University of Saskatchewan
Academic Pension Plan (Retirees)

Funding Policy

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Background and Purpose

The University of Saskatchewan Academic Plan was established effective June 30, 1965. The nature of the plan changed significantly as a result of a process that was undertaken to divide the plan's assets between:

- members receiving a pension from the plan as at December 31, 1998 (the "Retiree Group");
- active and inactive members as at December 31, 1998 (the "New Academic Group"); and
- certain former members who elected to transfer their entitlement out of the plan prior to January 1, 1999 (the "Post-1993 Group").

This process was formally completed January 31, 2001 and, as a result, assets and liabilities in respect of the New Academic Group were transferred out of the plan to the *University of Saskatchewan 1999 Academic Pension Plan*. From this date, the plan's assets and liabilities are only in respect of the Retiree Group and the Post-1993 Group. All assets allocated to the Post-1993 Group as part of the Plan-Split process have been distributed to Post-1993 members.

The Plan provides a pension promise that is funded through accumulated investment returns. The level of assets required to fund the promised pensions 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 Financial Measurement Parameters 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. ▪ 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. ▪ Oversight of non-administrative operations has been delegated by the Board to the Retirees' Pension Committee who in turn make recommendations to the Board in relation to policy changes and Plan amendments.
Membership	▪ The Plan was closed to new members December 31, 1998. ▪ At December 31, 2015 there were 178 pensioners with an average age of 86.6 years.
Form of Pension Payments	▪ Pensions are paid monthly on the last business day of each month for an individual's lifetime with various survivor benefits being payable after death that are unique to each pensioner.
Indexing	▪ Contractual indexing has expired, however, pensions in pay may be granted ad-hoc increases at the discretion of the Board of Governors.
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	▪ As the plan is a closed plan, there are no contributions required for future service accruals. The University is responsible for any special payments that may arise in the future.

Investment policy

- Assets are invested in the Academic (Retirees) Pension Plan Fund.
- In February of 2011, the University and Retirees' Committee adopted an investment strategy which incorporates a liability driven approach to investing. As part of this strategy, the Fund was segregated into a liability matching portfolio and a return seeking portfolio. In 2011, 2012 and 2013, 5% of the Plan's assets (i.e. total of 15% over three years) were transferred from the return seeking portfolio to the liability matching portfolio. The following table provides the target asset mix of the Plan that is contained in the Plan's Statement of Investment Policies and Procedures:

Asset Class	**Minimum**	**Benchmark**	**Maximum**
Equities			
Canadian equities	10	15	20
U.S equities	5	7.5	10
Non North American equities	5	7.5	10
Total equities	20	30	40
Fixed Income			
Bonds	60	70	80
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 so as to avoid the risk of deficits. 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. ▪ 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. ▪ In the short term, a significant degree of uncertainty accompanies the rate of return given short-term economic volatility, particularly with equity based investments. ▪ 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 nature of the liabilities. ▪ Over the short and long-term the impact of members living longer than expected (i.e. the mortality risk) is expected to be significant as the average period until death is of a shorter term. Hence extending the average remaining lifetime by a modest amount has a greater impact.
Cash flow 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. ▪ 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.
Settlement risks	▪ Defined as the risk that the cost of buying annuities for the Plan are greater than expected. ▪ For pensions in pay, settlement values 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 and must be factored into the settlement liabilities, thereby increasing settlement liabilities. In addition, there is an

Risk	Commentary
	increased cost of purchasing annuities for a group with an advanced age.
Inflation risk	▪ Defined as the risk that member's pensions do not keep up with rate of inflation thus eroding the value of a member's pension.

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

Implication	Commentary
Increased contribution requirements for University	▪ Significant encumbrance in an environment where little excess cash flow is available to respond to increased contribution requirements.

Funding Principles

The Plan is administered on the basis of the following Funding Principles:

1. The Plan's investment income, and any required contributions of the University, in conjunction with the Plan’s benefit and investment policies, are designed to ensure that the Plan is fully funded so that the Plan’s benefit obligations are discharged on a sustainable basis.

