



NON-CONTRIBUTORY RETIREMENT FUND

ANNUAL REPORT

YEAR ENDED JUNE 30, 2019

Report is available at:

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 \$26.2 million at June 30, 2019, down from \$28.9 million at June 30, 2018. The fiscal year 2019 (FY19) actuarial valuation, issued by KMS Actuaries, LLC, shows a Total Pension Liability (TPL) of \$38.1 million for a funded status of 69.7%. The difference between the assets and TPL is a Net Pension Liability (NPL) of \$11.5 million. This compares with a NPL of \$9.5 million on June 30, 2018 when the Plan had a funded status of 75.3%. For a more comprehensive review, see the full actuarial report issued by KMS Actuaries, LLC.

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
- Vice President of Finance and Controller, UMS

Governing Investment Guidelines and Objectives

Investment guidelines, last updated May 28, 2019, govern the investment process and may be found at 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 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.

Performance

The Pension Fund **experienced a return of 4.6%** net of fees for FY19. Performance is impacted by financial market conditions, asset allocation and the investment managers utilized. On June 30, 2019, the Fund totaled \$26.2 million, decreasing \$2.7 million from the prior year-end balance as detailed on the next page.

The Fund's **5-year annualized return as of June 30, 2019 was 3.3%** net of fees. As the Plan is in the payout stage, the portfolio is invested more conservatively than peers. The Fund is well diversified among a number of asset classes with allocations to twelve different funds at fiscal year-end.

Portfolio Allocation and Investment Manager Changes

The Investment Committee reviewed the portfolio's allocation at its March 11, 2019 meeting and took action on managers throughout the year. All meeting minutes, including action items, are available on the web at:

maine.edu/about-the-system/board-of-trustees/meeting-agendas/investment-committee/.

Plan Participants

The Plan is closed to new participants. Participants in the plan include eligible employees as of June 30, 1998 who elected to stay in the Defined Benefit 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, 2018</u>	<u>July 1, 2019</u>	<u>Change</u>
Participating Employees ²	6	5	<u>(1)</u>
Retired Participants and Beneficiaries	751	742	<u>(9)</u>
Terminated Vested Participants	304	213	<u>(91)</u>
Total Participants	<u>1,025</u>	<u>960</u>	<u>(101)</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

<u>Pension Fund</u>	FY18 (\$ in thousands)	FY19 (\$ in thousands)
Beginning Market Value – July 1	\$31,216	\$28,930
Contributions from the University of Maine System	\$695	\$714
Benefit payments	(4,280)	(4,153)
Investment Results Net of Fees	1,335	1,112
Other Professional Services	(36)	(27)
Net Activity for the Fiscal Year	(\$2,286)	(\$2,354)
Ending Market Value – June 30	\$28,930	\$26,576

Pension Funding

As of June 30, 2019, the Non-Contributory Retirement Plan was 69.7% funded, with a Net Pension Liability of \$11.5 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 \$896 thousand to the Pension Fund in FY20.

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 of 6.25% 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, 2019 and 2018.

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Attachment I

Market Values, Asset Allocations, and Total Returns June 30, 2019

Market Value and Asset Allocation of the Defined Benefit Pension Fund (\$ in Thousands)

	June 30, 2018			June 30, 2019		
	Market Value	% Allocation	Target %	Market Value	% Allocation	Target %
Global Equity	\$5,689	19.7%	19.0%	\$7,987	30.4%	30.0%
Emerging Market Equity	850	2.9%	3.0%	1,080	4.1%	3.0%
Domestic Core Bonds	5,831	20.2%	20.0%	7,221	27.5%	26.0%
TIPS	2,020	7.0%	7.0%	1,833	7.0%	7.0%
Bank Loans	1,543	5.3%	5.0%	1,332	5.1%	5.0%
Absolute Return Fixed Income	749	2.6%	3.0%	1,170	4.5%	5.0%
Global Asset Allocation	7,966	27.5%	27.5%	1,895	7.2%	8.0%
Real Estate	2,286	7.9%	8.0%	2,166	8.3%	8.0%
Hedge Funds	1,642	5.7%	4.5%	1,223	4.7%	5.0%
Cash	354	1.2%	3.0%	324	1.2%	3.0%
Total	\$28,930	100.0%	100.0%	\$26,231	100.0%	100.0%

Total returns (net of fees) and the market value of the Pension Fund for the five years ended June 30, 2019 are:

