Activity Plan

April 1, 2017 to March 31, 2020

THE MEMORIAL UNIVERSITY PENSION PLAN

DEPARTMENT OF HUMAN RESOURCES, MEMORIAL UNIVERSITY OF NEWFOUNDLAND

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MEMORIAL UNIVERSITY

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ACTIVITY PLAN

April 1, 2017 to March 31, 2020

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Board of Regents

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Chairperson's Message

June 30, 2017

Honorable Gerry Byrne
Minister of Advanced Education, Skills and Labour
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
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Dear Minister Byrne:

I am pleased to submit a three-year Activity Plan for the Memorial University Pension Plan. This plan covers the period April 1, 2017 to March 31, 2020.

The Board of Regents, in its position as trustee, has considered the strategic directions of the Provincial Government in the development of this plan. This plan has been prepared in accordance with the Pension Plan's responsibility under the *Transparency and Accountability Act* and the *Memorial University Pensions Act*. Under legislation, the Board is defined as a category 3 entity and therefore is required to prepare an Activity Plan.

My signature below is on behalf of the Memorial University Pension Plan and is indicative of its accountability for the preparation of this plan and for the achievement of the objectives contained herein.

Respectfully submitted,

Iris Petten
Chair, Board of Regents

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THE MEMORIAL UNIVERSITY PENSION PLAN
APRIL 1, 2017 TO MARCH 31, 2020

The Memorial University Pension Plan (the Pension 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 Memorial University of Newfoundland. In addition, employees of certain separately incorporated entities of Memorial are also 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.

Pension Plan Overview

Authority and Administration

The Pension Plan operates under authority of the *Memorial University Pensions Act*, which prescribes that the Board of Regents of Memorial University is trustee. To assist with its responsibilities as trustee, the Board has established a pension advisory committee to provide advice on matters relating to the Pension Plan. This 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 employee and University contributions 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 11 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 below.

Policy Asset Mix

Table 1

Asset Class	Percentage Allocation	Benchmark Index
Canadian Equity	25%	S&P/TSX
U.S. Equity	21%	S&P 500
International Equity	10%	MSCI ACWI ex-US
Canadian Fixed Income	25%	FTSE TMX Universe
Cash/Short Term	3% *	n/a
Real Estate	8%	CPI + 4%
Mortgages	8%	60% TMX short + 40% TMX mid + 0.5%

* for monthly re-balancing purposes, cash is included with active fixed income.

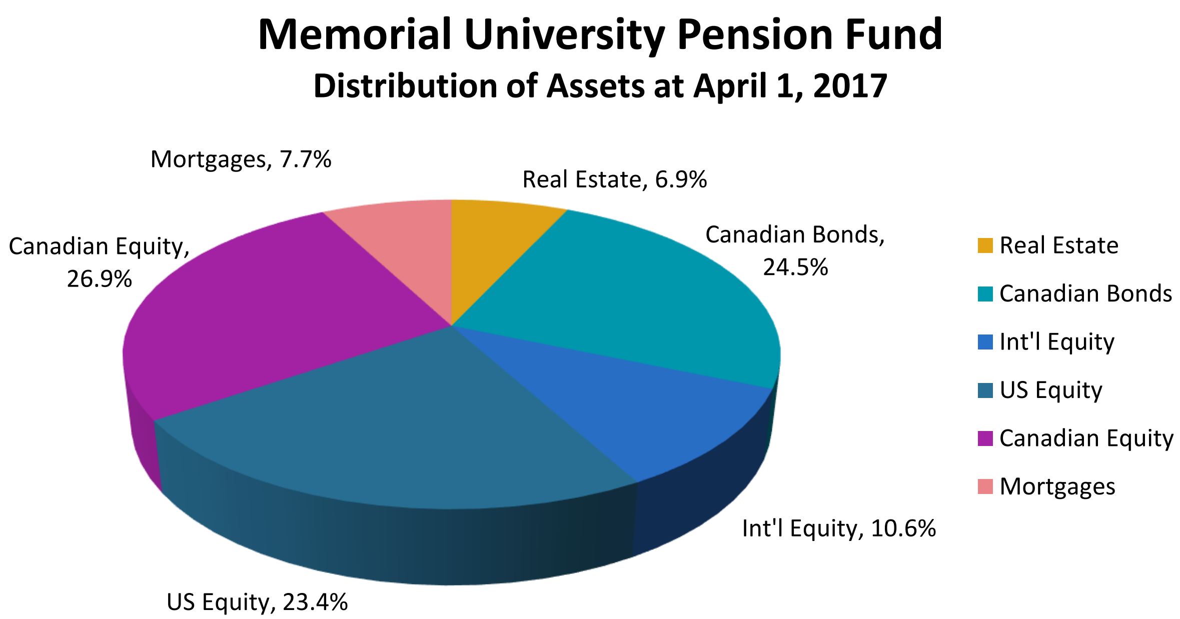
Investment Manager Benchmark Distribution

Table 2

Manager	Mandate	Benchmark Allocation	Actual Allocation March 31, 2017
Jarislowsky Fraser Limited	Canadian Equity	12.5%	14.3%
Connor Clark & Lunn	Canadian Equity	6.25%	6.2%
Fidelity Investments Canada	Canadian Equity	6.25%	6.4%
Greystone Managed Investments Inc.	Canadian Fixed Income	7.75%	6.9%
Jarislowsky Fraser Limited	Canadian Fixed Income	7.75%	5.5%
CIBC Global Asset Management Inc.	Indexed Bonds	12.5%	12.1%
Alliance Bernstein	US Equity	21%	23.4%
Aberdeen Managed Investments	International Equity	10%	10.6%
IAM Real Estate Group	Real Estate	3.2%	2.0%
Greystone Managed Investments Inc.	Real Estate	4.8%	4.9%
Greystone Managed Investments Inc.	Mortgage	8%	7.7%

The relative distribution of assets across the entire Fund, as at April 1, 2017, is illustrated in the following chart:

Figure 1



For the year ended March 31, 2017, the Fund achieved a rate of return on invested assets of 11.9 per cent. The Net Assets Available for Benefits increased by approximately $142 million – up from $1.358 billion at March 31, 2016 to $1.500 billion at March 31, 2017.

Actuarial Valuation

An actuarial valuation of the Pension Plan was prepared as at December 31, 2016 and the results are reported in the Pension Plan's Annual Report for the year ended March 31, 2017.

The results of this valuation will be used to determine Pension Plan costs and to quantify the unfunded liability for purposes of financial considerations to be incorporated into a review of the Plan's governance structure and funding. The review that has been undertaken by the Plan's stakeholders was initiated at the request of the Provincial Government.

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 solvency funding exemptions under the *Pension Benefits Act, 1997, Regulations.*

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 results of the December 31, 2016 valuation and extrapolation to March 31, 2017 are highlighted in the following table together with comparative figures for an extrapolation of the Pension Plan's financial position at March 31, 2016:

Table 3

Actuarial Balance Sheet						
	March 31, 2017 ($ Millions)		December 31, 2016 ($ Millions)		March 31, 2016 ($ Millions)	
	Going Concern	Solvency	Going Concern [1]	Solvency [2]	Going Concern	Solvency
Actuarial Value of Assets	1,474.5	See Note 3) below	1,437.0	1,598.8	1,373.8	See Note 3) below
Actuarial Liabilities	1,736.6		1,715.0	2,072.5	1,657.1	
Unfunded Liability	(262.1)		(278.0)	(473.7)	(283.3)	

Notes:

1) The going concern unfunded liability, as at December 31, 2016 includes approximately $79.5 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 27.5 years from December 31, 2016.

2) Solvency assets at December 31, 2016 include the present value of five years' worth of going concern special payments ($141.9 million).
3) An extrapolation of the solvency position was not performed as at March 31, 2016 or March 31, 2017.

The December 31, 2016 valuation also revealed that the current service cost of benefits accruing to members had increased by 0.4%.

The Pension Plan is being funded in accordance with the December 31, 2015 actuarial valuation which disclosed a going-concern deficiency of $297.2 million. Of this amount, approximately $78.8 million was in respect of past service costs associated with the introduction of indexing in 2004. By special provision of the *Pension Benefits Act, 1997* (PBA), the University and employees are financing the indexing liability over a remaining period of 27.5 years from December 31, 2016 through contributions equivalent to 1.2 per cent of pensionable payroll (shared equally by the University and employees). The balance, namely $218.4 million must be liquidated by the University through special payments of 8.6 per cent of pensionable payroll over a period of 15 years. The Plan's unfunded liability is addressed as Issue Two in the Objectives section of this Activity Plan.

With respect to the going concern special payment required for 2016-17 and solvency funding, the University is working with the Provincial Government to develop a plan to address these funding deficiencies. This is in accordance with direction given by the Provincial Government in June 2016 relative to funding and a move to joint sponsorship.

In this regard, the University and its stakeholders groups have begun a structural review of the pension plan, including its governance model and funding policy. Further information on this is outlined as Issue Three in the Objectives section of this Activity Plan.

Prior to 2016-17, the University had been given an exemption from solvency funding requirements and was given regulatory approval to defer the 2015-16 going concern special payment.

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, 2015 funding valuation showed that the cost of pension benefits being earned by members had increased by 1.5 per cent. As contribution rate increases are implemented one year following the valuation date, rates were increased effective January 1, 2017.

