Annual Report 2013/2014

THE MEMORIAL UNIVERSITY PENSION PLAN

DEPARTMENT OF HUMAN RESOURCES, MEMORIAL UNIVERSITY OF NEWFOUNDLAND

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Annual Report of The Memorial University Pension Plan

April 1, 2013 to March 31, 2014

Department of Human Resources,
Memorial University of Newfoundland
St. John's, NL
A1C 5S7

(709) 864-7406
pensions@mun.ca

September 2014

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Board of Regents

St. John's, NL Canada A1C 5S7
Tel: 709 864 8281
regents@mun.ca www.mun.ca/regents

Chairperson's Message

September 18, 2014

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

Dear Minister O'Brien:

I am pleased to submit the 2013-14 Annual Activity Report of the Memorial University Pension Plan. This report covers the period April 1, 2013 to March 31, 2014.

This is the third and final performance-based report to be presented under the Memorial University Pension Plan's Activity Plan for 2011-2014. 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,

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, 2011 to March 31, 2014. This Annual Report will discuss the outcome of those objectives over the last three years as well as for the period April 1, 2013 to March 31, 2014 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 percent has been allocated to foreign markets. For a more detailed description of the investment structure please refer to Tables 1 and 2 below.

During the 2013-2014 fiscal year, the Canadian balanced mandate managed by Greystone Managed Investments Inc. was converted to separate Canadian equity and fixed income mandates. Greystone continues to manage the fixed income component of this former balanced strategy while two new investment managers were appointed to manage the Canadian equity component – Pyramis Global Advisors and Connor Clark and Lunn Financial Group.

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.

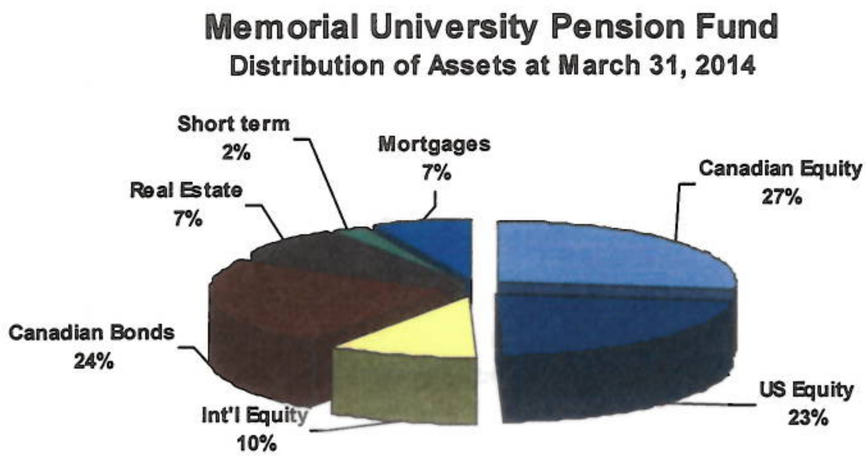
Investment Manager Benchmark Distribution

Table 2

Manager	Mandate	Allocation
Jarislowsky Fraser Limited	Canadian Balanced	20.25%
Connor Clark & Lunn	Canadian Equity	6.25%
Pyramis Global Advisors	Canadian Equity	6.25%
Greystone Managed Investments Inc.	Canadian Fixed Income	7.75%
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%

The relative distribution of assets across the entire Fund, as at March 31, 2014, is illustrated in the following chart:

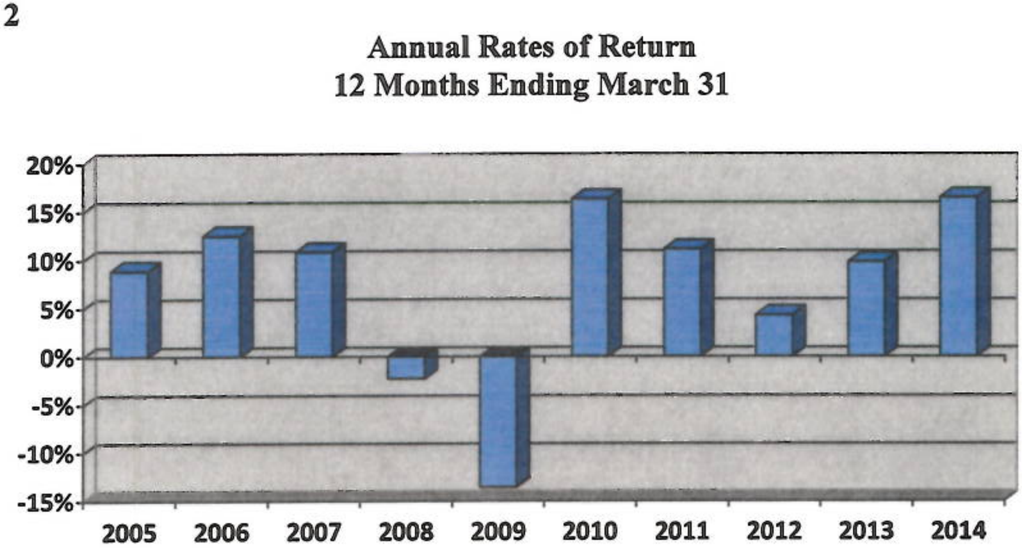
Figure 1



Investment Performance

For the year ended March 31, 2014 the Fund posted a 16.5 percent annual return, ranking it in the 35th percentile as compared with other Canadian pension funds (1st percentile being the top performer and 100th being the worst). Net assets available for benefits increased by approximately $182 million – up from $994 million at March 31, 2013 to $1.176 billion at March 31, 2014.

Figure 2



(10 year annualized return: 7.07%)

Actuarial Valuation

A valuation for funding purposes was prepared as at December 31, 2012 and the results were reported in the Pension Plan's Annual Report for the year ended March 31, 2013. This valuation was subsequently revised to incorporate an updated interest rate assumption (6.3 percent instead of 6.0 percent) and a retirement assumption that better reflected Memorial's post mandatory retirement experience.

The revised December 31, 2012 valuation will be the basis for Pension Plan funding up to the date of the next funding valuation, scheduled to occur at December 31, 2015 in accordance with the Pension Plan's triennial filing cycle for funding valuations.

While an actuarial valuation of the Pension Plan is 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.

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. It is also used to project the cost of benefits that will accrue to active plan members in the years following the valuation. The revised valuation at December 31, 2012 showed that the basis for computing the University's annual special payments against the unfunded liability had not changed from the March 31, 2010 valuation. In addition, the Pension Plan's current service cost remained unchanged from its former level and a contribution rate increase is not necessary.

The results of the December 31, 2012 valuation and extrapolation to March 31, 2013 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, 2014 ($ Millions)		**March 31, 2013 ($ Millions)**		**December 31, 2012 ($ Millions)**	
	Going Concern	**Solvency**	**Going Concern**	**Solvency**	**Going Concern [1]**	**Solvency [2]**
Actuarial Value of Assets	1,103.5	See Note 3) below	983.3	See Note 3) below	950.2	1,045.0
Actuarial Liabilities	1,399.2		1,262.1		1,242.9	1,638.5
Unfunded Liability	(295.7)		(278.8)		(292.7)	(593.5)

Notes:

1) The going concern unfunded liability, as at December 31, 2012, includes approximately $72.7 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 31.5 years from December 31, 2012.

2) Solvency assets at December 31, 2012 include the present value of five years worth of going concern special payments ($108.4 million).

3) An extrapolation of the solvency position was not performed as at March 31, 2013 or March 31, 2014. If funding on a solvency basis was required, it would be based upon the December 31, 2012 solvency position.

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 at December 31, 2012 was calculated by the University's actuary, Eckler Limited, to be $292.7 million. Of this amount, approximately $72.7 million is 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 31.5 years from December 31, 2012 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. The special payment required for 2014-2015 is $22.6 million.

During the year ended March 31, 2014, the University made a special payment into the Fund of $20.3 million.

