

Pension Plan for Employees of the University of Prince Edward Island

Town Hall Meeting

January 21, 2015



Agenda

- Purpose
- Financial update
- The positives
- The challenges
- Open discussion

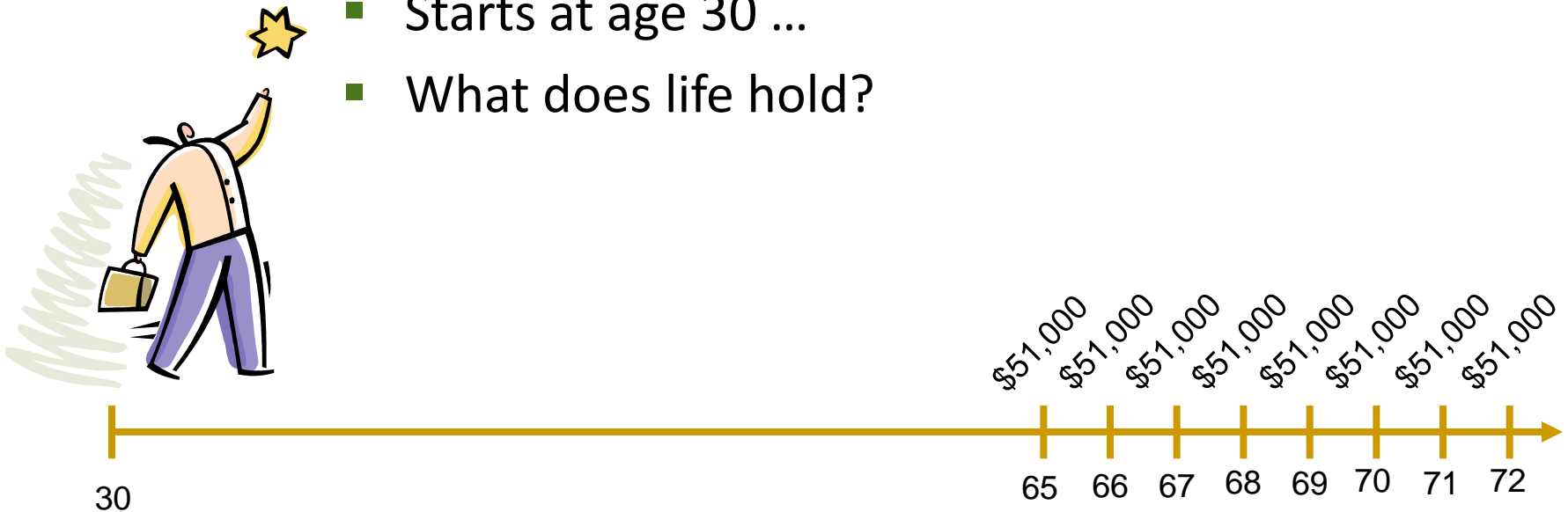
Taking a step back

- \$22,500 per year in 1983 ...
- Starts at age 30 ...
- What does life hold?



A lifetime benefit

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- Starts at age 30 ...
- What does life hold?



