Newfoundland Labrador

Government of Newfoundland and Labrador
Department of Advanced Education, Skills and Labour
Office of the Minister

SEP 2 9 2017

Ms. Sandra Barnes
Clerk, House of Assembly
House of Assembly

Dear Ms. Barnes:

I wish to table the 2016-17 Annual Activity Report for Memorial University Pension Plan. This report is being tabled in accordance with the Transparency and Accountability Act. You should note however, that the report does not contain audited financial statements of the entity as required by legislation, as they are not yet finalized. Once the statements are finalized, they will be forwarded to you for tabling.

I trust this is satisfactory.

Sincerely,

HON. AL HAWKINS, MHA
District of Grand Falls-Windsor–Buchans
Minister

Attachment

cc: Ms. Debbie Dunphy, Assistant Deputy Minister

Annual Activity Report 2016-17

THE MEMORIAL UNIVERSITY PENSION PLAN

DEPARTMENT OF HUMAN RESOURCES, MEMORIAL UNIVERSITY OF NEWFOUNDLAND

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MEMORIAL UNIVERSITY

Annual Activity Report of
The Memorial University Pension Plan

April 1, 2016 to March 31, 2017

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

(709) 864-7406
myhr@mun.ca

September 2017

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Figures and Tables

Chairperson's Message

September 30, 2017

Honorable Al Hawkins
Minister of Advanced Education, Skills and Labour
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
A1B 4J6

Dear Minister Hawkins:

I am pleased to submit the 2016-17 Annual Activity Report of the Memorial University Pension Plan. This report covers the period April 1, 2016 to March 31, 2017.

This is the third and final 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.

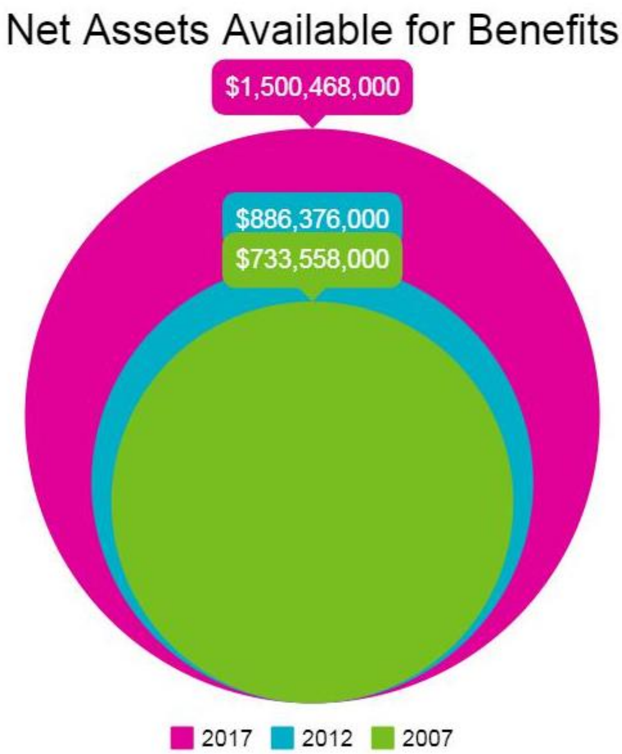
My signature below is on behalf of the Board of Regents and is indicative of our accountability for the actual results reported.

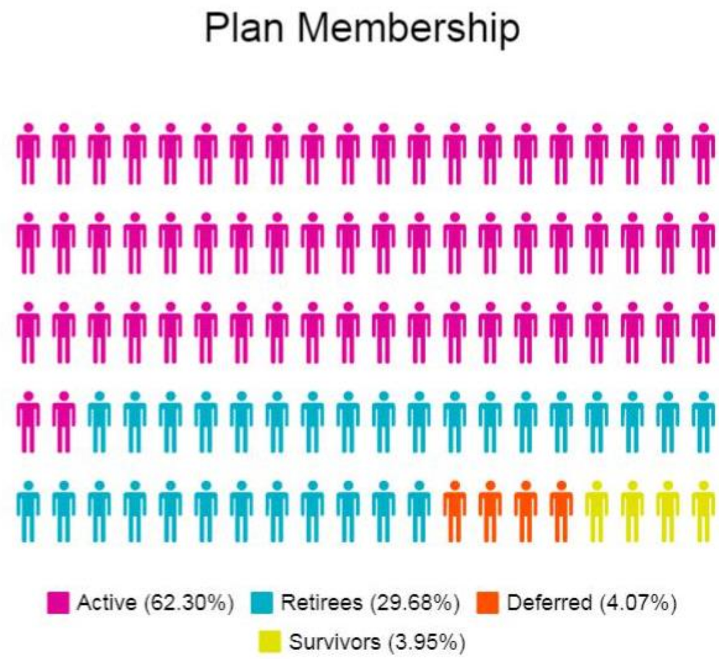
Respectfully submitted,

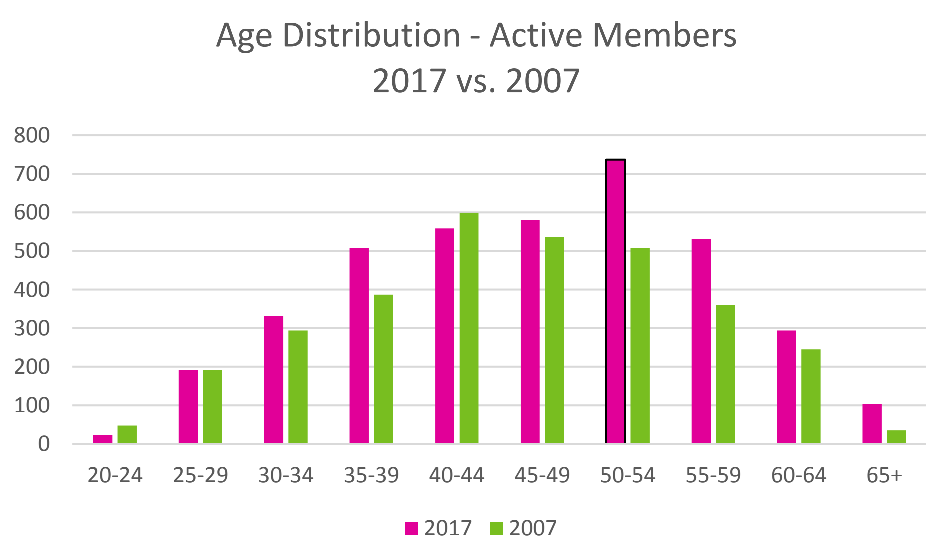
Iris Petten

Iris Petten
Chair, Board of Regents

PENSION PLAN HIGHLIGHTS







Average Ages

Active Members: 46.8 • Pensioners: 71.1 • At Retirement: 61.2

Within the next five years, 1,169 active members will reach their earliest unreduced retirement age.

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 Activity Report will discuss the outcome of those objectives for the period April 1, 2016 to March 31, 2017 and provide additional information on the operation of the Plan for the year then ended. The Board of Regents, as trustee of the Fund, is responsible to ensure compliance with the *Memorial University Pensions Act* and operates under its own vision, mission, and mandate.

About the Plan

The Memorial University Pension Plan is one of the largest public sector pension plans in the Province and provides a lifetime pension benefit upon retirement. The Plan is funded through contributions made by employees and Memorial, as well as income from its investments. The majority of employees at the University's main campuses are participants in the Plan (i.e. Grenfell, Marine Institute, Labrador Institute, and the St. John's Campus).

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.

