Activity Plan

April 1, 2020 to March 31, 2023

THE MEMORIAL UNIVERSITY PENSION PLAN

DEPARTMENT OF HUMAN RESOURCES, MEMORIAL UNIVERSITY OF NEWFOUNDLAND

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ACTIVITY PLAN

April 1, 2020 to March 31, 2023

Department of Human Resources
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Chairperson's Message

Honourable Tom Osborne
Minister of Education
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
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Dear Minister Osborne:

I am pleased to submit a three-year Activity Plan for the Memorial University Pension Plan. This plan covers the period April 1, 2020 to March 31, 2023.

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 Memorial University Pension Plan is defined as a category three 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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APRIL 1, 2020 TO MARCH 31, 2023

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 (the University). In addition, employees of certain separately incorporated entities of Memorial are also eligible to participate in the Pension 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 Pension 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.

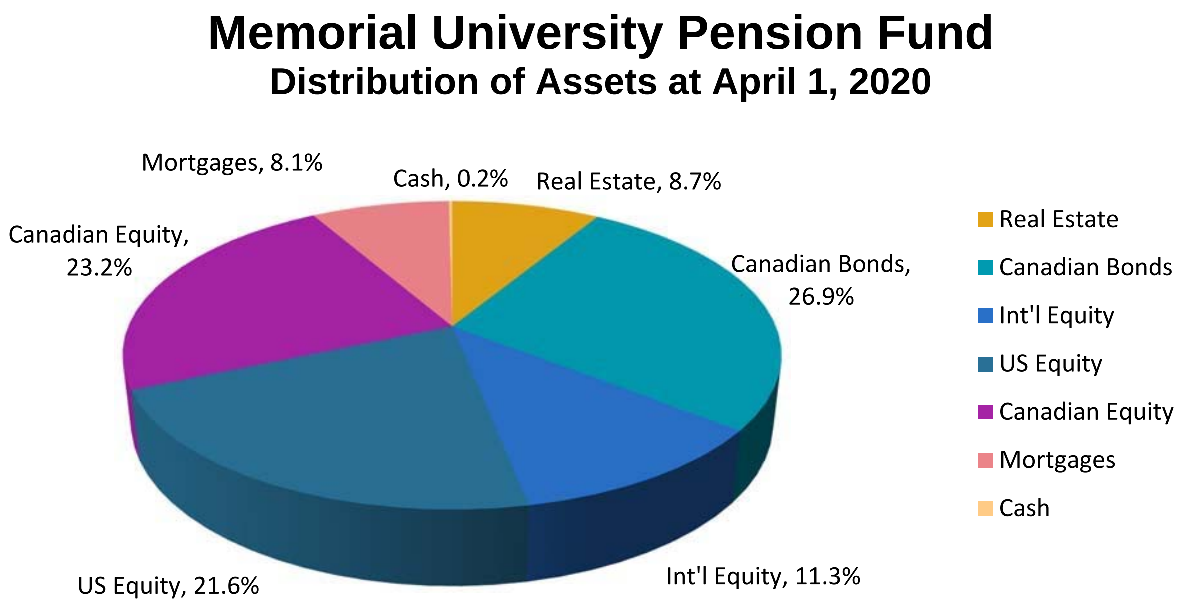
Investment Manager Benchmark Distribution

Table 2

Manager	Mandate	Benchmark Allocation	Actual Allocation April 1, 2020
Jarislowsky Fraser	Canadian Equity	12.5%	11.5%
Connor Clark & Lunn	Canadian Equity	6.25%	5.4%
Fidelity Investments Canada	Canadian Equity	6.25%	6.3%
TD Greystone	Canadian Fixed Income	7.75%	7.3%
Jarislowsky	Canadian Fixed Income	7.75%	7.1%
CIBC Global Asset Management	Indexed Bonds	12.5%	12.5%
Alliance Bernstein	US Equity	21.0%	21.6%
Fiera Capital	International Equity	3.75%	4.6%
Wellington Management	International Equity	3.75%	3.6%
Baillie Gifford	International Equity	2.5%	3.1%
Fiera Real Estate	Real Estate	3.2%	2.7%
TD Greystone	Real Estate	4.8%	6.0%
TD Greystone	Mortgage	8.0%	8.1%
Operating Account	Cash	Nil	0.2%

The relative distribution of assets across the entire Fund, as at April 1, 2020, is illustrated in the following chart:

Figure 1



For the year ended March 31, 2020, the Fund achieved a rate of return on invested assets of -0.65 per cent. The Net Assets Available for Benefits decreased by approximately $51 million – down from $1.668 billion at March 31, 2019 to $1.617 billion at March 31, 2020.

Actuarial Valuation

An actuarial valuation of the Pension Plan was prepared as at December 31, 2019 and the results are reported in the Pension Plan's Annual Report for the year ended March 31, 2020.

The results of this valuation are informational and are not for purposes of establishing funding levels under the Pension Plan. The Pension Plan is being funded in accordance with the valuation performed as at December 31, 2018.

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, 2019 valuation and extrapolation to March 31, 2020 are highlighted in the following table together with comparative figures for an extrapolation of the Pension Plan's financial position at March 31, 2019:

Table 3

Actuarial Balance Sheet						
	March 31, 2020 ($ Millions)		December 31, 2019 ($ Millions)		March 31, 2019 ($ Millions)	
	Going Concern	Solvency	Going Concern [1]	Solvency [2]	Going Concern	Solvency
Actuarial Value of Assets	1,680.1	See Note 3) below	1,700.4	1,934.9	1,648.1	See Note 3) below
Actuarial Liabilities	1,918.6		1,902.1	2,366.3	1,861.8	
Unfunded Liability	(238.5)		(201.7)	(431.4)	(213.7)	

Notes:

1) The going concern unfunded liability, as at December 31, 2019 includes approximately $68.4 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 24.5 years from December 31, 2019.
2) Solvency assets at December 31, 2019 include the present value of five years' worth of going concern special payments ($163.1 million).
3) An extrapolation of the solvency position was not performed as at March 31, 2020 or March 31, 2019.

The Pension Plan is being funded in accordance with the December 31, 2018 actuarial valuation, which disclosed a going concern deficiency of $239.1 million. Of this amount, approximately $73.9 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 25.5 years from December 31, 2018 through contributions equivalent to 1.2 per cent of pensionable payroll (shared equally by the University and employees). The balance, namely $165.2 million must be liquidated by the University through special payments of 10.7 per cent of pensionable payroll over a period of 15 years. The Pension Plan's unfunded liability is addressed as Issue Two in the Objectives section of this Activity Plan.

For the fiscal years 2015-16 to 2019-20, the University was exempt from the requirement to make going concern special payments. The payments otherwise due have been deferred and have been added back to the amortization schedule for the unfunded liability. The University has also been exempt from the solvency funding requirements of the PBA to March 31, 2020. The going concern special payment for the 2020-21 fiscal year is estimated to be $34.5 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, 2018 funding valuation showed that the cost of pension benefits being earned by members had increased by 0.8 percentage points over levels identified in the previous funding valuation at December 31, 2015.

Current service cost is shared equally between employees and the University. On January 1, 2020 the rate paid by each was increased by 0.4 percentage points. The former contribution rate together with the current contribution rate is shown below:

Table 4

Rate Structure	Former Contribution Rate (To December 31, 2019)	Current Contribution Rate (From January 1, 2020)
Earnings up to Year's Basic Exemption under Canada Pension Plan	11.4%	11.8%
Earnings between Year's Basic Exemption under Canada Pension Plan and the Year's Maximum Pensionable Earnings under Canada Pension Plan	9.6%	10.0%
Earnings above Year's Maximum Pensionable Earnings under Canada Pension Plan	11.4%	11.8%

Pension Plan Member Statistics

Table 5

	2020	2019	April 1 2018	2017	2016
Active Members	3,621	3,643	3,778	3,860	3,961
Average Age of Active Members	47.5	47.3	47.2	46.8	46.6
Retirees (incl. principal beneficiaries)	2,464	2,362	2,209	2,084	1,961
Deferred Pensioners	282	303	260	252	268
Average Age at Retirement	61.24	61.33	61.30	61.23	61.02

Figure 2

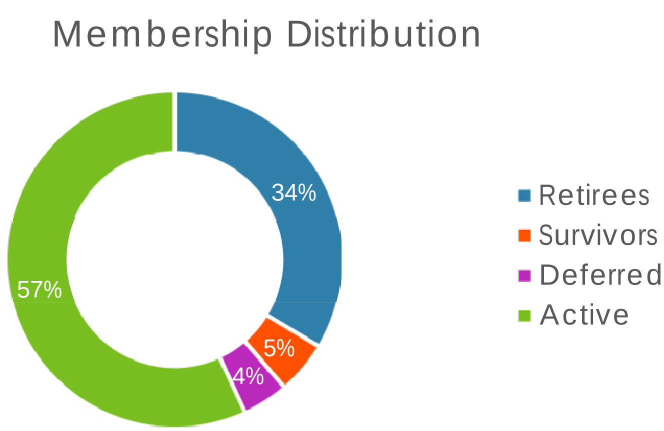
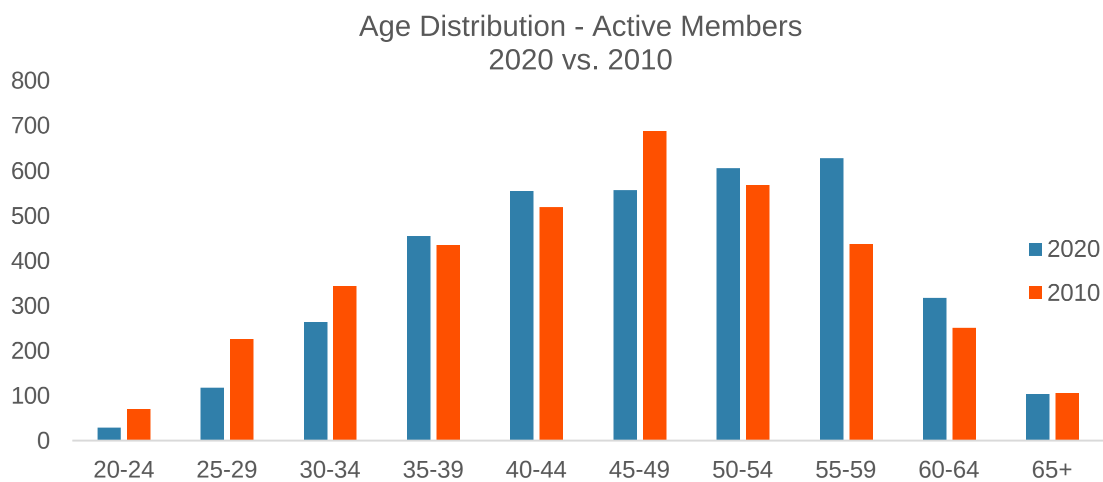


Figure 3 (update 2020)



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** (the Act). In this role, the Board is responsible for the administration of the 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.

Issues and Objectives

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

The Board, as trustee of the Fund, is responsible to ensure that funding objectives for the Pension 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 Pension 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 2021, 2022, and 2023 and will be reported upon in each of the respective annual reports:

Objective: By March 31, 2021, 2022 and 2023 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: Funding Policy for the Unfunded Liability

As the employer, Memorial University must comply with the pension plan funding requirements of the provincial **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, 2020. In addition, 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 24.25 years from March 31, 2020.

The Pension Plan is being funded in accordance with the December 31, 2018 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, 2018 of $239.1 million includes approximately $73.9 million in respect of indexing introduced in 2004. Under the PBA the balance of $165.2 million must be amortized over a 15 year period with special annual payments of 10.7 per cent of pensionable payroll. For the fiscal years 2015-16 to 2019-20, the University was exempt from the requirement to make a going concern special payment. The going concern special payment for the 2020-21 fiscal year is estimated to be $32.6 million.

With respect to the issue of the unfunded liability the University and employee groups have been working towards the development of a funding policy aimed at ensuring the Pension Plan's ongoing viability as well as measures to address the existing going concern unfunded liability. The funding policy is intended to become effective with the implementation of joint sponsorship 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 2021, 2022 and 2023 and will be reported upon in each of the respective annual activity reports:

Objective: By March 31, 2021, 2022 and 2023 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: Employed a funding policy to guide the sustainability of the Pension Plan and address the unfunded liability.

Issue Three: Joint Sponsorship of the Pension Plan

Other large public sector pension plans in Newfoundland and Labrador 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 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 Pension 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 Pension Plan's management and funding. This Pension Plan change will be developed with input from employee stakeholder groups in consultation with the Provincial Government.

The University and employee groups began negotiations toward reaching agreement on a framework for Pension Plan reform in the fall of 2017. The overarching principles of reform, as tentatively agreed, will be used in conjunction with feedback from the Provincial Government to further negotiations on joint sponsorship of the Pension Plan.

The following objective will be the focus of the Pension Plan for each of the fiscal years ending March 31 in 2021, 2022 and 2023 and will be reported upon in each of the respective annual reports:

Objective: By March 31, 2021, 2022 and 2023 the Memorial University Pension Plan will have continued work towards transitioning to a jointly sponsored pension plan.

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