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 December 31, 2012 funding valuation confirmed that the current contribution rate for the Pension Plan was appropriate. (See Table 4)

Table 4

Rate Structure	Confirmed Rate
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				
	2014	2013	2012	2011	2010
Active Members	3,966	3,823	3,863	3,728	3,636
Retirees (incl. survivors)	1,688	1,637	1,549	1,463	1,392
Deferred Pensioners	314	292	287	238	206
Average Age at Retirement	60.94	60.90	60.49	60.56	60.43

Figure 3

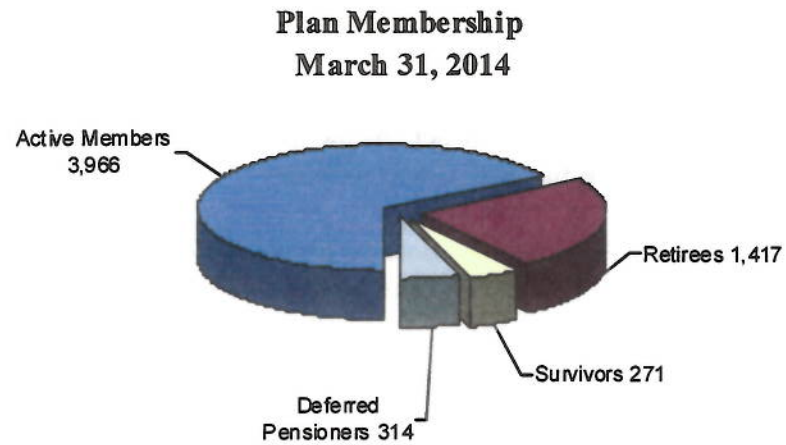
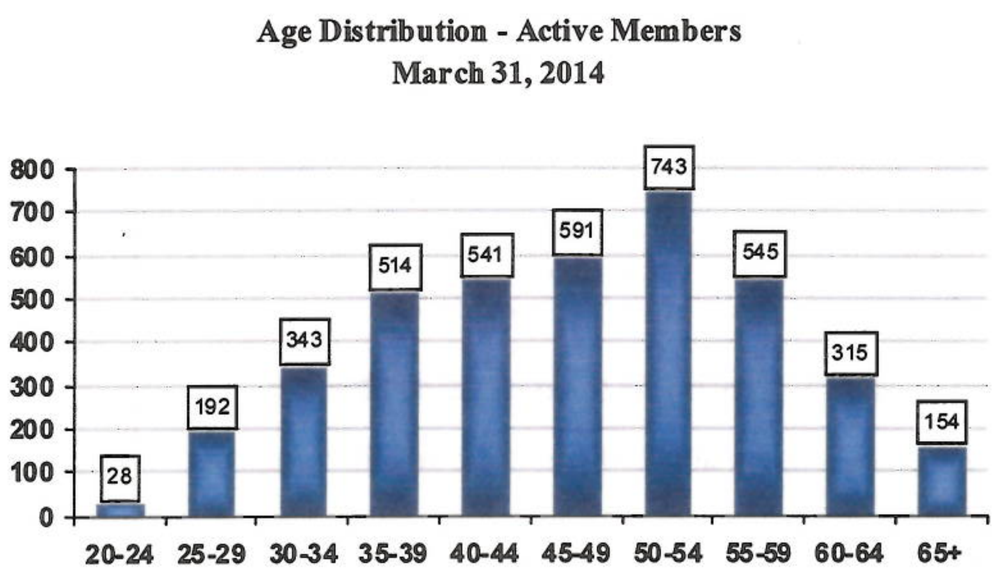


Figure 4



Outcome of Objectives 2013-14

The two primary issues and related objectives identified in the 2011-14 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 three years of the Plan, 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 2011-14 Activity Plan. During the period 2011-12 to 2013-14 a total of $225.8 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 $138.9 million in benefits to eligible retired employees and their beneficiaries. Over that same period $11.8 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 2013-14 fiscal year.

Objective: By March 31, 2014, the Memorial University Pension Plan will have collected and invested responsibly the contributions received from the Plan's eligible members and the Board, as well as awarded monies to eligible retired members or their survivors and paid associated administrative expenses.

Measure: Collected and invested all contributions, awarded all eligible pension benefits and paid administrative expenses.

Indicators:

Contributions are collected and invested

During the 2013-14 fiscal year, the Plan collected a total of $76,916,000 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.

Eligible retired members/survivors are receiving pension benefits

The Plan paid out a total of $50,398,000 in benefits to eligible retired employees or their beneficiaries in 2013-14.

Administrative expenses are paid

During 2013-14, the Plan paid a total in $4,539,000 in administrative expenses.

Issue Two: Unfunded Liability

The Plan, as a registered pension plan, must comply with the funding requirements of the Newfoundland and Labrador *Pension Benefits Act, 1997* (PBA). When the Plan experiences funding deficiencies, as measured by periodic actuarial valuations, the University must make additional special payments into the 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 30.25 years in accordance with the PBA.

Over the past three years of the plan, the Board of Regents ensured that the unfunded liability was reduced in accordance with the funding requirements of the PBA. In doing so, they successfully achieved their objective as outlined in the 2011-14 Activity Plan. During the period 2011-12 to 2013-14 a total of $59.0 million in annual special payments were made toward the unfunded liability.

The following details the Plan's successful achievement of the indicator, and therefore the objective presented in the activity plan for the 2013-14 fiscal year.

Objective: By March 31, 2014, Memorial University will make annual special payments of 7.1 percent of pensionable payroll toward the going concern unfunded liability, in addition to the 1.2 percent indexing payment.

Measure: Unfunded liability reduced.

A valuation for funding purposes was prepared as at December 31, 2012 and the results were reported in the Pension Plan's Annual Report for the year ended March 31, 2013. During the 2013-14 fiscal year the valuation was subsequently revised to reflect changes to certain economic and demographic assumptions (see Actuarial Valuation section of this Report). These changes resulted in a decrease in the total pension obligation and a decrease in the University's annual special payment requirements (from 8.8 percent of pensionable payroll to 7.2 percent).

The revised 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: Annual special payments of 8.8 percent of pensionable payroll towards liability ($20.3 million in 2013-14).

(Note: The prior year's Annual Report indicated that annual special payments would be required at the rate of 8.8 percent, however, as a result of the revised December 31, 2012 actuarial valuation of the Plan, the special payment requirement has been lowered to 7.2 percent. The University's special payment towards the unfunded liability for 2013-14 was therefore based upon 7.2 percent of pensionable payroll.)

During the year ended March 31, 2014, 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.

In addition, pursuant to the revised December 31, 2012 funding valuation of the Plan, the University recognized a liability of $1.5 million to the Plan being the difference in special payment required for the year and the payment already made. The total special payment from the University towards the unfunded liability, comprised of actual and accrued payments, was therefore $21.8 million.

HIGHLIGHTS AND ACCOMPLISHMENTS

Financial Highlights

Table 6

		March 31	
		2014	**2013**
Net Assets Available for Benefits		1,176,485,000	994,461,000
One-Year Annual Rate of Return		16.47%	9.81%
Realized Investment Income		112,889,000	49,340,000
Pensions Paid		50,398,000	46,196,000
Current Contributions:	Employee	24,867,000	24,270,000
	University	24,877,000	24,266,000
University special payments:			
Going Concern		21,767,000	20,189,000
Solvency deficit (refunds)		1,390,000	1,957,000

Benefit Provisions – Indexing

On July 1, 2013, 1,248 retirees and survivors received a 0.9 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

The December 31, 2012 funding valuation of the Plan was revised during the 2013-14 fiscal year to incorporate an updated interest rate assumption (increased from 6.0 percent to 6.3 percent) and a retirement age assumption that better represented the University's post mandatory retirement experience. This valuation will be the basis for Plan funding until the next triennial funding valuation, due no later than December 31, 2015.

A full valuation of the Plan was also performed at December 31, 2013 and extrapolated to March 31, 2014 for financial reporting purposes. The December 31, 2013 valuation incorporated many of the same assumptions as the 2012 valuation, with the exception of the mortality assumption. The mortality assumption used in the 2013 valuation was updated to a new Canadian based table that reflected longer life expectancies for Canadian pension plan members. The former table was based upon U.S. life expectancies. The impact of this new table was to increase pension liabilities by approximately 5.5 percent. This increase was more than offset, however, by the 16.5 percent return on investments earned by the Fund during the year.

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

	March 31, 2014 (000s)	**March 31, 2013** (000s)	**March 31, 2010** (000s)	**March 31, 2009** (000s)
Net Assets at Market Value	1,176,485	994,461	727,588	620,939
Pension Obligations	1,399,236	1,262,133	1,035,932	954,041
Deficit	222,751	267,672	308,344	333,102
Funded Ratio	**84%**	**79%**	**70%**	**65%**
	Annual valuation 31/12/13	Annual 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.

Policy Directives

A series of Policy Directives issued under the *Memorial University Pensions Act* became effective on January 1, 2014. These directives set out in writing many of the University's existing policies and procedures relative to pension administration with the objective of ensuring consistent application and the promotion of transparency to all stakeholders. They also contain some important changes that improved upon flexibility for members and the University while at the same time promoting cost neutrality for the Plan. http://www.mun.ca/humanres/pensions.php

Retirement Planning Seminars

In February 2014, the University held a full day retirement planning seminar on the St. John's campus. The seminar was attended by approximately 131 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.

Pension Administration System

Interface routines between the "Ariel" pension administration system and the Human Resources Information System were completed and placed into production during the year. In addition, the University produced the first actuarial valuation extract from the Ariel system for use in the December 31, 2013 valuation of the Plan.

For plan members, a secure on-line pension projection tool was made available in October 2013. This tool allows employees to prepare individual pension projections based on live access to their own data and certain assumptions about their expected retirement. For the six months that it was available, over 1,512 employees used the pension projection tool with many of them accessing it multiple times.

OPPORTUNITIES AND CHALLENGES

The Activity Plan for 2014-17 outlines the objectives for the years, 2014-15 to 2016-17. The focus in 2014-15 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;
- Continued review of responsible investment strategies;
- Providing retirement planning seminars.

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 2011-12 to 2013-14.

MEMORIAL UNIVERSITY

The Memorial University Pension Plan

FINANCIAL STATEMENTS

March 31, 2014

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, 2014 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, 2014, 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.

Ernst & Young LLP

St. John's, Canada,
July 22, 2014.

Chartered Accountants

Memorial University of Newfoundland Pension Plan

STATEMENT OF FINANCIAL POSITION

As at March 31
[thousands of dollars]

	2014 $	2013 $ *[restated – see note 4]*
ASSETS		
Receivables		
Contributions receivable	5,441	3,768
Accrued interest and dividends	2,207	2,084
Amounts due from pending trades	9,114	2,194
Due from Memorial University of Newfoundland *[note 5]*	1,030	689
	17,792	8,735
Investments *[note 6]*		
Cash and short-term investments	32,981	52,374
Bonds and debentures	279,397	239,260
Equities	701,688	560,497
Real estate	83,992	73,113
Mortgages	78,854	68,348
	1,176,912	993,592
Intangible asset	393	440
	1,195,097	1,002,767
LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS		
Accounts payable and accrued expenses	955	869
Accrued pension refunds	1,700	1,924
Amounts payable from pending trades	15,957	5,513
Total liabilities	18,612	8,306
Net assets available for benefits	1,176,485	994,461
Pension obligations	(1,399,236)	(1,262,133)
Deficit	(222,751)	(267,672)

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]