PENSION FORMULA:

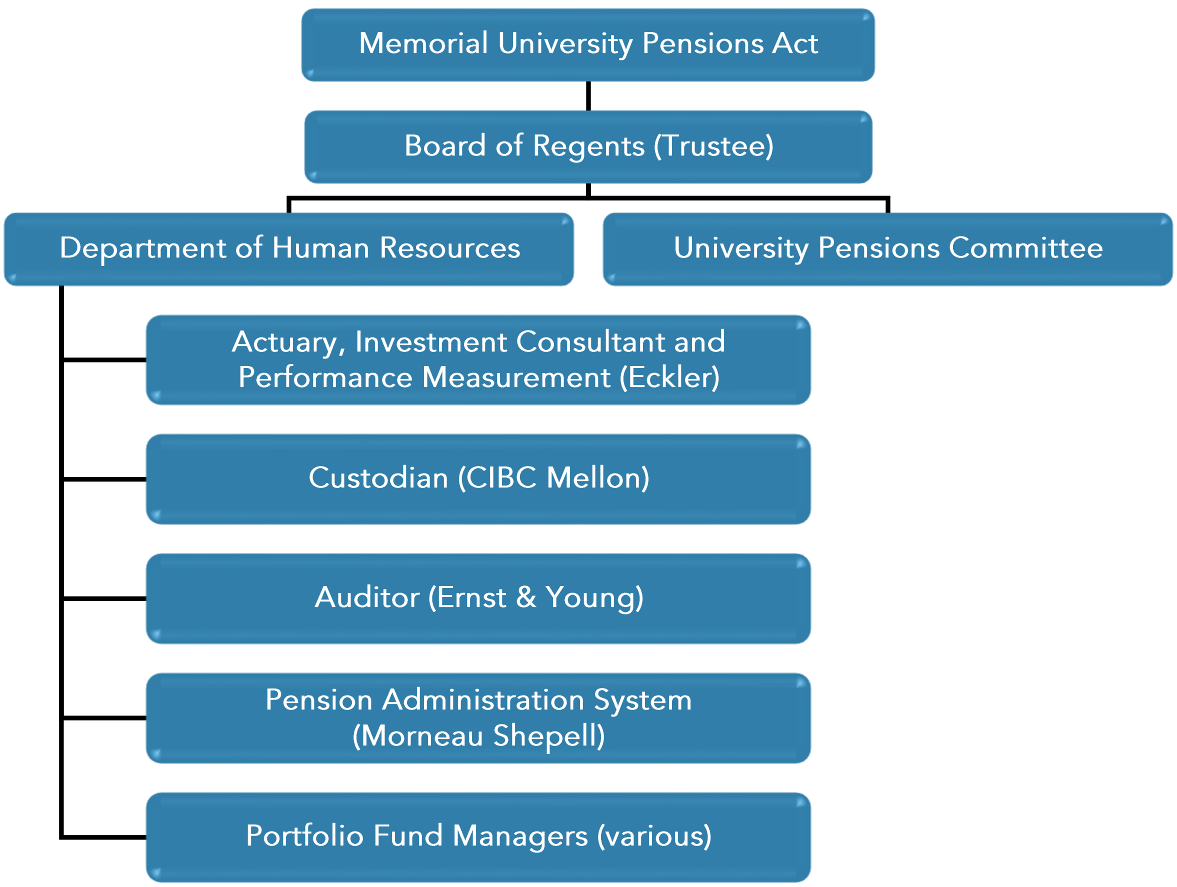
2% x best 5-year average salary x years of pensionable service (inclusive of a "bridge benefit" to age 65)

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.

The administrative and governance structure of the Plan is outlined below:

Figure 1: Organization Chart



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.

INVESTING LOCALLY
Through the Greystone Real Estate Fund, the Pension Plan is invested locally in: "351 Water Street" and "Scotia Place" in St. John's and the "Beclin Business Park" in Mount Pearl.

Policy Asset Mix

The policy asset mix set for the investment of the Fund is set out below:

Table 1: Policy Asset Mix

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.

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 upper or lower limits.

Investment Manager Benchmark Distribution

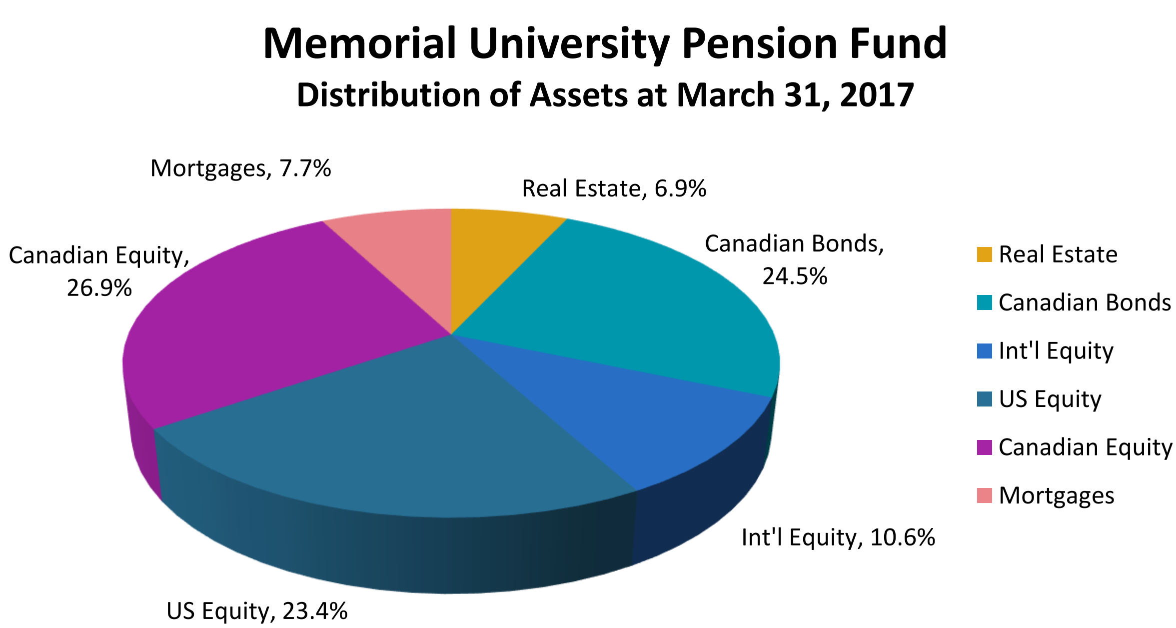
The Fund is invested by external institutional investment management firms. Their mandates and fund allocations are detailed in the table below:

Table 2: Benchmark Distribution

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.	Mortgages	8%	7.7%

The relative distribution of assets across the entire Fund, as at March 31, 2017, is illustrated in the following chart:

Figure 2: Distribution of Assets



Investment Performance

For the year ended March 31, 2017 the Fund achieved an annual return of 11.87 per cent and performed relatively well compared to other Canadian pension funds. In a universe of similarly invested funds it ranked in the 36th percentile where the 1st percentile represents the top performer and the 100th percentile, the worst. On a longer term annualized basis, the Fund has been a top performer within its peer comparator group. Over a five year period it has earned an annualized return of 10.56 per cent, surpassing its benchmark by 1.70 percentage points. On a ten year basis the Fund has generated an annualized return of 6.52 per cent, an excess of 0.87 percentage points over the benchmark ranking it in the 27th percentile.

Annual Return:

March 31, 2017……. 11.87%
March 31, 2016……. 0.88%

The Fund has surpassed its benchmark and ranked above the median balanced fund over eight of the past ten years. Selected performance metrics are as follows:

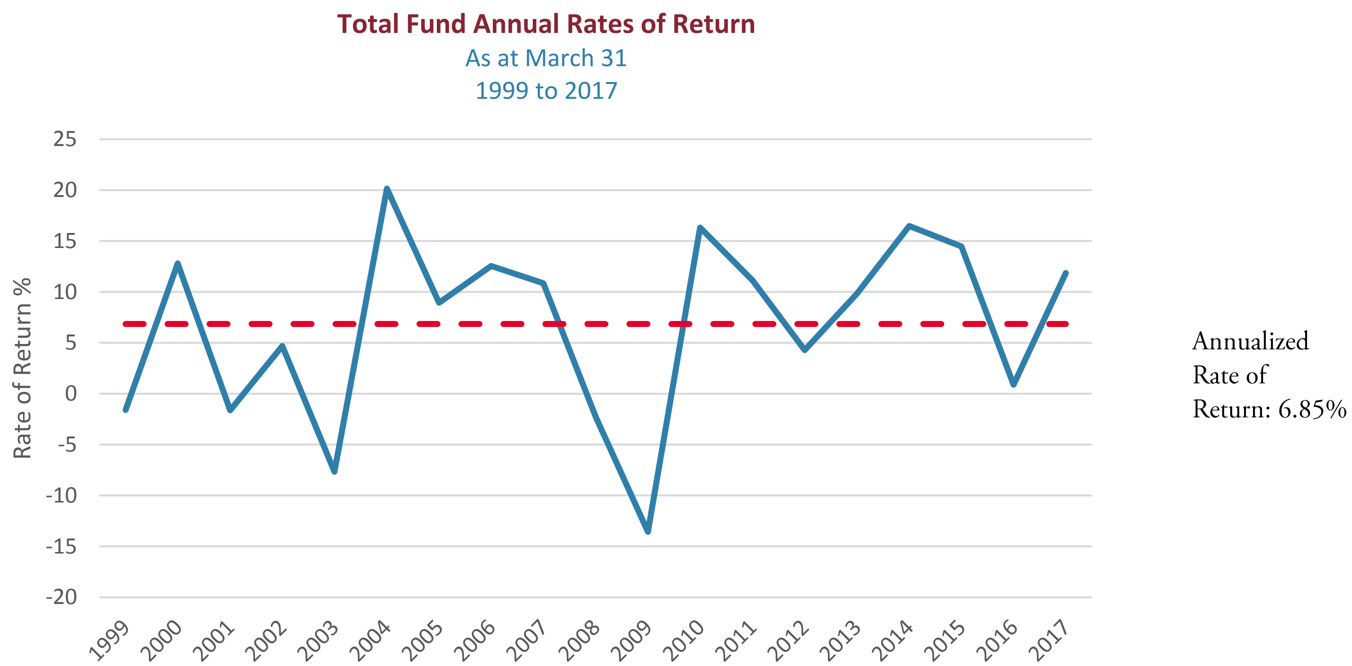
Table 3: Investment Performance

	1 year	4 years	5 years	10 years
Annualized Return	11.87%	10.75%	10.56%	6.52%
Benchmark Return*	11.37%	9.11%	8.86%	5.65%
Value Added	0.50%	1.64%	1.70%	0.87%
Percentile Ranking	36	4	18	27

* The benchmark is the expected return of the Fund based upon a passive investment in the indices underlying the policy asset mix.