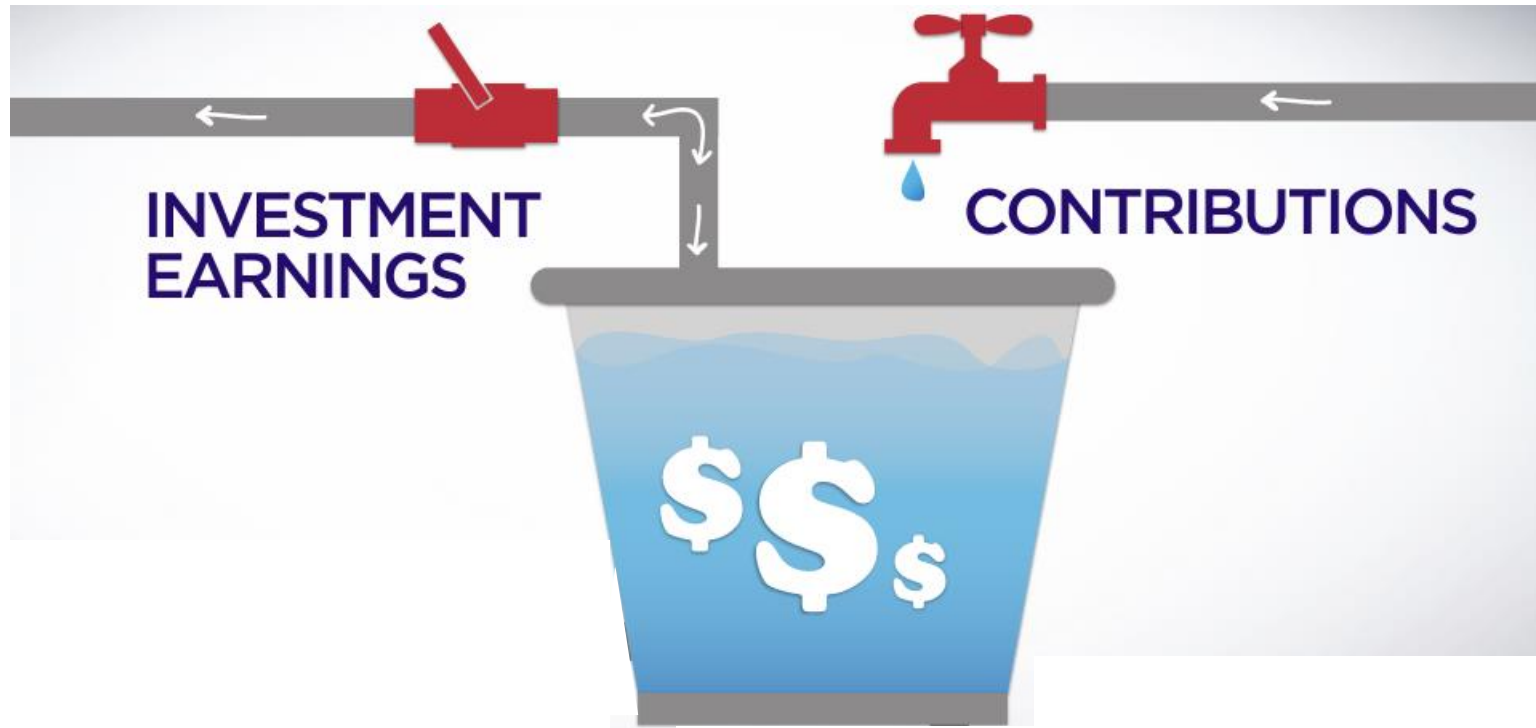
Fulfilling the promise ...