	2014 $	2013 $ *[restated – see note 4]*
INCREASE IN ASSETS		
Investment income		
Interest income	**9,623**	9,053
Dividend income	**18,318**	17,828
Current-period increase in fair value of investments	**50,412**	39,455
Realized gain on sale of investments	**84,948**	22,459
	163,301	88,795
Contributions *[note 8]*		
Employee		
Current service	**24,867**	24,270
Past service	**3,828**	5,114
Employer		
Current service	**24,877**	24,266
Past service	**187**	354
Special payments	**23,157**	22,146
	76,916	76,150
Total increase in assets	**240,217**	164,945
DECREASE IN ASSETS		
Benefits paid	**50,398**	46,196
Refunds of contributions	**2,899**	5,602
Death benefits	**357**	1,271
Administrative expenses *[note 9]*	**4,539**	3,791
Total decrease in assets	**58,193**	56,860
Increase in net assets	**182,024**	108,085
Net assets available for benefits, beginning of year	**994,461**	886,376
Net assets available for benefits, end of year	**1,176,485**	994,461

See accompanying notes

Memorial University of Newfoundland Pension Plan

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended March 31
[thousands of dollars]

	2014 $	2013 $ *[restated – see note 4]*
Actuarial present value of accrued pension benefits, beginning of year	**1,262,133**	1,185,201
Experience (gains) losses	**(18,223)**	8,377
Changes in actuarial assumptions/methodology	**76,642**	(7,235)
Interest accrued on benefits	**81,282**	77,322
Benefits accrued	**51,056**	51,537
Benefits paid, death benefits and refunds of contributions	**(53,654)**	(53,069)
Actuarial present value of accrued pension benefits, end of year *[note 8]*	**1,399,236**	1,262,133

See accompanying notes

Memorial University of Newfoundland Pension Plan

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[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. The University is the administrator of the Plan.

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%.

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 *CPA Canada Handbook* ["Part IV"]. These financial statements present the information of the Plan as a separate reporting entity independent of the sponsor and participants of the Plan. Where not explicitly addressed within Part IV, the Plan has applied applicable guidance as set out in Part I of the *CPA Canada Handbook*, International Financial Reporting Standards ["Part I"].

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 revenue 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.

Investments

Investments are stated at fair value and transactions are recorded as of the trade date. 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.

[tabular amounts in thousands of dollars]

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, as well as cost amounts included in note 6[b], are translated into Canadian dollars at the rates of exchange in effect on the dates of the related transactions.

Intangible asset

Intangible asset is amortized on the basis of its estimated useful lives using the straight line method and the following duration:

Software	10 years

Pension obligations

Pension obligations reported in the Statement of Changes in Pension Obligations and the Statement of Financial Position represent the actuarial present value of accrued pension benefits calculated using the projected benefit method, pro-rated on service, and the administrator's best estimate of compensation increases, retirement ages of members and the discount rate. Actuarial valuations for accounting purposes are prepared at least every three years (and extrapolated in the interim) to determine the pension obligations.

4. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The present value of accrued pension benefits is determined using the projected benefits method prorated on service and the administrator's best estimate assumptions. Eckler Ltd. [the "Actuary"], a firm of consulting actuaries, performed the Plan's actuarial valuation as at December 31, 2012 and extrapolated the results to March 31, 2013.

Subsequent to March 31, 2013, in consultation with the Actuary and various stakeholders, the administrator requested that the December 31, 2012 actuarial valuation of the Plan be revised to reflect changes to certain economic and demographic assumptions. This included a change in the discount rate from 6.0% to 6.3% and a change in the retirement age assumption to reflect the fact that since mandatory retirement was eliminated, a number of Plan members are electing to work beyond age 65. On the basis of these changes in assumptions, the Actuary revised its December 31, 2012 actuarial valuation, and the extrapolation as at March 31, 2013.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[tabular amounts in thousands of dollars]

The Plan's financial statements as at and for the year ended March 31, 2013 have been revised to reflect this revision. The effects of the restatement on the financial statements and revisions to significant disclosures made as at March 31, 2013 are as follows:

	As Reported $	As Restated $
Statement of financial position		
Contributions receivable	4,955	3,768
Net assets available for benefits	995,648	994,461
Pension obligations	1,331,087	1,262,133
Deficit	335,439	267,672
Statement of changes in net assets available for benefits		
Contributions – Employer – special payments	23,333	22,146
Statement of changes in pension obligations		
Changes in actuarial assumptions / methodology	60,700	(7,235)
Interest accrued on benefits	77,416	77,322
Benefits accrued	52,462	51,537
Actuarial present value of accrued pension benefits, end of year	1,331,087	1,262,133
Funding policy disclosure		
Special payment required 2013/14	26,563	21,767
Current service cost increase	+ 0.7%	Nil
Actuarial value of assets disclosure		
Net assets available for benefits	995,648	994,461
Actuarial value changes not reflected in fair value of net assets	(11,595)	(11,170)
	984,053	983,291

5. 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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[tabular amounts in thousands of dollars]

6. INVESTMENTS

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

	2014 $	2013 $
Cash and short-term investments	**32,981**	52,374
Canadian bonds and debentures		
Federal	**29,273**	28,050
Provincial	**45,503**	36,587
Corporate	**61,280**	52,732
Pooled funds	**143,341**	121,891
	279,397	239,260
Canadian equities		
Common stock	**301,988**	241,721
Pooled funds	**12,843**	10,498
	314,831	252,219
Foreign equities		
Common stock	**266,135**	207,222
Pooled finds	**120,722**	101,056
	386,857	308,278
Canadian real estate	**83,992**	73,113
Canadian mortgages	**78,854**	68,348
	1,176,912	993,592

[b] Realized losses arising from foreign currency translation amounted to $254,059 for the year ended March 31, 2014 [2013 – loss of $512,984]. For financial statement presentation purposes, these amounts have been included in realized gain on sale of investments.

[tabular amounts in thousands of dollars]

7. 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, 2013 and extrapolated the results to March 31, 2014.

The actuarial present value of benefits as at March 31, 2014 was estimated to be $1,399,236 [2013 – $1,262,133]. 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	**Salary escalation rate**
6.3% [2013 – 6.3%] pre- and post-retirement	4.0% [2013 – 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 2014 and 2013 were as follows:

	2014 $	**2013** $
Net assets available for benefits	**1,176,485**	994,461
Actuarial value changes not reflected in fair value of net assets	**(73,000)**	(11,170)
Actuarial value of net assets available for benefits	**1,103,485**	983,291

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[tabular amounts in thousands of dollars]

8. 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 amounts due from the University representing the balance of the 2013/2014 special payment and the solvency deficit on refunds paid during the year. These amounts are $1,514,000 and $1,390,000 respectively. A valuation of the Plan was performed as at December 31, 2013 and the results have been extrapolated to March 31, 2014 for financial statement reporting. The extrapolation revealed that the going concern unfunded liability is $295.8, million at March 31, 2014 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, 2014, approximately 30.25 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 2014/2015 is $22,638,000 [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].

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

Memorial University of Newfoundland Pension Plan

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[tabular amounts in thousands of dollars]

9. 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:

	2014 $	2013 $
Administrative expenses		
Actuarial fees	**285**	165
Administrative services	**206**	—
Audit fees	**6**	9
Custodial fees	**210**	191
Investment management fees	**3,494**	3,148
Salaries and benefits	**274**	248
Amortization	**44**	—
Other fees	**20**	30
	4,539	3,791

10. INTANGIBLE ASSET

	2014			2013
	Cost $	Accumulated amortization $	Net book value $	Net book value $
Software	**437**	**44**	**393**	440

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[tabular amounts in thousands of dollars]

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of investments is as described in notes 2 and 6[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, approximates their carrying value due to the short-term nature of these instruments. 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

	2014 $	**2013** $
Level 1		
Equities	**494,409**	448,943
Level 2		
Cash and short-term investments	**32,981**	52,374
Equities	**207,279**	111,554
Bonds and debentures	**279,397**	239,260
Mortgages	**78,854**	68,348
	598,511	471,536
Level 3		
Real estate	**83,992**	73,113
	1,176,912	993,592

