>th</sup> being the worst). Net assets available for benefits increased by approximately \$183 million – up from \$1.176 billion at March 31, 2014 to \$1.359 billion at March 31, 2015.

Figure 2



## Actuarial Valuation

An actuarial valuation of the Pension Plan was performed as at December 31, 2014 and the results have been extrapolated to March 31, 2015 for reporting purposes. While an actuarial valuation of the Pension Plan is normally required at least once every three years for funding purposes, annual valuations have been performed since 2006. These valuations have been requested by the provincial Office of the Superintendent of Pensions as a condition of granting a solvency funding exemption under the *Pension Benefits Act, 1997, Regulations*. The current exemption covers the period January 1, 2011 to December 31, 2015.

A valuation for funding purposes was prepared as at December 31, 2012. This valuation is the basis for Pension Plan funding up to the date of the next funding valuation, scheduled to occur at December 31, 2015.

In addition to reporting on the solvency position of the Pension Plan, an actuarial valuation is performed to determine the ability of the Pension Plan to meet its obligations or “pension promises” on a going-concern basis. A valuation prepared on this basis assumes that the pension plan will continue to operate indefinitely. The valuation is also used to project the cost of benefits that will accrue to active plan members in the years following the valuation. The results of the December 31, 2014 valuation and extrapolation to March 31, 2015 are highlighted in the following table together with comparative figures for an extrapolation of the Pension Plan’s financial position to March 31, 2014:

**Table 3**

Actuarial Balance Sheet						
	March 31, 2015 (\$ Millions)		March 31, 2014 (\$ Millions)		December 31, 2014 (\$ Millions)	
	Going Concern	Solvency	Going Concern	Solvency	Going Concern <sup>1</sup>	Solvency <sup>2</sup>
Actuarial Value of Assets	1,263.3	See Note 3) below	1,103.5	See Note 3) below	1,202.2	1,410.6
Actuarial Liabilities	1,465.9		1,399.2		1,446.7	1,895.6
Unfunded Liability	(202.6)		(295.7)		(244.5)	(485.0)

Notes:

- 1) The going concern unfunded liability, as at December 31, 2014, includes approximately \$75.6 million related to the introduction of indexing in July 2004. A financing plan is in place to amortize this portion of the unfunded liability over a remaining period of 29.5 years from December 31, 2014.
- 2) Solvency assets at December 31, 2014 include the present value of five years worth of going concern special payments, calculated with reference to the December 31, 2013 valuation (\$130.2 million).
- 3) An extrapolation of the solvency position was not performed as at March 31, 2014 or March 31, 2015.



In accordance with the *Pension Benefits Act, 1997* (the PBA), Memorial University, as employer, is required to liquidate going-concern deficiencies within 15 years of the valuation date. The total going-concern deficiency identified in the December 31, 2012 valuation was calculated by the University's actuary, Eckler Limited, to be \$292.7 million. Of this amount, approximately \$72.7 million was in respect of past service costs associated with the introduction of indexing in 2004. By special provision of the PBA, the University and employees are financing the indexing liability over a remaining period of 29.5 years from December 31, 2014 through contributions equivalent to 1.2 percent of pensionable payroll (shared equally by the University and employees). The balance, namely \$220 million (\$292.7 - \$72.7), is being liquidated by the University through special payments of 7.2 percent of payroll over a period of 15 years.

During the year ended March 31, 2015, the University made a going concern special payment into the Fund of \$20.3 million. The balance of the payment required for the fiscal year 2014/15, \$2.3 million was recognized by the Plan in its annual financial reporting and was subsequently received in April 2015.

### **Current Service Cost**

Current service cost is the basis upon which the Pension Plan's contribution rate for both employees and the University is determined. The current contribution rate for the Pension Plan is shown below:

**Table 4**

<b>Rate Structure</b>	<b>Contribution Rate</b>
Earnings up to Year's Basic Exemption under Canada Pension Plan	9.9%
Earnings between Year's Basic Exemption under Canada Pension Plan and the Year's Maximum Pensionable Earnings under Canada Pension Plan	8.1%
Earnings above Year's Maximum Pensionable Earnings under Canada Pension Plan	9.9%

## Pension Plan Membership Statistics

Table 5

	March 31				
	2015	2014	2013	2012	2011
Active Members	3,907	3,966	3,823	3,863	3,728
Retirees (incl. survivors)	1,796	1,688	1,637	1,549	1,463
Deferred Pensioners	362	314	292	287	238
Average Age at Retirement	60.97	60.94	60.90	60.49	60.56

