



# Annual Report

2007/2008

**THE MEMORIAL UNIVERSITY PENSION PLAN**  
DEPARTMENT OF HUMAN RESOURCES, MEMORIAL UNIVERSITY OF NEWFOUNDLAND





**Board of Regents**

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**Chairperson's Message**

August 31, 2008

Honourable Joan Burke  
Minister of Education  
West Block, Confederation Building  
P.O. Box 8700  
St. John's, NL  
A1B 4J6

Dear Minister Burke:

I am pleased to submit the 2007-08 Annual Activity Report of the Memorial University of Newfoundland Pension Plan. This report covers the period April 1, 2007 to March 31, 2008. My signature below is on behalf of the Board of Regents and is indicative of our accountability for the actual results reported.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gilbert Dalton", with a large, sweeping flourish above the name.

**GILBERT DALTON**  
Chair  
Board of Regents



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

**April 1, 2007 to March 31, 2008**

Department of Human Resources  
Memorial University of Newfoundland  
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September 2008



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## **The Memorial University Pension Plan Overview**

### **Mission**

By 2011, the Memorial University Pension Plan will have ensured the provision of secure retirement incomes for employees of Memorial University of Newfoundland.

**Measure:** Secure retirement incomes

**Indicator:** Reduced unfunded liability

### **Vision**

The vision of the Memorial University Pension plan is of participating employees who are responsibly preparing for retirement and of retired employees, or their survivors, who receive secure retirement incomes.

## **Department of Human Resources**

### **Mission Statement**

#### **Our Purpose ...**

The Department of Human Resources is dedicated to supporting the University's commitment to excellence in teaching, research and scholarship, and service to the general public. Our goal is to establish and sustain Memorial University's reputation as an employer of choice, and to maintain a workplace culture in which all employees feel valued and able to contribute their personal best to the achievement of the University's mandate.

#### **Our Strategies ...**

We will demonstrate human resources leadership by ...

- ❖ Developing and implementing high quality programs and services that are responsive to the challenging needs of our evolving workplace, and which support the university's strategic framework;
- ❖ Acting as a strong, influential advocate for employees and fairness within the University workplace;
- ❖ Developing and promoting the adoption of progressive "best practices" in all areas of human resource management and organizational development;
- ❖ Developing and sustaining meaningful partnerships that are supportive of the diverse needs of the University community.

## **Our Values ...**

We will place a high value on the following in the pursuit of our goals and strategies ...

- ❖ Leadership - Managers who are highly effective teachers, coaches, and motivators of people;
- ❖ Integrity - High standards of personal integrity, and respect for the capabilities and views of others;
- ❖ Client Focus - Seeking to always understand our clients' needs, circumstances and point of view;
- ❖ Quality Focus - High standards of quality, and an ongoing focus on innovation and continuous improvement.

## **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 their role, the board is responsible for the administration of the fund, including:

- 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;
- Keeping complete books of account detailing all transactions of the fund.



The Memorial University Pension Plan (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 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 2 per cent accrual factor.

## Memorial University Pension Plan

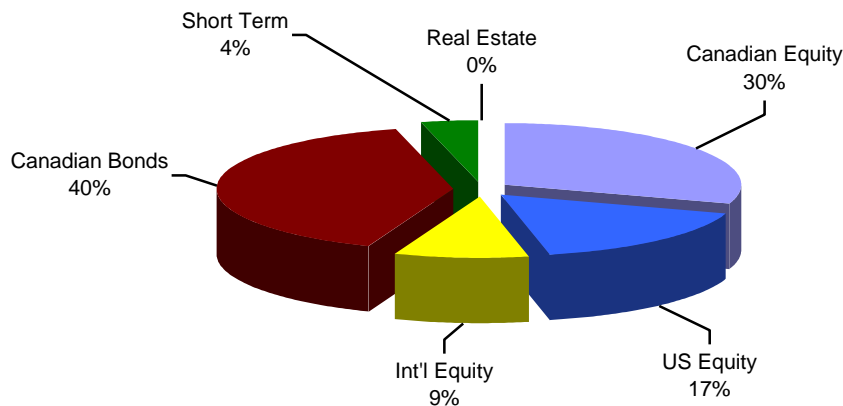
### Authority and Administration

The Plan operates under authority of the *Memorial University Pensions Act*, which prescribes the Board of Regents of Memorial 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 relative distribution of assets across the entire Fund, as at March 31, 2008, is illustrated in the following chart:

(Figure 1)

### Memorial University Pension Fund Distribution of Assets at March 31, 2008



For the year ended March 31, 2008, the Fund achieved a rate of return on invested assets of -2.28 per cent. The Net Assets Available for Benefits decreased by approximately \$17 million – down from \$733.6 million at March 31, 2007 to \$716.6 million at March 31, 2008.