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 input has been considered in measuring fair value.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[tabular amounts in thousands of dollars]

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

	2014 $	2013 $
Real estate		
Balance at beginning of year	**73,113**	61,928
Net purchases	**3,024**	5,349
Net dividends earned	**1,159**	1,004
Net dividends transferred out	**(1,132)**	(1,182)
Net unrealized gains	**7,855**	6,002
Net realized gain	**—**	32
Administrative expenses	**(27)**	(20)
	83,992	73,113

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, 2014 would have decreased the U.S. investment value by approximately $13,300,000. Conversely, a 5% weakening of the Canadian dollar against the U.S. dollar at March 31, 2014 would have increased the U.S. investment value by approximately $13,300,000.

A 5% strengthening of the Canadian dollar against the U.K. Pound at March 31, 2014 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. dollar at March 31, 2014 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, 2014 would have decreased the European investment value by approximately $700,000. Conversely, a 5% weakening of the Canadian dollar against the Euro at March 31, 2014 would have increased the European investment value by approximately $700,000.

[tabular amounts in thousands of dollars]

A 5% strengthening of the Canadian dollar against the Swiss Franc at March 31, 2014 would have decreased the Swiss investment value by approximately $1,000,000. Conversely, a 5% weakening of the Canadian dollar against the Swiss Franc at March 31, 2014 would have increased the Swiss investment value by approximately $1,000,000.

[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, 2014, the average duration of the bond portfolio was 6.48 years. Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 6.48%.

	Within 1-year $	1-5 years $	5-10 years $	Over 10 years $	No specific maturity $	Total $
Cash and short-term investments	32,981	—	—	—	—	**32,981**
Bonds and debentures						
Federal	8,837	11,553	4,200	4,683	—	**29,273**
Provincial	—	2,975	25,470	17,058	—	**45,503**
Corporate	666	22,696	22,021	15,897	—	**61,280**
Pooled funds	—	—	—	—	143,341	**143,341**
Total bonds and debentures	9,503	37,224	51,691	37,638	143,341	**279,397**
Total fixed income	**42,484**	**37,224**	**51,691**	**37,638**	**143,341**	**312,378**

[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".

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[tabular amounts in thousands of dollars]

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, the Plan will return approximately 6.8%, within a range of +/- 9.2% [i.e., results ranging from 1.4% to 11.0%].

	Estimated volatility %
Asset class	
Canadian equities	+/- 17.20
Global equities	+/- 18.20
International equities	+/- 18.00
Real estate	+/- 9.90
Mortgages	+/- 5.80
Cash and short-term investments	+/- 1.70
Canadian bonds and debentures	+/- 5.60

	Market value 2014 $	Investments %
Held-for-trading securities		
Cash and short-term investments	**32,981**	2.8
Canadian bonds and debentures	**279,397**	23.7
Canadian equities	**314,831**	26.8
U.S. equities	**266,135**	22.6
International equities	**120,722**	10.3
Canadian real estate	**83,992**	7.1
Canadian mortgages	**78,854**	6.7
Total	**1,176,912**	100.0

	Change %	Net impact on market value $
Benchmark for investments		
DEX Universe Bond Index	**+/- 5.60**	+/- 15,646
S&P/TSX Capped Composite Index	**+/- 17.20**	+/- 51,141
MSCI EAFE Index	**+/- 18.00**	+/- 21,705
S&P 500 Index	**+/- 18.20**	+/- 48,437
Canadian Consumer Price Index [real estate]	**+/- 9.90**	+/- 8,370
DEX Conventional Mortgages	**+/- 5.80**	+/- 4,574

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 *[note 7]* 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, 2014, the maximum risk exposure for this type of investment amounts to $279,397. 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	37.6
AA	30.3
A	25.8
BBB	6.3
	100.0

12. 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.

Department of Human Resources
Memorial University of Newfoundland
Arts and Administration Building, Room 4025
230 Elizabeth Avenue, St. John’s, NL, Canada, A1C 5S7

www.mun.ca/humanres