~~2.~~ The determination of the amount required to ensure that the Plan is fully funded, as provided in paragraph 1, is made on the basis of expert actuarial assessment and professional investment advice.

3. When the Plan has assets with a value that is more than sufficient to sustain future benefit payment obligations, the surplus may be allocated to ad hoc indexing on an equitable basis for all Plan members and/or to further manage the Plan’s investment risk through changes to the asset mix and in accordance with these Funding Principles, and the requirements of the Income Tax Act.

4. Compliance with all statutory regulatory requirements and contractual obligations contained in the Plan documents.

Strategic Funding Objectives

1. The Going-Concern Measurement Basis is used as the actuarial basis to measure the Plan's asset, liabilities, surplus or deficit.

2. Margins in the Going-Concern Measurement Basis are maintained so that the actuarial value of liabilities measured by the Going-Concern Measurement Basis falls between 105% and 120% of liabilities measured using the Best Estimate Measurement Basis, as determined by the Actuary in a Formal Actuarial Review.

3. Notwithstanding the above, if the Plan's assets are insufficient to pay out benefits, the University would be responsible to pay benefits.

Governance

The Retirees Pension Committee has been delegated the responsibility to:

- implement the Funding Principles and
- set and when appropriate, make changes in practices in order to ensure compliance with the Funding Principles.

Formal Actuarial Reviews of the Plan's financial position will be conducted at least once every three years with annual status updates being received for information purposes.

The Plan’s risks will be reviewed and evaluated at the same time the Formal Actuarial Review is conducted.

The Funding Policy will be reviewed and evaluated periodically, at a minimum prior to each Formal Actuarial Review.

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.

Financial Measurement Parameters 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.

Formal Actuarial Review means a review of the Plan's financial position as prepared by the Actuary for the purpose of establishing a recommendation on the contributions that should be made to the Plan and that is filed with the regulators.

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 investment returns earned on assets held in the plan and on required contributions made by the plan sponsor.

Funding Outcomes means the outcomes 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:

- real rate of return assumption that reflects the current investment policy and the premise that this policy continues indefinitely into the future
- mortality assumptions;
- assumptions that are based on best estimate assumptions with appropriate margin to reflect the significance of the underlying risks and the Financial Measurement Parameters.

Appendix A

Summary of Plan Provisions

The following is a brief summary of the plan provisions at the valuation date that are relevant for the purposes of the calculations performed for this report. The following summary reflects the terms of the plan at the valuation date as amended up to valuation date.

Effective Date

The effective date of the plan is June 30, 1965. The nature of the plan changed significantly as a result of a process that was undertaken to divide the plan's assets between:

· members receiving a pension from the plan as at December 31, 1998 (the "Retiree Group");

· active and inactive members as at December 31, 1998 (the "New Academic Group"); and

· certain former members who elected to transfer their entitlement out of the plan prior to January 1, 1999 (the "Post-1993 Group").

This process was formally completed January 31, 2001 and, as a result, assets and liabilities in respect of the New Academic Group were transferred out of the plan to the *University of Saskatchewan 1999 Academic Pension Plan*. From this date, the plan's assets and liabilities are only in respect of the Retiree Group and the Post-1993 Group. All assets allocated to the Post-1993 Group as part of the Plan-Split Process have been distributed to Post-1993 members at the date of this report.

Membership

Members of the plan are those individuals receiving a pension from the plan. The plan is closed to new members.

Contributions

As the plan is a closed plan, there are no contributions required for future service accruals. The University is responsible for any special payments that may arise in the future.

Form of Pension Payments

Pensions are paid monthly on the last business day of each month for an individual's lifetime with various survivor benefits being payable after death that are unique to each pensioner.

Indexing

Contractual indexing has expired, however, pensions in pay may be granted ad-hoc increases at the discretion of the Board of Governors.