



**NON-CONTRIBUTORY RETIREMENT FUND**  
**ANNUAL REPORT**  
**YEAR ENDED JUNE 30, 2016**

Report is available at:

<http://www.maine.edu/about-the-system/system-office/finances/pension-fund-annual-reports/>

Controller's Office, University of Maine System

# Non-Contributory Retirement Fund – Annual Report

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The University of Maine System (UMS) Non-Contributory Retirement Fund (Pension Plan or Plan) is a closed plan, maintained for eligible employees who chose not to join the Defined Contribution Plan established for hourly employees on July 1, 1998. The Plan covers a shrinking group of active employees, vested terminated employees, and pensioners.<sup>1</sup>

## **Funded Status of the Pension Plan**

The Plan assets are invested in a separate fund (Pension Fund or Fund) with the market value totaling \$32.8 million at June 30, 2016, down from \$36.6 million at June 30, 2015. UMS obtains a full actuarial valuation every other year, with a roll forward report in the off years. The fiscal year 2016 (FY16) roll forward report, issued by KMS Actuaries, LLC, shows a Total Pension Liability (TPL) of \$42.9 million for a funded status of 76%. The difference between the assets and TPL is a Net Pension Liability (NPL) of \$10.2 million. This compares with a NPL of \$6.7 million on June 30, 2015 when the Plan had a funded status of 85%.<sup>2</sup>

Significant factors contributing to the 9 percentage point decline in the funded status were:

- A decline in the long-term return assumption from 6.75% to 6.25% resulting in an additional expense of \$1.4 million for this change.
- Returns realized of \$202 thousand were \$2.1 million lower than projected for FY16. Such variance will be recognized in pension expense over a 5 year period as required by Governmental Accounting Standards Board (GASB) Statement #68.

## **Oversight and Management**

Portfolio and investment management is an ongoing process with the following parties meeting routinely to provide oversight of the Fund:

- UMS Board of Trustees Investment Committee
- Investment Consultant – New England Pension Consultants (NEPC)
- Vice Chancellor for Finance and Administration, UMS
- Associate Vice Chancellor, Chief Financial Officer and Treasurer, UMS
- Director of Finance and Controller, UMS

## **Governing Investment Guidelines and Objectives**

Investment guidelines, last updated September 7, 2016, govern the investment process and may be found at <http://www.maine.edu/about-the-system/system-office/finances/investment-guidelines-2/>.

Guidance includes:

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<sup>1</sup> For a more detailed description and actuarial status of this defined benefit plan, see the UMS Annual Financial Report at <http://www.maine.edu/about-the-system/system-office/finances/annual-financial-reports/>

<sup>2</sup> The UMS retroactively implemented GASB #68 for its FY15 financial statements. As a result, certain changes were made to presentation, disclosure, and Required Supplemental Information. For further information about this accounting change, see the UMS's FY15 Annual Financial Report.

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- Minimum long-term return assumption
- Risk tolerance
- Statement of goals and objectives
- Investment guidelines including:
  - Asset allocation with target percentages, permissible ranges, and evaluation benchmarks, and
  - Permitted and excluded investments
- Investment manager performance standards and evaluation
- Responsibilities of all parties
- Conflict of interest
- Statements about implementation and amendments

## **Long-Term Return Objective**

Given market expectations, in June 2016, NEPC reduced the long-term return assumption from 6.75% to 6.25%. As a result, the actuarially determined TPL increased by \$1.4 million for this factor.

## **Fiscal Year 2016 Performance**

The Pension Fund **experienced a return of 0.5%** net of fees for FY16, placing the Fund in the 46<sup>th</sup> percentile of the InvestorForce Total Fund Universe as reported by NEPC. Performance is impacted by financial market conditions, asset allocation and the investment managers utilized. On June 30, 2016, the Fund totaled \$32.8 million, decreasing \$3.8 million from the prior year-end balance as detailed on the next page.

## **5-Year Annualized Return**

The Fund's **5-year annualized return as of June 30, 2016 was 4.6%** net of fees ranking the Fund in the 70<sup>th</sup> percentile of the total fund universe tracked by NEPC while the risk taken ranked in the 53<sup>rd</sup> percentile.

The Fund is well diversified among a number of asset classes with allocations to twelve investment managers, including index funds, at fiscal year-end.

## **Portfolio Allocation and Investment Manager Changes**

The Investment Committee reviews the portfolio's allocation at its February meeting and takes action on managers throughout the year. All meeting minutes, including action items, are available on the web at: <http://www.maine.edu/about-the-system/board-of-trustees/meeting-agendas/investment-committee/>.

## **Plan Participants**

The Plan is closed to new participants. Eligible employees who were hired before July 1, 1998 and who were age 50 or older on June 30, 1998 could elect to roll their accrued defined benefit to the Defined Contribution Plan or remain in the Non-Contributory Retirement Plan. Hourly employees hired July 1, 1998 or later participate in the Defined Contribution Plan.

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The numbers of participants are as follows:

	<u>July 1, 2015</u>	<u>July 1, 2016</u>	<u>Change</u>
Participating Employees <sup>3</sup>	12	11	(1)
Retired Participants and Beneficiaries	809	788	(21)
Terminated Vested Participants <sup>4</sup>	<u>345</u>	<u>343</u>	<u>(2)</u>
Total Participants	<u>1,166</u>	<u>1,142</u>	<u>24</u>

## Pension Fund Inflows and Outflows

	(\$ in Thousands)	
	<u>FY15</u>	<u>FY16</u>
<b>Beginning Market Value – July 1</b>	<b><u>\$40,201</u></b>	<b><u>\$36,628</u></b>
Contributions from the University of Maine System	\$1,100	\$538
Benefit payments	(4,693)	(4,585)
Investment Results Net of Fees	27	202
Other Professional Services	<u>(7)</u>	<u>(19)</u>
<b>Net Activity for the Fiscal Year</b>	<b><u>(\$3,573)</u></b>	<b><u>(\$3,864)</u></b>
<b>Ending Market Value – June 30</b>	<b><u>\$36,628</u></b>	<b><u>\$32,764</u></b>

## Pension Funding

As of June 30, 2016, the Non-Contributory Retirement Plan was 76% funded, with a Net Pension Liability of \$10.2 million. The UMS uses a funding strategy for this Plan, adopted during fiscal year 2014, to smooth the impact of financial markets on contributions over a long time period and to manage Operating Funds cash flows. The amount UMS is required to contribute is updated with each actuarial valuation and will vary based on market performance, the supported long-term return objective and other assumptions used in the actuarial valuation. The UMS will contribute \$735 thousand to the Pension Fund in FY17.

This funding strategy is designed such that the Plan's assets will never be depleted and allows UMS to use its investment consultant's approved long-term return objective as the discount rate for its actuarial valuations. Otherwise, UMS would be required to use a governmental bond rate for actuarial calculations related to the unfunded portion of the liability, resulting in a greater calculated pension liability.

## Returns, Market Values and Portfolio Allocation

**Attachment I** reports the total returns for the Pension Fund on a net of fees basis and the year-end market values for the past 5 years, as well as the asset allocation on June 30, 2015 and 2016.

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<sup>3</sup> Shrinking population of those employees who were over age 50 on July 1, 1998 and elected to stay in the Pension Plan. Participating employees include 7 participants accruing benefits on long-term disability on 7/1/2015.

<sup>4</sup> Those who have terminated employment from UMS and are vested but not currently drawing a benefit.

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Market Values, Asset Allocations, and Total Returns

June 30, 2016

	June 30, 2015			June 30, 2016		
	Market Value	% Allocation	Target %	Market Value	% Allocation	Target %
Domestic Equities	\$3,594	10%	10%	\$4,004	12%	12%
International Equities	3,676	10%	10%	3,624	11%	10%
Fixed Income	11,805	32%	32%	10,755	33%	32%
Global Asset Allocation	11,466	31%	30%	8,277	25%	25%
Alternative Investments	3,453	10%	10%	3,435	10%	10%
Core Real Estate	2,003	5%	5%	1,808	6%	8%
Cash	631	2%	3%	861	3%	3%
<b>Total</b>	<b>\$36,628</b>	<b>100%</b>	<b>100%</b>	<b>\$32,764</b>	<b>100%</b>	<b>100%</b>

Total returns (net of fees) and the market value of the Pension Fund for the five years ended June 30, 2016 are:

