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

ANNUAL REPORT

YEAR ENDED MARCH 31, 2024

LONG TERM DISABILITY PLAN – 2024 ANNUAL REPORT

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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, 2024.

Financial Highlights

As you may recall, the Trust completed its scheduled triennial valuation estimating Plan assets and liabilities as of June 30, 2023. The comprehensive actuarial valuation is normally used to determine the contribution rate for the upcoming three-year period. As the Trust reported to Plan members in November 2023, Plan actuaries reported that the Plan's financial position deteriorated in each of the previous three years. For example, Plan liabilities increased from $18.7 million to $27.8 million due to higher-than-expected LTD claims. LTD claims jumped from 47 on March 31, 2020 to 79 by March 31, 2023. Claims continue to remain high at this level in 2024. The good news is that our actuaries reported that the length of time someone is in receipt of an LTD benefit is decreasing as claimants are accessing the medical services they need and returning to work at higher rates than in the past.

At the same time, while long-term investment returns are outperforming the FTSE Canada Universe Bond Index benchmark, the recent spike in interest rates has negatively affected the short and medium-term performance of the PH&N Core Plus Bond Fund. As such, Plan assets only grew by 4% (less than $1 million) over the same three-year period. Fortunately, higher interest rates also reduce the actuarial value of future benefit payments. The net effect of these recent changes in assets and liabilities resulted in the decrease in the funded status of the Plan; leaving the Plan with estimated funded ratios of 76% on March 31, 2023 and 66% on March 31, 2024, down significantly from the 98% estimated funded ratio on March 31, 2021.

Contribution Rates

It is disappointing to see the decline in the financial health of our LTD plan, especially after the Trust successfully guided the Plan to a fully funded position just four years ago. However, fluctuations in Plan experience and economic conditions are not uncommon and 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 recommended, and the Trust approved, an increase in annual contribution rates to 3.00% effective January 1, 2024. The full impact of these new contribution rates will be realized by the end of the year and the Trust will determine if these higher rates plus other factors such as investment returns, claims, etc. have stabilized the funded position of the Plan.

The next triennial valuation is scheduled for June 30, 2026. The Trustees will work closely with our actuaries and investment advisors to continuously review the financial health of the Plan and determine if any changes to contributions or our investment strategies are required before 2026.

Kane Kilbey
Chair, UVic LTD Trust
June 17, 2024

Governance and Service Providers (as at April 1, 2024)

Trustees Appointed by the University of Victoria Board of Governors	Janice Johnson Executive Director, Financial Services Kane Kilbey - Chair Associate Vice President, Human Resources Mia Maki Associate Dean, External & Outreach, Gustavson School of Business
Member Trustees	Chris Auld Associate Professor, Economics John Foxgord Senior Systems Administrator, University Systems Tine Lathouwers Associate Director, Employee Health and Wellbeing Services Human Resources
Secretary	Jennifer Gray 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:

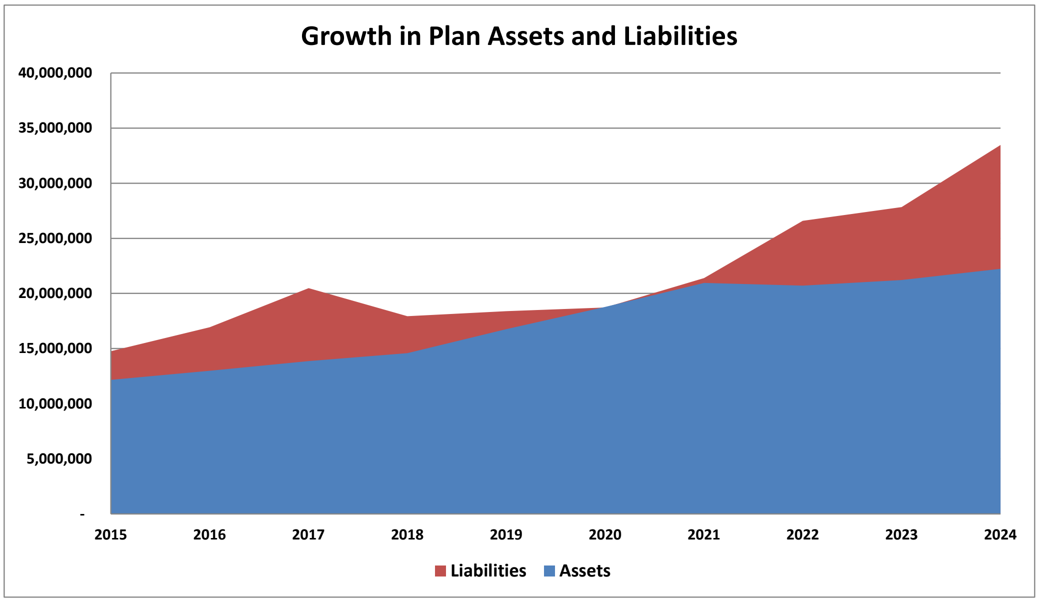
	March 2024	March 2023	March 2022	March 2021	March 2020	March 2019
Number of Plan members	2,061	2,040	1,976	1,899	1,856	1,817
Number of active claims	76	79	71	60	47	49
Total amount of benefits paid	5,295,291	3,870,661	3,671,842	2,615,657	2,692,840	2,404,493
Member contributions	6,323,250	5,200,396	4,519,489	4,463,648	4,303,338	4,096,192
Market Value of Investments[1]	22,051,144	21,004,946	20,190,910	20,769,004	18,594,469	16,576,712
Investment income	656,752	(301,092)	(787,400)	1,082,979	780,334	790,941
1-Year Total Plan investment return	2.99%	(1.67%)	(3.75%)	5.99%	4.80%	5.15%
Operating expenses	364,550	276,980	239,591	186,488	155,092	143,421
Net assets available for benefits	22,234,808	21,216,483	20,702,933	20,952,445	18,774,050	16,766,606
Liabilities for future benefits[2]	33,467,159	27,835,159	26,582,159	21,398,159	18,720,159	18,387,159
Funded ratio	66%	76%	78%	98%	100%	91%

[1] Plus cash and equivalents.

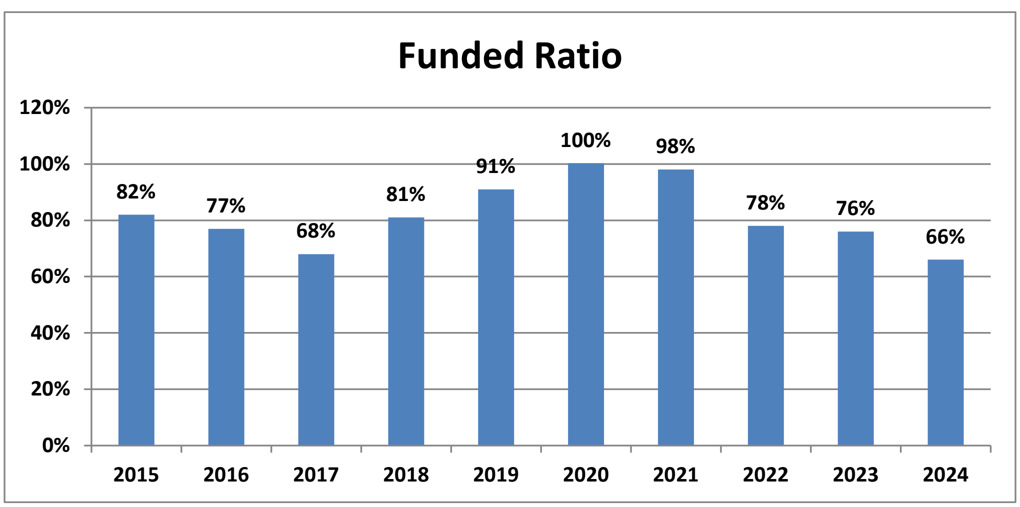
[2] As estimated by the Trust's actuaries using claimant data and financial information available at January 31 each year. The actuarial liability is the actuarial present value of the disability benefits expected to be paid in the future to members who were disabled at the valuation date.

Key Charts and Graphs

The financial health of the plan can also be depicted with a couple of key tables. The table immediately below illustrates how plan assets have steadily grown over the last 10 years, but more slowly in recent years. It also shows how the recent increase in the number of LTD claims has impacted Plan liabilities to the point that liabilities now significantly exceed Plan assets.



The Funded Ratio chart below illustrates how the ratio of assets to liabilities has improved between 2017 and 2020, before declining in each subsequent year. The January 1, 2024 contribution rate includes an amount that is intended to eliminate the Plan deficit over a reasonable period of time assuming that LTD claims reflect the previous five-years of claim experience and investment returns improve with declining interest rates.



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 significant change in the funded status of the Plan following the June 30, 2023 valuation results (see summary on page 3), the contribution rate was increased to 3.00% of gross salary.

The next full valuation will occur in 2026 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
January 1, 2024	3.00%
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.

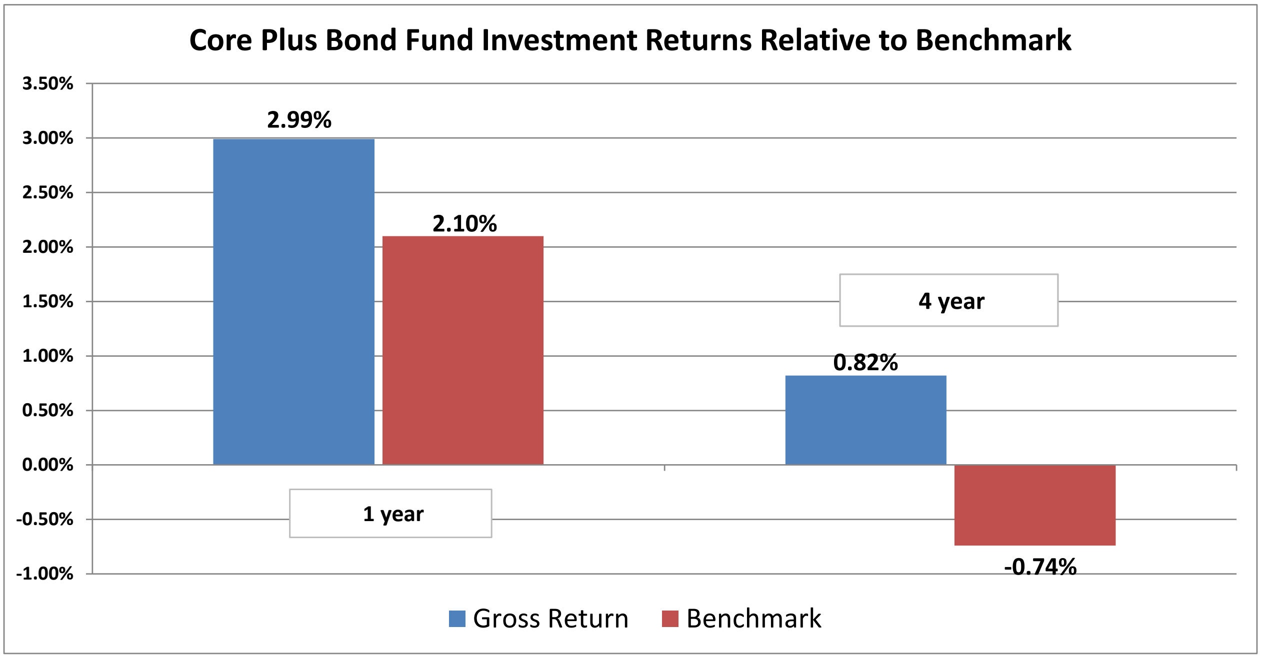
The goal of a LDI strategy is to match the interest rate sensitivity of the assets to the interest rate sensitivity of the liabilities. This immunizes the Plan and its funded status from interest rate risk, including the fluctuations experienced during the COVID-19 pandemic, as asset movements will be highly correlated with movements in liabilities. As assets and liabilities change over time the Trustees continue to monitor their respective durations.

During the year, the assets of the Plan were 100% invested in the Phillips Hager & North (PH&N) Core Plus Bond Fund and the PH&N Canadian Money Market 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 Canada Universe Bond Index. While long-term investment returns have outperformed the benchmark, the recent spike in interest rates has negatively affected the short-term and medium-term performance of the fixed income market, including the PH&N Core Plus Bond Fund. The good news is that the investment return for the year ending March 31, 2024 was positive again at 2.99% gross of investment management fees, and stronger compared to the benchmark (2.10%). Four year average returns continue to be impacted by high interest rates, declining to 0.82% but still better than the benchmark.

The chart on the next page compares the return of the PH&N Core Plus Bond Fund with the FTSE Canada Universe Bond Index. Despite the recent volatility in economic conditions, including high interest rates, the PH&N Core Plus Bond Fund consistently outperformed the benchmark. For the last 10 years, the Core Plus Bond Fund has returned, on average, 3.12% on a gross of investment management fee basis, outperforming the benchmark by 1.11%. Current annual investment management fees are about 0.24% of the Plan’s assets.

Although the main driver of the Plan’s funded status is its claims experience, the recent returns of the Plan’s investments have not helped. As a result, the Trust is currently working with its investment advisory team to review options to improve investment outcomes. Regardless of the option chosen, the long term performance of the Plan's investments should improve, mainly due to an expected better return profile for fixed income when interest rates drop.



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 also provides a comprehensive actuarial valuation at least every three years. The next full valuation is scheduled for June 30, 2026.

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 Benefits Services at benefits@uvic.ca.

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