## Actuarial Valuation

An actuarial valuation of the Plan was performed by the University’s actuary, Eckler Limited (Eckler), as at March 31, 2008. While valuations are generally required at least once every three years, annual valuations of the Plan are being performed in each of the years 2006 through 2010. 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* to December 31, 2010.

In addition to reporting on the solvency position of the Plan, an actuarial valuation is performed to determine the ability of the 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 March 31, 2008 actuarial valuation are highlighted in table 1 below, together with comparative figures at the last valuation date at March 31, 2007.

**Table 1**

<b>Actuarial Balance Sheet</b>				
	<b>March 31, 2008 (\$ Millions)</b>		<b>March 31, 2007 (\$ Millions)</b>	
	<b>Going- Concern <sup>1</sup></b>	<b>Solvency <sup>2</sup></b>	<b>Going- Concern</b>	<b>Solvency</b>
Actuarial Value of Assets	753.9	774.8	706.28	710.02
Actuarial Liabilities	871.1	933.8	764.17	843.16
Deficit	(117.2)	(159.0)	(57.89)	(133.14)

<sup>1</sup> The going concern deficit, as at March 31, 2008, includes an unfunded liability of approximately \$61.9 million associated with the introduction of indexing in July 2004. Due to the nature of the amortization method and the impact of a lower valuation interest rate assumption, this liability has increased from the prior year. A financing plan is in place to amortize this amount over a remaining period of 36.25 years.

<sup>2</sup> Solvency assets include the present value of five years worth of going concern special payments (2008 - \$21.3 million)

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 March 31, 2008 was calculated by Eckler to be \$117.2 million. Of this amount, approximately \$61.9 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 36.25 years through contributions equivalent to 1.2% of pensionable payroll (shared equally by the University and employees). The balance, namely \$55.3 million (\$117.2 - \$61.9), must be liquidated by the University through special payments of 2.16% of payroll over not less than 15 years. The payment required for 2008-2009 is \$4.3 million.

**Current Service Cost**

The March 31, 2008 valuation revealed that the current service cost for active participating members had increased. Current service cost is the basis upon which the Plan’s contribution rate for both employees and the University is determined. An increase in the contribution rate of 0.64% is required.

**Table 2**

<b>Rate Structure</b>	<b>Old Rate</b>	<b>New Rate</b>
Earnings up to Year’s Basic Exemption under Canada Pension Plan	9.2%	9.84%
Earnings between Year’s Basic Exemption under Canada Pension Plan and the Year’s Maximum Pensionable Earnings under Canada Pension Plan	7.4%	8.04%
Earnings above Year’s Maximum Pensionable Earnings under Canada Pension Plan	9.2%	9.84%

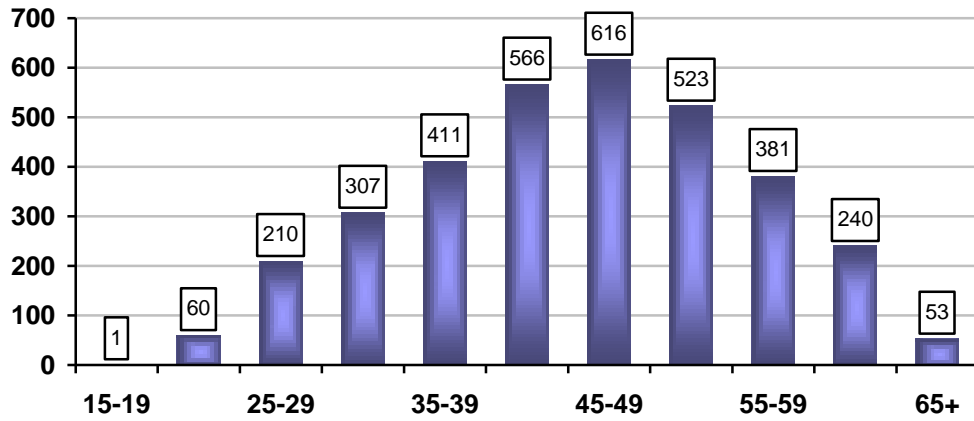
## Plan Membership Statistics

**Table 3**

	March 31		
	2008	2007	2006
Active Members	3,368	3,203	3,055
Retirees (incl. survivors)	1,294	1,231	1,165
Deferred Pensioners	163	149	134
Average Age at Retirement	60.47	60.46	60.50

**(Figure 2)**

**Age Distribution - Active Members  
March 31, 2008**



## **Outcomes of Goals 2007-08**

The Memorial University Pension Plan identified three goals in its 2007-08 transitional plan to guide its work for the fiscal year.

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

**Goal One:** By March 31, 2008, the Memorial University Pension Plan will have collected and invested responsibly the contributions received from the Plan's eligible members, 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

The following details the Plan's successful achievement of the indicators, and therefore the goal presented in the activity plan.

### **Contributions are collected and invested**

During the 2007-08 fiscal year the Plan collected a total of \$37,825,000 in contributions, representing amounts from Memorial University and its employees and funds transferred from other employer plans.

All contributions of employees and the University are paid into the Memorial University Pension 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 policy asset mix was amended in 2007 to provide for investment in two new asset classes – real estate and mortgages. It is expected that their inclusion in the asset mix will generate a modest improvement in long-term returns with a lower degree of volatility or investment risk.

Three real estate managers were appointed in March 2008 and funds will be transferred to them, over a two year phase-in period, beginning with the 2008-2009 fiscal year. It is anticipated that the sourcing of managers to invest in mortgages will also begin in 2008-2009.

## Policy Asset Mix

**Table 4**

<b>Asset Class</b>	<b>Previous</b>	<b>Including Real Estate and Mortgages</b>
Canadian Equity	27%	25%
U.S. Equity	20%	21%
International Equity	10%	10%
Fixed Income	40%	25%
Cash /Short term	3%	3%
Real Estate	-	8%
Mortgages	-	8%

## Investment Manager Benchmark Distribution

**Table 5**

<b>Manager</b>	<b>Mandate</b>	<b>Allocation</b>
Jarislowsky Fraser Limited	Canadian Balanced	25%
Greystone Managed Investments Inc.	Canadian Balanced	25%
CIBC Global Asset Management Inc.	Indexed Bonds	20%
Alliance Capital Management Canada Inc.	US Equity	20%
Putnam Investments	International Equity	10%
Less amount to be re-allocated to real estate and mortgages <sup>1</sup>		(16%)
Grenier-Pacaud Management Associates	Real Estate	1.6%
Roycom Inc.	Real Estate	1.6%
Greystone Managed Investments Inc.	Real Estate	4.8%
To be determined	Mortgages	8%

<sup>1</sup> 16% of the fund will be moved from existing mandates into real estate and mortgages beginning with the 2008-2009 fiscal year.

### **Eligible retired members/survivors are receiving pension benefits**

The Plan paid out a total of \$32,490,000 in benefits to eligible retired employees or their beneficiaries in 2007-08.

### **Administrative expenses are paid**

During 2007-08, the Plan paid a total in \$2,415,000 in administrative expenses.

### **Issue Two: Unfunded Liability**

**Goal Two:** By March 31, 2008, Memorial University will make a special payment into the Plan of \$4,146,000, thereby eliminating the portion of the unfunded liability not attributable to indexing. This will be in addition to the 1.2% payment to be made annually for 37.25 years.

**Measure:** Unfunded liability reduced

The following details the Plan's successful achievement of the indicators, and therefore the goal presented in the activity plan.

### **Annual payment of 1.2% of pensionable payroll towards liability**

By special provision of the PBA, the University and employees are financing the indexing liability over a remaining period of 36.25 years through contributions equivalent to 1.2% of pensionable payroll (shared equally by the University and employees). This annual payment was submitted in 2007-08.

### **Special payment of \$4,146,000 towards liability**

During the year ended March 31, 2008, the University made a special payment into the Pension Plan Fund of \$6,745,000, thus liquidating the \$4,146,000 unfunded liability, identified in the transitional plan, that the University was solely responsible to fund.

### **Issue Three: Elimination of Mandatory Retirement**

**Goal Three:** By March 31, 2008, amendments to the *Memorial University Pensions Act* will have been introduced to eliminate provisions prescribing mandatory retirement for employees on August 31 coincident with or next following their attainment of age 65.

**Measure:** Amendments approved by Board of Regents.

The following details the progress made by the Plan towards the successful achievement of the goal presented in the activity plan.

### **Amendments submitted to government for approval**

In November 2007, the Amendments Subcommittee met to discuss a number of necessary and desired changes to the Memorial University Pension Plan. Among the items approved by the Subcommittee for future consideration by the Board of Regents were:

- Removal of language referencing mandatory retirement;
- Changes to temporarily suspend pensions in pay for re-hired retirees to facilitate re-entry into the Plan;
- Changes to provide for continued deferral of pension;
- Extension of maximum leave of absence provisions;
- Clarification of the definition of pensionable salary;
- Clarification on survivor benefit transfer options; and,
- Recognition of current non-University employers in the Plan.

These items were subsequently brought to the University Pensions Committee for their information. As the scope of proposed amendments was beyond that which was envisaged to respond to the elimination of mandatory retirement solely, further background work has been necessary. It is anticipated that a complete amendments package will be submitted to the Board of Regents and to government during the 2008-09 plan year. In the meantime, the flexibility of the Plan enables the university to continue to operate in an environment without mandatory retirement.



## Highlights and Accomplishments

### Financial Highlights

**Table 6**

	March 31	
	2008	2007
Net Assets Available for Benefits	716,576,000	733,558,000
One-Year Annual Rate of Return	-2.28%	10.9%
Investment Income	43,891,000	37,744,000
Pensions Paid	32,490,000	29,999,000
Current Contributions: Employee	14,795,000	13,761,000
Employer	21,829,000 <sup>2</sup>	20,840,000

<sup>2</sup> For 2008, Current Contributions – Employer includes a matching employee amount plus a special payment of \$6,745,000 (2007 - \$6,859,000) which fully liquidated the portion of the unfunded liability that the University was solely responsible to fund, as identified in the March 31, 2007 actuarial valuation of the pension plan. In addition employer contributions includes \$281,000 (2007- \$220,000) in respect of the solvency deficiency associated with refunds paid.

### Benefit Provisions – Indexing

On July 1, 2007, 857 retirees and survivors received a 1.2 per cent indexation adjustment to their pensions. Indexing was introduced under the Plan in July 2004, with the maximum increase of 1.2% being granted. Indexing adjustments are calculated as 60% of the annual change in the consumer price index, as measured by Statistics Canada, to a maximum annual increase of 1.2%.

### Actuarial Valuation of Plan

An actuarial valuation of the Plan was performed as at March 31, 2008. While much of the work related to this valuation was done after the period covered by this report, the results have been included in the Plan Overview section to outline the actuarial financial position of the Plan at its measurement date.

## **Non-Mandatory Retirement Web Page**

A new web page was added to Memorial's website as a resource for employees seeking information about the implications of the removal of mandatory retirement. This web site contains information on pension and group insurance matters and a series of links to other related sites ([http://www.mun.ca/humanres/about/Can\\_I\\_Keep\\_Working.php](http://www.mun.ca/humanres/about/Can_I_Keep_Working.php)).

## **Communications to Employees**

The annual "Report to Plan Members", a pocket-sized brochure detailing financial and administrative aspects of the Plan, for the year ended December 31, 2007, was provided to active pension plan members in the Spring of 2008. Active plan members also received their annual pension plan statement.

## **Real Estate Investing**

In July 2007, the Board of Regents approved a change to the Pension Plan's investment policy to provide for investment in real estate and mortgages, with 8% of the Fund apportioned to each asset class. In March 2008, the Board approved the appointment of three real estate managers:

- ▶ Grenier Pacaud Management Associates (1.6% in closed end fund)
- ▶ Greystone Managed Investments (4.8% in open end fund)
- ▶ Roycom Inc. (1.6% in closed end fund)

Investment in real estate will be phased in over a two year period, beginning later in 2008.

## **Pension Seminar for Committee Members**

In December 2007, a Pension Seminar was held on campus for members of the University Pensions Committee. This full day educational event highlighted topics related to the Committee's governance role with respect to the Plan and included sessions on the role of a pension fund custodian, liability driven investing, governance and the *Pension Benefits Act, 1997*.

## **Aquarena Transfer**

In May 2007, a pensionable service transfer for Aquarena employees was completed, pursuant to a Pension Transfer Agreement between the City of St. John's and Memorial.

## **Financial Counseling**

In December 2007, a referral list for personal financial planning services was introduced to assist employees with decisions about retirement planning. The list is located in the University's secure employee web portal and contains contact information for professional financial planners in the St. John's and Corner Brook areas. Services available to employees include detailed cash flow analyses on both pre-retirement and post-retirement bases and related retirement planning advice.

## **Looking Forward To 2008-09**

During the year ahead, the focus with respect to the Plan will be concentrated in a number of areas including:

- Assessing and responding to the implications of the March 31, 2008 actuarial valuation, including the impact on the contribution rate;
- Continued monitoring of the investment performance of fund managers and review of the Statement of Investment Policy and Objectives;
- Transitioning funds into the real estate portfolios;
- Sourcing investment management services for mortgage investments;
- Working with government on pension plan amendments; and
- Providing retirement planning seminars.

## **Conclusion**

The successful achievement of the goals listed in this report concludes the 2007-08 transitional reporting period for the Memorial University Pension Plan. The Board of Regents has prepared a new three-year activity plan which will guide the work for the 2008-11 fiscal years, and progress toward the achievement of these goals will be reported each fall.





The Memorial University Pension Plan

**Financial Statements**

March 31, 2008

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## AUDITORS' REPORT

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

We have audited the statement of net assets available for benefits of the **Memorial University of Newfoundland Pension Plan** (the "Pension Plan") as at March 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Pension Plan's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Pension Plan as at March 31, 2008 and changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2007 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated June 1, 2007.

*Ernst & Young LLP*

St. John's, Canada,  
June 27, 2008.

Chartered Accountants

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**Memorial University of Newfoundland Pension Plan**

**STATEMENT OF NET ASSETS  
AVAILABLE FOR BENEFITS**

As at March 31  
(in thousands of dollars)

	2008	2007
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Investments <i>[note 4]</i>		
Cash and cash equivalents	28,655	30,069
Bonds and debentures	286,872	284,854
Equities	400,110	415,624
Real estate pooled fund	11	—
<b>Total current assets</b>	<b>715,648</b>	<b>730,547</b>
<b>Receivables</b>		
Contributions receivable [employees]	538	793
Accrued interest and dividends	2,368	2,433
Amounts due from pending trades	1,124	2,558
Due from Memorial University of Newfoundland <i>[note 3]</i>	1,667	1,086
<b>Total assets</b>	<b>721,345</b>	<b>737,417</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued expenses	549	479
Accrued pension refunds	613	837
Amounts payable from pending trades	3,607	2,543
<b>Total current liabilities</b>	<b>4,769</b>	<b>3,859</b>
<b>Net assets available for benefits</b>	<b>716,576</b>	<b>733,558</b>

*See accompanying notes*

On behalf of the Board:



Chair of the Board of Regents



Chair of the Finance Committee

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**Memorial University of Newfoundland Pension Plan**

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

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Year ended March 31  
(in thousands of dollars)

	2008	2007
	\$	\$
<b>INCREASE IN ASSETS</b>		
<b>Investment income</b>		
Realized gain on sale of investments	18,897	21,840
Interest income	15,186	9,928
Dividend income	9,808	5,976
	<u>43,891</u>	<u>37,744</u>
Current period (decrease) increase in fair value of investments	<u>(60,564)</u>	34,484
<b>Contributions [note 6]</b>		
Employer's	21,829	20,840
Employees'	14,795	13,761
Past service contributions and transferred service	1,201	1,882
	<u>37,825</u>	<u>36,483</u>
<b>Total increase in assets</b>	<u>21,152</u>	<u>108,711</u>
<b>DECREASE IN ASSETS</b>		
Benefits paid	32,490	29,999
Refunds of contributions	3,229	2,378
Administrative expenses	2,415	2,270
<b>Total decrease in assets</b>	<u>38,134</u>	<u>34,647</u>
(Decrease) increase in net assets	(16,982)	74,064
Net assets available for benefits, beginning of year	733,558	659,494
<b>Net assets available for benefits, end of year</b>	<u>716,576</u>	<u>733,558</u>

*See accompanying notes*





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**Memorial University of Newfoundland Pension Plan**

**NOTES TO FINANCIAL STATEMENTS**

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March 31, 2008  
(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.

