# University of Saskatchewan and Federated Colleges Non-Academic Pension Plan

# Funding Policy

May 2016

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# Background and Purpose

The University of Saskatchewan and Federated Colleges Non-Academic Pension Plan (Plan) was established effective January 1, 1952 to provide a vehicle through which retirement and related benefits could be made available to all Eligible Employees.

The Plan provides a pension promise that is funded through employee and employer contributions made prior to retirement as well as accumulated investment returns on such contributions. The level of assets required to fund the promised pensions prior to their commencement cannot be determined with 100% certainty and consequently guidance on the Plan's Funding is desirable. This policy provides such guidance with its primary purpose being to document:

- the relevant environment within which the Plan operates;
- the primary risks that threaten the Plan's financial well-being and the implications of such risks;
- the desired Funding Principles for the Plan;
- the Funding Objectives that have been established for the Plan; and
- the governance process that is to be followed in relation to this policy.

A glossary accompanies this policy document and words and phrases contained in the glossary have been capitalized throughout the document.

# Environment and Risks

## Environment

The following table summarizes the environment within which the Plan operates. This summary of the environment is intended to give context to the sections that follow in the Funding Policy.

| | |
|---|---|
| Regulatory Influence | ▪ Plan is registered under the Saskatchewan Pension Benefits Act and the Income Tax Act as a registered pension plan. |
| Governing Authority | ▪ The University, acting through its Board of Governors, is the Plan's legal administrator and ultimate governing authority.<br>▪ The Board retains all decision-making power in relation to the Plan and relies on analysis and recommendations put forth by the Governing Influences and the Actuary. |
| Governing Influences | ▪ Day-to-day administrative duties have been delegated by the Board to the University Administration.<br>▪ Oversight of non-administrative operations has been delegated by the Board to the Non-Academic Pension and Benefits Committee (NAPBC) who in turn make recommendations to the Board in relation to policy changes and Plan amendments provided Plan changes adversely affecting future contributions or future benefits have first received appropriate Plan member approval. |
| Membership | ▪ The Plan is open to new members.<br>▪ As at December 31, 2015:<br>- active membership is 1,299 with an average age of 47.7 and average pensionable service of 11.4 years;<br>- pensioner membership is 847 with an average age of 72.0;<br>- deferred and inactive membership is 114 with an average age of 47.8; and<br>- pending transfer deficiency holdback membership is 125. |

| | |
|---|---|
| Benefit Level | ▪ 2% of the best consecutive four year average pensionable earnings x Plan service<br>▪ Unreduced early retirement at earlier of age 60, 30 years of pensionable service or date when age plus pensionable service equals 80. |
| Indexing | ▪ The Plan does not provide guaranteed indexing to members in pay; however, from time to time as surpluses develop, the Plan provides for ad-hoc increases to pensions in pay.<br>▪ Such ad-hoc increases have been provided every year from 1982 through 2008. |
| Expenses | ▪ Expenses that relate to the Plan's governance, administration of benefits and funding and investment activities are paid from the Plan's assets. |
| Contributions | ▪ Fixed rate contributions are equal to 8.5% of earnings for both the employees and the University. In addition, the University is ultimately responsible for any additional funding requirements (i.e. past service deficits and current service cost shortfalls) in accordance with legislation. In 2015, the University contributed a total of 15.65% of earnings to cover fixed rate contributions, past service deficits and current service cost shortfalls. |

Investment policy

- Assets are invested in the Non-Academic Pension Plan Fund.
- Asset mix policy (Statement of Investment Policies & Procedures):

| **Asset Class** | **Minimum** | **Benchmark** | **Maximum** |
|---|---|---|---|
| **Equities** | | | |
| Canadian equities | 10 | 20 | 30 |
| Global equities | 20 | 40 | 60 |
| Total equities | 40 | 60 | 70 |
| Real estate | 0 | 5 | 10 |
| **Fixed Income** | | | |
| Bonds & Mortgages | 25 | 33 | 50 |
| Short-term investments | 0 | 2 | 15 |
| Total | | 100 | |