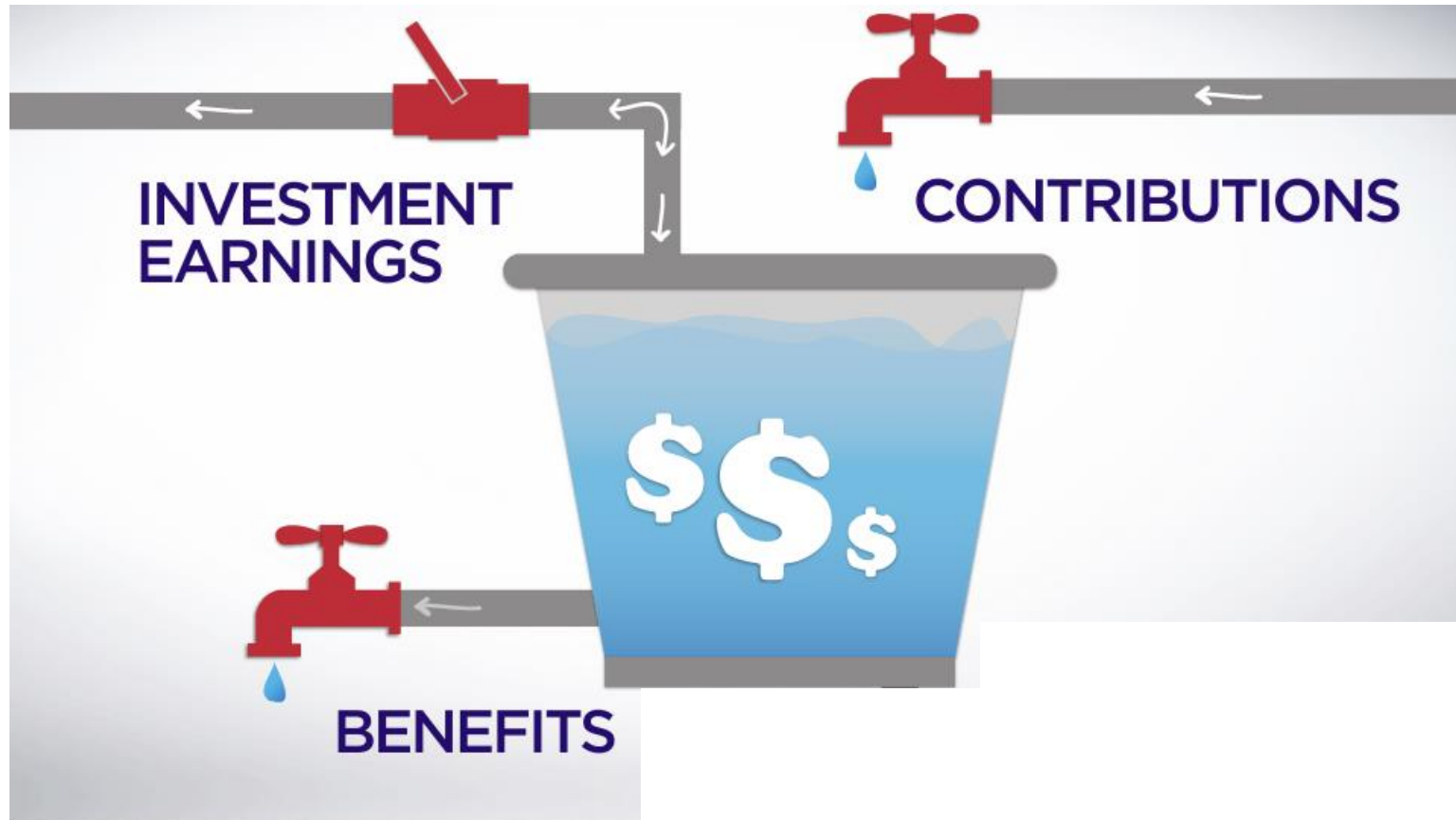
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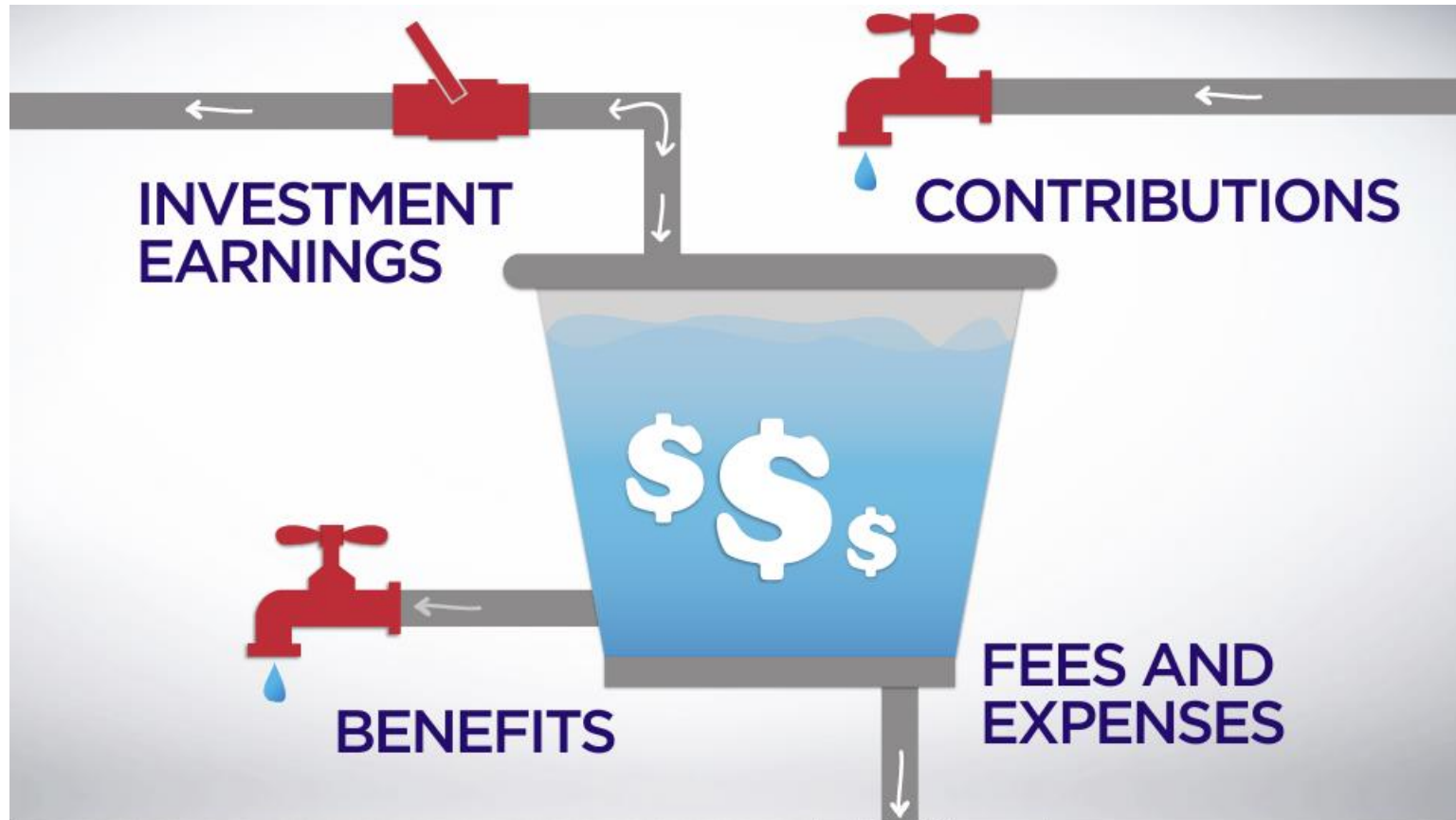
Fulfilling the promise ...



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Fulfilling the promise ...



Assessing the Plan's financial position

- Purpose: To pay pensions ... *today's and tomorrow's*
- Sources
 - The money in the bucket
 - The investment income it generates
 - Future contributions
 - The investment income they generate

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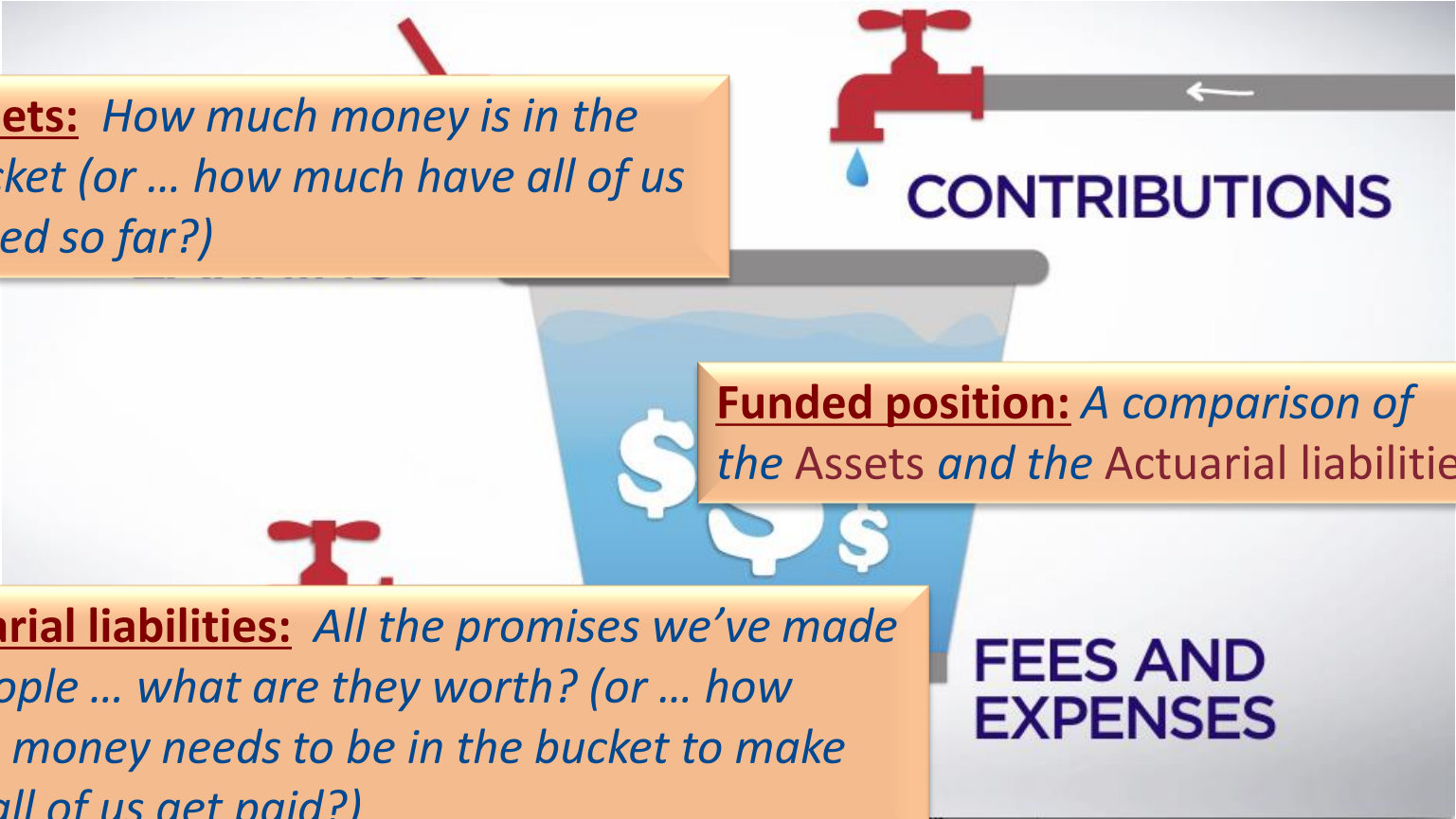
- Pensions being paid to current UPEI retirees
- Pensions earned to date by active employees that are presently contributing to the Plan

Assessing the Plan's financial position

- Purpose: To pay pensions ... *today's and tomorrow's*
- Sources
 - The money in the bucket
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 - Future contributions
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- Future pensions – yet to be earned – by active employees that are presently contributing to the Plan

A few definitions ...



