

2018 Annual Report:

Pension Plan for the Employees of the University of Prince Edward Island



This report covers the period of January 1, 2018 to December 31, 2018.

A Message From Your Trustees

On behalf of the Board of Trustees of the Pension Plan for the Employees of the University of Prince Edward Island (UPEI Pension Plan), welcome to your Annual Report. This report provides important information on plan funding, performance and governance. It also highlights some key developments with your plan over the course of the previous year.

As you are aware, the UPEI Pension Plan transitioned to a Jointly Sponsored Pension Plan (JSPP), effective January 1, 2017. This transition was the result of negotiations throughout 2016 between the University and the unions: CUPE 1870, CUPE 501, IBEW 1928 and the Faculty Association (collectively, the "Unions"). There were no changes to the benefits or other plan provisions on transition. However, moving to a JSPP model means that plan governance is now shared equally between the University and the Unions. It also means greater transparency for members into the plan's operations, funding and decision-making.

As a result of this transition, the UPEI Pension Plan is now run by a Sponsor Board, which makes decisions relating to plan design and funding, and a Board of Trustees, which is responsible for the plan's day-to day operations and ensuring the funds are prudently managed. The Trustees attended a training day on February 27, 2018, to ensure a clear and comprehensive understanding of the scope of their responsibilities. Since that time, the Trustees have been hard at work and meeting regularly to ensure a smooth transition of plan administration responsibilities from the University to the Trustees.

The Trustees are committed to being transparent about the plan's operations and financial health, and will continue to monitor the plan to ensure it is operating in the best interests of the members.

Sincerely,

Board of Trustees of the Pension Plan for the Employees of the University of Prince Edward Island

Why you should read this report

It's our priority to ensure you have the information you need to understand how the pension plan works, its advantages and your role as a member. While your plan is a valuable asset, it's important to consider the impact of all income sources, not just your pension, when saving and planning for retirement.

This report provides an update on the plan's status as of December 31, 2018 – including information on performance and investment earnings, as well as plan developments and changes over the course of the year.

Share your views

This is the first annual report that the Board of Trustees has issued. We welcome your feedback to improve this report in future years. We encourage you to read it carefully and get in touch if you have any questions.

What's inside

<i>Financial Highlights</i>	2	<i>Governance</i>	4
<i>Funding</i>	3	<i>Contact Us</i>	4

Financial Highlights

2018 was a challenging year for most pension plans, including ours. After an extended bull market, we saw the return of market volatility late in the year, which had an impact on investment returns.

The plan's portfolio returned 2.32% in 2018, with a net return for the year of 1.63%. However, the plan's 5-year gross rate of return was 7.13% - higher than the plan's benchmark return of 5.81%.

Especially during periods of market volatility, it's important to keep in mind that pension plans are designed to operate for a long time, and longer-term performance is key. While the plan has recently experienced some downturns, its average return over the last 10 years was 9.19%, compared with a benchmark of 7.58%. That means the plan's performance has exceeded the benchmark by 1.61% per year (on average) over the last 10 years.

Plan performance & asset mix

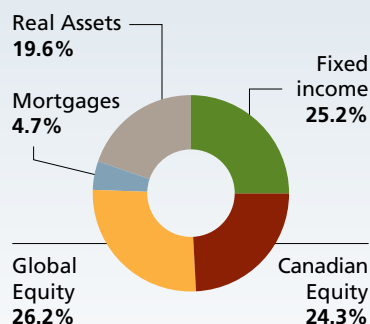
Despite the market volatility, assets increased by 0.39% from December 31, 2017 to December 31, 2018, due to positive investment returns. The table below provides an overview of the plan's 1-year, 4-year and 10-year performance:

Time period	Gross rate of return (as at December 31)
1 year	2.32%
4 years	6.53%
10 years	9.19%

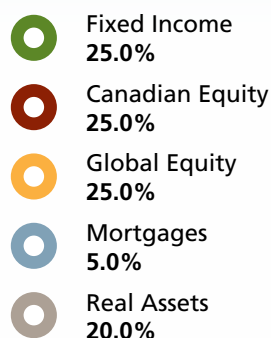
There were no changes to the plan's asset mix, policy or investment managers during 2018. The Trustees periodically review the asset mix, monitor performance and strategically manage the plan's investments to ensure they continue to meet the plan's objectives.

Your plan's asset mix

As of December 31, 2018



TARGET ASSET MIX:



Membership data

	Actives	Deferred	Retirees	Total
As of December 31, 2017	625	82	406	1,113
Retired	-15	-1	16	0
Move to deferred status	-10	10	0	0
Termination paid	-9	-3	0	-12
Death	-2	0	-15	-17
New survivors	0	0	6	6
New entrants	59	0	0	59
As of December 31, 2018	648	88	413	1,149

Financial highlights

Market value of assets as of January 1, 2018	\$261,528,696
Employee regular contributions	\$4,788,008
Employer regular contributions	\$4,849,175
Employee past service contributions	\$39,548
Termination/death payouts	- \$722,570
Payments to pensioners	- \$12,263,272
Plan expenses ¹	- \$1,777,762
Investment income	\$6,106,772
Market value of assets as of December 31, 2018	\$262,548,595

¹ Expenses relate to investment management, audit, actuarial and administration

Funding

The plan's growth and future financial health depends on contributions (from both members and the University) and, to a greater extent, on investment returns.

The UPEI Pension Plan has two categories of contributions: regular and special. The plan's combined contribution rates are as follows:

- **Member contributions:** 8.99% of pensionable payroll (8.22% on CPP earnings and 10.02% on non-CPP earnings)
- **University contributions:** 9.11% of pensionable payroll

The above rates include special contributions from the members and the University to address past deficits. Special contributions are as follows:

- **Special Member contributions:** 0.88% of pensionable payroll (payable until June 30, 2025)
- **Special University contributions:** 1.0% of pensionable payroll (payable until September 30, 2031)

Since investment returns finance most of the pensions paid to members, the level of return will largely determine the plan's future financial health. Under the JSPP model, when a surplus or deficit situation arises, the Trustees will assess the situation and develop recommendations for the Sponsor Board to consider, as it determines how to allocate the surplus or address the deficit.

The *Income Tax Act* requires the UPEI Pension Plan to conduct an actuarial valuation at least once every three years. An actuarial valuation is an appraisal of a pension

fund's assets versus its liabilities, using investment, economic and demographic assumptions to determine its funded status. The funded status reflects the plan's financial health and helps gauge when corrective action is required. The UPEI Pension Plan relies on a "going concern" valuation, which assumes the plan will continue to operate indefinitely into the future.

Our plan's next formal valuation will be on April 30, 2019. The most recent valuation was on September 30, 2016 and showed the plan was 96% funded on a going-concern basis.

Indexing

The UPEI Pension Plan design provides for indexing: the practice of awarding small periodic increases to your pension benefit to help offset the impact of inflation. However, to help maintain overall plan sustainability, indexing is contingent on the plan's 4-year average net rate of return exceeding 6%. When awarded, indexing is effective on January 1 each year.

The table below provides a summary of pensioner indexing in recent years:

Effective date	Indexation
January 1, 2018	1.45%
January 1, 2017	1.43%
January 1, 2016	1.13%
January 1, 2015	1.91%



Governance

As noted earlier in this report, one of the key features of the JSPP model is shared governance between the University and plan members.

Governance responsibilities are split between the Sponsor Board and the Board of Trustees – both of which have equal representation from the University and the Unions. Both Boards have an important role to play in managing the plan and ensuring its successful ongoing operation.

The Sponsor Board is responsible for:

- Setting benefits, contributions and funding policies for the plan;
- Determining the timing of actuarial valuations of the plan; and
- Determining the level of risk appropriate for the plan's asset mix.

The Board of Trustees is responsible for:

- Member communication (e.g., issuing annual pension statements to active plan members);
- Administering and investing the plan for the benefit of its members and other beneficiaries; and
- Making decisions about the plan's day-to-day operations, including:
 - Preparation of actuarial valuations and yearly audited financial statements;
 - Ensuring compliance with all applicable laws;
 - Investment of plan assets; and
 - Payment of pension benefits to members.

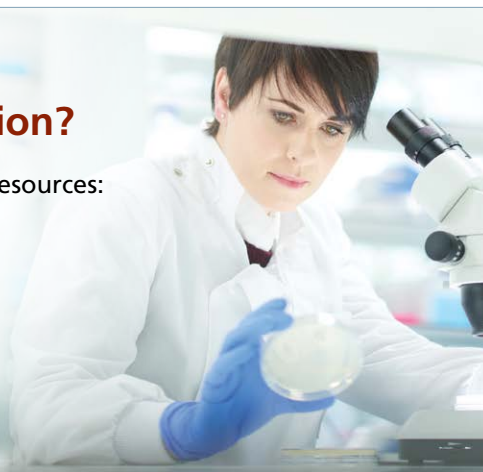
Have questions or need more information?

Contact Megan Gee in Human Resources:

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Fax: (902) 894-2895



Final word

This report provides summary information about the Pension Plan for the Employees of the University of Prince Edward Island in simple terms. It is not intended to be comprehensive or to provide advice. If there are any differences between the information provided in this report and the legal documents that govern the plan, the legal documents will apply.

Pension Plan for the Employees of the University of Prince Edward Island –
Registration N°. 05290635

Sponsor Board

EMPLOYER

Alex MacBeath (Co-Chair)
Board of Governors

Peter Hayes
Board of Governors

Jackie Podger
VP Administration & Finance

Charlotte McCardle
Manager, Strategic Planning

UNIONS

Jerrad Gilbert (Co-Chair)
CUPE 1870

Nola Etkin
Faculty Association

David Cserynik
CUPE 501

Don Large
IBEW 1928

Trustee Board

EMPLOYER

Tara Judson (Co-Chair)
Comptroller

Jim Bradley
Board of Governors

Ed Lawlor
Board of Governors

Susan Connolly
Associate VP, Human Resources & Legal

Kathy MacKenzie
Retiree Appointee

UNIONS

Pat Doyle (Co-Chair)
CUPE 1870

Jason Stevens
Faculty Association

Crystal Squires
CUPE 501

Jonathan Holmes
IBEW 1928

Betty Jeffery
Retiree Appointee