## Risks

Through this policy, the Plan has adopted a number of desired Funding Principles. These principles are primarily aimed at ensuring sufficient assets are accumulated to meet benefit obligations through regular contributions so as to avoid the risk of deficits and increasing contributions. However, there are a number of specific risks that threaten the realization of this end result, the most relevant of which are summarized in the following table.

| Risk | Commentary |
|---|---|
| Assumption Risk (Going-Concern) | ▪ Defined as the risk that actual events turn out to be worse than originally anticipated by the going-concern actuarial assumptions which results in assets and liabilities becoming mismatched.<br>▪ All actuarial assumptions contain risk that actual experience will prove negative for the Plan; however, those assumptions having the largest bearing on liabilities and the greatest degree of uncertainty are: the rate of return and mortality.<br>▪ In the short term, a significant degree of uncertainty accompanies the rate of return given short-term economic volatility, particularly with equity based investments.<br>▪ In the long-term, while there is expected to be greater certainty in the average rate of return, slight differences between actual and expected can have a significant impact on liabilities given the long-term nature of the liabilities.<br>▪ Over the short and long-term the impact of members living longer than expected (i.e. the mortality risk) could potentially be significant as recent Canadian mortality studies have shown that pension plan members are living longer. If further mortality studies result in updated tables being released, they will likely need to implemented into the Best Estimate Measurement Basis.<br>▪ Other primary assumption risks include risks relating to:<br>- larger than assumed salary increases; and<br>- early retirement. |
| Cashflow mismatch risk | ▪ Defined as the risk that investments may have to be liquidated at depressed values to pay benefits thereby losing opportunity for such undervalued investments to recover to their normalized values.<br>▪ This risk is highly dependent on the volatility in Plan's investments and the rate of benefit payouts. Greater levels in both investment volatility and benefit payout will result in greater asset / liability mismatch risk.<br>▪ The downside risk associated with asset / liability mismatch is neutralized to some extent by contribution inflows.<br>▪ Currently, the ratio of benefit payments to fixed rate contributions is approximately 1.5:1 and is not expected to change dramatically in the future |

| Risk | Commentary |
|---|---|
| | since the Plan is open to new entrants. |
| Solvency risks | ▪ Defined as the risk that the Plan's liabilities determined by the Solvency Measurement Basis will increase at a greater rate than assets.<br>▪ In general, solvency risk is of concern when solvency liabilities are increasing due to falling long-term bond rates (the key determinant in the solvency interest rate assumption) without an offsetting increase in the asset investments. Specifically, declining annuity purchase discount rates will result in solvency liabilities greater than expected and a solvency deficiency under a potential wind-up scenario.<br>▪ Note that per the Regulatory Influence, benefit improvements cannot be made to the Plan if the solvency ratio is less than 90%.<br>▪ Finally, for pensions in pay, solvency liabilities are determined by reference to the cost to purchase annuities from a commercial insurer. While annuity purchase rates are to a large extent tied to long-term bond rates, currently, there is a cost to purchasing annuities over what would otherwise be expected by the long-term bond rates. This cost is primarily a reflection of the thinly traded annuity markets. As more members become pensioners, this additional cost will need to be factored into the solvency liabilities, thereby increasing solvency liabilities. |

The primary implications that these risks could bring to bear are summarized in the following table.

| Implication | Commentary |
|---|---|
| Increased past service contribution requirements for University | ▪ Significant encumbrance in an environment where little excess cashflow is available to respond to increased contribution requirements.<br>▪ If past service contributions are required to meet minimum funding requirements, such additional contributions may not be needed longer-term and result in additional surplus assets.<br>▪ Could lead to reduction in future service benefits and / or lower probability of future ad-hoc indexing. |
| Increased future service contribution requirements for Employers and / or Employees | ▪ Significant encumbrance in an environment where little excess cashflow is available to respond to increased contribution requirements.<br>▪ Perceived inequity with previous generations of members. |
| Reduced future benefits | ▪ May cause future service benefits and / or future pension increases to be scaled back.<br>▪ May delay retirement |