Figure 3

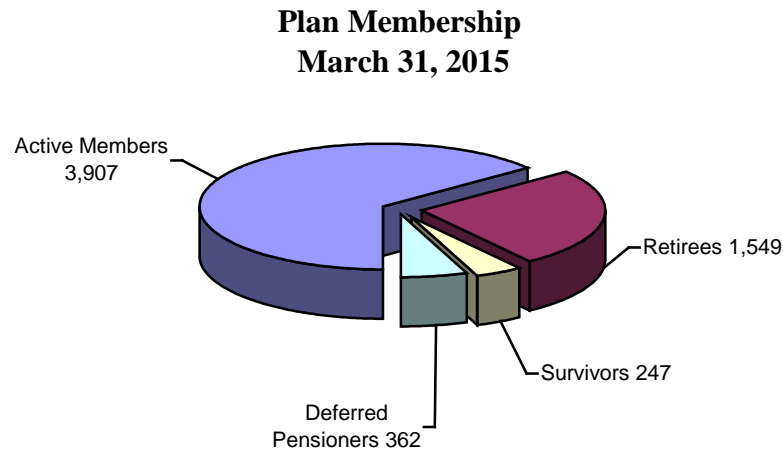
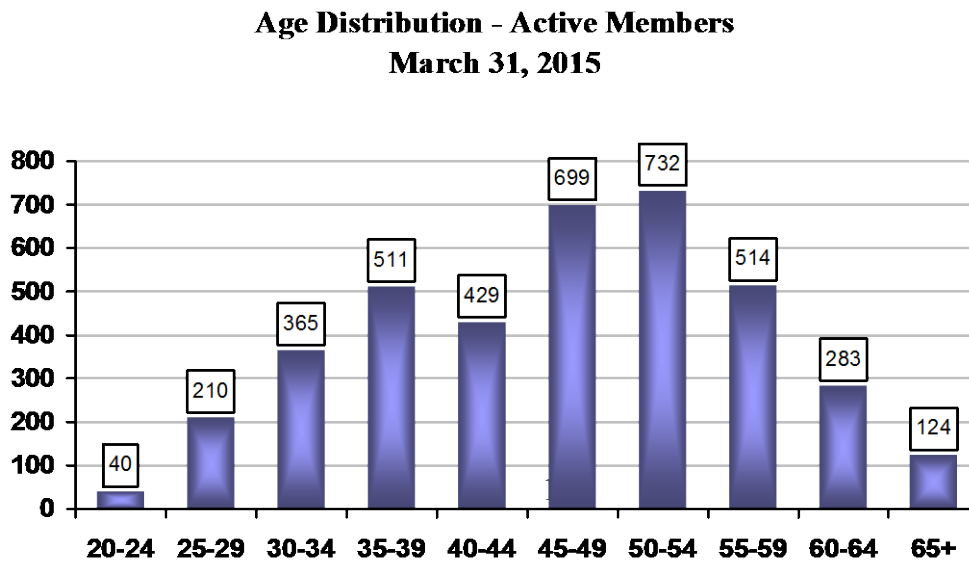


Figure 4



## Outcome of Objectives 2014-15

The two primary issues and related objectives identified in the 2014-17 Activity Plan are set out below:

**Issue One:** Responsible stewardship in the collection, investment and disbursement of the Fund

The Board of Regents, as trustee of the Fund, is responsible to ensure that funding objectives for the Plan are met and that contributions are invested in a prudent and timely manner. It must further ensure that the Plan is administered in accordance with the *Memorial University Pensions Act* and other governing legislation. Over the past year the Board of Regents ensured that the funding objectives of the Plan were met and that contributions were invested in a timely and prudent manner in accordance with all governing legislation. In doing so, they successfully achieved their objective as outlined in the 2014-17 Activity Plan. During the period April 1, 2014 to March 31, 2015 a total of \$78.9 million in contributions from the University and its employees were paid into the pension fund for investment while the plan paid out a total of \$54.9 million in benefits to eligible retired employees and their beneficiaries. Over that same period \$5.2 million in administrative expenses were paid. The following details the Plan's successful achievement of the indicators, and therefore the objective presented in the activity plan for the 2014-15 fiscal year.

**Objective:** By March 31, 2015, the Memorial University Pension Plan will have met its funding objectives including the awarding of monies to eligible retired members or their survivors and the payment of associated administrative expenses

**Measure:** Met its funding objectives

### Indicators:

1. Collected and invested contributions

During the 2014-15 fiscal year, the Plan collected a total of \$78,943,000 in contributions, representing amounts paid by the University and its employees and funds transferred from other employers' plans. All contributions are paid into the Pension Fund for investment by external investment managers. Summary information on the Plan's investment structure and performance has been included in this Report under the "Investments" section.

2. Eligible retired members and survivors received pension benefits

The Plan paid out a total of \$54,938,000 in benefits to eligible retired employees or their beneficiaries in 2014-15.

3. Paid associated administrative expenses

During 2014-15, the Plan paid a total in \$5,235,000 in administrative expenses.

## **Issue Two: Unfunded Liability**

As employer, Memorial University must comply with the pension plan funding requirements of the Newfoundland and Labrador *Pension Benefits Act, 1997* (PBA). When the Pension Plan experiences funding deficiencies, as measured by periodic actuarial valuations, the University must make additional special payments into the Pension Plan. The PBA requires that going-concern deficiencies be amortized over a period not greater than 15 years, while solvency deficiencies must be paid over not more than 5 years. By special provision of the PBA, the University is exempt from the solvency funding requirements to December 31, 2015. In addition the University is amortizing past service costs associated with indexing, introduced in 2004, over a remaining period of 29.25 years from March 31, 2015.

The following details the Plan's successful achievement of the indicator, and therefore the objective presented in the activity plan for the 2014-15 fiscal year.

**Objective:** By March 31, 2015, Memorial University will have made special payments against the unfunded liability as per the latest funding valuation, in accordance with legislative requirements.

**Measure:** Made special payments, as per the latest funding valuation, in accordance with legislative requirements.

The December 31, 2012 valuation disclosed that the Plan's going-concern unfunded liability was \$292.7 million and the portion (after accounting for the indexing liability) to be funded by the University was \$220.0 million. This amount is being amortized over a 15 year period with annual special payments of 7.2 percent of pensionable payroll. The indexing liability is being financed by ongoing contributions from the University and employees at a combined rate of 1.2 percent of pensionable payroll. For additional information on the special payments, please see the detail under the indicator below.

### **Indicator:**

1. Made an annual special payment of 7.2 per cent of pensionable payroll towards liability (\$22.6 million in 2014-15).

During the year ended March 31, 2015, the University made a special payment into the Pension Fund of \$20.3 million, thus reducing the unfunded liability identified in the December 31, 2012 actuarial valuation of the Plan that the University was solely responsible to fund. The balance of the payment required for the fiscal year 2014/15, \$2.3 million, was recognized by the Plan in its annual financial reporting and was subsequently received in April 2015. The total special payment from the University towards the unfunded liability, comprised of actual and accrued payments, was therefore \$22.6 million.

## **2015-16 Objectives**

The aforementioned objectives, measures and indicators will also be reported upon in the 2015-16 Annual report of the Pension Plan.

## HIGHLIGHTS AND ACCOMPLISHMENTS

### Financial Highlights

**Table 6**

	<b>March 31</b>	
	<b>2015</b>	<b>2014</b>
Net Assets Available for Benefits	1,359,270,000	1,176,485,000
One-Year Annual Rate of Return	14.46%	16.47%
Realized Investment Income	123,258,000	112,889,000
Pensions Paid	54,938,000	50,398,000
Current Contributions: Employee	25,352,000	24,867,000
University	25,342,000	24,877,000
University special payments:		
Going Concern	22,638,000	21,767,000
Solvency deficit (refunds)	2,750,000	1,390,000

### Benefit Provisions – Indexing

On July 1, 2014, 1,308 retirees and survivors received a 0.54 per cent indexing adjustment to their pensions. Indexing was introduced under the Plan in July 2004, with yearly adjustments calculated as 60 per cent of the annual change in the consumer price index, as measured by Statistics Canada, to a maximum yearly increase of 1.2 per cent.

## Actuarial Valuation of Pension Plan and Financial Position

A full valuation of the Plan was performed at December 31, 2014 and extrapolated to March 31, 2015 for financial reporting purposes. The results of this valuation are reported upon in an earlier section.

### Financial Position / Funded Ratios

On a market value basis, the funded ratio of the Pension Plan has been steadily increasing for a number of years since it plummeted as a result of the 2008-09 global financial crisis. Selected periods are shown below:

**Table 7**

	<b>March 31</b>				
	<b>2015</b> (000s)	<b>2014</b> (000s)	<b>2013</b> (000s)	<b>2010</b> (000s)	<b>2009</b> (000s)
<b>Net Assets at Market Value</b>	1,359,270	1,176,485	994,461	727,588	620,939
<b>Pension Obligations</b>	1,465,989	1,399,236	1,262,133	1,035,932	954,041
<b>Deficit</b>	106,719	222,751	267,672	308,344	333,102
<b>Funded Ratio</b>	<b>93%</b>	<b>84%</b>	<b>79%</b>	<b>70%</b>	<b>65%</b>
	Annual valuation 31/12/14	Annual valuation 31/12/13	Funding valuation 31/12/12	Funding valuation 31/03/10	Global financial crisis

- ❖ Funding valuations of the Plan were prepared at March 31, 2010 and December 31, 2012.
- ❖ Results of December valuations extrapolated to March 31 for financial reporting.

Based upon an extrapolation of the Pension Plan's financial position to March 31, 2015, its funded ratio (the ratio of plan assets to plan liabilities) is approximately 93%. The corresponding deficit is \$106.7 million. These figures assume that the Plan's net assets are measured at fair market value.

The deficit of \$106.7 million includes an indexing liability valued at approximately \$75.6 million. A separate financing arrangement is in place for the indexing liability through regular employee and University contributions. As a result, the deficit that the University would notionally have to fund through annual special payments would be approximately \$31.1 million if funding were based upon the extrapolation.

## **Retirement Planning Seminars**

In February 2015, the University held a full day retirement planning seminar on the St. John's campus. The seminar was attended by approximately 190 employees and their spouses. Topics covered included the Plan, the Canada Pension Plan and Old Age Security Benefits, financial planning and the Memorial University of Newfoundland Pensioners' Association. The University also holds pension information sessions at the request of individual departments.



## **OPPORTUNITIES AND CHALLENGES**

The Activity Plan for 2014-17 outlines the objectives for the years, 2014-15 to 2016-17. The focus in 2015-16 will be concentrated in a number of areas including:

- Continued monitoring of the investment performance of fund managers and review of the Statement of Investment Policy and Objectives;
- Continued transition of funds into the real estate and mortgage portfolios;
- Exploration of alternative investment opportunities including a core plus bond strategy
- Providing retirement planning seminars;
- Addressing the going concern unfunded liability;
- Review of Pension Plan governance structure and plan design

## **CONCLUSION**

The successful achievement of the objectives listed in this report reflects the course of action set out in the Board of Regents' three-year activity plan intended to guide the Plan for the fiscal years 2014-15 to 2016-17.

Financial Statements

**Memorial University of Newfoundland  
Pension Plan**

March 31, 2015

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Regents of  
**Memorial University of Newfoundland**

We have audited the accompanying financial statements of the Memorial University of Newfoundland Pension Plan, which comprise the statement of financial position as at March 31, 2015 and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Memorial University of Newfoundland Pension Plan as at March 31, 2015, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

St. John's, Canada  
July 9, 2015

*Ernst + Young LLP*

Chartered Professional Accountants

# Memorial University of Newfoundland Pension Plan

## STATEMENT OF FINANCIAL POSITION

As at March 31

[thousands of dollars]

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>Receivables</b>		
Contributions receivable	8,078	5,441
Accrued interest and dividends	2,257	2,207
Amounts due from pending trades	862	9,114
Due from Memorial University of Newfoundland <i>[note 4]</i>	1,349	1,030
	<u>12,546</u>	<u>17,792</u>
<b>Investments <i>[note 5]</i></b>		
Cash and short-term investments	26,169	32,981
Bonds and debentures	350,112	279,397
Equities	802,311	701,688
Real estate	89,009	83,992
Mortgages	88,407	78,854
	<u>1,356,008</u>	<u>1,176,912</u>
<b>Intangible assets</b>	<u>349</u>	<u>393</u>
<b>Total assets</b>	<u>1,368,903</u>	<u>1,195,097</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	947	955
Accrued pension refunds	2,273	1,700
Amounts payable from pending trades	6,413	15,957
<b>Total liabilities</b>	<u>9,633</u>	<u>18,612</u>
<b>Net assets available for benefits</b>	<u>1,359,270</u>	<u>1,176,485</u>
Pension obligations	<u>(1,465,989)</u>	<u>(1,399,236)</u>
<b>Deficit</b>	<u>(106,719)</u>	<u>(222,751)</u>

*See accompanying notes*

On behalf of the Board:

  
Chair of the Board of Regents

  
Chair of the Finance Committee

**Memorial University of Newfoundland Pension Plan**

**STATEMENT OF CHANGES IN NET ASSETS  
AVAILABLE FOR BENEFITS**

Year ended March 31  
[thousands of dollars]

	<u>2015</u>	<u>2014</u>
<b>INCREASE IN ASSETS</b>		
<b>Investment income</b>		
Interest income	14,400	9,623
Dividend income	25,827	18,318
Current-period increase in fair value of investments	47,875	50,412
Realized gain on sale of investments	83,031	84,948
	<u>171,133</u>	<u>163,301</u>
<b>Contributions [note 7]</b>		
Employee - current service	25,352	24,867
- past service	2,664	3,828
Employer - current service	25,342	24,877
- past service	197	187
- special payments	25,388	23,157
	<u>78,943</u>	<u>76,916</u>
<b>Total increase in assets</b>	<u>250,076</u>	<u>240,217</u>
<b>DECREASE IN ASSETS</b>		
Benefits paid	54,938	50,398
Refunds of contributions	6,401	2,899
Death benefits	717	357
Administrative expenses [note 8]	5,235	4,539
<b>Total decrease in assets</b>	<u>67,291</u>	<u>58,193</u>
<b>Increase in net assets</b>	<b>182,785</b>	182,024
Net assets available for benefits, beginning of year	<u>1,176,485</u>	994,461
<b>Net assets available for benefits, end of year</b>	<u>1,359,270</u>	<u>1,176,485</u>

*See accompanying notes*

## Memorial University of Newfoundland Pension Plan

### STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended March 31  
[thousands of dollars]

	<u>2015</u>	<u>2014</u>
Actuarial present value of accrued pension benefits, beginning of year	<b>1,399,236</b>	1,262,133
Experience gains	<b>(13,070)</b>	(18,223)
Changes in actuarial assumptions/methodology	—	76,642
Interest accrued on benefits	<b>88,743</b>	81,282
Benefits accrued	<b>53,136</b>	51,056
Benefits paid, death benefits and refunds of contributions	<b>(62,056)</b>	53,654
<b>Actuarial present value of accrued pension benefits, end of year</b> <i>[note 6]</i>	<b><u>1,465,989</u></b>	<u>1,399,236</u>

*See accompanying notes*

# Memorial University of Newfoundland Pension Plan

## NOTES TO FINANCIAL STATEMENTS

March 31, 2015

[tabular amounts in thousands of dollars]

### 1. DESCRIPTION OF PLAN

The following description of the Memorial University of Newfoundland Pension Plan [the “Plan”] is a summary only. For more complete information, reference should be made to the *Memorial University Pensions Act (the Act)*.

#### General

The Plan is a contributory defined benefit pension plan covering eligible employees of Memorial University of Newfoundland [the “University”] in accordance with the Act.

Where differences exist between the provisions of the Act and the Newfoundland *Pensions Benefits Act, 1997* [the “PBA”], the minimum standards prescribed by the PBA will prevail unless the Plan provisions exceed these standards.

#### Funding policy

The Plan is subject to the funding provisions of section 35 of the PBA and section 12 of the PBA Regulations which require that the employer contribute an amount equal to the normal actuarial cost allocated to the employer in the most recently filed actuarial valuation. In addition, where the Plan experiences a solvency deficiency, the employer is required to contribute an amount sufficient to liquidate the solvency deficiency within five years of the solvency valuation date. Likewise, going concern unfunded liabilities are required to be liquidated by the employer over a period not exceeding 15 years.

#### Provincial guarantee

The Plan is being underwritten by the Province of Newfoundland and Labrador. Section 6 of the Act states:

All pensions, payments, and refunds and all expenses of the administration of this Act are a charge upon and payable out of the fund and if at any time there is not sufficient money at the credit of the fund for those purposes as they fall due for payment the Minister of Finance shall pay to the board an amount to cover the deficiency, and the board shall deposit that amount to the fund.

#### Service pensions

A service pension is available based on the number of years of service times two percent of the best five-year average pensionable salary. Pensions are indexed from age 65 at the rate of 60% of the annual change in the Consumer Price Index, as measured by Statistics Canada, to a maximum annual increase of 1.2%.



# Memorial University of Newfoundland Pension Plan

## NOTES TO FINANCIAL STATEMENTS

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[tabular amounts in thousands of dollars]

### Survivors' pensions

A survivor pension is paid to a surviving principal beneficiary or dependent child, as defined in the Act, of a member who has a minimum of two years' credited service.

### Death refunds

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of the individual's contributions plus interest. In a similar manner, a death refund is payable to the estate of a contributor where no survivor pension is paid. A death refund may also be paid to a surviving principal beneficiary who elects to transfer the commuted value of their survivor pension from the Plan where the death of a contributor precedes the commencement of their pension.

### Refunds

Upon application and subject to locking-in provisions, a terminated employee may withdraw their contributions and accumulated interest.

### Income taxes

The Plan is a Registered Pension Trust as defined in the *Income Tax Act* and is not subject to income taxes.

## 2. BASIS OF PRESENTATION

These financial statements have been prepared on a going concern basis as set out in Section 4600, Pension Plans, in Part IV of the Chartered Professional Accountants of Canada ["CPA Canada"] Accounting Handbook. These financial statements present the information of the Plan as a separate reporting entity independent of the sponsor and participants of the Plan.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period during which they become known. Areas of key estimation include the actuarial assumptions for the determination of the pension obligations.

## **Memorial University of Newfoundland Pension Plan**

### **NOTES TO FINANCIAL STATEMENTS**

March 31, 2015

[tabular amounts in thousands of dollars]

#### **Investments**

Investments are stated at fair value and transactions are recorded as of the trade date. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. In determining fair value, adjustments have not been made for transaction costs as they are not considered to be significant. The change in the difference between the fair value and cost of investments, at the beginning and end of each fiscal year, is reflected in the statement of changes in net assets available for benefits as current-period change in fair value of investments.

Fair value of investments is determined as follows:

Bonds, debentures and equities are valued at year-end quoted market prices where available. Where quoted prices are not available, estimated fair value is calculated using comparable securities. In the case of bonds and debentures, fair value measurement is based upon the bid price whereas equities are valued at the mid-point of the bid-ask spread.

Short-term notes, treasury bills and term deposits maturing within a year are valued at amortized cost, which, together with accrued interest income, approximates fair value given the short-term nature of these instruments.

Guaranteed investment certificates and term deposits maturing after one year are valued at the present value of estimated future cash flows discounted at interest rates in effect on the last business day of the year for investments of a similar type, quality, and maturity.

Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represents the Plan's proportionate share of underlying net assets at fair value determined using closing market prices.

The investment in real estate is comprised of units in both a closed-end real estate fund and an open-end real estate fund. The fair value of properties in both funds is determined at least annually by independent accredited appraisers. New acquisitions are carried at cost for the first 12 months.

#### **Investment income**

Investment income, which is recorded on the accrual basis, includes realized gains (losses) on the sale of investments, interest income, dividends and unrealized changes in fair value.

#### **Gain on sale of investments**

The realized gain on the sale of investments is the difference between proceeds received and the average cost of investments sold.

## **Memorial University of Newfoundland Pension Plan**

### **NOTES TO FINANCIAL STATEMENTS**

March 31, 2015

[tabular amounts in thousands of dollars]

#### **Recognition of contributions and benefits**

Contributions and benefits are recognized on the accrual basis of accounting.

All current service and required contributions from the University and Plan participants, respectively, are reflected in the year of the Plan participant's earnings.

#### **Foreign currency translation**

The fair value of foreign currency denominated investments, included in the statement of net assets available for benefits, is translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from translations are included in the current-period increase in fair value of investments.

Foreign currency denominated transactions including cost amounts, are translated into Canadian dollars at the rates of exchange in effect on the dates of the related transactions.

#### **Intangible assets**

Intangible assets are amortized on the basis of their estimated useful lives using the straight line method and the following duration:

Software	10 years
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#### **Fair value of financial instruments**

Investment assets and liabilities are measured at fair value as disclosed elsewhere in these financial statements. Other assets and liabilities do not have significant fair value risk as they are all due within twelve months.

#### **4. DUE FROM MEMORIAL UNIVERSITY OF NEWFOUNDLAND**

The treasury function of the Plan is administered by the University and, therefore, the Due from Memorial University of Newfoundland account represents funds owed to the Plan by the University.

## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

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[tabular amounts in thousands of dollars]

#### 5. INVESTMENTS

[a] The following table summarizes investments at fair value:

	<u>2015</u>	<u>2014</u>
Cash and short-term investments	<u>26,169</u>	32,981
Canadian bonds and debentures:		
Federal	<b>40,011</b>	29,273
Provincial	<b>52,578</b>	45,503
Corporate	<b>81,483</b>	61,280
Pooled funds	<b>176,040</b>	143,341
	<u><b>350,112</b></u>	<u>279,397</u>
Canadian equities:		
Common stock	<b>259,133</b>	301,988
Pooled funds	<b>98,933</b>	12,843
	<u><b>358,066</b></u>	<u>314,831</u>
Foreign equities:		
Common stock	<b>307,734</b>	266,135
Pooled funds	<b>136,511</b>	120,722
	<u><b>444,245</b></u>	<u>386,857</u>
Canadian Real estate	<u><b>89,009</b></u>	83,992
Canadian Mortgages	<b>88,407</b>	78,854
	<u><b>1,356,008</b></u>	<u>1,176,912</u>

[b] Realized losses arising from foreign currency translation amounted to \$20,124 for the year ended March 31, 2015 [2014 – loss of \$254,059]. For financial statement presentation purposes, these amounts have been included in realized gain on sale of investments.

## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

March 31, 2015

[tabular amounts in thousands of dollars]

#### 6. OBLIGATION FOR PENSION BENEFITS

The present value of accrued pension benefits was determined using the projected benefits method prorated on service and the administrator's best estimate assumptions. The Actuary performed an actuarial valuation as at December 31, 2014 and extrapolated the results to March 31, 2015.

The actuarial present value of benefits as at March 31, 2015 was estimated to be \$1,465,989,000 [2014 – \$1,399,236,000]. The statement of changes in pension obligations outlines the principal components of change in actuarial present value from one year to the next.

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation and in the extrapolation, where applicable, were:

**Discount rate**

6.3% [2014 – 6.3%] pre- and post-retirement

**Salary escalation rate**

4.0% [2014 – 4.0%] per annum

The actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends [consistent with assumptions underlying the valuation of the accrued pension benefits]. The fair value is the underlying basis and incorporates an investment reserve calculated as the unamortized difference between expected and actual investment returns over a period of three years.

The actuarial asset values used in the extrapolations for 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Net assets available for benefits	1,359,270	1,176,485
Actuarial value changes not reflected in fair value of net assets	<u>(95,925)</u>	<u>(73,000)</u>
Actuarial value of net assets available for benefits	<u>1,263,345</u>	<u>1,103,485</u>

## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

March 31, 2015

[tabular amounts in thousands of dollars]

#### 7. FUNDING POLICY

Pursuant to the Act, employees are required to contribute to the Plan in accordance with the following schedule:

- 9.90% of pensionable earnings up to the Year's Basic Exemption ["YBE"] under the *Canada Pension Plan Act*;
- 8.10% of pensionable earnings above the YBE up to and including the Year's Maximum Pensionable Earnings ["YMPE"] under the *Canada Pension Plan Act*;
- 9.90% of pensionable earnings above the YMPE.

The University is required to contribute an amount equal to the contributions paid by employees and any additional amounts required to be paid by an employer under the PBA. In addition to its matching contributions, the University made a special payment of \$20,253,000 to the Plan during the year. This payment was made against the unfunded liability, not attributable to indexing, that was identified in the December 31, 2012 actuarial valuation of the Plan. The Plan has also recognized an amount due from the University representing the balance of the 2014/2015 special payment and the solvency deficit on refunds paid during the year. These amounts are \$2,385,000 and \$2,750,000 respectively.

A valuation of the Plan was performed as at December 31, 2014 and the results have been extrapolated to March 31, 2015 for financial statement reporting. The extrapolation revealed that the going concern unfunded liability is \$202,644,000 at March 31, 2015 based on current Plan provisions and PBA requirements. A portion of the unfunded liability relates to the past service cost of indexing, introduced under the Plan, effective July 1, 2004. A funding arrangement was implemented coinciding with the introduction of indexing to liquidate this unfunded liability over a period of 40 years. At March 31, 2015, approximately 29.25 years are remaining in the amortization schedule. The indexing liability is amortized on a declining balance basis along with recognition that if the indexing contributions (i.e., an additional 0.6% of payroll being made by both the University and Employees) exceed the originally scheduled amortization payment, that 15 years' worth of these excess contributions can be accounted for when determining the University's special payments.