Figure 3: Rate of Return

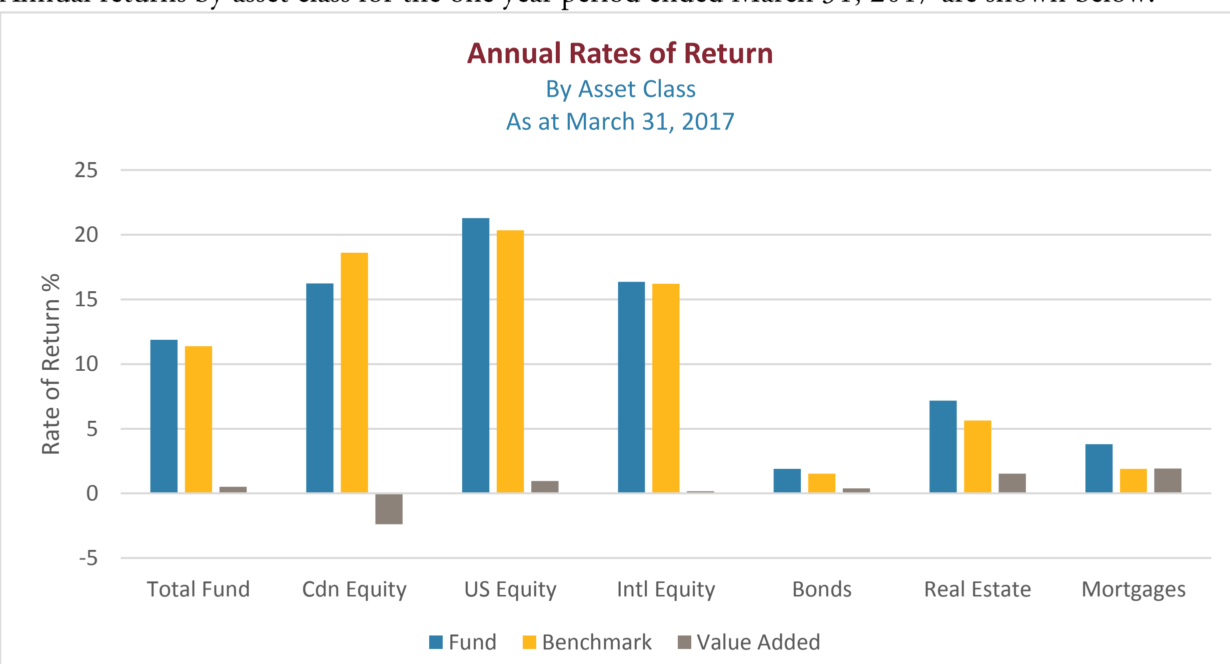
Annual fund returns over the period 1999 to 2017 are presented in the chart below. The annualized return over this period was 6.85 per cent.



Note: For presentation purposes, long term returns are available from 1999 onwards. Past returns should not be viewed as an indicator of future fund performance.

Figure 4: Asset Class Rate of Return

Annual returns by asset class for the one year period ended March 31, 2017 are shown below:



Actuarial Valuation

An actuarial valuation of the Pension Plan was performed as at December 31, 2016 and the results have been extrapolated to March 31, 2017 for reporting purposes. 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 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 latest exemption was in effect to March 31, 2016. In March 2017, the University wrote the Provincial Government to request that the solvency funding exemption be extended.

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

Table 4: Actuarial Results

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 [4]	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.
4) The actuarial value of assets includes a fair value adjustment to "smooth" market effects over a 3 year time period.

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. For the fiscal year 2015-16, the University was given regulatory approval to defer the required going concern special payment. During the 2016/17 fiscal year the University made a similar request for approval to defer the 2016/17 going concern special payment.

The Plan's unfunded liability is addressed as Issue Two in the Objectives section of this Activity Report.

With respect to the going concern special payments 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.

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 5: Contribution Rate

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 Membership Statistics

Table 6: Plan Membership Demographics

	March 31				
	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 5: Membership Population

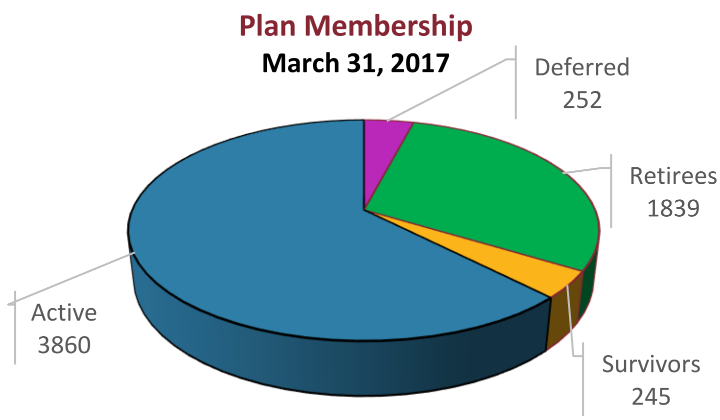
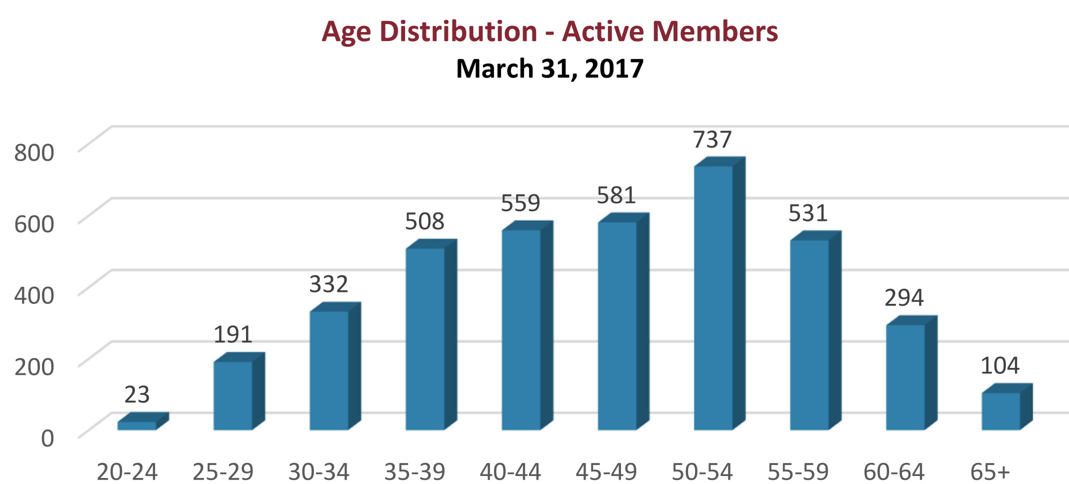


Figure 6: Age Distribution – Active Members



The two primary issues and related goals and 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. The funding objectives include an actuarially sound contribution rate, an appropriate investment strategy and a special payment stream to liquidate unfunded liabilities. 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 2014-17 Activity Plan. During the period April 1, 2016 to March 31, 2017 a total of $63.2 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 $67.3 million in benefits to eligible retired employees and their beneficiaries. Over that same period, $6.2 million in administrative expenses were paid in addition to $7.6 million in termination benefits. The following details the Plan's successful achievement of the indicators, and therefore the objective presented in the activity plan for the 2016-17 fiscal year.

Objective: By March 31, 2017, 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:

- Collected and invested contributions
  During the 2016-17 fiscal year, the Plan collected a total of $63,150,000 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 a total of $74,810,000 in benefits to eligible retired employees or their beneficiaries in 2016-17.

- Paid associated administrative expenses and termination benefits
  During 2016-17, the Plan paid a total in $6,247,000 in administrative expenses and $7,560,000 in termination benefits.

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. During the 2016/2017 fiscal year, the University wrote the Provincial Government to request that the solvency funding exemption be extended.

With respect to going concern, the University was given regulatory approval to defer the required special payment for 2015/16 and during the 2016/17 fiscal year the University made a similar request for approval to defer the 2016/17 going concern special payment.

An actuarial valuation of the Pension Plan was performed as at December 31, 2015 for funding purposes and this will be the basis for funding until the date of the next funding valuation, due no later than December 31, 2018. 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.

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 established an ad hoc subcommittee to review the funding model and governance structure. The objectives of the review include a move toward shared responsibility for the Pension Plan by the University and employees and the development of a funding policy that will guide the long term sustainability of the Pension Plan.

Objective: By March 31, 2017, 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.

Indicator: Made annual special payment of 7.2 per cent of pensionable payroll towards liability ($27.5 million in 2016/17).

The 2016-17 annual special payment requirement against the Pension Plan's unfunded liability has been updated to 8.6 per cent of pensionable payroll in accordance with the December 31, 2015 funding valuation.

Memorial University did not meet the objective of making a special payment against the unfunded liability as set out in the 2014-2017 Activity Plan. With the support of the Provincial Government and plan stakeholders, the University has requested approval to defer the required special payment required for the 2016/2017 fiscal year.

The indexing liability is being financed by ongoing contributions from the University and employees at a combined rate of 1.2 per cent of pensionable payroll.

Financial Highlights

Selected financial highlights for the Plan are shown in the table below.

Table 7: Financial Highlights

		March 31	
		2017	2016
Net Assets Available for Benefits *		1,500,468,000	1,358,381,000
One-Year Annual Rate of Return		11.87%	0.88%
Realized Investment Income		107,660,000	116,326,000
Pensions Paid**		66,380,000	60,065,000
Current Contributions:	Employee	27,583,000	26,338,000
	University	27,577,000	26,344,000
University special payments:			
	Going Concern	Nil	Nil
	Solvency deficit (refunds)	2,907,000	3,118,000

* Net assets available for benefits is reported at fair value and does not include the actuarial smoothing adjustment. Refer to note 6 of the accompanying financial statements for further information.

** Not inclusive of death benefits or refunds

Benefits Provision Indexing

On July 1, 2016, 1,546 retirees and survivors received a 0.66 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, 2016 and extrapolated to March 31, 2017 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 steadily increased for a number of years following the 2008-09 global financial crisis. The Plan's financial position increased as at March 31, 2017. Selected periods are shown below:

Table 8: Financial Position

	March 31						
	2017 (000s)	2016 (000s)	2015 (000s)	2014 (000s)	2013 (000s)	2012 (000s)	2009 (000s)
Net Assets at Market Value	1,500,468	1,358,381	1,359,270	1,176,485	994,461	886,376	620,939
Pension Obligations	1,736,599	1,657,148	1,465,989	1,399,236	1,262,133	1,185,201	954,041
Deficit	236,131	298,767	106,719	222,751	267,672	298,825	333,102
Funded Ratio	**86%**	**82%**	**93%**	**84%**	**79%**	**75%**	**65%** global financial crisis

- Annual valuations have occurred at December 31 since 2012. Previously, valuations were prepared as at March 31.
- Results of December 31 valuations are extrapolated to March 31 for financial reporting.
- Financial positions and funded ratios are reported at market value as per Pension Plan financial statements and do not reflect asset "smoothing" adjustments contained in actuarial valuation reports.

Retirement Planning Seminars

To help Memorial employees plan for their retirement, full day retirement planning seminars are held annually. With almost 1,000 employees eligible for unreduced retirement by 2019, this year's seminar had approximately 180 participants. The seminar was open to employees and their spouses and was attended both by those who anticipate retiring in the next few years and those who are planning ahead for their retirement in years to come. During the seminar, participants learned about the university's pension and post-retirement benefits, the Canada Pension Plan and Old Age Security Benefits. Presentations were also provided by a representative of Memorial University of Newfoundland Pensioners' Association (MUNPA) and from a financial planning and consulting firm. This year's seminars for both the St. John's and Grenfell campuses were held in February 2017. The University also provides pension information sessions at the request of individual departments.

Opportunities and Challenges Ahead

The following areas of opportunity have been identified for 2017-18

- Exploration of alternative investment strategies; and,
- Providing retirement planning seminars.

The following challenges have been identified for 2017-18

- 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 portfolio; and
- Focused discussion with employee groups on Pension Plan governance structure and funding with the objective of reaching agreement on joint sponsorship, plan design and funding policy.

Conclusion

The Pension Plan performed quite well during the 2016/17 fiscal year posting investment returns well in excess of its actuarial hurdle of 5.8%. As a result, the unfunded liability measured on a market value basis, as reported in the Pension Plan's financial statements, has declined by approximately $62.6 million from the prior year. Significant progress has also been made by the University and plan stakeholders relative to the review on joint sponsorship and funding. This work will continue into the 2017/18 fiscal year with the objective of reaching agreement on joint sponsorship, plan design and funding policy.

The Board, through the work of the University administration and stakeholder groups, will continue its efforts to ensure that funding goals are achieved and that the Pension Plan remains competitive and affordable for its constituent groups.

With respect to the objectives 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, the University met the funding objective relative to the collection, investment, and disbursement of the fund. As for the objective dealing with special payments into the Fund against the unfunded liability, the University has requested approval from the Provincial Government to defer the 2016/17 special payment as it works towards joint sponsorship with employee groups.