Municipal Pension Plan
Funding Policy

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1.0 PREAMBLE

1.1 The purpose of this Funding Policy is to outline principles that will guide the Municipal Pension Board of Trustees (the Board) and its Actuary in managing the financial position of the Municipal Pension Plan (the Plan) and maintaining a balance between assets and liabilities.

1.2 Assets accumulate as a result of contributions made by plan members and their employers, and investment returns. Contributions made by plan members and their employers are set out in the Plan Rules. The Board's investment policy is documented in the Statement of Investment Policies and Procedures (SIPP). The SIPP should be reviewed in light of the Funding Policy and the most recent actuarial valuation to ensure that the asset allocation is consistent with the actuarially assumed rate of return. The Board meets this objective through a triennial asset liability study, following each actuarial valuation report. Similarly, investment returns and market conditions should be monitored and the Funding Policy should be reviewed and revised if required to reflect long-term expectations.

1.3 Liabilities are the result of benefits provided to plan members and their beneficiaries, and the expenses incurred in managing the Plan. Benefits are set out in the Plan Rules. Expenses incurred in managing the Plan are approved by the Board through its annual budget.

1.4 The Funding Policy establishes guidelines for the Board and the Actuary in:

- carrying out periodic actuarial valuations;
- responding to surpluses and deficits;
- establishing plan member and employer contribution rates for basic non-indexed pensions;
- providing cost of living adjustments (COLA) in accordance with the provisions of the Plan Rules;
- setting the terms for converting Special Agreement funds into pensions; and
- establishing policy with respect to post-retirement group benefits.

2.0 AUTHORITIES

2.1 This policy is subject to the provisions of the Joint Trust Agreement (JTA), sections of which are set out in Appendix 1.

2.2 This policy is subject to the applicable provisions of the following Acts and Regulations as amended from time to time, and to any other Acts or Regulations which are currently, or in the future may be, applicable to the Plan:

- *Income Tax Act of Canada* RSC 1985, C1 (5th Supp.) and Regulations (ITA)
- *Pension Benefits Standards Act* S.B.C 2012, c.30 and Regulations (PBSA)
- *Public Sector Pension Plans Act* SBC 1999 Ch. 44 and Regulations (PSPPA)

2.3 This policy is also subject to the provisions of the Municipal Pension Plan Rules (the Plan Rules) and the Post-Retirement Group Benefit Rules, as amended from time to time.

3.0 BACKGROUND

3.1 The Municipal Pension Plan is a public sector, multi-employer, defined benefit pension plan governed by a joint board of trustees appointed by organizations representing employers and members, pursuant to Article 4 of the JTA. As stated in the preamble to the JTA, the JTA provides *"for the prudent management of the Pension Plan and the Pension Fund in a framework where plan members and employers share the responsibility of plan governance and share the risks and rewards of plan sponsorship."*

3.2 Employers in the Plan are from several sectors: municipalities, health, community social services, schools, colleges, and others. Details regarding membership in the Plan are available in the Plan's Annual Report which is made available on the Plan's website

3.3 Plan Sponsors are represented through the Employer Plan Partner (the Government of British Columbia and the Union of British Columbia Municipalities) and the Member Plan Partner (the Municipal Employees' Pension Committee).

3.4 The Plan provides a guaranteed basic non-indexed, defined benefit pension for which contributions and investment returns are accumulated in the Basic Account.

3.5 The Plan accumulates funds in the Inflation Adjustment Account (IAA) to offset the effects of inflation. When cost of living adjustments (COLA) are granted and funds are transferred to the Basic Account, they become part of the guaranteed pension benefit. However, future COLA is not guaranteed and contributions to the IAA are insufficient to provide full inflation protection indefinitely.

3.6 Some plan members make money purchase contributions under Special Agreements between the Board and their employer. These contributions accumulate at the Municipal Pension Fund (the Fund) rate of return and there is no guarantee of the rate of return or the retirement benefit that may result. At retirement, the accumulated balance may be used to increase the defined benefit pension (subject to Board policy and applicable provisions of the ITA). If the member elects to increase the basic defined benefit pension, funds are transferred to the Basic Account and the IAA. Once transferred, the increased defined benefit pension is guaranteed and will be adjusted by any COLA that is granted.

3.7 The Plan may also provide access to and subsidies of post-retirement group benefits, including partial subsidies of Medical Services Plan (MSP) premiums, Extended Health and Dental coverage. Post-retirement group benefits are not pension benefits, are not guaranteed and are not pre-funded. Schedule B, s. 18.4 of the *Public Sector Pension Plans Act* (PSPPA) specifies that *the* Pension Benefits Standards Act *does not apply to post retirement group benefits provided pursuant to this Schedule."* Access to and subsidies of post-retirement group benefits are subject to Board policy and funding constraints.

3.8 The Board’s top three long-term strategic goals, in order of priority are as follows:

1. Guarantee of Basic Pensions: The first priority of the board is to provide basic guaranteed pensions to plan members and survivor benefits to their beneficiaries.
2. Sustainability of Cost of Living Adjustments: The second priority of the board is to provide cost of living adjustments within the long-term funding capacity of the Inflation Adjustment Account and to provide cost of living adjustments that are sustainable over the long term.
3. Access to Group Benefits: The third priority of the board is to provide access to group health benefits coverage for retirees and their beneficiaries

4.0 KEY RISKS

4.1 The Plan faces a number of risks that could increase contribution volatility and/or affect its ability to pay benefits. The following are the most significant of these risks:

- Poor investment performance: to the extent that the Plan's investments do not generate investment returns at the expected level, additional contributions will be required to ensure adequate funding;
- Experience differing from expectations: over time actual experience may differ from the valuation assumptions and could raise the cost of the Plan;
- Intergenerational inequity: as the Plan matures, a greater proportion of the liabilities will be related to inactive and retired members while deficits must be funded by a declining proportion of active members;
- Affordability: if the cost of the Plan rises, it may become difficult for members and/or employers to make the required contributions to the Plan;
- Adequacy of contribution rates: while the Plan is required to adjust contribution rates to guarantee the basic pension benefits, there are no similar requirements for contribution rates that support non-guaranteed benefits. As a result, there is the risk that contribution rates will be insufficient to provide expected levels of non-guaranteed benefits resulting in forced reductions of benefit levels.

4.2 These risks are monitored and addressed by the Trustees through:

- The annual review of investment performance and the Statement of Investment Policies and Procedures (SIPP);
- The triennial asset liability review;
- The triennial actuarial valuation and adjustment of contribution rates as required to ensure the Plan is funded on a going concern basis;
- Annually updated stochastic modeling of the Basic account funded position and contribution requirements;
- Implementation of the sustainable COLA program, which uses a triennial valuation model to determine the level cost-of-living adjustment (COLA) that can be provided;
- Annually updated stochastic modeling of the sustainability of indexing
- Periodic review and adjustment of post retirement group benefit coverage and subsidies; and
- The Board's Strategic Decision Framework.

5.0 BASIC PENSION BENEFITS / BASIC ACCOUNT

5.1 Description of Benefits and Contribution Rates

5.1.1 The basic pension benefit for Groups 1 and 2 is determined through a formula that provides:

- 1.3% of Highest Average Salary (HAS) up to the Year's Maximum Pensionable Earnings (YMPE) per year of pensionable service and 2.0% of HAS above the YMPE per year of service; and

- A bridge benefit of 0.7% of HAS up to the YMPE is payable from the date of retirement to the earlier of attaining age 65, when Canada Pension Plan (CPP) benefits are expected to commence, or death.

