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# Annual Pension Meeting

**Tuesday June 26, 2012**

11:30 am to 1:00 pm

Academic South 217

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The Brock University Pension Committee invites all members of the Brock University Pension Plan (the "Plan") to attend the Annual Pension Meeting on June 26, 2012 from 11:30 am to 1:00 pm in Academic South 217. The Plan's actuary and investment consultant will be at the meeting to present information regarding the funded status of the Plan, fund managers, market and fund performance and other issues relevant to Plan members.

Understanding that not all Plan members can attend the meeting, a member information document is available for review on the pension web site:

[www.brocku.ca/hr-ehs/pension-new/member-pension](http://www.brocku.ca/hr-ehs/pension-new/member-pension)

As always, if you have any pension related questions please contact Wanda Fast ([wfast@brocku.ca](mailto:wfast@brocku.ca) or ext. 4898) or Janice Facey ([jfacey@brocku.ca](mailto:jfacey@brocku.ca) or ext. 3186).

## **Brock University Pension Plan Member Update - 2012**

### **July 1, 2011 Actuarial Valuation (Funded Status of the Brock University Pension Plan)**

The Brock University Pension Plan (BUPP) is a hybrid pension plan, composed of both a Defined Contribution component (Money Purchase Pension) and a Defined Benefit component (Minimum Guaranteed Pension).

For the Defined Contribution portion of the Plan, by definition, assets always equal liabilities and, as such, this portion of the Plan is always fully funded. Employee and employer contributions are credited to Money Purchase Accounts. The amount of Money Purchase Accounts changes through time due to the addition of new contributions and the fund rate of return, which can be positive or negative.

Because the Brock Pension Plan provides a minimum guarantee benefit, the University is required to prepare an actuarial valuation at prescribed intervals to determine the required contributions to the Minimum Guarantee Fund. These contributions are made by the University and are in addition to the contributions that the University makes to individual member's Money Purchase Accounts. This is a contractual obligation which is met whenever necessary by the University.

Mercer, the actuary for the BUPP, has completed and filed the most recent actuarial valuation with the Canada Revenue Agency and Financial Services Commission of Ontario. The valuation, effective July 1, 2011 with a March 31, 2012 filing deadline, is posted for reference by plan members on the Brock University pension web site <http://www.brocku.ca/hr-ehs/pension-new/funding-status>. Also posted is a background document prepared by Mercer which provides general information on actuarial valuations. Highlights of the July 1, 2011 valuation are as follows:

#### **Solvency Valuation**

A solvency valuation assumes that a pension plan is terminated on the valuation date and uses prescribed assumptions. Regulations allow certain adjustments to solvency calculations such as the exclusion of indexing. Solvency deficits must be amortized over a 5 year period. According to the July 1, 2011 valuation the BUPP has a solvency surplus of \$1,871,000 therefore does not have a solvency deficit to be amortized.

#### **Going Concern Valuation**

A going concern valuation assumes that a pension plan will continue indefinitely and uses assumptions set by the actuary with input from the plan sponsor. Going concern deficits must be amortized over a 15 year period. The last valuation at July 1, 2008 showed a going concern deficit of \$4,203,000. According to the July 1, 2011 valuation the BUPP going concern deficit has increased to \$35,442,000; this amount will be amortized over a 15 year period.

Details of the financial position of the BUPP on a going concern basis are as follows:

<b>Assets</b>	<b>1-Jul-2011</b>	<b>1-Jul-2008</b>
Money Purchase, Short Term Account, AVCs and Special Transfer Funds	\$212,448,000	\$187,521,000
Variable Annuity Fund	\$62,264,000	\$60,284,000
Minimum Guarantee Fund	\$7,624,000	\$6,071,000
Mortality Reserve Account	\$0	\$0
<b>Total Assets</b>	<b>\$282,336,000</b>	<b>\$253,876,000</b>
<b>Liabilities</b>		
Money Purchase, Short Term Account, AVCs and Special Transfer Funds	\$212,448,000	\$187,521,000
Variable Annuity Fund	\$62,264,000	\$60,284,000
Accrued Active Members' Supplemental Benefits	\$33,617,000	\$7,871,000
Retired Members' Supplemental Benefits	\$9,449,000	\$2,403,000
<b>Total Liabilities</b>	<b>\$317,778,000</b>	<b>\$258,079,000</b>
<b>Funding excess (shortfall)</b>	<b>(\$35,442,000)</b>	<b>(\$4,203,000)</b>

**Estimated Minimum Required Annual Contributions to the BUPP**

	<b>Contributions</b>			
	<b>University 1-Jul-11</b>	<b>Employee 1-Jul-11</b>	<b>University 1-Jul-08</b>	<b>Employee 1-Jul-08</b>
<b>Money Purchase Account</b> (Defined Contribution Portion of Plan)				
Matching Contribution	\$6,173,000	\$6,173,000	\$5,353,000	\$5,353,000
Additional Contribution	<u>\$3,634,000</u>		<u>\$3,162,000</u>	
	\$9,807,000		\$8,515,000	
<b>Minimum Guarantee Account</b> (Defined Benefit Portion of Plan)				
Estimated Current Service Cost	\$2,356,000		\$606,000	
Special Going Concern Payments	<u>\$3,452,000</u>		<u>\$421,000</u>	
	\$5,808,000		\$1,027,000	
<b>Total Minimum Required Contributions</b>	<b>\$15,615,000</b>	<b>\$6,173,000</b>	<b>\$9,542,000</b>	<b>\$5,353,000</b>

### **Why has the going concern deficit increased between the two valuations?**

Reasons for the increase in going concern deficit between July 2008 and July 2011 include:

- Impact of market conditions during the time period which produced actual rates of return less than the assumed rate of 6%
- A lower discount rate assumption used in the calculation (5.25% in 2011 vs. 6% in 2008)
- Actual compensation increases for active employees between the last valuation (2008) and current valuation (2011) exceeded the compensation increases assumed in the 2008 valuation

### **Where does the money come from to pay for pension deficits?**

All university pension contributions, including special payments associated with deficits, are paid for from the University's operating budget. As stated above, this is a contractual obligation which is met whenever necessary by the University.

## **Change in Canadian Equity Fund Manager**

Through the past year, the Pension Committee conducted a search for a new Canadian equity manager which would fit with the investment strategy of the BUPP (downside protection in bear markets). In December of 2011, upon recommendation by the Pension Committee, the Board of Trustees approved the termination of McLean Budden and the hiring of Mawer Investment Services ("Mawer") as Canadian Equity Manager for the BUPP. Funds were transferred from McLean Budden to Mawer in January 2012. Mawer, an investment firm founded in 1974, has approximately \$9.6B in assets and is based in Calgary. Mawer's core investment philosophy is to systematically build portfolios by buying wealth creating companies at a discount to intrinsic value, which have excellent management teams. More information regarding Mawer can be obtained at the following web site: <http://www.mawer.com/>.

## **Legislative Changes Related to the Valuation and Division of Pension Assets on Breakdown of a Spousal Relationship**

The Ontario government has introduced new regulations regarding the valuation and division of pension assets on breakdown of a spousal relationship on and after January 1, 2012. Required amendments associated with the legislative changes have been made to the Brock University Pension Plan. The major reforms that have occurred with the introduction of the new regulations, as indicated on the web site for the Financial Services Commission of Ontario (FSCO), are:

**Immediate payment of pension assets** – Former spouses of plan members will be able to receive an immediate payment of their share of the pension assets. Prior to January 1, 2012 the former spouse could not receive payment of their share of the pension assets until the plan member terminated or retired.

**Valuation of pension assets** – The valuation of the pension assets will be calculated by the plan administrator (Brock University – Human Resources), in accordance with formulas

set out in the new family law regulations made under the Pension Benefits Act. Prior to January 1, 2012 the valuation of assets was determined by the member and former spouse with the support of legal counsel and/or actuaries.

**Application to Plan Administrator** – The parties must make application directly to the plan administrator (Brock University – Human Resources) in order to receive the valuation of pension assets for the division of the pension assets. Plan members and former spouses can obtain application forms from the FSCO web site. In recognition that pension plans will be incurring additional expenses due to the new responsibility for calculations associated with the valuation of the assets, the plan administrator may charge a fee to perform the valuation of pension assets. The fee applicable to each application related to the Brock University Pension Plan is \$800.

**FSCO Family Law Forms** – FSCO has developed Superintendent of Financial Services approved forms related to the valuation and division of pension assets on breakdown of a spousal relationship. These forms must be used by plan administrators and former spouses when pension assets are to be valued and/or divided.

**FSCO web site – Marriage Breakdown information:**

[http://www.fSCO.gov.on.ca/en/pensions/Family-Law/Pages/marriage\\_breakdown.aspx](http://www.fSCO.gov.on.ca/en/pensions/Family-Law/Pages/marriage_breakdown.aspx)

## **2011 / 2012 Market and Plan Performance**

### **How have the markets performed during the current Plan year?**

Year-to-date rates of return (from the standpoint of a Canadian investor) in various market indices are summarized in the following table.

Market Returns July 1, 2011 to March 31, 2012

<b>Index</b>	<b>\$Cdn</b>
S&P/TSX Composite (Canada)	-4.9%
S&P 500 (USA)	12.3%
MSCI EAFE	-3.9%
MSCI World	3.7%
DEX Bond Universe	7.1%

### How has the Brock University Pension Plan performed?

Monthly rates of return are posted on the University's pension web site [www.brocku.ca/hr-ehs/pension-new](http://www.brocku.ca/hr-ehs/pension-new) throughout the Plan year. The monthly rates of return to date are:

Month	Rate of Return (net of expenses)
July 2011	-0.5809%
August 2011	-2.9971%
September 2011	-2.0993%
October 2011	3.0360%
November 2011	-0.3405%
December 2011	0.5752%
January 2012	2.5484%
February 2012	1.8213%
March 2012	.9705%
April 2012	??
May 2012	??
June 2012	??

**Cumulative Rate of Return July 1  
to March 31, 2012:**

**2.8082%**

### What is the investment structure of the fund and who are the fund managers?

The current manager structure has been in place since June of 2008 when the Pension Committee concluded a thorough review of the Plan's investment structure. In April 2011 the Board of Trustees, upon recommendation from the Pension Committee, approved a change in equity allocation from 15% Canadian Equity/45% Global Equity to 12% Canadian Equity/48% Global Equity. The fund is well diversified and invested according to the Plan's Statement of Investment Policies and Procedures by professional fund managers. As of December 31, 2011, last reporting period, the allocation mix was as follows:

Asset Class	Fund Manager	Policy Allocation	Dec 31/11 Allocation
<b>Fixed Income</b>	AllianceBernstein	<b>40.0%</b>	<b>40.9%</b>
<b>Canadian Equity</b>	McLean Budden*	<b>12.0%</b>	<b>10.0%</b>
<b>Global Equity</b>		<b>48.0%</b>	<b>49.1%</b>
	Aberdeen	16.0%	17.1%
	Acadian	16.0%	14.7%
	Walter Scott	16.0%	17.3%

### How have the individual fund managers performed?

Pension Fund Investment Performance Summary by Manager Portfolio:

<b>Asset Class/Manager</b>	<b>Returns - Periods ending December 31, 2011</b>			
	1 Year	2 Years	3 Years	4 Years
<b>Fixed Income</b>				
AllianceBernstein	9.1%	9.3%	11.2%	7.5%
Benchmark	<u>9.7%</u>	<u>8.2%</u>	<u>7.3%</u>	<u>7.0%</u>
<b>Value Added</b>	<b>-0.6%</b>	<b>1.1%</b>	<b>3.9%</b>	<b>0.5%</b>
<b>Canadian Equity</b>				
McLean Budden*	-21.6%	-4.5%	9.1%	-5.3%
Benchmark	<u>-8.7%</u>	<u>3.6%</u>	<u>13.2%</u>	<u>-0.7%</u>
<b>Value Added</b>	<b>-12.9%</b>	<b>-8.1%</b>	<b>-4.1%</b>	<b>-4.6%</b>
<b>Global Equity</b>				
Aberdeen	2.0%	4.0%	6.7%	-1.5%
Benchmark	<u>-3.2%</u>	<u>1.3%</u>	<u>4.2%</u>	<u>-4.3%</u>
<b>Value Added</b>	<b>5.2%</b>	<b>2.7%</b>	<b>2.5%</b>	<b>2.8%</b>
Acadian	0.0%	2.1%	1.7%	-8.3%
Benchmark	<u>-3.2%</u>	<u>1.3%</u>	<u>4.2%</u>	<u>-4.3%</u>
<b>Value Added</b>	<b>3.2%</b>	<b>0.8%</b>	<b>-2.5%</b>	<b>-4.0%</b>
Walter Scott	0.0%	3.1%	6.8%	1.3%
Benchmark	<u>-3.2%</u>	<u>1.3%</u>	<u>4.2%</u>	<u>-4.3%</u>
<b>Value Added</b>	<b>3.20%</b>	<b>1.80%</b>	<b>2.60%</b>	<b>5.60%</b>

#### Benchmarks:

Canadian Equity Index: S&P/TSX Capped 10%, Fixed Income Index: DEX Universe Bond, Global Equity Index: MSCI World Net

\*As noted earlier in this document, Mawer became the new investment manager for Canadian Equity in January 2012. Although Brock University did not have pension funds invested with Mawer (the new Canadian Equity manager) as at December 31, 2011, the performance chart below has been added for your information:

<b>Asset Class/Manager</b>	<b>Returns - Periods ending December 31, 2011</b>			
	1 Year	2 Years	3 Years	4 Years
<b>Canadian Equity</b>				
Mawer	2.4%	8.5%	15.2%	2.1%
Benchmark	<u>-8.7%</u>	<u>3.6%</u>	<u>13.2%</u>	<u>-0.7%</u>
<b>Value Added</b>	<b>11.1%</b>	<b>4.9%</b>	<b>2.0%</b>	<b>2.8%</b>