UNIVERSITY OF REGINA

ACADEMIC AND ADMINISTRATIVE BENEFITS COMMITTEE

ANNUAL REPORT

for the year 2004

April 19, 2005

About the Academic and Administrative Pension Plan

The Academic and Administrative Pension Plan was established on July 1, 1965. Until January 1, 2000, the plan was solely a defined benefit plan, meaning that a member's pension was calculated using a formula based on the member's salary history and years of service at retirement. The plan also allowed the transfer of entitlements -- including the portion of an individual's account arising from the accumulated contributions of University -- out of the plan upon retirement, death or resignation. As of January 1, 2000, the University closed the defined benefit component of the pension plan to new members and introduced a defined contribution component for eligible individuals who joined the University on or after January 1, 2000. Members of the defined benefit component were allowed to choose between remaining with defined benefit or transferring either future service or past and future service to the defined contribution component.

Membership in the plan is compulsory for academic and administrative staff. As of December 31, 2004 the plan had about 480 defined contribution members, 340 defined benefit members, and 28 defined contribution/defined benefit members. Approximately 220 retired members are receiving pension benefits under the plan. The market value of the Academic and Administrative Pension Plan at year end totalled $239.7 M., with approximately 89.1% of the assets attributed to the defined benefit component and 10.9% of the assets attributed to the defined contribution component.

Mandate of the Committee

The Academic and Administrative Benefits Committee (AABC) is a sub-committee of the Human Resources Committee of the Board of Governors. The mandate of the AABC is to advise the Board on matters relating to benefit plans for academic and administrative staff, including:

- The Academic and Administrative Pension Plan
- The Group Life Insurance Plan
- The Salary Continuance Plan
- The Travel Insurance Plan
- The Extended Health Plan
- The Family Dental Plan

Master Trust

The assets of the three University of Regina pension plans – the Academic and Administrative Pension Plan, the Non-Academic Pension Plan and the Pension Plan for Part-Time Employees – have been combined into a single investment portfolio called the Master Trust Fund. The investment of funds in the Master Trust Fund is overseen by the Joint Pension Investment Committee (JPIC), which is comprised of all members of the AABC and the Non-Academic Benefits Committee (NABC). Each plan has its own investment policy statement and a separate accounting for its assets.

Message from the Chair

The AABC met on ten occasions in 2004. In addition, the JPIC met seven times in 2004. The JPIC oversees all aspects of the investment of the Master Trust Fund, including monitoring investment performance with the assistance of external consultants and meeting with representatives of the investment companies employed by the Fund.

In 2004, the AABC:

- Investigated the possibility of employing an asset smoothing technique, commonly used by other pension plans, to lessen the volatility of the financial position of the pension plan. In June, with the endorsement of the plan actuary, the Committee recommended that investment returns above a 3% real rate of return be averaged over time (more on this later in the report).
- Investigated the possibility of implementing a post-retirement extended health plan, as per a Memorandum of Agreement between the University and the Faculty Association. Unfortunately, after a very long process, the Committee concluded that it would be difficult to find such a policy that would represent an improvement over the current conversion option existing in our extended health benefits plan. (see our Pension Update of December, 2004)
- Conducted a valuation of the Plan's financial status, incorporating the asset smoothing technique.
- Continued our review of benefit plan governance.

The year 2004 represented a welcome respite from the challenging times in the previous few years. The annual return of the Master Trust was 10.2%. While this was below the 13.0% rate of return it earned in 2003, the 2004 returns were relatively smooth and positive throughout the year. The main determinant of the change in the financial status of the plan is the rate of return in excess of inflation. The actuarial assumptions used in establishing the financial position of the plan are based on a 3% real rate of return. In 2004, the fund earned a real rate of return of 7.9%, repairing some of the damage caused by the poor returns in 2001 and 2002. Our four year (2001-2004) average real rate of return is 1.7%, which is below the 3.0% target but high enough to keep the plan in a surplus position.

Investment performance will be discussed in depth in subsequent sections of this report.

Actuarial Asset Smoothing

Last year, I mentioned some of the problems created by the strict regulatory environment in which the Committee operates. This year, the actuary began using an asset smoothing method that should hopefully reduce the variation in the surplus/deficit position of the plan caused by changes in economic circumstances.

As mentioned above, our plan is evaluated based in part on assumptions about investment returns and inflation. Other things being equal, a real rate of return in excess of 3% will improve the financial position of the plan while a return below 3% will worsen its financial position. Over the past four years, the actual real rate of return of the Master Trust Fund has exhibited large variations. Over the period 2001-2004, these returns were, respectively -0.2%, -10.2%, 10.8% and 7.9%. In 2002, our real return was 13.2% below the target whereas in 2003, our return was 7.8% above the target.

Such volatility in the real rate of return can dramatically impact the Plan's surplus from year to year. While retaining surplus in the Plan in years when the returns are good to offset the years when the returns are poor is one way to address this issue, the Income Tax Act imposes a maximum surplus limit that prevents a sufficient surplus build-up in the good years. At December 31, 2003, this limit was $19,991,000 which equals 10% of the defined benefit liabilities. Defined contribution plans, by design, have no surpluses or deficits.

In light of this situation, the Committee, on the advice of the Plan Actuary, recommended implementation of an asset smoothing technique that averages variations between the actual real rate of return and the 3% target in order to moderate the variations in the plan's financial position over time. This method takes the difference between the actual rate of return and the threshold rate of return out of the assets and replaces it with the four year average of these differences. In other words, the 2003 asset value recognizes 25% of the deviations between the actual real rate of return and the target rate for the years 2000-2003. The table below shows how it was calculated for 2003.

Year	**Investment Income**	**Threshold Return**	**Difference**	**Portion recognized in future**	**Smoothing Adjustment**
2003	23,116,000	9,763,000	13,353,000	75%	10,015,000
2002	(13,774,000)	11,600,000	(25,374,000)	50%	(12,687,000)
2001	571,000	12,697,000	(12,126,000)	25%	(3,032,000)
2000	22,359,000	9,978,000	12,381,000	0%	0
Total smoothing adjustment as of December 31, 2003					**(5,704,000)**

As a result, the smoothing adjustment increases our current surplus by deferring some of the losses in 2001 and 2002 into the future. These losses will "hit" the financial position of the plan over the next two years.

It should be noted that we have limited the amount of gains or losses that may be deferred under this system to 10% - *i.e.* the smoothed asset value cannot deviate more than ±10% from the market value of the assets.

It takes a variety of skills and knowledge to run a large pension plan efficiently in a complex and ever-changing investment and regulatory environment. In order for our voluntary committee to be able to perform this task, it needs to rely on the expertise of a number of consultants. The AABC has been well-served by the people who we have contracted to assist us and we are pleased to pay tribute to:

1. John Montalbano, Brent Sutton and their colleagues at Phillips, Hager and North of Vancouver, our primary investment manager;
2. Janet Julé and her colleagues at James P. Marshall, who assist the Committee in assessing investment performance.
3. Don Ireland, the Plan's actuary, and the staff of Aon Consulting Inc., in Saskatoon who provided actuarial and benefit advice.
4. Ryan Duesing and his associates at Aon Consulting Inc., in Regina for their benefits expertise.

Special thanks go to the Committee's recording secretary, Darlene Marchuk, who is also Manager of Pension and Benefits in Human Resources. Darlene and her associates in Human Resources – Jeanette Pageot and Temple Howat – have provided efficient day-to-day administration of the pension and insurance plans.

I would like to thank the members of both the AABC and JPIC for their dedicated and effective service to the membership of the plan and the University as a whole.

Gary Tompkins, Chair
March, 2005

Review of 2004 Investment Performance

The University Pension Plans returned 10.2% in 2004

The markets

Equity and bond markets moved higher in 2004, with a strong finish to the year boosting the annual result.

In Canada, the strength of the Canadian dollar against the weakening U.S. dollar and rising commodity prices had a pervasive effect on investment markets in 2004. The Canadian equity benchmark index, the S&P/TSX Composite was up 14.5% in the year, outpacing the S&P 500 (U.S. equity) and EAFE (non-North American equity) Indices. Canadian stock market leadership was narrow, with only two sectors managing to beat the Index return: the Energy sector (30.3%), helped by record-high oil prices, had the best performance, followed by the Financials sector (19.9%), as lending activity accelerated in the current low interest rate environment. On the opposite end, the Health Care sector finished the year with a loss of 17.3%.

Concerns over the huge U.S. budget and current account deficits continued to push the U.S. dollar lower. As a result, the Canadian dollar advanced approximately 5.6% against its U.S. counterpart in the fourth quarter alone, ending the year at 0.8346 (US$), its third consecutive year of gains. Concern in Canada over the potential impact on Canadian exporters of a rising dollar led to a signal from the Bank of Canada that future interest rate increases might be slowed.

The Canadian bond market, as measured by the Scotia Capital Universe Bond Index, returned 7.1% for the year. Bond yields rose across short-term and long-term maturities over the year, while yields for mid-term maturities declined. Performance-wise, long bonds (10.3%) finished above both mid-term (7.8%) and short-term (5.1%) bonds. By sector, provincial bonds (7.9%) outpaced both corporate (7.3%) and federal (6.6%) issues over the year.

In the U.S., a post election surge in the U.S. market was aided by a 23% drop in the price of crude oil and better than expected third quarter earnings reports. The one-year return for U.S. equities was driven largely off returns in the last three months as the S&P 500 Index was up 9.2% (US$) or 3.4% (C$) in the quarter and 10.9% (US$), or 2.8% (C$) for the year. The U.S. dollar depreciation relative to the Canadian dollar is highlighted by the US$/C$ return differential. The Energy sector (19.4%), led by rising oil prices, was the best performing sector for the year.

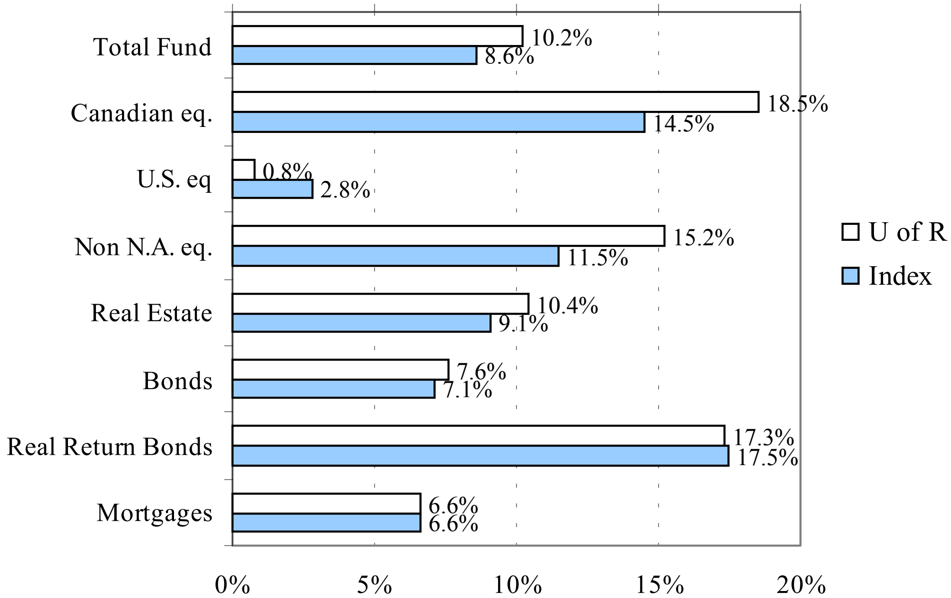
In Asia, the year ended on a sad note as a deadly tsunami hit Southeast Asia on December 26. Long term consequences on economic growth are still unknown.

Non-North American equities, measured by the MSCI EAFE Index, were up 12.7% for the year in local currency. In Canadian dollar terms, the return was 11.5%. Regionally, the U.K. (10.8%) and Japan (7.4%) trailed the EAFE Index over the year, while the Europe (ex-U.K.) region (12.8%) and the Pacific (ex-Japan) region (19.1%) both led the overall Index. In addition to solid performance in developed markets, emerging markets returned 16.4% over the year, with strong returns in Latin America, Europe and the Middle East.

The University Plans

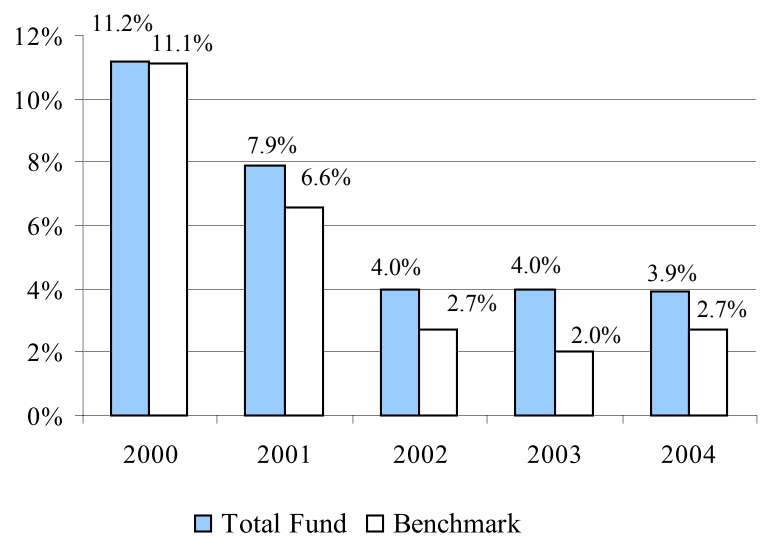
The University of Regina Master Trust generated a 10.2% result, which tracked ahead of the 8.6% benchmark return. As shown below, performance within asset classes generally added value, particularly in Canadian and non-North American equities as well as bonds. The Canadian and non-North American equity portfolios both benefited from solid stock picks. The bond portfolio has a bias to corporate bonds, with some high yield bond exposure, which was beneficial in the past year. The U.S. equity portfolio provided a muted absolute return that trailed the index.

Investment Performance
For the Year Ended December 31, 2004



The Plan's primary investment objective is to exceed the benchmark return over rolling four-year periods. Over the past four years, the Total Fund return exceeded the objective by 1.2% per year. Above index results in Canadian and non-North American equities, as well as bonds, drove the four-year value added. The following chart provides the longer-term track record of the Fund. Over the past 10 years, the Academic Plan return has been 9.8%, which was above the 9.0% policy benchmark return.

Academic Plan
Rolling Four-Year Returns



In addition to monitoring performance relative to the benchmark return, the Fund performance can be put in perspective by comparing the result against those of a universe of institutional funds. The following table shows the Total Fund relative to the Russell/Mellon Universe and individual asset class returns relative to other funds in the Principia Universe for Pooled Funds over the past year and four-year periods.

The 2004 result of 10.2% placed above the 10.1% median fund return in the Russell/Mellon Canadian Trust Universe. Over the past four years, the Fund trailed the 4.4% median with a 3.9% result.

On a relative basis, most asset classes are showing better than median results, with the exception of U.S. equities. Strong relative results were seen in bonds with a first quartile result (top 25% of funds in the survey) in the year and four-year period. Strong performance in corporate bonds helped push returns above most bond mandates in the survey. Canadian equity performance was strong relative to the index and other managers in the year, placing in the first quartile. The portfolio benefited from stock picks in a number of sectors that led industry results. Over four years, the 7.1% Canadian equity return tracked ahead of the 6.1% Principia median and well above the 2.7% index return.

U.S. equity results were flat with active management (Phillips, Hager & North) falling behind the index, and a component of passive management providing the index return. Weak results for the active manager in two of the past four years left the four-year result behind index and below the Principia median return.

Non-North American equity management is currently provided by one manager, Templeton. The 15.2% return for 2004 was well above the 11.5% index return and placed in the first quartile. Longer term, the manager has also maintained a strong record, contributing to an above median four-year total non-North American equity result.

2004 Relative Performance

Asset Class [2]	2004 Quartile [1]	4-Year Quartile [1]
Canadian equities	1	2
U.S. equities	4	3
Non North American equities	1	2
Bonds	1	1
Total Fund [1]	2	3

[1] Indicates the placement of the return relative to the Principia Universe for the asset classes. The Russell/Mellon Canadian Trust Universe is used for the Total Fund. Quartile 1 include the top 25% of funds by return, Quartile 2 represents firms in the 26-49% range, M is the median return, and so on.

[2] Real estate and mortgages are not shown, as universe comparisons were not available.

INVESTMENT PERFORMANCE OBJECTIVE

A number of performance objectives are set out for the pension plans. The primary objective is that the Total Fund return exceeds a benchmark portfolio return over rolling four-year periods.

The benchmark portfolio return is calculated by using index returns and asset class weights. The benchmark portfolio was in transition toward a new long-term target mix during 2002 and 2003, with the current targets in place since July 1, 2003.

Asset Class	December 2002	Current Benchmark Weights
Canadian equities	22%	18%
U.S. equities	16%	18%
Non North American equities	16%	18%
Real estate & real return bonds	5%	5%
Nominal bonds	38%	38%
Short-term investments	3%	3%

Within the various asset classes, the objective is to exceed the relevant index return.

The pension plans also have a long-term objective of earning a real return (net of inflation) of 3% per year.

In addition, the returns are evaluated on a relative basis to a universe of other pension plan returns.

The Master Trust

The University of Regina Pension Plan assets are jointly invested in a Master Trust, which in turn are invested by the various managers under different mandates. Each of the pension plans: the Academic and Administrative Plan (defined benefit and defined contribution) and the Non-Academic Plan buy (sell) units in the Master Trust based on the net inflows (outflows) for that plan. At the end of 2004, the Master Trust assets had a market value of $299.2 million.

The market value of the Academic and Administrative Pension Plan assets increased by $12.9 million over the past year. Growth from income and capital gains more than offset net withdrawals by members.

	December 2004	December 2003
Academic & Administrative Plan Market Value	**$239,663,132**	$226,723,981

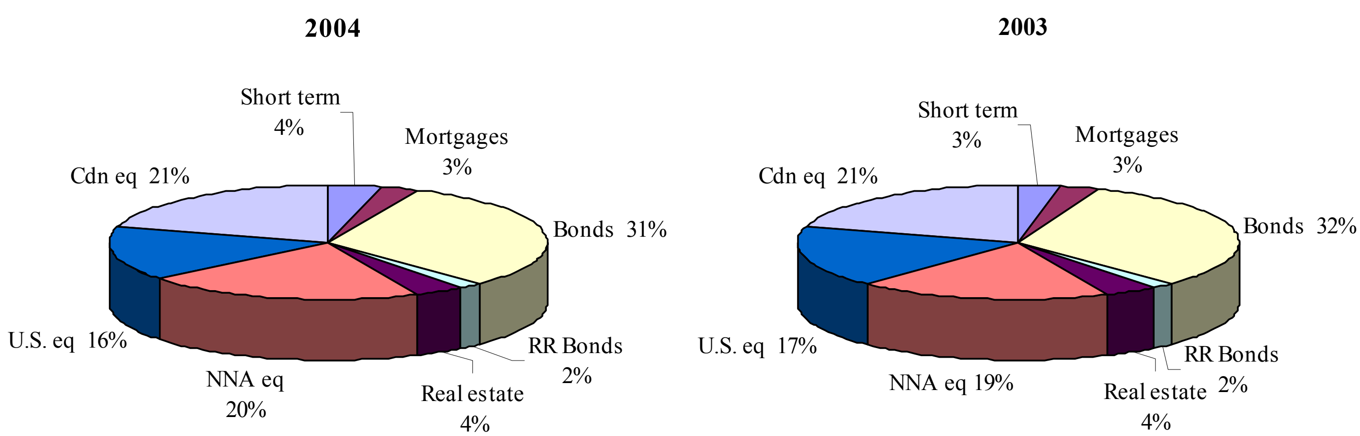
Asset Mix Summary

There were no changes in policy targets in the year. As a result, investment activity was driven by asset mix rebalancing by the balanced manager. Net investments were made over the year in bonds and short term investments, while Canadian and U.S. equities were trimmed.

At year-end, the total equity weight was above the 54% target at 56.7% of the Fund. Within that allocation, Canadian and non-North American equities were above the target weight, while U.S. equities were below. Throughout the year, asset mix calls relative to the long-term target were beneficial given the strong performance of Canadian and non-North American equities in the year.

Distribution of Assets

(as a percentage of year-end market values)



Distribution of Assets by Manager

Throughout 2004, Phillips, Hager & North continued to manage a balanced mandate and most of the Master Trust assets. Templeton manages non-North American equities. Barclays manages a passive U.S. equity mandate, Bentall Investment Management oversees both the equity real estate investment (Westpen) and Penreal Property Trust, which is a real estate financing vehicle. An allocation to real return bonds was established two years ago as a cost effective way of gaining exposure to inflation-sensitive assets.

	2004	2003
Phillips, Hager & North	**66.2%**	67.7%
Real Return Bonds	**1.9%**	1.7%
Penreal Property Trust	**1.7%**	1.8%
Westpen Properties Ltd.	**2.0%**	2.0%
Templeton	**20.5%**	18.8%
Barclays	**7.7%**	8.0%
	100.0%	100.0%

Interest Rate

Defined Benefit Members

For members with defined benefit entitlements, on December 31, 2004, an interest rate of 3.03% will be credited on account balances on that date. As required by the plan document, this rate reflects the annualized return over the past four years, less .5%, less administrative expenses. The 2005 annualized rate of return will be 2.92%.

Defined Contribution Members

For members with defined contribution entitlements, on December 31, 2004, an interest rate of 9.69% will be credited on account balances on that date. This represents the actual investment return in 2004 less administrative expenses.

Actuarial Valuation of the Plan

Provincial law requires the University to file an actuarial valuation with the Superintendent of Pensions every three years, or more often, at the University's option. An actuarial valuation is intended to answer two key questions:

- ***If the plan had been wound up on a certain date, would the plan's assets have been sufficient to pay the benefits earned by members up to that date?***

To answer this question, the Actuary determines how much money the plan would have needed to make lump-sum termination payments to members and to pay lifetime pensions to those members eligible for early retirement or already retired. This amount is then compared with the value of the funds in the pension fund to determine whether there is a solvency surplus or a solvency deficiency.

- ***Is the current rate of contributions sufficient to ensure payment of benefits over the long term?***

To answer this question, the Actuary makes an estimate of the present value of benefits to be earned in the future by existing members, and adds this amount to the value of benefits earned to date to obtain an estimate of the total liabilities of the plan. The Actuary then estimates the present value of investment earnings and all future contributions to the plan by and on behalf of current members, and adds these amounts to the current value of the plan's assets to determine the total current and future assets of the plan. There is a going-concern surplus if the total assets meet or exceed the total liabilities of the plan; otherwise, there is a going-concern deficiency.

As indicated in the Chair's remarks, an actuarial valuation was performed on the plan as of December 31, 2003 and filed with the provincial Superintendent of Pensions and the federal pension regulatory agency.

The valuation showed that the plan had a solvency surplus of $28,686,000, being the difference between assets of $226,125,000 and liabilities of $197,439,000 as of December 31, 2003. As you may recall, in the interim valuation performed in the previous year, the plan had a going-concern deficiency of $6,671,000 as of December 2002. However, with the positive investment experience of 2003, the plan was back in a surplus position ($10,105,000) at the end of 2003. It should be noted that part of this change ($5,704,000) occurred because of the introduction of asset smoothing but even in the absence of that change, the plan would have been in surplus position at the end of 2003.

The calculation of the going-concern surplus is given in more detail below:

	December 31, 2003
Assets	
• Market value of assets	$204,320,000
• Market value of assets held for defined contribution component	21,805,000
• Actuarial asset smoothing amount	5,704,000
• Present value of future contributions	25,686,000
Total value of assets	**$257,515,000**
Actuarial Liabilities and Surplus	
Actuarial present value of benefits for:	
• Active and disabled members – accrued benefits	$103,431,000
• Active and disabled members – future benefits	45,341,000
• Suspended members	7,131,000
• Inactive members	1,198,000
• Pensioners (non-temporary)	67,512,000
• Temporary pensioners	981,000
• Voluntary contributions	11,000
• Defined contribution account balances	21,805,000
Total actuarial liability	**$247,410,000**
Surplus / (Deficit)	$10,105,000
Total Actuarial Liability and Surplus	**$257,515,000**

The surplus was well below the maximum surplus ($19,991,000). If the plan had a surplus above this maximum, a change would likely be required to reduce the surplus. In the past, the Committee has dealt with this situation by improving the benefits of the plan. In this year, no action was required and the Committee did not recommend any benefit improvements based on the surplus position of the plan.

Audited Statements

The Provincial Auditor audits the financial statements of the pension plan each year. The Provincial Auditor provided an unqualified opinion of the 2004 financial statements of the Master Trust and the University's three pension plans. Any member who would like to receive a copy of any of the audited statements should contact Human Resources at 585-4167 or consult the Financial Services Website at:
http://www.uregina.ca/fs/financial_statements.shtml

The audited statements for 2004 should be available in August, 2005.

Benefit Premium Updates

The benefit plans provided by the University have annual premium renewals. The marketing exercise performed in 2003 for the Life and Salary Continuance Plans provided for a two year rate guarantee, therefore the premium rates remained unchanged at July 1, 2004.

Dental premiums decreased by 5%, resulting in a monthly premium reduction of approximately $2,400. The Extended Health Care Plan experienced a 31% premium increase.

Members of the Committee

• Norm Beirnes	Mathematics and Statistics (retired)
• Bonnie Dobni	Human Resources
• Larry Miller	Mathematics and Statistics
• Gaynor Kybett	Computing Services
• Dale Schoffer	Financial Services
• Jim Tomkins	President's Office
• Gary Tompkins (Chair)	Economics

Recording Secretary

• Darlene Marchuk	Human Resources

Actuary

• Don Ireland	Aon Consulting Inc., Saskatoon

Pension Consulting Services and Performance Management

- James P. Marshall Inc., a Hewitt Company, Regina

Investment Management Firms

- Phillips, Hager and North Investment Management Limited
- Bentall Investment Management
- Franklin Templeton Investments
- Barclays Global Investors Canada Inc.

Custodian

- CIBC Mellon Trust, Calgary

Web Site

- http://www.uregina.ca/hr/Benefits/Academic.html