The former contribution rate together with the increased current contribution is shown below:

Table 4

Rate Structure	Former Contribution Rate	Current Contribution Rate
Earnings up to Year's Basic Exemption under Canada Pension Plan	9.9%	11.4%
Earnings between Year's Basic Exemption under Canada Pension Plan and the Year's Maximum Pensionable Earnings under Canada Pension Plan	8.1%	9.6%
Earnings above Year's Maximum Pensionable Earnings under Canada Pension Plan	9.9%	11.4%

Pension Plan Member Statistics

Table 5

	April 1				
	2017	2016	2015	2014	2013
Active Members	3,860	3,961	3,907	3,966	3,823
Average Age of Active Members	46.8	46.6	46.5	46.4	46.2
Retirees (incl. survivors)	2,084	1,961	1,796	1,688	1,637
Deferred Pensioners	252	268	362	314	292
Average Age at Retirement	61.23	61.02	60.97	60.94	60.90

Figure 2

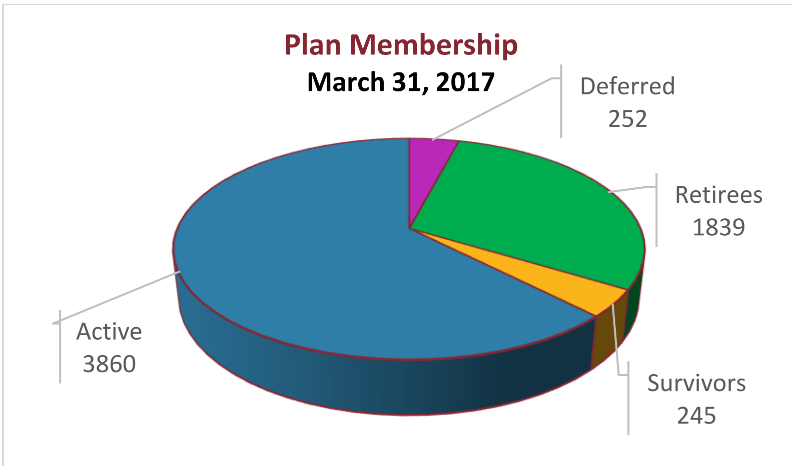
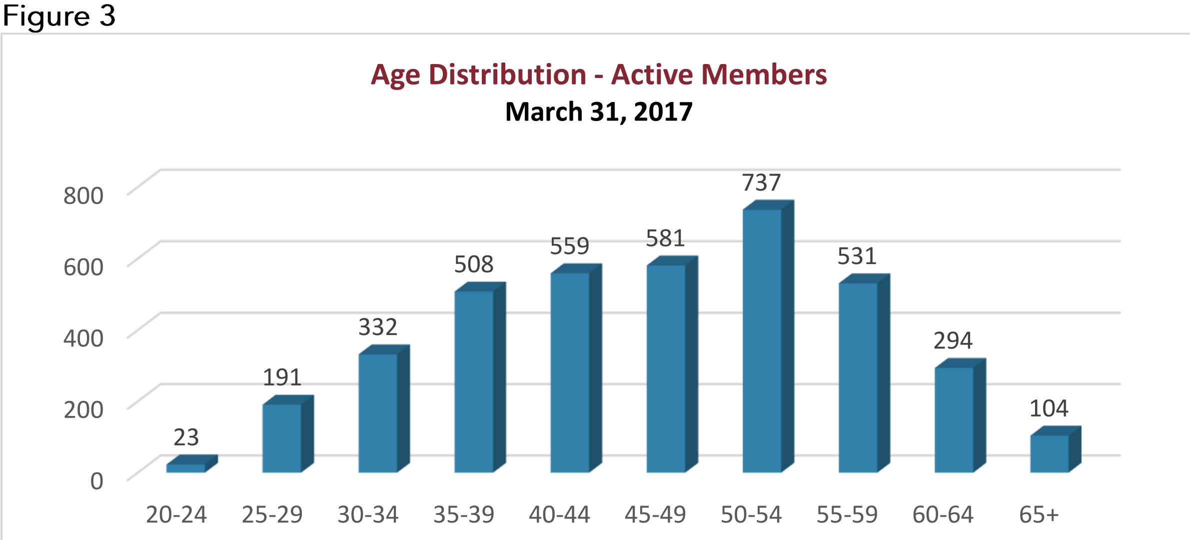


Figure 3



Mandate

The mandate of the Board of Regents of Memorial University, acting as 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.

Values

The Department of Human Resources has set out the following values and principles to guide it in its pursuit of the Board's mandate:

Strategic Focus	Advancing Memorial University's mission by thinking and acting in the best interests of the organization and the workforce; in particular, when developing policies and programs and delivering services.
Innovative	Dedicated to quality, excellence, and continuous improvement, the Department will work to ensure the University remains competitive in its human resource management policies and practices by actively seeking and developing best practices, methods, and approaches.
Professional	Adhering to high professional standards of quality, competency, and conduct, the Department will act with honesty and integrity. It will anticipate and be proactive, collegial, and collaborative in its work. It will be fair and equitable and will remain current in professional practice.
Respectful	Considerate, thoughtful and engaged in manner and approach, the Department will exercise the considered judgment of a trusted advisor.