Assets: *How much money is in the bucket (or ... how much have all of us saved so far?)*

Funded position: *A comparison of the Assets and the Actuarial liabilities*

Actuarial liabilities: *All the promises we've made to people ... what are they worth? (or ... how much money needs to be in the bucket to make sure all of us get paid?)*

Funded position (before adjustments)

	April 30, 2014
Assets (\$ millions)	205
Liabilities (\$ millions)	213
Surplus (Deficit) (\$ millions)	(8)
Funded ratio	0.965 (or 96.5%)

- Compared to 3 years ago ... substantial progress!
 - Deficit 3 years ago: **\$35** million
 - Highlights included very strong investment returns and additional “special” contributions

Funded position (after adjustments)

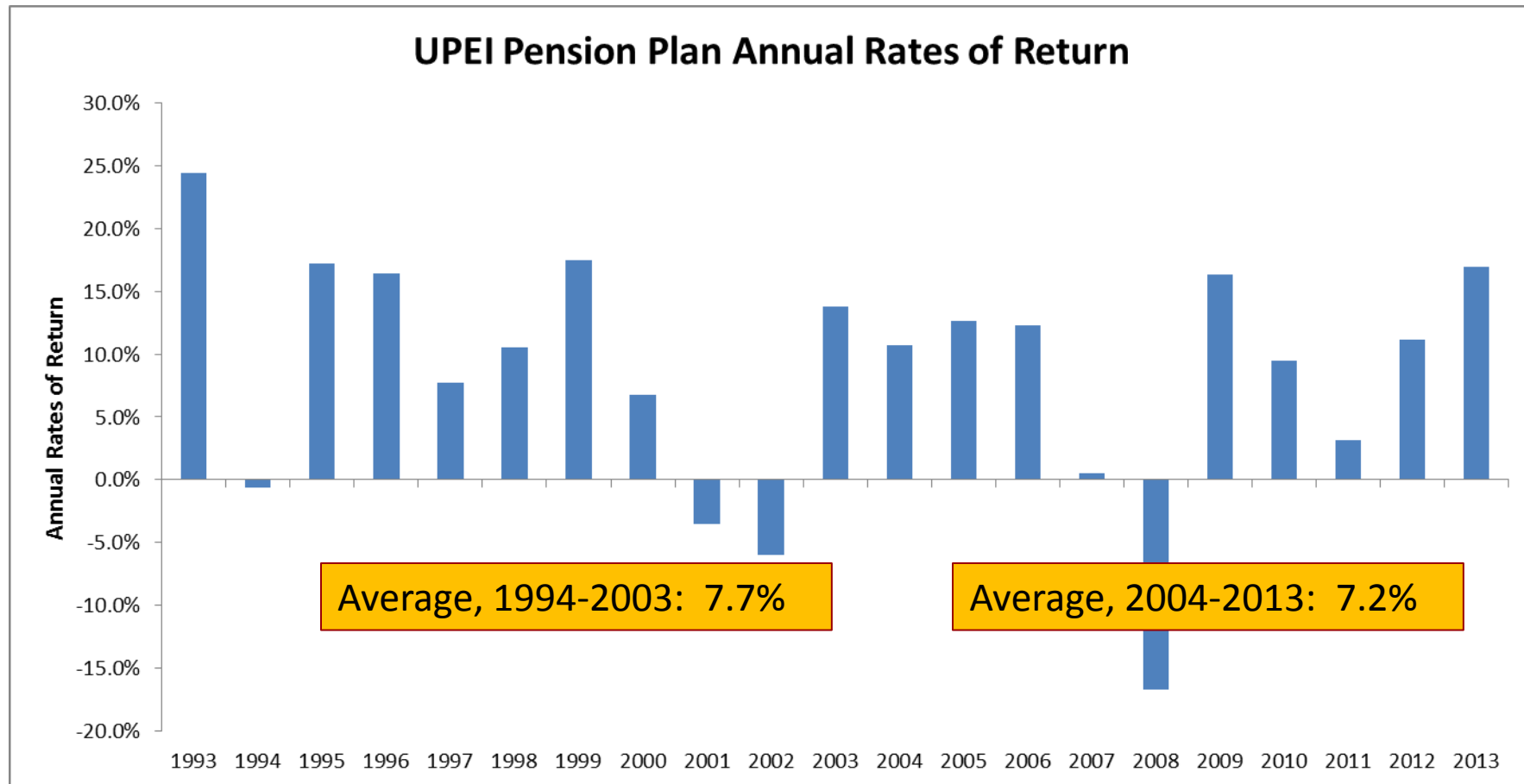
	April 30, 2014
Assets (\$ millions)	195
Liabilities (\$ millions)	232
Surplus (Deficit) (\$ millions)	(37)
Funded ratio	0.842 (or 84.2%)

- Adjustments include:
 - Lower expectations for future investment returns (\$7 million)
 - recognition of greater longevity (\$12 million); and
 - contingency for stock market declines (\$10 million)

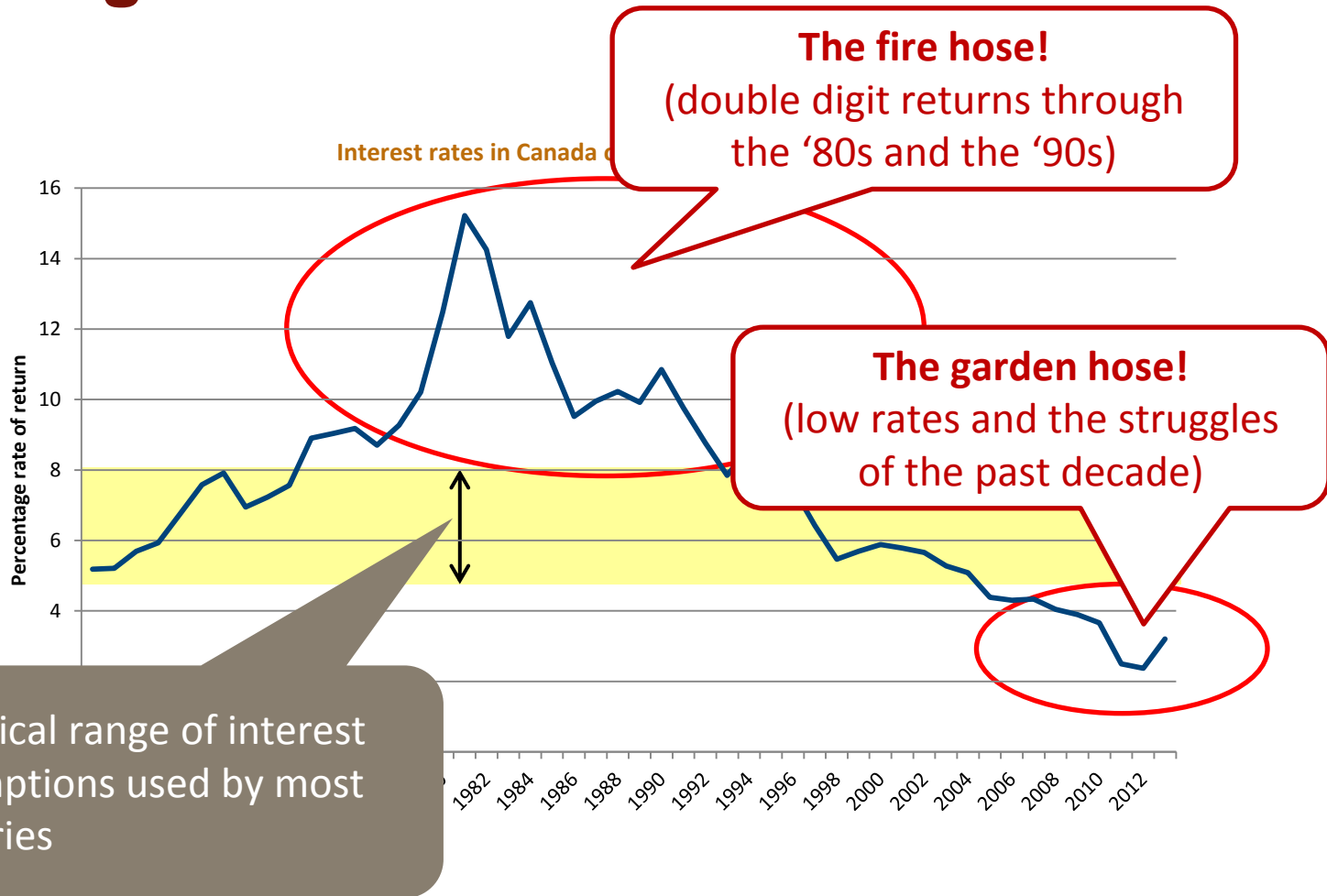
The challenges going forward (aka “Why???”)