The University is required to make special payments to fund the going concern unfunded liability revealed in the December 31, 2012 actuarial valuation. As at December 31, 2012 the going concern unfunded liability was \$292.7 million. The portion of the going concern unfunded liability (after accounting for the indexing liability) to be amortized was \$220.0 million and the required amortization payment for fiscal 2015/2016 is \$23,543,000 [or 7.2% of pensionable payroll]. University special payments will continue at this level [i.e., 7.2% of pensionable payroll] until the next actuarial valuation for funding purposes, which is due no later than December 31, 2015 [i.e. within three years of the December 31, 2012 actuarial valuation]. Subsequent to March 31, 2015, the University requested a regulatory exemption under the PBA that would allow a one-year deferral of the 2015/2016 special payment.

## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

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[tabular amounts in thousands of dollars]

With respect to solvency, the University is exempt from the solvency funding requirements of the PBA until December 31, 2015.

#### 8. ADMINISTRATIVE EXPENSES

Administrative expenses are paid by the University on behalf of the Plan. The Plan then reimburses the University on a monthly basis. A detailed breakdown of these expenses is as follows:

	<u>2015</u>	<u>2014</u>
Administrative expenses:		
Actuarial fees	229	285
Administrative Services	255	206
Audit fees	16	6
Custodial fees	259	210
Investment management fees	4,134	3,494
Salaries and benefits	277	274
Amortization	44	44
Other fees	21	20
	<u>5,235</u>	<u>4,539</u>

#### 9. INTANGIBLE ASSETS

	<u>2015</u>		<u>2014</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Software	<u>437</u>	<u>88</u>	<u>349</u>
			<u>393</u>

## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

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[tabular amounts in thousands of dollars]

#### 10. FAIR VALUE MEASUREMENTS, FINANCIAL RISKS AND RISK MANAGEMENT

The fair value of investments is as described in notes 3 and 5[a]. The fair value of other financial assets and liabilities, namely contributions receivable [employees], accrued interest and dividends, due from Memorial University of Newfoundland, accounts payable and accrued expenses, and accrued pension refunds are measured at amortized cost. The fair value of amounts due from pending trades and amounts payable from pending trades is represented by the fair value of the underlying securities.

##### Fair value hierarchy

	2015	2014
<b>Level 1</b>		
Equities	567,536	494,409
<b>Level 2</b>		
Cash & short term investments	26,169	32,981
Equities	234,775	207,279
Bonds & debentures	350,112	279,397
Mortgages	88,407	78,854
	699,463	598,511
<b>Level 3</b>		
Real estate	89,009	83,992
	1,356,008	1,176,912

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each valuation. The fair value hierarchy is made up of the following levels:

Level 1- valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2- valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3- valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable data on the market each time such data exists. A financial instrument is classified at the lowest level of hierarchy for which significant



## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

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[tabular amounts in thousands of dollars]

input has been considered in measuring fair value. There have been no significant transfers between Levels for all reporting periods presented.

The following table summarizes the changes in the fair value of financial instruments classified in Level 3 for the year ended March 31:

#### Level 3

	2015	2014
<b>Real estate</b>		
Balance at beginning of year	<b>83,992</b>	73,113
Net purchases	<b>1,040</b>	3,024
Net dividends earned	<b>1,424</b>	1,159
Net dividends transferred out	<b>(1,385)</b>	(1,132)
Net unrealized gains	<b>3,977</b>	7,855
Administrative expenses	<b>(39)</b>	(27)
	<b>89,009</b>	83,992

Fair values of investments are exposed to price risk, liquidity risk and credit risk.

#### Price risk

Price risk is comprised of currency risk, interest rate risk, and market risk.

[a] **Currency risk:** Currency risk relates to the possibility that the investments will change in value due to future fluctuations in the U.S., Euro, and other international foreign exchange rates. For example, a 5% strengthening of the Canadian dollar against the U.S. dollar at March 31, 2015 would have decreased the U.S. investment value by approximately \$16,000,000. Conversely, a 5% weakening of the Canadian dollar against the U.S. dollar at March 31, 2015 would have increased the U.S. investment value by approximately \$16,000,000.

A 5% strengthening of the Canadian dollar against the U.K. Pound at March 31, 2015 would have decreased the U.K. investment value by approximately \$1,400,000. Conversely, a 5% weakening of the Canadian dollar against the U.K. Pound at March 31, 2015 would have increased the U.K. investment value by approximately \$1,400,000.

A 5% strengthening of the Canadian dollar against the Euro at March 31, 2015 would have decreased the European investment value by approximately \$600,000. Conversely, a 5% weakening of the Canadian dollar against the Euro at March 31, 2015 would have increased the European investment value by approximately \$600,000.

## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

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[tabular amounts in thousands of dollars]

A 5% strengthening of the Canadian dollar against the Swiss Franc at March 31, 2015 would have decreased the Swiss investment value by approximately \$1,100,000. Conversely, a 5% weakening of the Canadian dollar against the Swiss Franc at March 31, 2015 would have increased the Swiss investment value by approximately \$1,100,000.

- [b] **Interest rate risk:** Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates, thereby impacting pension liabilities which are exposed to longer-term fixed-income instruments. Duration is an appropriate measure of interest rate risk for fixed-income funds as a rise in interest rates will cause a decrease in bond prices: the longer the duration, the greater the effect. At March 31, 2015, the average duration of the bond portfolio was 7.1 years. Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 7.1%.

	Within 1-year	1-5 years	5-10 years	Over 10 years	No specific maturity	Total
Cash and short-term investments	26,169	—	—	—	—	26,169
Bonds and debentures						
Federal	2,689	24,297	3,005	10,020	—	40,011
Provincial	—	3,150	21,820	27,608	—	52,578
Corporate	3,885	28,410	26,865	22,322	—	81,482
Pooled funds	—	—	—	—	176,041	176,041
Total bonds and debentures	6,574	55,857	51,690	59,950	176,041	350,112
Total fixed income	32,743	55,857	51,690	59,950	176,041	376,281

- [c] **Market risk:** Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. This risk is reduced by the Plan's investment policy which incorporates diversification of the investment portfolio across various asset classes and within each asset class. Equity price risk is managed by investing in Canadian, U.S. and international equities through the use of five external investment managers utilizing differing investment styles. The equity portfolio is diversified across a range of economic sectors and companies and is limited to stocks traded on recognized stock exchanges.

Fixed-income market risk is managed by diversifying across various government and corporate issuers and by maintaining minimum quality ratings of "A" as determined by recognized bond rating agencies. The minimum quality rating for the pooled index bond fund is "BBB".

## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

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Price risk can be measured in terms of volatility, i.e., the standard deviation of change in the value of a financial instrument within a specific time horizon. Based on the volatility of the Plan's current asset class holdings shown below, the expectation is that over the long term (15 years), the Plan will return approximately 6.3%, within a range of +/- 9.2% [i.e., results ranging from 2.0% to 10.6%].

<b>Asset class</b>	<b>Estimated volatility %</b>
Canadian equities	+/- 17.40
Global equities	+/- 18.10
International equities	+/- 17.70
Real estate	+/- 9.80
Mortgages	+/- 4.10
Cash and short-term investments	+/- 1.70
Canadian bonds and debentures	+/- 5.60

<b>Held-for-trading securities</b>	<b>Market value at March 31, 2015</b>	<b>Investments %</b>
Cash and short-term investments	<b>26,169</b>	1.9
Canadian bonds and debentures	<b>350,112</b>	25.8
Canadian equities	<b>358,066</b>	26.4
U.S. equities	<b>307,734</b>	22.7
International equities	<b>136,511</b>	10.1
Canadian real estate	<b>89,009</b>	6.6
Canadian mortgages	<b>88,407</b>	6.5
<b>Total</b>	<b>1,356,008</b>	100.0

<b>Benchmark for investments</b>	<b>% change</b>	<b>Net impact on market value</b>
S&P/TSX Composite Index	+/- <b>17.40</b>	+/- 62,303
S&P 500	+/- <b>18.10</b>	+/- 55,700
MSCI EAFE (net noon)	+/- <b>17.70</b>	+/- 24,162
CPI	+/- <b>-9.80</b>	+/- 8,781
Blended FTSE TMX (60% short; 40% mid)	+/- <b>4.10</b>	+/- 3,625
FTSE TMX Universe	+/- <b>5.60</b>	+/- 19,606

# Memorial University of Newfoundland Pension Plan

## NOTES TO FINANCIAL STATEMENTS

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[tabular amounts in thousands of dollars]

### Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner in order to meet commitments as they come due. The primary liabilities in the Plan are future benefit obligations [see note 6] and operating expenses. Liquidity requirements are managed through net monthly contributions and by investing in sufficiently liquid [e.g., publicly traded] equities, pooled funds and other easily marketable instruments.

### Credit risk

Credit risk relates to the possibility that a loss may occur from failure of a fixed-income security issuer. At March 31, 2015, the maximum risk exposure for this type of investment amounts to \$350,112. The Plan limits credit risk by purchasing individual fixed-income instruments that have a credit rating of "A" or higher as rated by recognized Canadian bond rating services. The Plan also owns units of an indexed bond fund which may hold fixed-income instruments with credit ratings of "BBB" and above.

The following table shows the percentage of fixed-income holdings in the portfolio by credit rating:

Rating	%
AAA	36.1
AA	31.5
A	26.4
BBB	6.0

## 11. CAPITAL DISCLOSURES

The purpose of the Plan is to provide pension benefits to Plan members. The Plan's objective when managing capital is to preserve assets in a manner that provides it with the ability to continue as a going concern. To accomplish this objective, a broadly diversified investment portfolio is utilized to achieve the highest rate of return within an acceptable level of risk. With the assistance of an outside consultant, the Plan's pension advisory committee and the University's administration department regularly monitor the asset mix to ensure compliance with the Statement of Investment Policies and Objectives.

