Financial Statements

University of Victoria Combination Pension Plan

December 31, 2017

Contents

Independent Auditor's Report

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To the Trustees of University of Victoria Combination Pension Plan

University of Victoria Combination Pension Plan
Statement of Financial Position

December 31 (expressed in $000's)		2017		2016
Assets				
Cash	$	3,201	$	2,589
Investments (Note 4)				
Short-term		11,316		

University of Victoria Combination Pension Plan
Statement of Changes in Obligations for Benefits

Year Ended December 31 (expressed in $000's)	2017	2016
Change in obligations for benefits - defined contribution		
Beginning balance, obligations for defined contribution benefits	$ 927,578	$ 895,756
Net investment returns	84,460	41,138
Contributions	25,835	23,404
Benefits paid	(28,852)	(26,218)
Accounts transferred or refunded	(14,541)	(6,502)
Change in obligations for benefits	66,902	31,822
Ending balance	$ 994,480	$ 927,578
Change in obligations for benefits - defined benefit		
Beginning balance, obligations for accrued defined benefit pensions and supplements	$ 46,253	$ 67,936
Actual plan experience and changes in actuarial assumptions	2,018	(20,515)
Interest accrued on benefits	3,094	4,540
Experience gains	(4,799)	(9,533)
Benefits accrued	3,373	4,378
Benefits paid	(687)	(553)
Change in obligations for benefits	2,999	(21,683)
Ending balance	$ 49,252	$ 46,253

See accompanying notes to the financial statements.

1. Description of plan

The following description of the University of Victoria Combination Pension Plan ("the Plan") is a summary only. Plan assets are distributed over two funds: the Balanced Fund and the Defined Retirement Benefit Fund. Individual member accounts (Combined Contribution Accounts, Variable Benefit Accounts, and Additional Voluntary Contribution Accounts) are held in the Balanced Fund. The Defined Retirement Benefit Fund holds the assets of the Defined Retirement Benefit Account ("DRBA") from which defined benefit pensions and supplements are paid. For more complete information, reference should be made to the Trust Agreement.

(a) General

The Plan is a defined contribution pension plan which contains, subject to eligibility and member choice, a defined benefit supplement to bring a retirement pension up to a minimum calculated under a defined benefit formula. The Plan covers all full-time faculty, academic and professional staff holding regular appointments.

(b) Funding policy

In accordance with the Trust Agreement and the recommendation of the plan actuary, members are required to contribute 4.35% of their basic salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($55,300 in 2017), and 6.35% of the basic salary in excess of that amount. The contributions are directed to the members' combined contribution accounts.

The University contributes 6.02% of basic salary up to the YMPE, and 7.65% of the basic salary in excess of that amount. The contributions are directed to the members' combined contribution accounts. The University contributes an additional 5.05% of basic salary to the Defined Benefit Retirement Fund to fund the defined benefit minimum. In the event that the actuary recommends additional contributions to fund the defined benefit minimum, the plan document provides for one-third and two-thirds sharing between members and the University.

The total combined member and University contributions to a member's combined contribution account in a calendar year are limited to the Income Tax Act (Canada) maximum ($26,230 in 2017).

Subject to Income Tax Act (Canada) maximums, members may elect to make additional contributions to a voluntary contribution account through payroll deduction or by transfer from other registered vehicles.

(c) Investment o ptions

Members' combined contribution accounts and additional voluntary accounts are invested in a balanced fund.

1. Description of plan (continued)

(d) Retirement

All members are eligible for a retirement benefit. Normal retirement is the end of the month in which the member attains age 65. Members may elect early retirement any time after attaining the age of 55, or postpone retirement benefits until December 1st of the calendar year in which the member attains age 71.

(e) Retirement options

At retirement, members can apply the balance in their combined contribution accounts to one or a combination of the following forms of benefits:

- Internal variable annuity with, subject to eligibility, a defined benefit supplement. The defined benefit supplement is the amount, if any, by which the defined benefit minimum exceeds the internal variable annuity. The defined benefit minimum at normal retirement is 1.3% of the member's final average earnings up to the three year average YMPE, multiplied by years of service; plus 2% of the member's final average earnings that are in excess of the three year average YMPE, multiplied by years of service. The final average earnings are calculated as the member's average for the highest consecutive five years. The defined benefit minimum is limited to $2,914 per year of service credited after 1990 and is actuarially reduced for early retirement.
- External annuity from a life insurance company.
-

1. Description of plan (continued)

(g) Survivor benefits (continued)

The survivor benefit for a beneficiary who is not a spouse is the balance accumulated in the Combined Contribution Account (CCA) and, if applicable, Voluntary Contribution Account(s), payable in a cash lump sum, less applicable withholding tax.

The survivor benefit for a variable benefit pensioner is the total in the member's Variable Benefit Account.

The survivor benefit for a pensioner in receipt of an internal variable annuity pension from the Plan is determined by the optional form selected by the member immediately prior to commencement of the annuity. If the member has a spouse, the member must select a form which provides at least a lifetime 60% survivor benefit unless the spouse completes a waiver.

(h) Adjustme nts to pensions

Internal variable annuities are adjusted each July 1st based on the investment performance

3. Summary of significant accounting policies (continued)

(c) Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management, within the assumption parameters regarding pension liabilities approved by the Plan's actuaries, to make estimates and assumptions that affect the reported amounts of assets and liabilities and dis3iesent-6.3(i)3.1(t)-1(h C)-2o.1(t)-1 amo5esent-6.3

5. Net return on investments

Net investment returns less operating expenses are distributed to members'

December 31, 2017 (expressed in $000's)

6. Obligations for pension benefits – defined benefit minimum (continued)

The assumptions used in determining the actuarial present value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial economic and demographic assumptions used in the valuation were:

	December 31, 2017	December 31, 2016
Economic assumptions :		
Valuation discount rate	6.25% per annum	6.50% per annum
Assumed return on CCA	6.00% per annum	6.00% per annum
Salary scale – faculty members	2.50% per annum plus career progression increments (CPI), merit increments (MI), and dollar amount adjustments (DPA)	2.50% per annum plus career progression increments (CPI), merit increments (MI), and dollar amount adjustments (DPA)
Salary scale – administrative and academic professional staff members	5.264% for the first 8 years of service, 2.00% thereafter	5.264% for the first 8 years of service, 2.00% thereafter
Annual rate of inflation	2.00% per annum	2.00% per annum
YMPE increase, increase to ITA maximum pension and contribution limits	3.00% per annum	3.00% per annum

Demographic assumptions:

Termination rates

Faculty members:

Termination rate starts at 8%
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December 31, 2017 (expressed in $000's)

7. Net assets available for benefits

The net assets available for benefits as at December 31 are allocated as follows:

	2017	2016
Combined contribution accounts ("CCA")	$ 478,925	$ 464,224
Variable benefit accounts ("VBA")	394,693	359,246
Additional voluntary contribution accounts ("AVC")	18,664	16,265
Defined retirement benefit account ("DRBA")	194,440	169,061
Internal variable annuity account ("IVAA")	102,198	87,843
	$ 1,188,920	$ 1,096,639

8. Combined contribution accounts ("CCA")

Each member of the plan who is not a pensioner has a CCA which is reported annually to the member. CCAs are invested in the Balanced Fund.

9. Variable benefit accounts ("VBA")

11. Defined retirement benefit account ("DRBA")

The DRBA is a reserve to fund existing defined benefit pensions and supplements and to offset future obligations for defined benefit supplements.

12. Internal variable annuity account ("IVAA")

The IVAA provides benefits to members who elected to take internal variable annuities with all or part of their CCA, VBA and AVC. The IVAA is invested in the Balanced Fund.

13. Risk management

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values. Fair values of investments are exposed to market risk, liquidity risk and credit risk.

Market risk
Market risk is comprised of currency risk, interest rate risk, and other price risk.

Currency risk: Currency risk relates to the possibility that the investments will change in value due to future fluctuations in US, Euro and other international foreign exchange rates. For example, a 5% strengthening (weakening) of the Canadian dollar against foreign currencies at December 31, 2017 would have decreased (increased) investments held in foreign currencies by approximately $23.0 million (2016: $20.5 million).

Currency risk associated with foreign equities may be hedged at the discretion of the Global Equity Manager, BC Investment Management Corporation, in order to protect the value of foreign equity investments from the impact of an appreciating Canadian dollar (relative to the foreign currency).

The Fixed Income Manager may purchase US Treasury Bonds, provided the foreign currency exposure is hedged through the purchase of currency contracts.

Interest rate risk: Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Duration is an appropriate measure of interest rate risk for fixed-income securities (bonds, mortgages and short-term notes) as a rise in interest rates will cause a decrease in the price of fixed income securities – the longer the duration, the greater the effect. At December 31, 2017, the average duration of the fixed income securities was 7.4 years (2016: 7.6 years). Therefore, if nominal interest rates were to increase by 1%, the value of the fixed income securities would drop by 7.4% (2016: 7.6%).

13. Risk management (continued)

Market risk (continued)

Other price risk: Other price risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. This risk is reduced by the investment policy provisions approved by the Board of Pension Trustees for a structured asset mix to be followed by the investment managers, the requirement for diversification of investments within each asset class and credit quality constraints on fixed income instruments. Other price risk can be measured in terms of volatility, the standard deviation of change in the value of a financial instrument within a specific time horizon. Based on the v

December 31, 2017 (expressed in $000's)

13. Risk management (conti nued)

Credit risk

Credit risk relates to the possibility that a loss may occur from failure of a fixed income security issuer to meet its debt obligations. At December 31, 2017, the maximum risk exposure for this type of investment is $310.8 million (2016: $299.7 million) in the Balanced Fund and $38.7 million (2016: $34.6 million) in the Defined Retirement Benefit Fund.

The Plan limits credit risk by investing only in short term debt rated R1 or higher and other debt rated BBB or higher, as rated by the Dominion Bond Rating Service or equivalent. Debt rated below BBB is only permitted in the case of a high yield bond fund which has been specifically approved for investment by the Board of Pension Trustees.

The following shows the percentage of bond holdings in the portfolio by credit rating.

Rating	Balanced Fund	Defined Retirement Benefit Fund
AAA	45.4%	43.6%
AA	28.4%	29.7%
A	15.5%	15.7%
BBB	10.0%	10.0%
BB and below	0.7%	1.0%

14. Capital disclosures

The purpose of the Plan is to provide pension benefits to plan members. As such, when managing capital, the objective is to preserve assets in a manner that provides the Plan with the ability to continue as a going-concern, to have sufficient assets to meet future obligations for benefits and to have sufficient liquidity to meet all benefit and expense payments.

In accordance with regulatory requirements, the Board of Pension Trustees has established a Statement of Investment Policies and Procedures (“SIP&P”) which sets out the investment principles, guidelines and monitoring procedures that are appropriate to the needs and objectives of the Plan. The SIP&P sets out benchmarks and asset allocation ranges that are intended to best secure the obligations for pension benefits and result in reasonable risk-adjusted return on investment. Individual investment decisions are delegated to investment managers subject to the constraints of the SIP&P and individual manager mandates. As required, the Board of Pension Trustees reviews the SIP&P and manager structure at least annually, and makes such changes to the SIP&P and/or mandates as it deems necessary. With the assistance of an outside consultant, the Board of Pension Trustees and the Pension Office regularly monitor the asset mix of each manager and fund to ensure compliance with the SIP&P and mandates.

December 31, 2017 (expressed in $000's)

14. Capital disclosures (continued)

The benchmark and ranges for the funds are as follows:

	Balanced Fund		DRBA	
	Benchmark	Range	Benchmark	Range
Cash and equivalents	0%	0-21%	0%	0-20%
Canadian bonds	36%	20-46%	20%	15-25%
Canadian equities	22%	14-27%	25%	15-35%
Foreign equities	32%	20-40%	45%	40-50%
Real estate	10%	5-15%	10%	5-15%

The Plan is also subject to the Pension Benefits Standards Act (BC) and Regulations, which require that solvency and going concern actuarial valuations are performed every three years, at which time the Plan must take measures to eliminate any funding deficiencies that may arise.