- Declining interest rates
- Longer life expectancies
- Changing demographics
- Plan size

Historical rates of return at UPEI



Declining interest rates



Connections: interest rates, returns, risk

Period	Pension fund: Average annualized rate of return	The “risk-free” return available at the start of period	Payoff from taking risk (average, per year)
1994-2003	7.7%	7.8%	- 0.1%

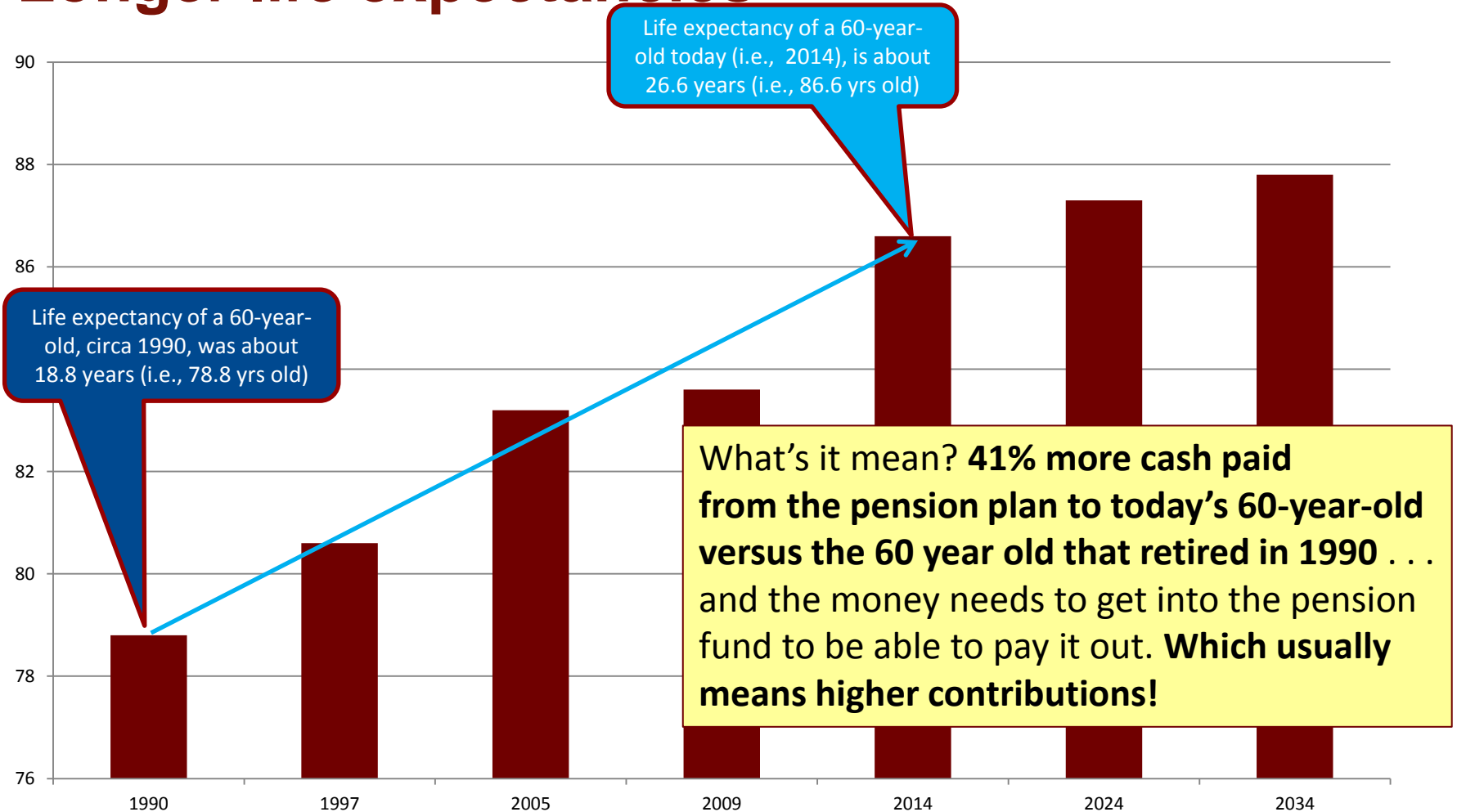
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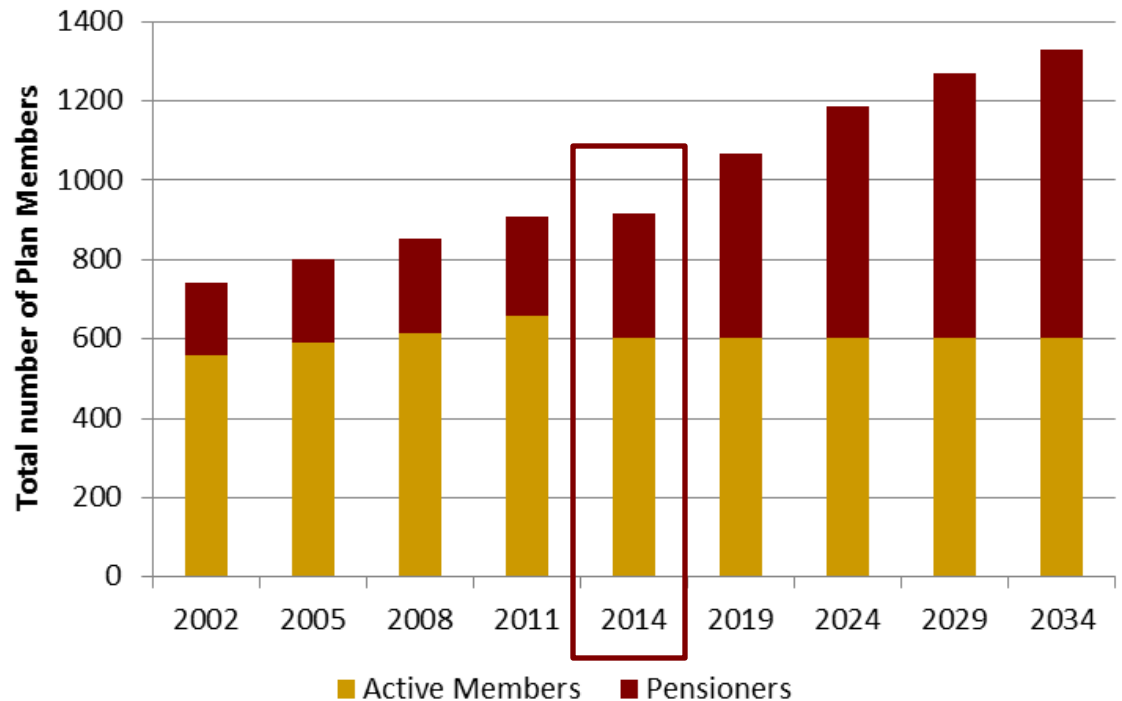
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2014-2023	??	3.2%	??