Accountable	Accessible and responsive to stakeholders for results in accordance with policies, standards, commitments, and principles. The Department will document, measure, and report performance and evaluate program effectiveness.
Enabling	Enhancing the ability of stakeholders to function independently by developing policies, programs, processes, tools, and technologies with sustainability and self-service in mind.
Transparent	Balancing requests to share information clearly and openly while respecting the security of confidential and personal information entrusted to the Department.

Primary Clients

The primary clients of the Memorial University Pension Plan are:

- full-time permanent employees;
- qualifying contractual employees;
- employees of certain separately incorporated entities of Memorial University;
- retired employees in receipt of pensions; and
- survivors of eligible employees.

Vision

The vision of the Memorial University Pension Plan is to offer a competitive and cost effective pension plan to provide stable retirement incomes for participating employees.

Objectives

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. The funding objectives include an actuarially sound contribution rate, an appropriate investment strategy and a special payment stream to liquidate unfunded liabilities. The Board must further ensure that the Plan is administered in accordance with the *Memorial University Pensions Act* and other governing legislation.

The following objective will be the focus of the Pension Plan for each of the fiscal years ending March 31 in 2018, 2019, and 2020 and will be reported upon in each of the respective annual reports:

Objective: By March 31, 2018, 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.

Indicators:

1. Collected and invested contributions
2. Eligible retired members/survivors are receiving pension benefits
3. Paid associated administrative expenses

Issue Two: Unfunded Liability

As the employer, Memorial University must comply with the pension plan funding requirements of the Newfoundland *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. The University was exempt from the requirement to fund solvency deficiencies to March 31, 2016 and through special provision under the PBA, the past service costs associated with the introduction of indexing in 2004 are being amortized over a remaining period of 27.25 years from March 31, 2017.

The Pension Plan is being funded in accordance with the December 31, 2015 actuarial valuation until such time as the next valuation for funding purposes is filed with the regulatory authorities. The going concern unfunded liability at December 31, 2015 of $297.2 million includes approximately $78.8 million in respect of indexing introduced in 2004. Under the PBA the balance of $218.4 million must be amortized over a 15 year period with special annual payments of 8.6 per cent of pensionable payroll. For the fiscal year 2015-16, the University was exempt from the requirement to make a going concern special payment. With respect to the special payment required for 2016-17 and solvency funding, the University is working with the Provincial Government to develop a plan to address these funding deficiencies.

The going concern special payment for the 2017-18 fiscal year is estimated to be $28.6 million.

In response to the issue of the unfunded liability and to ensure that the long term funding goals of the Pension Plan are met, the University Pensions Committee has established an ad hoc subcommittee to review the pension plan's funding model and governance structure. An objective of the review will be the development of a funding policy that will guide the long term sustainability of the Pension Plan.

With respect to the unfunded liability, the following objective will be the focus for each of the fiscal years ending March 31 in 2018, 2019, and 2020 and will be reported upon in each of the respective annual activity reports:

Objective: By March 31, 2018, Memorial University will have utilized a funding policy to guide the long term sustainability of the Pension Plan and to address the unfunded liability.

Indicator: Developed a funding policy to guide the sustainability of the Pension Plan and address the unfunded liability.

Issue Three: Joint Sponsorship

Within the province of Newfoundland and Labrador other large public sector pension plans have undergone a transformational pension reform process which has culminated in the establishment of shared responsibility for pension plan management and funding.

In consideration of the Memorial University Pension Plan's status as a public sector pension plan and in recognition of its funding challenges, the Provincial Government has requested that the University and Pension Plan stakeholders also move to establish joint sponsorship of the Plan and formulate a funding policy to guide its future sustainability.

Under this structure, the Pension Plan would be jointly sponsored by the University and employee groups and the sponsors will share equally in the Plan's management and funding.

This Pension Plan change will be developed with input from the University Pensions Committee in consultation with Government.

The following objective will be the focus of the Pension Plan for each of the fiscal years ending March 31 in 2018, 2019, and 2020 and will be reported upon in each of the respective annual reports:

Objective: By March 31, 2018, the Memorial University Pension Plan will have transitioned to a jointly sponsored pension plan.

Indicator: Began the development of a joint sponsorship agreement for the future management and funding of the Pension Plan.

Conclusion

The Memorial University Pension Plan, through the administration of the Department of Human Resources at Memorial University, remains dedicated to the provision of secure, affordable, and competitive retirement incomes for employees of Memorial University of Newfoundland.

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