5.1.2 The basic pension benefit formula for Group 5 is 1.63% of HAS up to the YMPE per year of pensionable service and 2.33% of HAS above the YMPE. The bridge benefit is the same as for Groups 1 and2.

5.1.3 The normal retirement age for plan members in Group 1 (males and females other than firefighters and police officers) is 65. A plan member in these groups may retire without reduction in pension at age 60 with 2 years of contributory service, and as early as age 55 if age and years of contributory service total 90 or more. A member in Group 1 who does not meet the criteria for an unreduced pension may retire with a reduced pension as early as age 55.

5.1.4 Members in Group 2 and Group 5 (firefighters and police officers) have a normal retirement age of 60, can retire without reduction at age 55 with 2 years of contributory service, and as early as age 50 if age and years of service total 80 or more. A member in Group 2 or 5 who does not meet the criteria for an unreduced pension may retire with a reduced pension as early as age 50.

5.1.5 Member Basic Account contributions are set out in s. 5 of the Plan Rules[1].

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[1] Effective January 1, 2019, members, other than those in Group 5, are required to contribute 6.97% of their salary up to the YMPE and 8.47% of their salary over the YMPE, until the earlier of reaching the latest retirement age, accruing 35 years of pensionable service, termination of employment, commencing benefits under an approved group disability plan, commencing a disability pension, retirement or death. The member contributions for Group 5 are 8.49% of their salary up to the YMPE and 9.99% of salary over the YMPE.

5.1.6 Employer Basic Account contributions are set out in s. 6 of the Plan Rules.[2] The Plan Administrative Agent calculates separate blended contribution rates for each employer in accordance with the provisions of s. 6(2) of the Plan Rules.

5.1.7 Costs are shared between plan members and employers. The JTA describes the process and requirements for transitioning from the current cost sharing arrangement to a 50/50 cost share. Section 10.3(b) of the JTA requires that, *"[if] an actuarial valuation report indicates that there is a requirement to increase contribution rates to the Basic Account, the increase must be shared equally between the Employers and Plan Members, and the Board must amend the Pension Plan Rules accordingly."*

5.1.8 *Pursuant to section 5.2.6,* effective January 1, 2019 the member and employer Basic Account contributions were reduced by 0.53% of salary each, and matched corresponding increases to the member and employer contribution rates to the Inflation Adjustment Account.

5.2 Issues / Constraints

5.2.1 Section 52. (2) (a) of the PBSA exempts the Plan from meeting the funding requirements prescribed in the PBSA Regulations.

5.2.2 Notwithstanding this exemption, Article 10.3 (a) of the JTA requires the Board to *"have the Pension Plan reviewed and the results of the review set out in the form of an actuarial valuation report for a going concern valuation in the manner and at the times specified in the PBSA and the regulations under the PBSA."* The JTA sets out other constraints and guidelines for the Board that will be discussed later in this policy.

5.2.3 The Actuary has a professional obligation to comply with the professional standards of the Canadian Institute of Actuaries (CIA). The Board's Funding Policy is not subject to these standards.

5.2.4 Contribution rates for basic non-indexed pensions are set in accordance with the provisions of the JTA.

[2] In the past employer contributions have been more complex than member contributions. In addition to different contribution rates above and below the YMPE, employer contribution rates were lower in respect of members who were younger than 50 than for members 50 and older (younger and older than age 45 in Group 2 and Group 5) (known as "doubling"), and are different for each of the member groups. The elimination of gender differentials in employer rates between Group 1 and Group 4 and doubling of employer contribution rates for employees at or over age 50 (age 45 for Groups 2 & 5) commenced January 1, 2017, with the differences phased out over a three year period. Beginning January 1, 2019, the gender and doubling differentials are fully removed, and groups 1 and 4 merged.

5.2.5 Appendix B of the JTA sets out the funding arrangements for the transitional period. Actuarial deficits will be amortized over 15 years, as required by PBSA. Actuarial gains and surpluses during the transitional period must be used in the following sequence to:

a) eliminate unfunded liabilities in the Basic Account.
b) simultaneously i) implement specified benefit improvements, amortized over 25 years, and ii) rebalance employer and member contribution rates and eliminate "doubling".
c) transfer funds in equal measure to a contribution rate stabilization reserve and to the IAA to an aggregate total of $1 billion.

Transition is completed once all of these requirements are met.

5.2.6 In accordance with Appendix B of the JTA, which was amended by the plan partners effective October 10, 2014:

a) effective January 1, 2019 the Basic Account contributions were reduced by 1.06% of salary and a corresponding increase to the overall contribution rate to the Inflation Adjustment Account of 1.06% of salary was made. The decrease in the Basic Account contribution rate and the increase in the Inflation Adjustment Account contribution rate were shared equally by the active members and the employers.

5.2.7 After transition is completed, the provisions of Articles 10 and 11 of the JTA will apply:

a) contribution rate changes will be shared 50/50 by members and employers.
b) unfunded liabilities will be amortized over 15 years as required by the PBSA.
c) surpluses may be:
   - transferred to a rate stabilization account;
   - transferred to the IAA;
   - used to reduce contribution rates to the Basic Account for a period of time (amortized over not less than 15 years); and/or
   - used to improve benefits subject to s. 11.5 of the JTA (amortized over 25 years).

5.2.8 The Board has not set a post-transition surplus allocation policy at this time.

5.2.9 While exempt under PBSA, the JTA requires compliance with the PBSA going-concern requirements at all times, which means that the PBSA minimum contribution requirements apply during and after transition as described below:

1. Contribution rates for plan members and employers will be set to ensure that the total cost on an entry age normal basis will be paid.

2. If there is an unfunded liability, each unfunded liability will be amortized over 15 years.
3. If there is a surplus:
    a) contributions can be reduced subject to the following constraints:
        i) a surplus cushion equal to 5% of the liability must be retained, and
        ii) the remaining balance can then be amortized over not less than five years.

5.2.10 The Board is required to ensure that any surplus does not exceed the "excess surplus threshold" as defined in the ITA. The Actuary must advise the Board, prior to finalizing the valuation report, of the need to take action to avoid exceeding the excess surplus threshold.

5.3 2015 Valuation Rate Stabilization Account[3]

5.3.1 The 2015 Valuation Rate Stabilization Account (RSA) is a notional account within the Basic Account. At each future valuation the RSA will be reported separately from the balance of the Basic Account assets and shall be excluded from the Basic Account assets when calculating the Basic Account funded position and required Basic contribution rates.

5.3.2 Provided the RSA is less than $2.5 billion, interest will be credited annually at the smoothed investment return rate as calculated-by the actuary. In any year, interest on the RSA balance that would cause the RSA to exceed $2.5 billion will be retained in the balance of the Basic Account and not added to the RSA. In other words, the RSA will be capped at a maximum of $2.5 billion at all times and interest will only be added to the RSA to the extent the balance, after interest is added, does not exceed this cap.

5.3.3 The RSA balance will be reported in the notes to the financial statements.

5.3.4 At each future valuation, the balance in the RSA will be drawn down to the extent needed to keep the required Basic contribution rates unchanged.

5.3.5 If there are gains at valuations after 2015 resulting in further Basic Account surplus assets, no additional surplus will be transferred to the RSA unless expressly directed to do so by the Plan Partners.

5.3.6 If the full balance in the RSA is required to support the contribution rate at any valuation following the 2015 valuation, the account will be extinguished and no longer reported on in subsequent valuation reports.

[3] As a result of a Basic account surplus at the 2015 valuation, a Rate Stabilization Account (RSA) of $1,927,301,000 was established effective January 1, 2016

5.4 Benefit Improvements

5.4.1 Section 11.5 of the JTA limits the Board's ability to amend the Plan Rules such that there can be no increase in contribution rates for non-indexed basic benefits; no increase in the contribution rates for indexing of benefits; and no creation of, or increase to, an unfunded liability. The cost of any benefit improvement must be determined using a 25-year amortization schedule.

5.5 Funding Objectives

5.5.1 The Board's long-term goal is to ensure the sustainability of the Plan and to ensure the provision of basic pension benefits to members and their beneficiaries.

5.5.2 Thus, the primary objective is benefit security, which is a crucial element of sustainability and is enhanced by the joint-trustee nature of the Plan, its broad public sector base, and the extremely low likelihood of the Plan winding up.

5.5.3 Contribution rate stability is a key secondary objective. The cost of the Plan should be sustainable over time and reflect a long-term view of the Plan's assets and liabilities.

5.5.4 Funding decisions in respect of the defined benefit component of the Plan should be made bearing these objectives in mind.

5.6 Monitoring Funding Objectives

5.6.1 The Board will annually use the stochastic model to monitor the projected results over a 15-year period for two key outcomes:

- **Funded Ratio** – the probability of the funded ratio falling below 100% will be tracked. Should this probability show an increasing trend, i.e. the funded ratio is expected to deteriorate over time from its current level, the Board will consider what, if any action, it can take to mitigate this outcome. Actions to mitigate this may require the involvement of the Plan Partners.
- **Probability of significant contribution rate increase** – The probability of an increase in contribution rate of more than 2% of pay will be tracked. If this probability exceeds 50%, the Board will consider what action, if any, it can take to mitigate this outcome. Actions to mitigate this may require the involvement of the Plan Partners.

5.7 Expectations for the Going Concern Funded Ratio

5.7.1 The Funding Policy does not deliberately aim for a funded ratio above 100%. If the funded ratio is less than 100% the aim is to restore it to 100% over 15 years as required by the PBSA.

5.7.2 If surpluses emerge due to favorable experience, the funded ratio may exceed 100%. As a result of the 2015 Valuation a rate stabilization account was established. This account will help keep the funded ratio above 100%.

5.7.3 If surpluses emerge due to favourable experience, contributions will not be reduced from their current level until the surplus is large enough to achieve the requirements of Appendix B to the JTA. As a result, in this circumstance, prior to the Appendix B changes, the contributions will be larger than required to maintain the funded ratio at 100% and if the valuation assumptions are met, the funded ratio will increase slowly over time until the Appendix B requirements can be met. At this point the funded ratio will fall, but not below 100%, due to the cost of the benefit improvements and the transfer to the IAA.

5.7.4 Once transition is completed the aim will be to have a funded ratio of at least 100%. Expectations for the funded ratio, should there be a surplus due to experience gains, will depend on the Board's post-transition surplus policy, which has not been set at this time.

5.8 Framework for Going Concern Actuarial Valuation

5.8.1 Contribution rates will be set based on a triennial going-concern actuarial valuation, using the entry age normal basis. The entry age normal basis is consistent with the funding objectives set out in this policy and provides continuity with previous valuations and actuarial analysis taken into account when the JTA was negotiated.

5.8.2 Asset values and investment returns should be smoothed over a five-year period when assessing the required contribution rates provided that the smoothed asset value will not be less than 92% or more than 108% of market value. The Actuary should monitor the difference between the smoothed and market value of assets and discuss the implications of the gap with the Board during the valuation process.

5.8.3 Contribution rates should reflect the cost of the benefits being accrued. The valuation will therefore take account of the following:

- As described in section 5.1, the Plan has a number of benefit groups that differ on the basis of accrual rate and/or normal retirement age (NRA). They are: Group 1 – males and females with a 1.3%/2.0% accrual rate and NRA 65; Group 2 – public safety employees (male and female) with a 1.3%/2.0% accrual rate and

NRA 60; and Group 5 - public safety employees (male and female) with a 1.63%/2.33% accrual rate and NRA 60.

- At each actuarial valuation, the Actuary establishes the required total contribution rate and the resulting required total contribution rate increase (decrease), which is split equally between members and employers. These increases are applied to the contribution rates for all groups.

- However, the required cost (total contribution rate) for each group may diverge from the rate that results from the application of the common contribution rate increase (decrease). Such divergence is the result of differences in the demographics (average age, age at and rates of termination and retirement, etc.).

- At each actuarial valuation, the Actuary will determine whether there is an imbalance between the contribution rate that results from the application of the common contribution rate increase and the actual cost for Group 1, Group 2 and Group 5. If there is an imbalance, the Board will consider whether to approve an additional increase (decrease) in the employer contribution rate for the group(s) for which an imbalance has been identified.

5.9 Setting Valuation Assumptions

5.9.1 The Board should set actuarial assumptions within the context of the funding objectives set out in section 5.5.

5.9.2 Given the objective of contribution stability, a long-term perspective on assumptions is appropriate; assumptions should not be unduly influenced by short-term conditions and should take into account the expected long-term returns on the Plan's assets, subject to the overriding objective of benefit security.

5.9.3 Assumptions will be set by the Board, based on recommendations from the Actuary within the parameters of this Funding Policy. Assumptions will be based on best estimates with provisions for adverse deviations, taking into account the Plan's investment policy, asset mix, expected returns from the Plan's investment managers including anticipated equity risk premiums, and the degree of asset smoothing.

5.9.4 In order to achieve the objectives of benefit security and contribution rate stability, it is preferable to have a slight bias towards generating surplus, particularly while in transition. Because the Plan is maturing, its ability to absorb volatility is decreasing, which dictates either less risk taking or a larger contribution stabilization reserve (i.e. surplus) or both.

5.9.5 Excess investment return occurs when the rolling Fund five-year annualized rate of return exceeds the actuarially assumed rate of return. The Board recognizes the significance of the excess investment return threshold and its linkage with COLA. The excess investment return earned on the portion of the Fund represented by liabilities to retirees is transferred from the Basic Account to the IAA.

5.9.6 If the Fund five-year annualized rate of return is less than the actuarially assumed rate of return, the negative amount is carried forward and applied to reduce future excess investment return transfers until the negative amount has been eliminated.

5.9.7 If the actuarially assumed rate of return is higher than the actual rate of return, there will be no excess investment return. If the actuarially assumed rate of return is lower than the actual rate of return, excess investment will be transferred to the IAA subject to the carry forward described in 5.9.6.

5.9.8 Given the funding objectives set out in section 5.5, the Board will lower the investment return assumption if achieving the assumed rate of return becomes an increasing challenge. However, if achieving the assumed rate of return becomes less challenging, the Board may be more cautious in moving the investment return assumption up. As a result, any excess beyond the excess investment return threshold on the portion of the Fund represented by liabilities to retirees will go to IAA to fund future COLA. The alternative would be to adjust the investment return assumption upward to retain more of the return in the Basic Account.

5.10 Solvency Valuation Issues

5.10.1 The Plan is exempt from the PBSA solvency requirements and therefore the solvency position will not be taken into account in setting contribution rates.

5.10.2 The CIA requires that the Actuary report on the wind-up position in a valuation report unless the benefits on wind-up are not defined.

5.10.3 Section 14.4 of the JTA provides that, in the unlikely event of termination or wind-up of the Plan, surplus remaining *"…after full provision has been made for all entitlements to receive a pension in respect of the Plan Members' membership in the Pension Plan to the date of termination,"* may be paid to employers or used to provide pension improvements or other benefits as the signatories to the JTA may agree. The JTA does not define "all entitlements to receive a pension". If plan assets are insufficient to make full provision for all entitlements at termination, the signatories to the JTA will deal with the shortfall by agreement.

5.10.4 As a result, the benefits on wind-up are not defined, and the actuary should not report on the wind-up position of the Plan in the valuation report.

6.0 INFLATION ADJUSTMENT ACCOUNT

6.1 Description

6.1.1 The Inflation Adjustment Account (IAA) was established in 1980 for the purpose of accumulating and investing a source of funds to be used to adjust basic pensions to offset the effects of inflation. Members and employers contribute to the IAA. See section 6.3.1 for details of these contributions. A part of the employer IAA contribution is used to fund post-retirement group benefits (see section 8, below).

6.1.2 The Plan paid cost of living adjustments (COLA) equal to the full increase in the Consumer Price Index (CPI), from the IAA since 1982 until January 1, 2015. Effective January 1, 2016 the amount of COLA adjustment is determined using the triennial valuation model to determine the level COLA that can be provided. This approach is known as “sustainable COLA” and is described more fully in section 6.4.

6.1.3 The Board annually considers and approves COLA to pensions in accordance with s. 73 of the Plan Rules, which provides that the adjustment is applied to the total amount of the pension, including any previous COLA. The adjustment is also applied to deferred pensions and to additional basic pension resulting from the transfer of retirement account balances pursuant to Special Agreements.

6.1.4 The capitalized value of the aggregate of the COLA granted pursuant to s. 73 of the Plan Rules must be transferred from the IAA to the Basic Account. The capitalized value of the COLA granted is based on the assumptions used in the most recent valuation.

6.1.5 The amount of the COLA cannot exceed the percentage increase in the CPI over the 12 months ending on the immediately preceding September 30. The capitalized value of the COLA cannot exceed the amount in the IAA on the immediately preceding September 30.

6.1.6 Cost of living adjustments to pensions are partially pre-funded and are not guaranteed.

6.2 Issues / Constraints

6.2.1 The Actuary estimates that the IAA normal cost rate required to guarantee full COLA indefinitely is about 5% and that, if full COLA were to be guaranteed, the Plan would have a deficit. The approximate cost of the deficit that would result is provided in the Actuarial Valuation Report, available on the Plan’s website.

6.3 Funding

6.3.1 Plan members in Groups 1 and 2 contribute 1.53% of salary to the IAA. Employers also contribute 1.53% of aggregate member salaries for employees in Groups 1 and 2, less the part used to pay for post-retirement group benefits. For Group 5 members, the rate is 0.42% of salaries higher, for a total of 1.95% each from the members and employers (less the part used to pay for post-retirement group benefits). The Board has approved a policy of directing up to 0.8% of active member salaries to support post-retirement group benefit subsidies, with the balance of the employer IAA contribution flowing to the IAA.

6.3.2 IAA contribution rates are fixed with respect to the basic pension accrual rate (1.3/2.0% for Groups 1 and 2 and 1.63/2.33% for Group 5). When considering a benefit increase that is not contemplated by the transition requirements of the JTA, the Board will consider the attendant cost of COLA and will take appropriate action to increase contributions to the IAA so as to preserve the existing Basic/IAA contribution relationship. If the Basic benefit improvement is paid for by a lump sum, the Board will require a corresponding lump sum contribution to the IAA.

6.3.3 In addition to member and employer IAA contributions, the IAA may receive “excess investment return” from the Basic Account. Excess investment return occurs when the rolling Fund five-year annualized rate of return exceeds the actuarially assumed rate of return. The excess investment return earned on the portion of the Fund represented by liabilities to retirees is transferred from the Basic Account to the IAA.

6.3.4 The IAA is not subject to the actuarial valuation because COLA is not guaranteed. However, the Actuary should comment on the amount of funding that would be required if full COLA were to be guaranteed and provide input as to the extent to which COLA should be taken into account when reviewing conversion factors (for conversion of Special Agreement balances to additional defined benefit pension at retirement), transfer terms, commuted values, etc.

6.4 Sustainable COLA

6.4.1 Objective

- The key objective is to offer sustainable COLA that minimizes intergenerational inequity by providing COLA at a level that is forecast to be relatively consistent in the present and over the future, taking into account the overall financial resources of the IAA.
- A secondary objective is to stabilize sustainable COLA such that it does not change significantly from one valuation to the next while recognizing that sustainable COLA will vary every three years as a result of experience gains or losses, or changes in actuarial assumptions.

6.4.2 Application

- Effective January 1, 2016, COLA will be applied to pensions, including deferred and disability pensions, in accordance with section 6.4 of the Funding Policy.
- Every three years, the Board will establish the sustainable COLA limit, on the advice of the Actuary, as part of the triennial actuarial valuation.
- The sustainable COLA limit will be expressed as a number to two decimal points, the last digit of which shall be rounded to “0” or “5”.
- While the Board retains discretion to determine the amount of COLA granted each year subject to the limits contained in section 73 of the Plan Rules, the expectation is that the COLA approved by the Board each year at its November meeting shall be the lesser of the sustainable COLA limit or the actual increase in the CPI September over the previous September.
- In any year in which the change in the CPI is negative relative to the prior year, the COLA will be 0% and the following year(s) the COLA be calculated with reference to the September 30 that last gave rise to an increase.

6.4.3 The Actuary will calculate the absolute maximum sustainable COLA increase using the following methodology:

- As part of each actuarial valuation, the Actuary will value the total Plan, including the Basic Account and the IAA.
- The actuarial basis for the purposes of sustainable COLA will be the same as that used for the corresponding Basic Funding valuation, but using best estimate return and inflation assumptions, without margins for adverse deviations.
- Consistent with the Basic Account Funding valuation, asset values and investment returns will be smoothed over a five-year period. However, the smoothed value of assets will be limited to 105% of the market value of the assets. The Actuary will monitor the difference between the smoothed and market value of assets and discuss the implications of the gap between the two values during the valuation process. The reason for the limit on the smoothed value of assets is to prevent the IAA from being drawn down too quickly in periods of weak investment returns.
- The Actuary will calculate and recommend the rate of COLA that can be sustained over the lifetime of current plan members taking into account:
  - The smoothed value of the assets in the Basic Account and the IAA;
  - The value of contributions to the Basic Account at the rate required by the corresponding Basic Account Funding valuation;
  - The current contributions to the IAA; and
  - Any future increases in contributions to the IAA already approved by the Plan Partners.
- In assessing the sustainable COLA limit for the following three-year period, the contribution rate required to fully fund the Plan at the sustainable COLA rate must be set equal to the long-term level equivalent of the available contributions. The required contribution at the sustainable COLA limit will consist of the entry age normal cost of the Plan when benefits are subject to

COLA at the sustainable COLA limit, plus the amount required to amortize any resulting surplus or unfunded liability over an infinite period, on an open group basis (i.e. based on the current payroll of the plan membership allowing for increases at the assumed salary increase rate). The effect of this approach is that, at the sustainable COLA limit, the required contribution rate will be at a level that is expected to be sustainable into the indefinite future.

6.4.4 Issues / Constraints

- The main risk associated with sustainable COLA is providing COLA that is too high in the short to medium term, causing the IAA to be depleted and COLA for future generations to fall significantly. The methodology outlined for establishing the sustainable COLA limit in conjunction with each triennial valuation is designed to minimize this risk.
- Sustainability can be negatively affected by poor real investment returns (i.e. poor investment returns in excess of inflation). Poor real investment returns could cause the level of sustainable COLA to drop to a level at which the purchasing power of pensions erodes significantly over time. This risk is managed through the Plan's investment policy.

7.0 SPECIAL AGREEMENTS

7.1 Description / Funding

7.1.1 Employers may apply to the Board and the Board may approve Special Agreements (SAs) under which contributions are made by members in specified groups of employees and the employer on a money purchase basis. All employees in the specified group contribute a fixed percentage of salary (set out in the agreement with the employer) and the employer contributes a fixed percentage. Contributions are subject to ITA limits and contributions over the ITA limits are refunded to plan members and employers.

7.1.2 These contributions are accumulated with interest at the Fund rate of return until the month preceding a benefit payment due to termination of employment, retirement or death. The rate of return is not guaranteed and this component of the Plan is a defined contribution component.

7.1.3 Plan members participating in SAs approved prior to January 1, 2007 are permitted to convert their accumulated retirement account balance to additional defined benefit pension at retirement, in accordance with the terms set by the Board. These terms are reviewed with each valuation and adjusted as required to be consistent with the assumptions and results of the most recent actuarial valuation. These conversion terms take into account the cost of (COLA), while recognizing that COLA is not guaranteed. Plan members also have the option of a refund of contributions plus interest through a transfer to an annuity, locked-in Registered Retirement Savings Plan (RRSP), Life Income Fund (LIF) or other approved retirement savings vehicle.

7.1.4 Plan members participating in SAs approved on or after January 1, 2007 are entitled to a refund of contributions plus interest through a transfer to an annuity, locked-in RRSP, LIF or other approved retirement savings vehicle.

7.2 Issues / Constraints

7.2.1 Canada Revenue Agency (CRA) has indicated that the practice of converting money purchase contributions into a pension payment that could exceed limits set out in the ITA is not compliant.

7.2.2 After reviewing the issue, CRA decided to grandparent all SAs approved prior to January 1, 2007. This means that CRA has agreed that the Plan is not required to make any changes to the way SA account balances are converted to pension income at retirement for current and future members of SAs approved prior to January 1, 2007.

7.2.3 However, the ruling by CRA does not apply to SAs that may be approved by the Board on or after January 1, 2007. Any such agreements will be subject to all ITA conditions.

7.2.4 When SA account balances are converted to annuities or increased pensions within the ITA limits, they become liabilities of the Plan that are considered in actuarial valuations of the Plan and may result in contribution rate increases that will apply to all plan members and employers, not just to the members and employers who participate in SAs.

8.0 POST-RETIREMENT GROUP BENEFITS

8.1 Description

8.1.1 The Plan provides a subsidy equal to 50% of the MSP premium for retirees with five or more years of pensionable service and their spouse and dependents. Retirees with more than two but less than five years of pensionable service are entitled to a subsidy of 25% for themselves and their spouse and dependents. Retirees with less than two years of pensionable service are not entitled to a subsidy. The subsidies are paid from employer contributions that would otherwise be remitted to the Basic Account. The Board has no role in determining the coverage provided through MSP, nor the amount of premiums, which are set by the provincial government.

8.1.2 The Board arranges Extended Health and Dental coverage through a group benefits carrier, negotiates the coverage provided, establishes premiums on an annual basis and establishes subsidy rates from time to time. The Extended Health program is currently administered on an Administrative Services Only (ASO) basis, which means that the cost of the program is the sum of eligible claims by retirees and their spouse and dependents plus a charge for administrative services.

The Dental program is provided on an insured basis. The Plan does not currently subsidize Dental coverage.

8.2 Issues / Constraints

8.2.1 The Board recognizes that, as the costs of Extended Health coverage increase because of increasing numbers of retirees, longer life expectancy, an aging population and inflation in the cost of the products and services covered, the amount of subsidy that will be provided will decline over the medium- to long-term.

8.2.2 Effective January 1, 2017, subsidies for Extended Health coverage are provided to retirees only, not to spouses or dependents. Subsidies for retirees reflect years of pensionable service:

- retirees with 10 or more years of pensionable service receive the maximum available subsidy;
- retirees with 8-10 years of pensionable service receive 80% of the maximum subsidy;
- retirees with 6-8 years of pensionable service receive 60% of the maximum;
- retirees with 4-6 years of pensionable service receive 40% of the maximum;
- retirees with 2-4 years of pensionable service receive 20% of the maximum; and
- retirees with 2 years or less of pensionable service are not eligible for a subsidy.

8.3 Funding

8.3.1 The expected cost of MSP subsidies is taken into account on a pay-as-you-go basis in the actuarial valuation because the subsidies are deducted from employer basic contributions prior to their payment to the Basic Account. These liabilities are not pre-funded. Liability for future MSP subsidies is not assessed because they are not guaranteed.

8.3.2 The Extended Health program is paid for by retiree premiums and employer contributions that would otherwise go to the IAA up to 0.8% of active pensionable salaries. This program is not pre-funded and is not guaranteed. This post-retirement group benefit is not considered in the actuarial valuation because it is not guaranteed and does not have an impact on contributions to the Basic Account.

9.0 REVIEW & AMENDMENT

9.1 This policy will be reviewed before each valuation and may be amended at any time.

Original Policy: 2007-03-28

Last Approved: 2020-11-19

Effective: 2021-01-01

Appendix 1 – Excerpts from the Joint Trust Agreement

3.3. Pension Fund Held for Purposes Set Out in Agreement.

The Pension Fund is for the sole benefit of the Plan Members. The Signatories and the Employers shall have no claim on the assets of the Pension Fund other than as expressly provided for in this Agreement. Without limitation, nothing in this Section 3.3 derogates from the Board's ability to apply actuarial excess to the reduction of Employer contribution rates in accordance with Section 10.3, or pay surplus assets to the Employers pursuant to Section 14.4, if the agreement among the Signatories contemplated by paragraph 14.4(b) (i) provides for the payment of surplus assets to the Employers.

Article 10 – Engagement of Actuary and Auditor

10.1 Appointment of an Actuary.

The Board must engage the services of an actuary to prepare all actuarial reports and perform all actuarial valuations required by the Board. The fees of the actuary must be paid from the Pension Fund.

10.2 Appointment of an Auditor.

The Board must engage the services of an auditor to perform, at least once in each year, an audit of the financial statements of the Pension Plan, including the accounts of the Board. The fees of the auditor must be paid from the Pension Fund.

10.3 Actuarial Valuation Reports.

(a) The Board must have the Pension Plan reviewed and the results of the review set out in the form of an actuarial valuation report for a going concern valuation in the manner and at the times specified in the PBSA and the regulations under the PBSA.

(b) If an actuarial valuation report indicates that there is a requirement to increase contribution rates to the Basic Account, the increase must be shared equally between the Employers and the Plan Members, and the Board must amend the Pension Plan Rules accordingly.

(c) Subject to the transitional funding arrangements set out in Appendix B of this Agreement, if an actuarial valuation report indicates that the Pension Plan has actuarial excess, as defined in the PBSA, such actuarial excess will be considered unallocated actuarial excess of the Pension Fund unless and until the Board elects to apply the actuarial excess in one or more of following manners so as to achieve over time an equitable sharing of the benefits of the actuarial excess between Plan Members and Employers:

   i) transfer all or a portion of the actuarial excess to the reserve established within the Pension Fund for stabilizing contribution rates;

ii) transfer all or a portion of the actuarial excess to the Inflation Adjustment Account;

iii) apply all or a portion of the actuarial excess to an equal reduction or elimination of Employer and Plan Member contribution rates to the Basic Account for a period of time;

iv) apply all or a portion of the actuarial excess to fund changes to the benefit provisions set out in the Pension Plan Rules as provided in Section 11.5; or

v) apply all or a portion of the actuarial excess, amortized over a period of 15 years, towards the payment of contributions otherwise payable by Plan Members, Employers, or both, pursuant to the Pension Plan Rules.

(d) Any reference in subsection (c) to actuarial excess shall be interpreted as a reference to the actuarial excess associated with the benefits payable from the Basic Account.

(e) Any action taken by the Board under subsection (b) or (c) must comply with the PBSA funding requirements for a going concern valuation, and must result in the Pension Plan being funded in accordance with such funding requirements.

(f) The Board must administer the Pension Plan to ensure that the amount of surplus assets in the Pension Plan does not, for the purposes of the ITA, exceed the amount described in paragraph 147.2 (2) (d) of the ITA (the "excess surplus threshold"). If the actuary preparing an actuarial valuation report advises that the actuarial valuation report will indicate that the excess surplus threshold will be exceeded, prior to the finalization of that actuarial valuation report the Board must implement one or a combination of the options described in subsection (c), with the result that when the actuarial valuation report is finalized the amount of surplus assets in the Pension Plan will not exceed the excess surplus threshold.

Article 11 – Municipal Pension Plan Rules

11.1 Pension Plan Rules.

(a) The Board may make plan rules, applicable generally or to a specified person or class of persons, prescribing the Pension Plan Rules.

(b) In making plan rules under this Agreement, the Board may delegate a matter to a person or agent of the Board and confer a discretionary power on a person or agent of the Board.

(c) Beginning the Effective Date, the Statutory Pension Plan Rules are continued and replaced with the Pension Plan Rules attached as Appendix C.

(d) Beginning the Effective Date, the Board may amend, repeal or replace the Pension Plan Rules as provided in this Agreement.

11.2 Amendment to Pension Plan Rules to Comply with Law.

Despite Sections 11.3 and 11.4, the Board must amend the Pension Plan Rules to the extent necessary to keep the Pension Plan Rules in compliance with the *Family Law Act*, the ITA, the PBSA and any other enactment applicable to the Pension Plan, the Pension Fund and the benefits payable under the Pension Plan.

11.3 Amendment Requested by Partners.

The Partners may direct the Board to amend the Pension Plan Rules, and the Board must so amend the Pension Plan Rules if:

(a) the Partners have first received and considered the advice of the Board respecting both the cost and the administrative impact of implementing the proposed amendment;

(b) the proposed amendment is not inconsistent with Section 11.2 or the Trustees' fiduciary responsibilities; and

(c) the proposed amendment will not result in the Pension Plan failing to be funded in accordance with the PBSA's going concern funding requirements.

11.4 Recommendation of Amendments to the Partners by Board.

The Board may make recommendations to the Partners respecting amendments to the Pension Plan Rules that the Board considers to be in the best interests of the Plan Members and, with the approval of the Partners respecting those recommendations, the Board may so amend the Pension Plan Rules.

11.5 Amendments to Pension Plan Rules by Board.

(a) Despite Sections 11.3 and 11.4, the Board may amend the Pension Plan Rules if:

i. there is no resulting increase in the contribution rates for the non indexed basic benefits;

ii. there is no resulting increase in the contribution rates for the indexing of benefits;

iii. there is no creation of, or increase in, an unfunded liability; and

iv. the proposed amendment is consistent with the Trustees' fiduciary responsibilities.

(b) For the purposes of subsection 11.5(a), when considering an amendment to the Pension Plan Rules respecting a benefit improvement, the Board must determine the cost of the benefit improvement based on the open group of Plan Members and using a 25 year amortization schedule for the Pension Plan actuarial excess that will be used to fund the benefit improvement.

11.6 Retroactive Amendment.

Any amendment to the Pension Plan Rules may take effect retroactively or otherwise as the Partners or the Board, as the case may be, direct.

ARTICLE 15.– FIDUCIARY RESPONSIBILITIES

15.1 Duty of Care.

In administering the Pension Plan and Pension Fund, each Trustee must:

(a) act honestly, in good faith and in the best interests of the Plan Members and former Plan Members and any other persons to whom a fiduciary duty is owed; and

(b) exercise the care, diligence and skill that a person of ordinary prudence would exercise when dealing with the property of another person.

15.2 No Conflict of Interest.

(a) Except as provided in subsection (c), no Trustee shall knowingly permit his or her other interests to conflict with his or her powers, duties and responsibilities in respect of the Pension Plan and Pension Fund.

(b) Entitlement to a pension or other benefit under the Pension Plan does not create a conflict of interest.

(c) Subsection (a) does not apply to any determination made by the Trustees pursuant to subsection 10.3(c). In making any determination relating to the application of actuarial excess pursuant to subsection 10.3(c), the Trustees are not acting in a fiduciary capacity. When acting under subsection 10.3(c), a Trustee may take into account the financial and other interests of the party that appointed him or her as Trustee, and any other factor the Trustee considers appropriate, including factors unrelated to the Pension Plan or the Pension Fund.

15.3 Committee and Panel Members.

If the Board appoints a person to a committee or panel under subsection 6.5(c), the Board shall personally select the person and be satisfied of the person's qualifications and ability to perform the duties for which such person is appointed, and the Board shall carry out such supervision of the committee and panel members as is prudent and reasonable. A person appointed to a committee or panel under subsection 6.5(c) shall be subject to the same duty of care as the Board, and, in particular, shall be subject to the restrictions in Sections 15.1 and 15.2, and is not entitled to any payment from the Pension Fund other than the usual and reasonable fees and expenses for services provided by the committee or panel member in respect of the Pension Plan and Pension Fund.

15.4 Use of Agents and Employees.

Subject to Article 7, the Board may employ or appoint employees or agents to carry out any act required to be done in the administration of the Pension Plan or in the administration and investment of the Pension Fund. If the Board employs or appoints an employee or an agent, the Board shall personally select the employee or agent and be satisfied of the employee's or agent's qualifications and suitability to perform the duties for which the employee or agent is employed or appointed, and the Board shall supervise these employees and agents. Any agent or employee so appointed or employed is subject to the same duty of care as the Board and, in particular, each agent and employee is subject to the restrictions in Sections 15.1 and 15.2, and is not entitled to any payment from the Pension Fund other than a pension benefit provided in accordance with the Pension Plan Rules, if applicable, and the usual and reasonable fees, expenses or compensation for the services provided by the agent or employee in respect of the Pension Plan and Pension Fund.

15.5 Restrictions on Benefits Payable to Trustees.

No Trustee is entitled to any benefit from the Pension Plan or Pension Fund other than a pension benefit provided for in the Pension Plan Rules, and any remuneration and reimbursement of expenses related to the administration of the Pension Plan or the administration and investment of the Pension Fund permitted by the common law or provided for in this Agreement or the Pension Plan Rules.

APPENDIX B

MUNICIPAL PENSION PLAN

FUNDING ARRANGEMENT FOR TRANSITIONAL PERIOD

1. **Terminology**

(a) In this Appendix B, "**actuarial gain**", "**unfunded liability**" and "**actuarial excess**" have the meanings given to those phrases in the PBSA and the regulations under the PBSA. The determination of whether the Pension Plan has an actuarial gain, an unfunded liability or actuarial excess shall be made with reference to the benefits payable from the Basic Account.

(b) The "**Transitional Period**" for the Pension Plan and the Pension Fund shall commence on the Effective Date and shall end effective as of the date the items set out in subsections 2(a), 2(b) and 2(c) of this Appendix B are achieved. Following the Transitional Period, the powers of the Board regarding use of actuarial excess will be as set out in subsection 10.3(c) of the Agreement.

2. **Use of Actuarial Gains and Actuarial Excess During Transitional Period**

During the Transitional Period, the powers of the Board with respect to the use of actuarial excess or actuarial gains in the Pension Plan which are identified in a regularly scheduled actuarial valuation are limited to achieving the following objectives, in the following order:

(a) Elimination of Unfunded Liabilities

If an actuarial valuation report indicates that an actuarial gain has occurred since the last valuation, the gain must first be applied to amortize or reduce the outstanding balance of any unfunded liability, with the oldest established unfunded liabilities being amortized or reduced before later ones. If all unfunded liabilities are amortized, and an actuarial valuation report indicates that the Pension Plan has actuarial excess, the actuarial excess must be applied in the manners described in subsections (b) and (c) in that order.

(b) Rebalancing of Contribution Rates and Benefit Improvements.

After all unfunded liabilities are eliminated as described in subsection 2 (a), and an actuarial valuation indicates that the Pension Plan has actuarial excess, the actuarial excess will be used to provide the benefit improvements in (i) below and to rebalance Plan Member and Employer contribution rates in the manner described in (ii) below. For greater certainty, actuarial excess may not be used for the purpose of rebalancing Plan Member and Employer contributions unless and until there is sufficient actuarial excess to simultaneously implement the benefit improvements described in (i) below.

(i) Benefit Improvements.

The following are the benefit improvements:

A. change the normal form of pension from a single life without guarantee to a single life with a ten-year guarantee; and

B. change the benefit formula from 1.3/2.0% to 1.35/2.0%.

When considering the cost of the foregoing benefit improvements, the Board must determine the costs based on the open group of Plan Members and must use a 25 year amortization schedule for the Pension Plan actuarial excess that will be used to fund the benefit improvements.

These benefit improvements will only apply to those individuals who are active Plan Members at the date the improvements are implemented, and will apply to all of the benefits such individuals are entitled to under the Pension Plan. All active Plan Members who join the Pension Plan after the date of the benefit improvements will also be entitled to these benefit improvements.

(ii) Rebalancing.

The Employer contributions rates to the Basic Account for the purpose of rebalancing are 5.0/6.5% for group 1 and 4 Plan Members. For group 2 and 3 Plan Members, the Employer rate will be set at the foregoing 5.0/6.5% rate plus the differential in the normal cost rate for groups 2 and 3 vs. that for groups 1 and 4, as indicated by the actuarial valuation from time to time. Currently, based on the 1997 actuarial valuation, this differential is 2.73%, producing an Employer rate of 7.73/9.23% for groups 2 and 3. The doubling feature inherent in the current statutory rates will be removed. Groups 1 through 4 are as described in the Pension Plan Rules.

(c) Contribution Rate Stabilization Reserve and Inflation Adjustment Account

Once an actuarial valuation indicates that the Pension Plan has sufficient actuarial excess to finance both the benefit improvements and the rebalancing of contribution rates described in subsection (b), and the benefit improvements and rebalancing of contribution rates is implemented, 50% of any additional actuarial excess indicated in that actuarial valuation report, or future actuarial valuation reports, must be transferred to a contribution rate stabilization reserve, and 50% must be transferred to the Inflation Adjustment Account, to an aggregate total of one billion dollars. The contribution rate stabilization reserve will be shared on an equal (50/50) basis between Plan Members and Employers in order to maintain or reduce future Plan Member and Employer contribution rates.

3. **December 31, 2000 Actuarial Valuation**

Regardless of whether the Effective Date occurs before or after December 31, 2000, any actuarial gains or actuarial excess identified in the actuarial valuation of the Pension Plan performed as of December 31, 2000 will be dealt with as provided in Section 2 of this Appendix B.

4. **December 31, 2015 Actuarial Valuation & Sustainable Cost of Living**

Notwithstanding anything contained herein to the contrary:

(a) Effective January 1, 2019 the Basic Account contributions shall be reduced by 1.06% of salary and a corresponding increase to the overall contribution rate to the Inflation Adjustment Account of 1.06% of salary shall be made. The decrease in the Basic Account contribution rate and the increase in the Inflation Adjustment Account contribution rate shall be shared equally by the active members and the employers. The reduction in the Basic Account contribution rate and the corresponding increase in the contribution rate to the Inflation Adjustment Account referred to in this paragraph 4(a) shall be implemented regardless of the results of any subsequent actuarial valuation.

(b) If Schedule 1 Statement of Actuarial Position of the actuarial valuation of the Pension Plan performed as at December 31, 2015 identifies that there is actuarial excess, the actuarial excess shall be dealt with as follows:

(i) a contribution rate stabilization account shall be established within the Basic Account in an amount up to but not exceeding \$2.5 billion; and

(ii) any actuarial excess in excess of \$2.5 billion shall be allocated to the Inflation Adjustment Account up to but not exceeding an amount which will fund full indexing based on the long term inflation rate assumed in the 2015 sustainable indexing valuation.

The methodology used in the actuarial valuation of the Pension Plan as at December 31, 2012 shall be used in the December 31, 2015 actuarial valuation to determine whether there is actuarial excess.

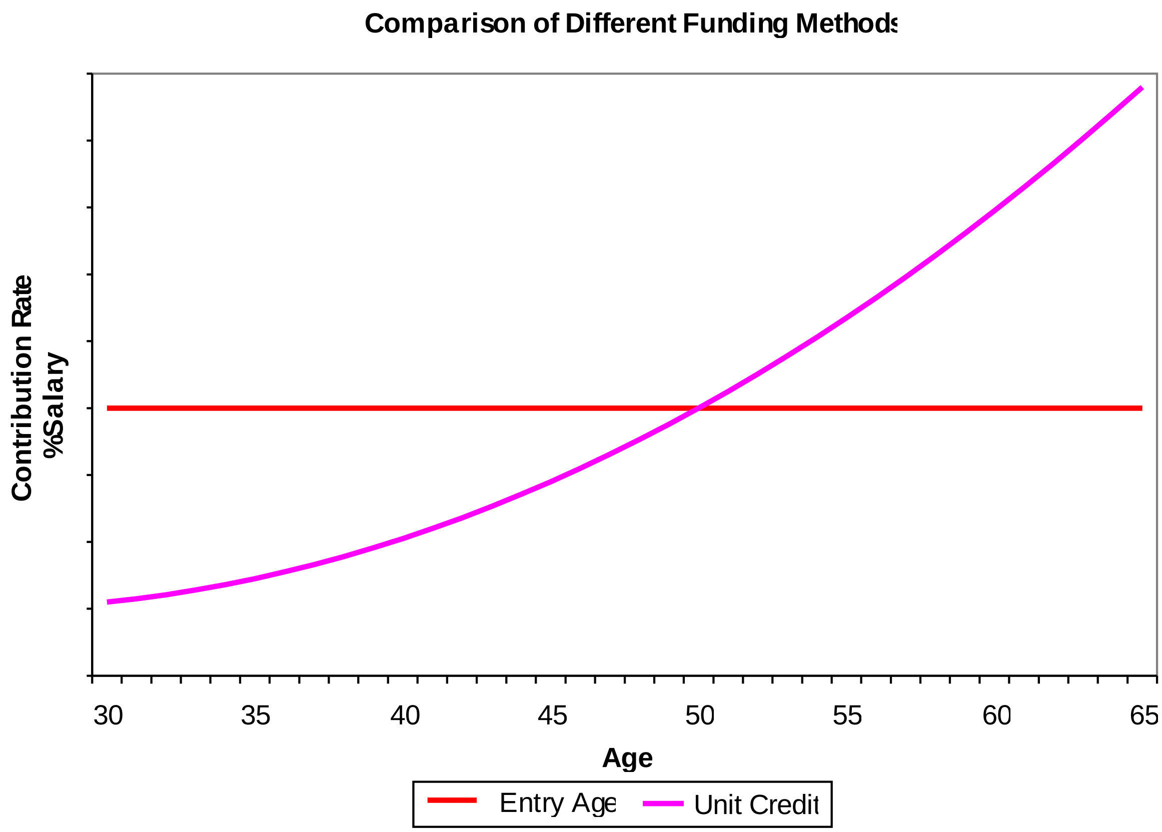
Appendix 2 – Glossary

Consumer Price Index (CPI): The Municipal Pension Plan Rules define the CPI to be used when calculating any benefits under the Plan as *"the Consumer Price Index for Canada, as published by Statistics Canada under the authority of the Statistics Act (Canada)…"*

Entry Age Funding Method: A method for calculating the contribution rate for a defined benefit pension plan.

Under this method, contributions are calculated as the level, long term percentage rate required to finance the benefits of new entrants to the Plan over their working lifetimes, so that their projected benefits are fully secured by assets by the time they retire.

A conceptual comparison of the pattern of contribution rates by age under the Entry Age Funding Method, and the Projected Unit Credit Funding Method (explained later) is shown below:



Excess investment return threshold: The investment return used in calculating whether excess funds should be transferred from the Basic Account to the IAA.

Excess investment return transfers are made when the investment return on the pensioner portion of the assets of the Basic Account exceeds the excess investment return threshold. (If the excess investment returns are negative, a negative balance is calculated. This balance needs to be reduced to zero before transfers to the IAA recommence.) The Plan Rules define the excess investment return threshold to be equal to the investment rate of return used by the actuary in the most recent actuarial valuation.

Excess surplus threshold – ITA: Under the *Income Tax Act*, contributions may not be made to a defined benefit pension plan if the surplus exceeds a certain size. This is referred to by the JTA as the "excess surplus threshold."

Fund Five-Year Annualized Rate of Return: This is the equivalent annual rate of return for the income earned by the assets of the Plan over a five-year period. The calculation includes all realized and unrealized capital gains and losses and all income from invested assets less any investment management fees and expenses. The calculation does not account for miscellaneous income, administration expenses, non-invested assets or liabilities of the Plan. This rate is calculated annually by the BC Investment Management Corporation.

Fund Rate of Return: This is the Fund Five-Year Annualized Rate of Return.

Going-concern actuarial valuation: An actuarial valuation done on the basis that the plan will continue in operation in the future.

Projected Unit Credit Funding Method: A method for calculating the contribution rate for a defined benefit pension plan.

Under this method, contributions are calculated as the amount required to pay for the cost (measured by the increase in the liability) of the pensions expected to be earned in the next year. This cost takes into account the expected retirement dates and the expected final average salary at retirement. This method aims to have the liability for the pension earned to date to be fully funded at all times.

Solvency valuation: A hypothetical wind-up valuation prescribed by legislation.

Under the PBSA, additional contributions are required if there is a solvency deficiency, i.e. if solvency liabilities exceed solvency assets. The Plan does not have to comply with the solvency funding requirements of the PBSA.

Transition: This is the period prior to completion of the adjustments outlined in Appendix B of the JTA.

Wind-up valuation: A valuation that calculates the liabilities of the plan as if it were terminated on the valuation date. Assets are taken into account at market value.

Appendix 3 – Summary of Pension and Non-Pension Benefits

The Plan consists of a number of components that are summarized below:

Component	Account	Benefit	Nature	Funding Status
• Basic pension	• Basic Account • Supplemental Benefits Account (SBA)	• Non-indexed pensions • Cost of living adjustments, once granted • Special Agreement pensions, once in payment	• Defined Benefit	• Fully pre-funded • Benefits in excess of ITA limits paid from SBA – no funds accumulate
• Cost of living adjustments	• Inflation Adjustment Account (IAA)	• Future cost of living adjustments	• Not guaranteed	• Partially pre-funded
• Special Agreements (prior to retirement)	• Retirement Annuity Account	• Accumulated individual accounts • Right to convert account balance to a pension on retirement for SAs approved prior to January 1, 2007 • Right to transfer to annuity, locked-in RRSP, LIF or other locked-in retirement savings vehicle for all SAs (only option for SAs approved on or after January 1, 2007)	• Defined Contribution	• Pre-funded • No target, contributions at negotiated rates • Conversion terms set by Board and/or subject to the ITA
• Post-retirement group benefits	• Supplemental Benefits Account	• MSP subsidies	• Not guaranteed	• Pay-as-you-go • No funds accumulate • Carve-out of ER Basic contributions before these go into the Basic Account
		• Access to and subsidies of EHC and access to Dental subject to Board policy and available funding	• Not guaranteed	• Pay-as-you-go • No funds accumulate • Carve-out of ER IAA contributions before these go into the IAA.