Longer life expectancies



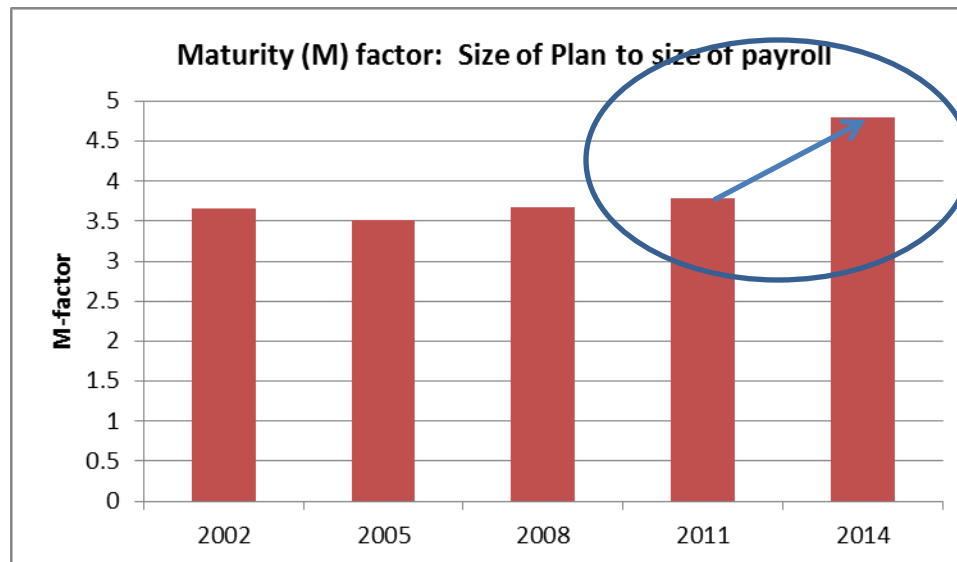
Changing demographics

- Pensioners today: 34% of total membership
- Pensioners comprise 42% of actuarial liability
- Increasing proportion going forward
- Sign of a maturing plan



Plan size

- Payroll base and the size of the plan



Plan size

- Maturity factor and why it's important
 - Reflects ability of payroll base to absorb shocks
 - Over 4.0 is “concern zone”
 - Approaching 5.0 is “danger zone”
 - 2002-2011: steady between 3.5 and 3.8
 - 2011-2014: jumped from 3.8 to 4.8
 - Projected to exceed 5.0 next 10 years

Contribution requirements

	2014-2015	
	% of payroll	\$M
Payroll		\$48.3
Contributions		
• Employees	9.1%	\$4.4
• Employer	<u>14.9%</u>	<u>7.2</u>
• Total	24.0%	\$11.6

- Compared to 2013-2014 – increase of approx \$1 million
 - Absorbed entirely by employer

Summary

- 84% funded, after adjustments
- Lots of good news, but challenges on the horizon
 - 24% aggregate contribution requirement (\$11.6 million)
 - Low interest rates, tighter margins, greater reliance on risk paying off
 - Longer life expectancies
 - Changing demographics, increasing plan size

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ISLAND

Eckler

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