**General**

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

Where differences exist between the provisions of the Memorial University Pensions Act and the Newfoundland Pensions Benefits Act, 107 (the “PBA”), the minimum standards prescribed by the PBA will prevail unless the Plan provisions exceed these standards.

**Funding policy**

The Plan is subject to the funding provisions of section 35 of the PBA and section 12 of the PBA Regulations which require that the employer contribute an amount equal to the normal actuarial cost allocated to the employer in the most recent 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 5 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. Section 6 of the Memorial University Pensions 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 into the fund an amount to cover the deficiency.



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**Memorial University of Newfoundland Pension Plan**

**NOTES TO FINANCIAL STATEMENTS**

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March 31, 2008  
(in thousands of dollars)

**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 Memorial University Pensions Act, of a member who has a minimum of two years credited services.

**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 pensions is paid.

**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 (Canada) and is not subject to income taxes.



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**Memorial University of Newfoundland Pension Plan**

**NOTES TO FINANCIAL STATEMENTS**

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March 31, 2008  
(in thousands of dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements follow the guidelines established by the Canadian Institute of Chartered Accountants (“CICA”) for pension plans.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

**Basis of presentation**

These financial statements are prepared on the going concern basis and present the information of the Plan as a separate financial reporting entity independent of the sponsor and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period, but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

**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 increase/decrease 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 market prices are not available, estimated fair value is calculated using comparable securities.



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**Memorial University of Newfoundland Pension Plan**

**NOTES TO FINANCIAL STATEMENTS**

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March 31, 2008  
(in thousands of dollars)

Short-term notes, treasury bills and term deposits maturing within a year are stated at 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 a 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 stated at cost and represents the initial subscription to a closed-end real estate fund.

**Gain on sale of investments**

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

**Investment income**

Investment income, which is recorded on the accrual basis, includes realized gain on sale of investments, interest income and dividends.

**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/decrease in fair value of investments.

Foreign currency denominated transactions, as well as cost amounts included in note 4(c) to the financial statements, are translated into Canadian dollars at the rates of exchange in effect on the dates of the related transactions.

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## Memorial University of Newfoundland Pension Plan

### NOTES TO FINANCIAL STATEMENTS

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March 31, 2008  
(in thousands of dollars)

#### 3. 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.

#### 4. INVESTMENTS

(a) The following table summarizes the fair value of investments as at March 31, by the earlier of contractual repricing or maturity dates, as well as average effective yields by class of investment.

	2008					Total	2007		Average effective yield %	Average effective yield %
	Within 1 year	1-5 years	5-10 years	Over 10 years	No specific maturity		Total	Total		
Cash and short-term investments	28,655	—	—	—	—	28,655	3.33	30,069	3.77	
Canadian bonds and debentures	—	49,667	40,126	47,055	150,024	286,872	4.08	284,854	4.32	
	<b>28,655</b>	<b>49,667</b>	<b>40,126</b>	<b>47,055</b>	<b>150,024</b>	<b>315,527</b>	—	<b>314,923</b>	—	
Canadian equities:										
Common stock	—	—	—	—	—	208,020	—	205,167	—	
Pooled funds	—	—	—	—	—	7,453	—	7,519	—	
Foreign equities:										
Common stock	—	—	—	—	—	119,218	—	130,276	—	
Pooled funds	—	—	—	—	—	65,419	—	72,662	—	
	—	—	—	—	—	400,110	—	415,624	—	
Real estate	—	—	—	—	—	11	—	—	—	
	<b>28,655</b>	<b>49,667</b>	<b>40,126</b>	<b>47,055</b>	<b>150,024</b>	<b>715,648</b>	—	<b>730,547</b>	—	

The average effective yield reflects the result obtained by dividing estimated annual income from a security (based on its coupon or interest rate) into its fair value as at March 31<sup>st</sup>.

