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UNIVERSITY OF MAINE SYSTEM

NON-CONTRIBUTORY RETIREMENT FUND

ANNUAL REPORT

YEAR ENDED JUNE 30, 2017

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

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.¹

Funded Status of the Pension Plan

The Plan assets are invested in a separate fund (Pension Fund or Fund) with the market value totaling \$31.2 million at June 30, 2017, down from \$32.8 million at June 30, 2016. UMS obtains a full actuarial valuation every other year, with a roll forward report in the off years. There were no changes in key actuarial assumptions or methods from the prior year. The fiscal year 2017 (FY17) actuarial valuation, issued by KMS Actuaries, LLC, shows a Total Pension Liability (TPL) of \$40.3 million for a funded status of 77.5%. The difference between the assets and TPL is a Net Pension Liability (NPL) of \$9.1 million. This compares with a NPL of \$10.2 million on June 30, 2016 when the Plan had a funded status of 76%.

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 and Treasurer, UMS
- Director of Finance and Controller, UMS

Governing Investment Guidelines and Objectives

Investment guidelines, last updated May 15, 2017, govern the investment process and may be found at <http://www.maine.edu/about-the-system/system-office/finances/investment-guidelines-2/>.

Guidance includes:

- 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

¹ 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/>

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Long-Term Return Objective

The long-term return assumption of 6.25% remains unchanged from the prior year.

Fiscal Year 2017 Performance

The Pension Fund **experienced a return of 7.2%** net of fees for FY17, placing the Fund in the 82nd 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, 2017, the Fund totaled \$31.2 million, decreasing \$1.6 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, 2017 was 6.3%** net of fees ranking the Fund in the 76th percentile of the total fund universe tracked by NEPC while the risk taken ranked in the 30th 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.

The numbers of participants are as follows:

	<u>July 1, 2016</u>	<u>July 1, 2017</u>	<u>Change</u>
Participating Employees ²	11	6	(5)
Retired Participants and Beneficiaries	788	751	(37)
Terminated Vested Participants	<u>343</u>	<u>310</u>	<u>(33)</u>
Total Participants	<u>1,142</u>	<u>1,067</u>	<u>(75)</u>

² Shrinking population of those employees who were over age 50 on July 1, 1998 and elected to stay in the Pension Plan.

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Pension Fund Inflows and Outflows

	(\$ in Thousands)	
	<u>FY16</u>	<u>FY17</u>
Beginning Market Value – July 1	<u>\$36,628</u>	<u>\$32,764</u>
Contributions from the University of Maine System	\$538	\$735
Benefit payments	(4,585)	(4,435)
Investment Results Net of Fees	202	2,172
Other Professional Services	(19)	(20)
Net Activity for the Fiscal Year	<u>(\$3,864)</u>	<u>(\$1,548)</u>
Ending Market Value – June 30	<u>\$32,764</u>	<u>\$31,216</u>

Pension Funding

As of June 30, 2017, the Non-Contributory Retirement Plan was 77.5% funded, with a Net Pension Liability of \$9.1 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 \$695 thousand to the Pension Fund in FY18.

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, 2016 and 2017.

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University of Maine System
Market Values, Asset Allocations, and Total Returns
June 30, 2017

Market Value and Asset Allocation of the Defined Benefit Pension Fund (\$ in Thousands)						
	June 30, 2016			June 30, 2017		
	Market Value	% Allocation	Target %	Market Value	% Allocation	Target %
Domestic Equities	\$4,004	12%	12%	\$3,786	12.1%	12.0%
International Equities	3,624	11%	10%	3,367	10.8%	10.0%
Fixed Income	10,755	33%	32%	9,658	30.9%	32.0%
Global Asset Allocation	8,277	25%	25%	8,975	28.8%	27.5%
Alternative Investments	3,435	10%	10%	2,398	7.7%	7.5%
Core Real Estate	1,808	6%	8%	2,562	8.2%	8.0%
Cash	861	3%	3%	470	1.5%	3.0%
Total	\$32,764	100%	100%	\$31,216	100.0%	100.0%

Total returns (net of fees) and the market value of the Pension Fund for the five years ended June 30, 2017 are:

