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**SaskTel** 

# Message from the Chair

The past year has been a busy one for the SaskTel Pension Plan and I want to update you on some of our activities.

Our investment portfolio had a return of 7.4% on the year and is valued slightly more than \$1 billion.

While this is welcome news, we remain focused on the financial health of the plan in the future. To this end, the Board reviews the experience of the past in conjunction with a forward-looking actuarial analysis to ensure the Plan remains on good footing.

Approximately four years ago, the Board implemented the Dynamic Investing Policy as a method to manage the Plan's asset mix. The Board reviews this policy annually, however in 2015, we initiated a project to perform an in-depth analysis of the policy based on today's market environment. The goal of this review is to validate the existing approach, and to identify any changes that may be required. The results of this study are expected to be made available by June of 2016.

On the governance side, as we do every year an external governance specialist reviewed the plan's activities and governance structure to ensure we are operating effectively and that risks to the plan have been properly mitigated.

I hope you find this newsletter informative and that it finds you in good health.

Dale Hillmer  
SaskTel Pension Plan Chair

## Pension Board Trustees



Dale Hillmer  
Chair

Andrew Malinowski  
Unifor Representative

Mike Anderson  
SaskTel Representative

Brian Renas  
Unifor Representative

Scott Smith  
SaskTel Representative

Did you know...

The SaskTel Pension Plan (and its predecessor plans) has provided retirement income to more than 3,300 individuals since being established in 1928.

# Annual Pension Increase



The annual pension increase is 1.12% based on the increase in the average consumer price index for Canada from December 2014 to December 2015, which was 1.12%. The increase is effective April 1, 2016.

## 2016/17 Pension Payment Schedule

Pension payments are deposited directly to your account on the last business day of the month except for December, which is deposited two business days before Christmas Day.

2016/17 payments are:

Fri	April 29
Tue	May 31
Thu	June 30
Fri	July 29
Wed	August 31
Fri	September 30
Mon	October 31
Wed	November 30
Fri	December 23
Tue	January 31
Tue	February 28
Fri	March 31
Fri	April 28
Wed	May 31
Fri	June 30

## New Faces

**Brian Renas** replaces Gregory Young as Unifor representative on the Board of Trustees.

Brian began his career at SaskTel in 1974 as a Lineman in Weyburn. Within a year he moved to Regina city construction as a Cableman and then in 1980 moved into the Support/Standards group as a Technical Assistant where he remained until retirement in July 2011.

Brian has past experience as a Unifor (CEP) representative on SaskTel Pension Plan Board member for the 1999 to 2001 and 2006 to 2014 terms.

Brian is married to Pauline and has three daughters, Bree-Anne, Alison and Kyrstin, and a granddaughter Hannah.



Please remember that earnings statements are mailed 3 times per year, in January, April, & December.

**Please continue to ensure that we have your current mailing address and banking details**

(we require updated addresses and banking details to keep our records current)

# 2015 Annual Report Highlights

## Year at a glance

- **Going Concern status: 108.2%**
- **Solvency status: 81.4%**
- **Net assets: \$1.0 billion**
- **Pension obligations: \$1.1 billion**
- **Deficiency: \$0.1 billion**
- **Accounting status: 90.8%**
- **Total membership: 2,035**

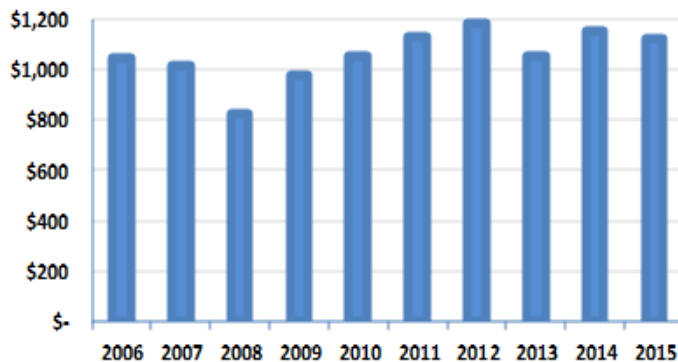
## Summary of Financial Position

(As at December 31, 2015)

(\$ thousands)	2015	2014
<b>Net assets available for benefits</b>	1,022,279	1,017,398
<b>Pension obligation</b>	1,126,512	1,152,670
<b>Deficiency</b>	104,233	135,272

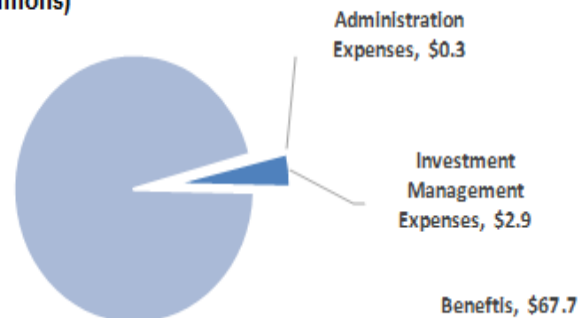
## Plan Obligations

(millions)