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(b) The following table summarizes investments at cost:

	<b>2008</b>	<b>2007</b>
	\$	\$
Cash and short-term investments	<u>28,574</u>	30,086
Canadian bonds and debentures:		
Federal	46,488	56,497
Provincial	32,182	31,992
Corporate	55,327	52,753
Pooled funds	<u>149,290</u>	140,796
	<u>283,287</u>	282,038
Canadian equities:		
Common stock	146,121	119,037
Pooled funds	<u>7,469</u>	6,308
	<u>153,590</u>	125,345
Foreign equities:		
Common stock	130,047	115,157
Pooled funds	<u>54,633</u>	51,857
	<u>184,680</u>	167,014
Real estate	<u>11</u>	—
	<u>650,142</u>	604,483

(c) Realized losses arising from foreign currency translation amounted to \$12,333 for the year ended March 31, 2008 (2007 - \$4,027). For financial statement presentation purposes, these amounts have been netted against interest income.

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**5. OBLIGATION FOR PENSION BENEFITS**

The present value of accrued pension benefits was determined using the projected benefit method pro-rated on service and the administrator's best estimate assumptions. Eckler Ltd., a firm of consulting actuaries, performed an actuarial valuation as at March 31, 2008.

The actuarial present value of benefits as at March 31, 2008 and the principal components of change in actuarial present value during the year were as follows:

	2008	2007
	\$	\$
Actuarial present value of accrued pension benefits at beginning of the year	764,171	727,194
Experience losses (gains)	6,081	(8,540)
Changes in actuarial assumptions/methodology	55,146	—
Interest accrued on benefits	53,229	50,721
Benefits accrued	28,202	27,173
Benefits paid	(35,719)	(32,377)
Actuarial present value of accrued pension benefits at end of the year	<u>871,110</u>	<u>764,171</u>

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 were:

**Discount rate**

6.5% (2007 – 7%) pre- and post-retirement

**Salary escalation rate**

4.5% (2007 – 4.5%) 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 3 years.



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The actuarial asset values used in both the 2008 and 2007 valuations were as follows:

	2008 \$	2007 \$
Net assets available for benefits	716,576	733,558
Fair value changes not reflected in actuarial value of net assets	37,299	(27,280)
Actuarial value of net assets available for benefits	<u>753,875</u>	<u>706,278</u>

The retirement age assumptions have not been adjusted to reflect the removal of mandatory retirement. Once more experience becomes available, the retirement assumptions will be revised.

#### 6. FUNDING POLICY

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

- 9.20% of pensionable earnings up to the year's basic exemption ("YBE") under the Canada Pension Plan;
- 7.40% of pensionable earnings above the YBE up to and including the year's maximum pensionable earnings ("YMPE") under the Canada Pension Plan;
- 9.20% 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 deposited a special payment of \$6,745 into the Plan during the year. The effect of this special payment was to eliminate the balance of the March 31, 2007 unfunded liability, not attributable to indexing, namely \$4,146.

The most recent actuarial valuation for funding was prepared by Eckler Ltd. as at March 31, 2008. This valuation revealed a going concern unfunded liability of \$117,235 as at March 31, 2008 based on current Plan provisions and PBA requirements. Of this amount, approximately \$61,887 relates to the past service costs of indexing, introduced under the Plan, effective July 1, 2004. A financing arrangement was implemented coincident with the introduction of indexing to liquidate this unfunded liability over a period of 40 years. At March 31, 2008, approximately 36.25 years are remaining in the amortization schedule. Due to the nature of the amortization method, which is based upon 1.2% of annual pensionable payroll, and the impact of valuation assumptions, the





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unamortized indexing liability has increased from the level that existed at March 31, 2007. The balance of the going concern unfunded liability, namely, \$55,348 must be liquidated by the University in accordance with note 1.

The March 31, 2008 actuarial valuation also revealed that an increase in current service contributions of 0.64%, for both the University and employees, was necessary.

In addition, Eckler Ltd. prepared a solvency valuation at March 31, 2008 which disclosed a solvency deficiency of \$158,991 based upon PBA requirements. The Plan is exempt from the solvency funding provisions of the PBA for the period January 1, 2006 to December 31, 2010.

**7. FINANCIAL INSTRUMENTS**

The fair value of investments is as described in note 4(a). The fair value of other financial assets and liabilities, being: 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.

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