# Funding Principles

In support of the Plan's primary purpose of providing the University's Non-Academic Employees (the “Employees”) with a means to accumulate a reasonable retirement savings relative to their service and earnings while in the Plan, the Plan has adopted certain desirable Funding Principles to guide Funding. Specifically, these Funding Principles are:

1. The Plan's Funding needs to be established in conjunction with the Plan's benefit and investment policies in order to ensure a sustainable benefit commitment.

2. Contributions should be made by each active employee and the employer on a regular and ongoing basis to support the asset base required to fully fund the obligations for benefits that have been earned.

3. Ongoing member and employer contribution commitments need to be established through contribution rates that:
   - are equal for both members and the employer;
   - are relatively constant from year to year (i.e. stable);
   - can be expected to provide adequate funding for the benefit obligations in advance of their payment;
   - reflect the economic realities of each generation of active members; and
   - are deemed affordable.

4. If, after carefully considering the adequacy of the Plan's Funding in relation to the stability of contribution rates, the adequacy of benefit security and the sustainability of future service benefit expectations, it is determined that surplus assets are available, then any such surplus may be used to improve benefits in accordance with specific target benefit policy that is equitable for all members (e.g. pensioners/all active members)  and utilized to the extent that such improvements can be supported by the other Funding Principles.

5. Satisfy all regulatory requirements and contractual obligations contained in relevant collective agreements and plan documents.

The Strategic Funding Objectives as detailed in the following section provide specific guidance in relation to how these Funding Principles are managed.

# Strategic Funding Objectives

In order to support the realization of the Plan's Funding Principles, the Plan has adopted specific Strategic Funding Objectives. These objectives are designed to guide and manage the accumulation of assets to fund future obligations. The Plan's Strategic Funding Objectives are defined by the following:

## Financial Objectives

a. Adopt the Going-Concern Measurement Basis as the desired actuarial basis to measure the Plan's assets, liabilities and surplus / deficit.

b. Strive to build and maintain margins in the Going-Concern Measurement Basis so that the actuarial value of liabilities measured by the Going-Concern Measurement Basis normally falls between 105% and 120% of those measured using the Best Estimate Measurement Basis, as determined by the Actuary in a formal actuarial review.

c. Meet the applicable minimum funding requirements as prescribed by legislation and through collective bargaining from time to time.

## Risk Assessment Objectives

- Review and evaluate the Plan's risks to the Funding Principles in conjunction with each formal actuarial review that is conducted.

## Operational Objectives

- Manage the Plan's investments in a manner that supports this Funding Policy.
- Ensure compliance with regulatory requirements, contractual obligations and this policy based on reviews conducted no less frequently than once every three years.
- Apply this policy when reviewing the affordability of annual pension increases, including relevant subsequent events occurring since the time of the last formal actuarial review.
- Conduct formal actuarial reviews of the Plan's financial position at least once every three years with annual status updates being received for information purposes.

# Governance

The NAPBC has been delegated the oversight responsibility for the Plan's Funding Policy. As a result, the NAPBC is expected to:

- monitor the extent to which the Plan's Strategic Funding Objectives are met;
- in the event a Strategic Funding Objective is not met, deliberate the applicable shortcoming and initiate the necessary action to review and resolve the matter;
- make the appropriate interpretations of this policy; and
- make appropriate changes to this policy.

# Glossary

**Best Estimate Measurement Basis** means the actuarial basis established by the Actuary that measures the Plan's financial position in the same manner as the Going-Concern Measurement Basis but with the exception that assumptions represent the mean or average expected future outcomes – i.e. all margins are excluded.

**Eligible Employee** means all employees of the University categorized as "non-academic" whose status is permanent, seasonal or term with at least 12 months of service in the term position and who are working at least 50% time, are required to join the Plan after completing one year of service or, in the case of a term position, two years of service.

**Funding** means the process by which a pension plan accumulates capital for future distribution to plan members in order to satisfy benefit obligations. The sources through which capital is accumulated include principal contributions made by the sponsor or members and investment returns earned on principal contributions prior to distribution.

**Funding Principles** means the principles that a pension plan's particular funding strategy is expected to achieve in terms of both an end result and the means to a particular end result.

**Going-Concern Measurement Basis** means the actuarial basis specific to the Plan that measures its assets, liabilities and surplus / deficit as if it were continuing indefinitely into the future. Key characteristics of the basis for determining going-concern liabilities include:

- inclusion in going-concern liabilities of past service benefits only;
- projection of future salaries;
- real rate of return assumption that reflects the current investment policy and the premise that this policy continues indefinitely into the future;
- assumptions that are based on best estimate assumptions; and
- appropriate margin to reflect the significance of the underlying risks and the Strategic Funding Objectives.

**Strategic Funding Objectives** means the specific objectives established by a pension plan that guide and manage the plan's Funding so as to help ensure the realization of the Funding Outcomes.

# Appendix A

## Summary of Plan Provisions

The following is a brief summary of the provisions of the Plan that are of importance in determining the actuarial liabilities in respect of the Plan's defined benefit component. This summary reflects all amendments up to and including Amendment P-64. The legal Plan documents should be referred to for purposes of determining precise benefit entitlements.

### Effective Date

The University of Saskatchewan Non-Academic Pension Plan was established January 1, 1952 as part of the University of Saskatchewan – University of Saskatchewan and Federated Colleges Non-Academic Staff Retirement Plan. Effective January 1, 1979 the combined Plan was separated into two Plans.

### Eligibility

All employees of the University of Saskatchewan categorized as "non-academic" whose status is permanent, seasonal or term with at least 12 months of service in the term position and who are working at least 50% time, are required to join the Plan after completing one year of service or, in the case of a term position, two years of service.

### Contributions

The following table summarizes the required member contributions:

| **Period** | **Required Contribution Rate** |
|---|---|
| Prior to May 1, 2008 | 4.92% of pensionable earnings |
| May 1, 2008 to April 30, 2009 | 6.00% of pensionable earnings |
| May 1, 2009 to December 31, 2009 | 6.50% of pensionable earnings |
| January 1, 2010 to December 31, 2010 | 7.50% of pensionable earnings |
| January 1, 2011 to December 31, 2011 | 8.25% of pensionable earnings |
| After December 31, 2011 | 8.50% of pensionable earnings |

Members are not required to contribute while in receipt of benefits from a salary continuance Plan, nor are members required to contribute for the period of job action from November 2, 2007 through December 2, 2007.

The University is required to contribute an amount, on the advice of the Actuary, at least equal to the members' required contributions. Additional contributions may be required to meet minimum funding requirements, as prescribed by *The Pension Benefits Act, 1992* (Saskatchewan).

### Normal Retirement

Normal retirement occurs on the first day of the month following the attainment of age 65. For members who join the Plan after age 64, the normal retirement date is one year after joining.

## Postponed Retirement

A member may postpone retirement beyond the normal retirement date in which case the member will continue to make contributions and accrue additional benefits up to the member's actual retirement date. Retirement, for the purposes of the Plan, cannot be deferred beyond the end of the calendar year in which the member attains age 71.

## Early Retirement

A member may retire with unreduced benefits after attaining age 60, completion of 30 years of pensionable service or after the date when the sum of the member's years of age and pensionable service exceeds 80.

Even if the above conditions are not met, a member may retire anytime after attaining age 55. The pension will be reduced by ¼% for each month that the early retirement date precedes the earlier of the first day of the month following attainment of age 60 or the date when the sum of the member's years of age plus pensionable service that has accrued to date would exceed 80.

## Benefit Formula

Members' unreduced pension entitlements under the Plan equal 2% of the best average four years' regular earnings with the University, multiplied by the number of years of pensionable service.

A member's contributions are not permitted to provide more than 50% of the "value" of the member's pension. Any excess employee contributions are used to provide the member with additional benefits.

Prior to October 1, 2010, in lieu of the pension described above, a member may elect a lump sum settlement equal to the greater of the commuted value of the accrued pension and two times his/her accumulated contributions with interest. Effective October 1, 2010, the lump sum transfer option for active members once eligible to retire from the plan with a reduced or unreduced pension was removed.

## Maximum Pension Limit

The total annual pension payable from the Plan upon retirement, death or termination of employment cannot exceed the maximum permitted under the *Income Tax Act*.

## Vesting

A member becomes vested when the member retires, dies or otherwise completes two years of continuous service.

## Increases to Pensions

Effective January 1, 1982, all individuals in receipt of pension benefits at that time had their benefits increased by the percentage increase in the Consumer Price Index (CPI) from the month of retirement to December 1980.

To the end of 1988, the University followed a policy of granting increases to pensions under payment that could be provided from interest earnings on pensioner reserves in excess of the valuation interest rate. Commencing in 1989, pensioner increases have been granted on an ad hoc basis and funded out of surplus. Increases granted to date include:

| Effective Date | Increase Percentage |
|---|---|
| March 1, 1982 | 7.00% |
| January 1, 1983 | 7.50% |
| January 1, 1984 | 1.75% |
| January 1, 1985 | 0.75% |
| January 1, 1986 | 1.00% |
| January 1, 1987 | 1.00% |
| January 1, 1988 | 1.50% |
| January 1, 1989 | 1.00% |
| January 1, 1990 | 5.24% |
| January 1, 1991 | 4.25% |
| January 1, 1992 | 5.41% |
| January 1, 1993 | 1.26% |
| January 1, 1994 | 1.87% |
| January 1, 1995 | 0.00% |
| January 1, 1996 | 2.45% |
| January 1, 1997 | 1.49% |
| January 1, 1998 | 1.62% |
| January 1, 1999 | 2.60% |
| January 1, 2000 | 2.70% |
| January 1, 2001 | 2.60% |
| January 1, 2002 | 2.60% |
| January 1, 2003 | 2.30% |
| January 1, 2004 | 2.20% |
| January 1, 2005 | 1.80% |
| January 1, 2006 | 3.40% |
| January 1, 2007 | 0.70% |
| January 1, 2008 | 2.50% |

## Death Before Retirement

In the event of death prior to retirement, the deceased member's spouse will be entitled to the greater of the member's commuted value of accrued pension or two times the member's required contributions with interest payable as a locked-in transfer. In the event there is no spouse, such entitlement will be paid as a lump sum cash transfer to the deceased member's beneficiary or estate as the case may be.

## Death After Retirement

In the event of death after retirement, the form of pension elected at retirement will determine the benefits payable on death. Under the normal form of pension, payments will be made for the member's lifetime with the provision that if death should occur before 120 monthly payments have been made to the member, the balance of the 120 payments will be paid to the named beneficiary.

Unless the member's spouse has signed a waiver as required by applicable legislation, an actuarially equivalent amount of pension shall be paid to the member in a joint and 60% survivor form.

## Termination Benefits

Upon termination of employment prior to becoming vested, a member is entitled to an amount equal to the member's accumulated contributions with interest.

Upon termination of employment after becoming vested, a member is entitled to receive his or her accrued pension commencing on the normal retirement date and payable in the normal form. In lieu of a deferred pension, the member may elect a locked-in transfer equal to the greater of:

- the commuted value of the member's accrued pension, and
- two times the member's required contributions with interest.

The early retirement provisions applicable to a terminated vested member who elects a deferred pension are the same as those for an active member.