## Plan Expenses

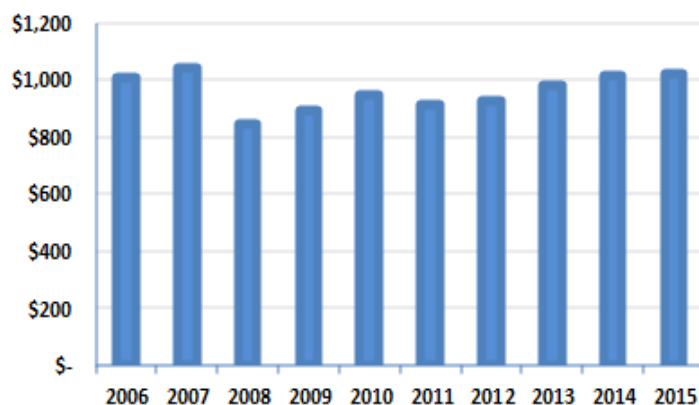
(millions)



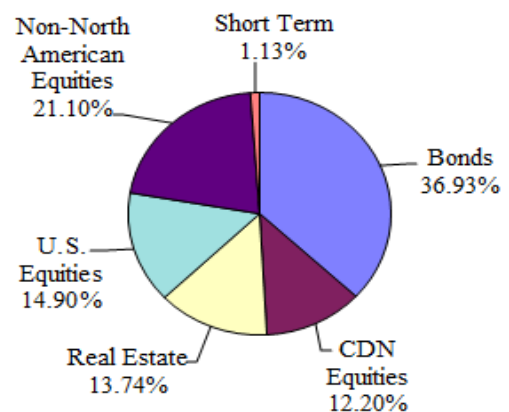
Administration and investment management costs: 0.32% of assets, up from 0.31% in 2014

## Plan Assets

(millions)



## Asset Mix



# Investment Performance



The Canadian equity market, as measured by the S&P/TSX Composite Index fell by 8.3%, and was one of the worst performing developed markets globally. Steep drops in commodity prices put pressure on shares of companies in the Energy and Materials sectors, which comprise a major portion of the overall Canadian market, and led the Index lower. Another major contributor to overall weak results was the Health Care sector, and mainly Valeant Pharmaceuticals, who faced allegations of fraud and are currently the focus of a U.S. Senate investigation into drug pricing practices.

U.S. equities, as measured by the S&P 500 Index, saw a slightly positive 1.4% annual return in local currency, however, increased substantially to 21.6% for Canadian investors, as the Canadian dollar depreciated versus the U.S. dollar in the year. The market was led by the Consumer sectors and Health Care names, with Energy companies the main source of weakness. In December, the Federal Reserve gave its vote of confidence to the U.S. economy by raising the discount rate for the first time in almost a decade.

International equity market returns varied greatly, with those economies with greater dependency on commodity prices or exports to China underperforming. European stock markets were strong, as accommodative monetary

policy began to take hold, and risk appetite returned somewhat to markets. Japan was one of the top performing developed markets as well.

Emerging markets declined 5.8% in local currency, however, managed a small gain of 2.0% for Canadian investors, as the Canadian dollar depreciated versus the EM basket of currencies. Brazil, Greece and Turkey saw sharp equity market declines, while China and Russia led.

Bond markets experienced declining yields, although with a large amount of volatility. The result was moderately positive returns across all terms, although particularly for mid to longer dated bonds. The Plan's bond portfolio is customized to reflect the duration of the liabilities,

which are relatively long term in nature, and returned 4.4% in the year.

The Total Fund returned 7.4% in the year, tracking ahead of the benchmark by 0.6%, offsetting investment related fees estimated to be 0.24% per annum. The result also tracked ahead of the median Canadian balanced fund. Active managers were mostly positive in their impact with only GMO trailing in International and Emerging Markets equities.

The 10.7% four-year Total Fund return was strong, reflecting rising foreign equity and real estate markets, solid bond returns, as well as value added relative to the benchmark portfolio return of 9.8%.

## Annual Return (1 year, trailing)



Investment allocations are governed by the Statement of Investment Policies and Goals, a vital document in the management of plan assets.

Since its inception in 1928, the SaskTel Pension Plan has earned over \$1.1 billion in investment income on \$127 million in employee contributions and \$367 million in employer contributions. That's over \$300,000 per retiree!



# Actuarial Report Summary



In 2014, the Board of Trustees filed an actuarial valuation for the Plan as of December 31, 2013 as required by *The Pension Benefits Regulations* 1993. The next valuation will be completed in 2017.

## Going Concern

The valuation found that the Plan was in a surplus position using the going concern method of \$9.5 million at the end of 2013, down from a \$22 million surplus at the end of 2010, the previous valuation year.

Even though assets have performed better than expected in the previous 3 years, assumption changes regarding how long we are expected to live as well as the Board's decision to include a 10% "safety margin" against adverse outcomes combined to bring the surplus down.

## Solvency

The solvency valuation at the end of 2013 was calculated to be a

deficit of \$155.7 million, an improvement from 2010's \$161.6 million deficit.

The main reason for the improvement was better than expected asset returns.

## 2015 Update

The Board receives interim valuations on a regular basis in order

to monitor the health of the plan.

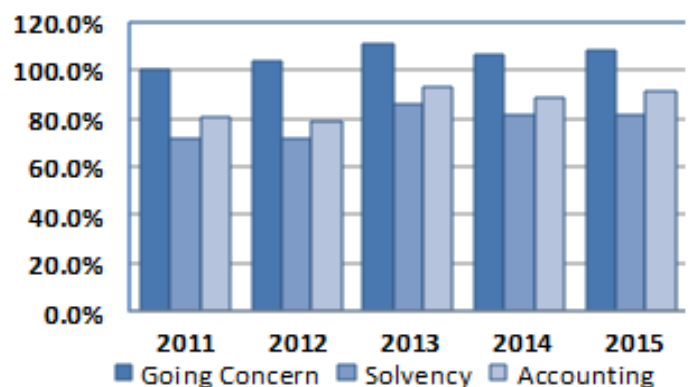
As at December 31, 2015, the going concern valuation was estimated to be \$76 million, up from the \$61 million at the end of 2014. The solvency valuation improved slightly to \$235 million at the end of 2015 from a deficit of \$237 million at the end of 2014.

## Summary of Valuation Measures

### Surplus (Deficit) in millions

	2015 Estimate	2014 Estimate	2013 Valuation
Going Concern	\$ 76	\$ 61	\$ 10
Solvency	\$ (235)	\$ (237)	\$ (156)
Accounting	\$ (104)	\$ (135)	\$ (75)

## Valuation Ratios



## Significant Assumptions

- Investment return: 6.35%
- Pension increases: 2%

# What is an actuarial valuation?

The Plan works with an independent actuary on an ongoing basis in order to monitor the financial health of the plan.

Performing a valuation is an exercise in predicting the future - we don't really know what is going to happen, but through the use of advanced computer modeling the actuary is able to take a set of assumptions on future events and produce an estimate of the Plan's status.

The assumptions we make about what lies ahead are based on what we know to be true today and what we have experienced in the past. Some of the larger assumptions we make include:

- Investment returns
- Inflation rates
- Interest rates
- How long we live

Some assumptions are used to calculate the value of assets (investment returns, interest rates) and some are used to calculate the cost

of current and future pension obligations. The actuary compares the assets to the liabilities and determines whether the plan is properly funded. If not, contributions into the Plan would be required.

## The three valuation figures

The actuary prepares three assessments of the Plan's financial well-being:

- Going concern (funding)
- Solvency
- Accounting

Each of the values looks at the Plan in a different way. The main valuation is the Going Concern method, also called the Funding valuation. This views the plan over a long time horizon. It is the method used by actuaries to measure the ability of

the plan to meet current and future obligations to plan members. It is also the method used by the provincial regulator to determine whether SaskTel must contribute additional funding to the plan.

The Solvency method views the Plan as if it were to cease operations immediately and pay out lump sum payments to members. While this outcome is very remote, this method provides additional insight to the Trustees.

The final method is the Accounting method, which is based on the accounting rules used in the preparation of financial statements. It is this method that you see when reading the Annual Report for the plan.

**“The actuarial valuation is the most important gauge we have to measure the financial health of the plan.”**

**SaskTel has the ultimate responsibility to ensure that the pension obligations are paid. As the sponsor of the Plan, SaskTel remains committed to meeting all funding requirements necessary to fulfill pension obligations to plan members. SaskTel closely monitors the going concern funded position and will fund any shortfalls, should they occur, in accordance with provincial regulations.**



# Pension Plan Fiscal Year End Change

The SaskTel Pension Plan Board has approved a change in the Plan's fiscal year end to March 31. The change will result in a 15 month reporting period commencing January 1, 2016 and ending March 31, 2017, followed by 12 month reporting periods ending March 31<sup>st</sup> annually. This change is being made to maintain the Plan's low administration costs through the continued use of the same financial reporting and administration system as SaskTel.

This change will result in the following changes in the plan's reporting schedule:

- The Annual Report and Financial Statements will be released at the end of July every year, instead of the end of April currently;
- The member newsletter will be mailed out at the end of July, instead of the end of April.

This change will not affect your pension. Pay dates will remain on the same schedule, and the pension indexing date remains April 1<sup>st</sup> as it currently is for any pension increases resulting from changes in the Consumer Price Index.

If you have any questions regarding this change, please contact us.



# SaskTel Pension Plan

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Established in 1928, the Saskatchewan Telecommunications Pension Plan is a contributory-defined benefit pension plan. It has been closed to new members since 1977.

Effective January 1, 1999, the Plan is governed by the Pension Benefits Act, 1992 (the Act). Prior to January 1, 1999, the Plan was governed by the Saskatchewan Telecommunication Superannuation Act and the Superannuation (Supplementary Provisions) Act. The Plan is registered under The Income Tax Act and The Pensions Benefits Act, 1992. It's administered by a 5-person Board appointed by the Corporation and Union.