University of Victoria
Long Term Disability Plan for Faculty and Administrative and Academic Professional Staff

ANNUAL REPORT

YEAR ENDED MARCH 31, 2022

Contents

LONG TERM DISABILITY PLAN – 2022 ANNUAL REPORT

Message from the Chair

The Trustees are pleased to provide this annual report to the members of the Long Term Disability Plan for faculty and administrative and academic professional staff of the University of Victoria. The report provides an overview and update of the Plan for the year ended March 31, 2022.

Financial Highlights

As you may recall, the Trust completed its scheduled triennial valuation estimating Plan assets and liabilities at June 30, 2020. The comprehensive actuarial valuation is normally used to determine the contribution rate for the upcoming three-year period. Between June 30, 2017 and June 30, 2020, Plan assets grew by over $6.6 million while liabilities actually decreased by $2.5 million. These improved financial results meant that the Plan was fully funded for the first time in its history and enabled the Trust to approve a modest decrease to the contribution rate, reducing to 2.20% of gross salary from the previous rate of 2.35%, effective January 1, 2021.

The Trust also worked with the Plan's actuary to update the Plan's Funding Policy, which had been in place since 2013. Plan maturity enabled the Trust to increase the target funding level from 100% to 110% of total actuarial liabilities. A deficit position exists when the funded ratio falls below 100%.

Since that time, global events have significantly influenced the financial health of the Plan. Plan actuaries reported that the Plan's financial position deteriorated in each year since the valuation year. For example, Plan liabilities increased from $18.7 million to $26.5 million in the past two years due to higher-than-expected LTD claims during the pandemic. LTD claims jumped from 47 on March 31, 2020 to 71 by March 31, 2022. The good news is that our actuaries are reporting that the length of time someone is in receipt of an LTD benefit is decreasing as claimants are returning to work at higher rates than in the past.

At the same time, while long-term investment returns have remained steady and are outperforming the FTSE TMX Universe Bond Index benchmark, the recent spike in interest rates has negatively affected the short-term performance of the PH&N Core Plus Bond Fund. The net effect of changes in liabilities and assets resulted in the decrease in the funded status of the Plan; leaving the Plan with a funded ratio of 78% on March 31, 2022, down from 98% at the same time last year.

New Contribution Rates

It is unfortunate that global events are having such an impact on the financial health of our LTD plan, especially after the Trust successfully guided the Plan to a fully funded position just two years ago. However, the Trust has a fiduciary responsibility to maintain adequate reserves in order to pay the expected cost of LTD benefits. Because of the significant change in the funded status of the Plan and in accordance with the Plan's Funding Policy, our actuaries have recommended, and the Trust has approved, a temporary increase in contribution rates to 2.50% effective July 1, 2022. The Trust will continue to monitor Plan performance as we prepare for the next triennial valuation scheduled for June 30, 2023 and undertake an accompanying review of contribution rates by December 2023.

Kane Kilbey
Chair, UVic LTD Trust
June 27, 2022

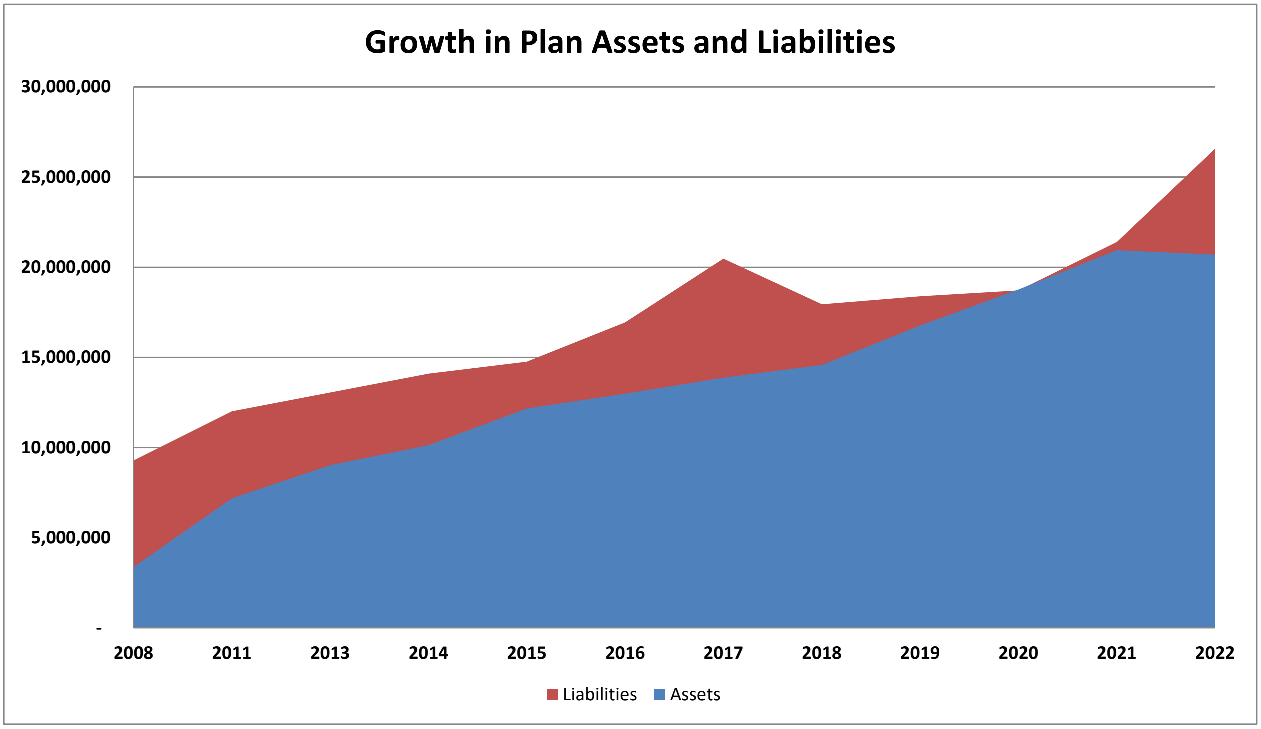
Governance and Service Providers (as at April 1, 2022)

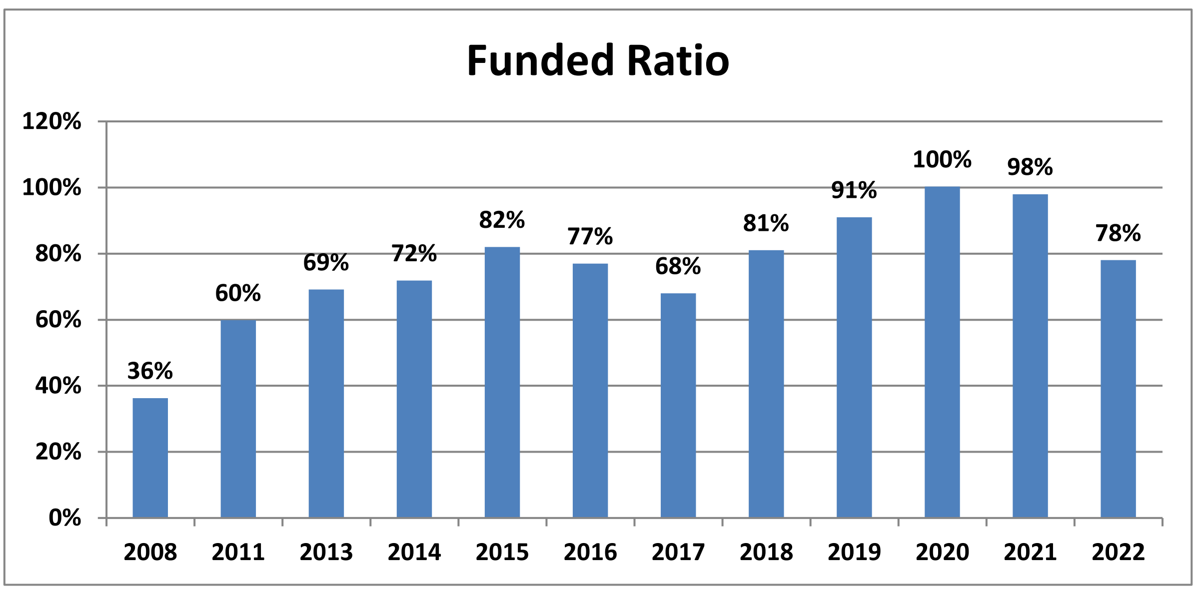
Trustees Appointed by the University of Victoria Board of Governors	Janice Johnson Executive Director, Financial Services Kane Kilbey - Chair Associate Vice President, Human Resources
Member Trustees	Mia Maki Associate Dean and Academic Director, Undergraduate Programs, Gustavson School of Business Chris Auld Associate Professor, Economics Adam Gaudes Senior Cloud Systems Architect, University Systems Tine Lathouwers Human Resources Consultant, Human Resources
Secretary	Cordelia Horsburgh Administrative Assistant, Human Resources
Investment Manager	Phillips, Hager & North Investment Management Ltd - Vancouver
Custodial Services	Northern Trust Canada – Toronto
Actuarial Services	Mercer (Canada) Limited – Vancouver
Auditor	Grant Thornton LLP – Victoria

Financial information at a glance:

	March 2022	March 2021	March 2020	March 2019	March 2018	March 2017
Number of Plan members	2061	1,915	1,889	1,821	1,764	1,756
Number of active claims	71	60	47	49	51	59
Total amount of benefits paid	3,671,842	2,615,657	2,692,840	2,404,493	2,891,014	2,624,170
Member contributions	4,519,489	4,463,648	4,303,338	4,096,192	3,568,299	3,338,263
Market Value of Investments	20,190,910	20,769,004	18,594,469	16,576,712	14,095,332	13,453,445
Gross investment income	(787,400)	1,082,979	780,334	790,941	300,386	528,790
1-Year Total Plan investment return	(3.75%)	5.99%	4.80%	5.15%	2.18%	4.06%
Operating expenses	239,591	186,488	155,092	143,421	173,171	139,332
Net assets available for benefits	20,702,933	20,952,445	18,774,050	16,766,606	14,582,054	13,869,512
Liabilities for future benefits[1]	26,582,159	21,398,159	18,720,159	18,387,159	17,941,159	20,480,159
Funded ratio	78%	98%	100%	91%	81%	68%

[1] As estimated by the Trust's actuaries using claimant data and financial information available at January 31 each year. The actuarial liability is the actuarial present value of the disability benefits expected to be paid in the future to members who were disabled at the valuation date.


Growth in Plan Assets and Liabilities
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
-
2008
2011
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
Liabilities
Assets


Funded Ratio
120%
100%
80%
60%
40%
20%
0%
36%
60%
69%
72%
82%
77%
68%
81%
91%
100%
98%
78%
2008
2011
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022

Introduction

The LTD Trust was established in 2007 to manage the self-insured, employee-pay-all, Long Term Disability Plan for Faculty and Administrative and Academic Professional Staff of the University of Victoria ("the Plan").

The purpose of the Plan is to provide long-term disability benefits to faculty, administrative and academic professional staff ("Qualified Employees") of the University who are enrolled and paying contributions within the Plan.

The Trustees

The Trustees have responsibility for the administration and overall management of the Plan as outlined in the Trust Agreement between the University and the Trust. In 2019, the Trust and the UVic Board of Governors approved a final set of amendments to the Long Term Disability Trust Agreement, including increasing the number of Trustees to six (6) and amending the appointment procedures to ensure that Board-appointed Trustees represent no more than fifty percent (50%) of the total number of Trustees. This composition is similar to the trust model in place for the combination pension Plan.

The duties and powers of the Trustees include:

- Maintaining an adequate reserve for the payment of future reimbursement sums to the benefit carrier, and for future administration expenses reasonably anticipated as likely to be incurred;
- Ensuring, at intervals to be agreed with the University, that actuarial valuations are undertaken;
- Determining the contribution rate, as guided by the Funding Policy and in light of the latest actuarial valuation;
- Receiving from the University all LTD deductions from Qualified Employees' salaries;
- Authorize and direct monthly payment to the benefit carrier for the cost of LTD claims;
- Investing and re-investing Trust fund monies remaining after reimbursement of the benefit carrier, otherwise known as reserve monies;
- Retaining such investment, legal, actuarial or other expertise or assistance as considered necessary or appropriate.

Benefits

Long-term disability benefits are calculated at 80% of monthly “net earnings” plus the amount required to maintain employee and University Pension Plan contributions. LTD benefits payable from the Plan are reduced by the amounts of any disability benefits payable from any University or government plan providing salary continuance or disability income paid during the disability period covered by this Plan. As the Plan is 100% funded by Qualified Employees, the benefits received are not taxable.

The definition of disability in the Plan Document is: “an employee who is wholly and continuously disabled due to sickness or injury and as a result is unable to perform the duties of their normal occupation or the duties of any occupation for which they are fitted by education, training or experience.” However, the long-standing practice of the Plan is that claims are adjudicated only on a Qualified Employee’s “own occupation”, and there are no plans to change this practice for the foreseeable future.

Benefits are not paid to a Qualified Employee until the employee has been totally disabled for six months.

Benefits are indexed to the lower of:

- the annual increase in the Canada Consumer Price Index (“C.P.I.”); and
- the most recent annual across-the-board general salary adjustment granted to faculty or administrative and academic professional staff, as applicable.

Benefit payments from this Plan continue until the earliest of the following:

- the Qualified Employee is no longer considered to be “totally disabled;
- the Qualified Employee’s death; or
- June 30 coinciding with or following the Qualified Employee’s 65th birthday.

Contributions

The Plan is funded solely by contributions from Qualified Employees. Contribution rates are adjusted periodically to reflect the anticipated cost of new disabilities, the financial condition of the Plan, and the ongoing administration costs of the Plan. As a result of the March 31, 2022 financial results (see summary on page 3), the contribution rate was increased to 2.50% of gross salary.

The next full valuation will occur in 2023 and member contribution rates will be reassessed based on the actuary's observations and conclusions about the financial health of the Plan and the Trust's funding policy.

Historically, the Plan's contribution rate has been as follows:

Effective Date	Contribution Rate
July 1, 2022	2.50%
January 1, 2021	2.20%
January 1, 2018	2.35%
January 1, 2015	2.05%
July 1, 2013	2.09%
January 1, 2009	1.93%
July 1, 2008	1.75%
July 1, 2007	1.54%
July 1, 2006	1.24%

Funding Policy

In June 2013, the Trust and the university approved a Funding policy for the Plan that outlines key parameters the Trustees would follow in funding the Plan. In funding the Plan, the Trustees would ideally wish to accomplish four basic objectives:

1. Provide a high degree of certainty that the promised benefits will ultimately be delivered;
2. Contribution rates should be affordable for Plan members;
3. The contribution rate as a percentage of salary should be stable and consistent over time;
4. The contribution rate should provide for intergenerational equity.

These objectives can be in conflict from time to time. The challenge facing the Trustees is to operate the LTD Plan in a manner that provides a reasonable balance among these objectives.

With the maturity of the Plan and its improved funded status as of June 2020, the Plan's actuary recommended, and the Trustees undertook, a full review of the Plan's Funding Policy in 2021 to ensure that the funding targets and boundaries that have guided the Trustees since 2013 are appropriate relative to an assessment of risk, especially given the volatility with our Plan experience and in financial markets generally.

The long term cost of the LTD Plan is influenced significantly by the number of members in receipt of benefits, the termination and recovery of disabled lives, the incidence of new disabilities, and the investment policy (and associated returns). In turn, benefit security is influenced significantly by the overall level of funding achieved by the LTD Plan, resulting from member contributions, the funding policy, the investment strategy employed by the Trustees and changes in Plan liabilities. As such, the contribution rate is influenced by:

- the recent Plan experience related to termination and recovery of disabled lives;
- the recent Plan experience related to incidence of disability;
- changes to government programs, such as Canada Pension Plan;
- demographic changes in the active membership;
- the overall funding target adopted by the Trustees;
- short to mid-term investment performance;
- the market value of assets; and
- the contribution setting methods used by the Trustees upon advice from the actuary.

Key funding parameters include:

- Liabilities will be valued, on a going concern basis, at least every 3 years;
- The expected annual cost of new claims should be reviewed at least once every 3 years;
- Contribution rates will be reviewed periodically in conjunction with the funded status of the Plan;
- The target funding level for the Plan is 110% of actuarial liabilities;
- A deficit funded position exists when Plan assets are below 100% of actuarial liabilities;
- Deficits (or unfunded liabilities) will be normally amortized over 7 years; and
- A surplus funded position exists when Plan assets exceed 120% of actuarial liabilities.

Investments

The Trustees have developed a Statement of Investment Objectives and Guidelines (“the Investment Policy”) for the Plan. It is reviewed by the Trustees on an annual basis.

The purpose of the Investment Policy is to provide a framework for investment of the funds to achieve a return objective within levels of risk acceptable to the Trustees.

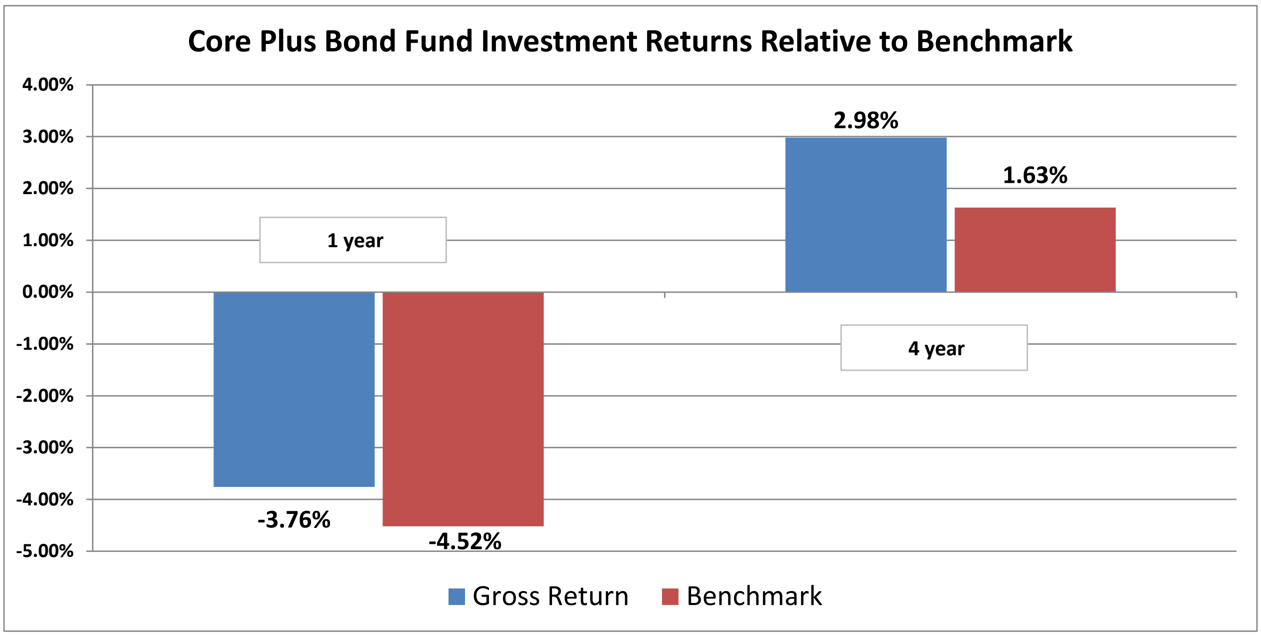
Given the purpose of the Plan, the Trustees have adopted an investment framework that emphasizes a Liability Driven Investment (“LDI”) approach while meeting the general investment objectives of preserving capital in real terms and generating sufficient annual cash flow to meet expenditure requirements.

An LDI approach takes into consideration both assets and liabilities on a plan’s balance sheet and shifts investment goals away from asset benchmarks and the relationships among asset classes that have no direct relationship to the liabilities. Instead, LDI focuses on managing the funded status of the Plan (Assets/Liabilities).

The goal of a LDI strategy is to match the interest rate sensitivity of the assets to the interest rate sensitivity of the liabilities. This immunizes the Plan and its funded status from interest rate risk, including the fluctuations experienced during the COVID-19 pandemic, as asset movements will be highly correlated with movements in liabilities. As assets and liabilities change over time the Trustees continue to monitor their respective durations. In early 2021, the Trust’s investment manager recommended a review of the investment mix in 2021 to ensure alignment with the LDI strategy. The review concluded in June 2022 and recommended that the Trust make no change to its asset mix and maintain its allocation to the PH&N Core Plus Bond Fund..

During the year, the assets of the Plan were 100% invested in the Phillips Hager & North (PH&N) Core Plus Bond Fund and the RBC Institutional Cash Fund. The Core Plus Bond Fund utilizes several yield-enhancing strategies, which serve to augment and diversify universe bond holdings. It is also consistent with the Plan’s LDI strategy.

The PH&N Core Plus Bond Fund is benchmarked against the FTSE TMX Universe Bond Index. While long-term investment returns have remained steady and are outperforming the benchmark, the recent spike in interest rates has negatively affected the short-term performance of the fixed income market, including the PH&N Core Plus Bond Fund. Investment returns for the year ending March 31, 2022 were negative (-3.78%), but stronger compared to the benchmark of -4.52%. The chart below compares the return of the Core Plus Bond fund with the FTSE TMX Universe Bond Index. Four year returns remain stable and strong. Since inception, the Core Plus Bond Fund has returned, on average, 3.94%, outperforming the benchmark by 1.27%.



Administration

Claims adjudication and benefit payment services are contracted under an Administrative Services Only (ASO) agreement to Pacific Blue Cross (PBC). Membership and general administration, including the collection of member contributions, is undertaken by the University. PBC's expenses and other administration costs are funded by the contributions to the Plan.

The Trustees have engaged Mercer Canada Limited to provide actuarial services to the Plan. In addition to a year-end estimate of Plan liabilities done each March 31 for financial reporting purposes, Mercer provides a comprehensive actuarial valuation at least every three years. In 2022, the Trust engaged Mercer to thoroughly re-measure the present value of Plan liabilities and calculate the expected cost of new claims in 2022. The next full valuation is scheduled for June 30, 2023.

Financial Statements

The Plan's annual financial statements are prepared by the Accounting Office of the University of Victoria and audited by the accounting firm of Grant Thornton LLP.

Contact Information

Questions about the LTD benefit can be directed to Suzanne Helston, Manager, Benefits Services at 250-721-8089 or shelston@uvic.ca.

Questions about the LTD Trust or this Annual Report can be directed to the Cordelia Horsburgh, Secretary to the LTD Trust, at 250-721-8032 or avphrassist@uvic.ca.