"Oh Canada"
Multiemployer Plans in Canada

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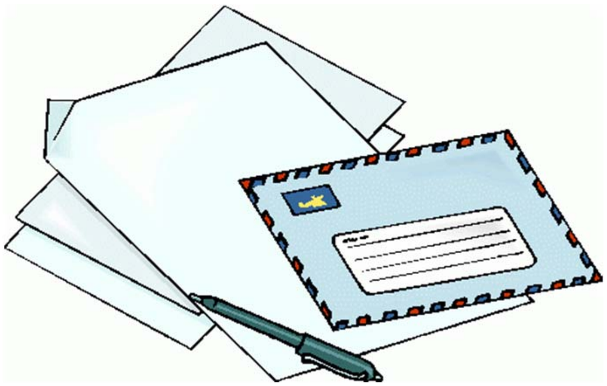
Agenda

1. Industry Challenges
2. Legislation and Regulation Overview
3. CAPSA Recommendations
4. Target Benefit Plans
5. Provision for Adverse Deviations

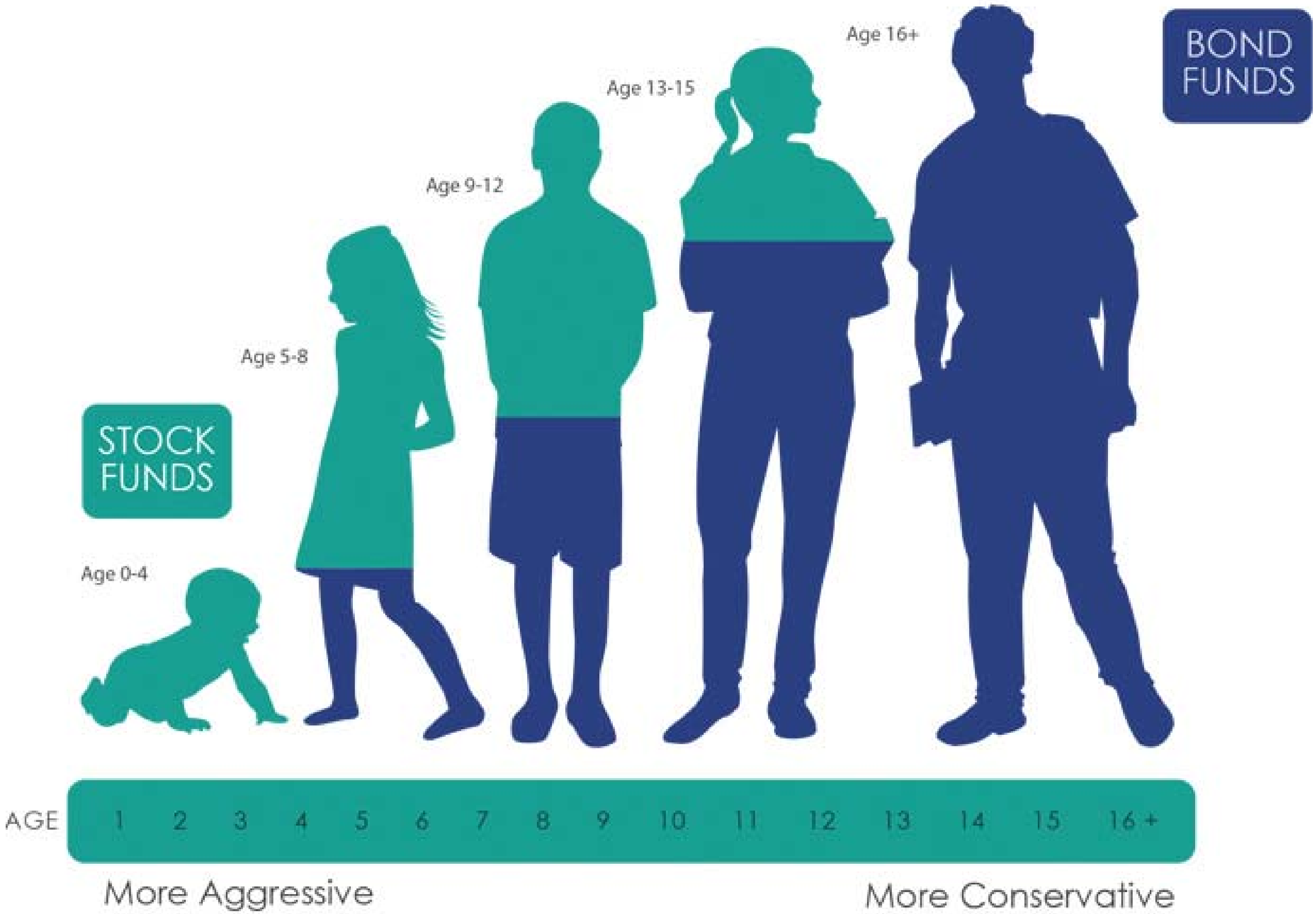
Industry Challenges
Baby Boomers are Leaving the Workplace

Industry Challenges
Changing Technology



Industry Challenges
Declining Membership

Industry Challenges
Changing Demographics



Industry Challenges
Boardroom

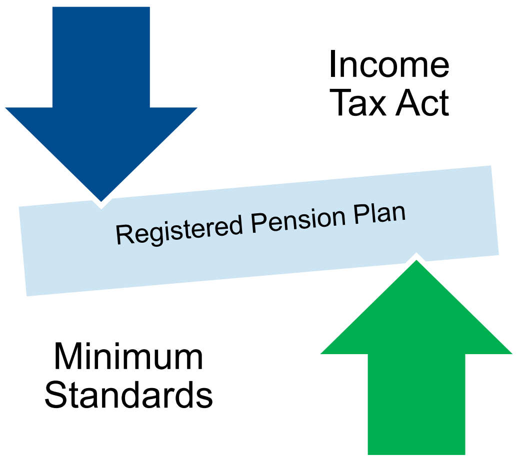
We don’t want to have to reduce pensions in payment, so we need to increase contributions

Understandable, but there is nothing available for increases this year

Industry Challenges
Costly Legislation

Legislation and Regulation
Overview

- Federal *(Income Tax Act)*
  - Ensures the government receives tax revenue
  - Sets limits on tax free savings
    - Limits on contributions
    - Limits on accruals



- Provincial Minimum Standards
  - Designed to protect plan members
  - Varies by province
    - (Federal regulations for specific industries)
  - Must apply the rules in the province where the member lives
  - Plurality of the active membership dictates where the plan is registered
- CAPSA
  - Established guidelines to ensure good governance

Legislation and Regulation
Provincial Minimum Requirements

- Vesting
  - Immediate in most provinces
- Eligibility
- Normal and Early Retirement Date
- Death Benefit
  - Pre-retirement
  - Post-retirement
- Portability Options
- Funding Requirements

Legislation and Regulation
Funding Requirements

- Multiemployer plans have traditionally been treated like single employer DB pension plans
- Must fund on two valuation bases
  - Going concern
    - Actuaries best estimate long-term assumptions
    - Discount rates based on expected investment returns
  - Solvency (settlement cost)
    - Based on government bond yields and cost to purchase annuities
    - Current cost to settle retirees benefit is 2.75%
    - Current rates for lump sums (commuted values) 2.10% for 10 years and 2.4% thereafter
- Target Benefit Plans have been introduced in some legislation
- Shift from solvency to a “going concern plus” to save DB pension plans

CAPSA
Canadian Association of Pension Supervisory Authorities

CAPSA Recommendations
Funding of Benefits for Plans Other than DC Plans

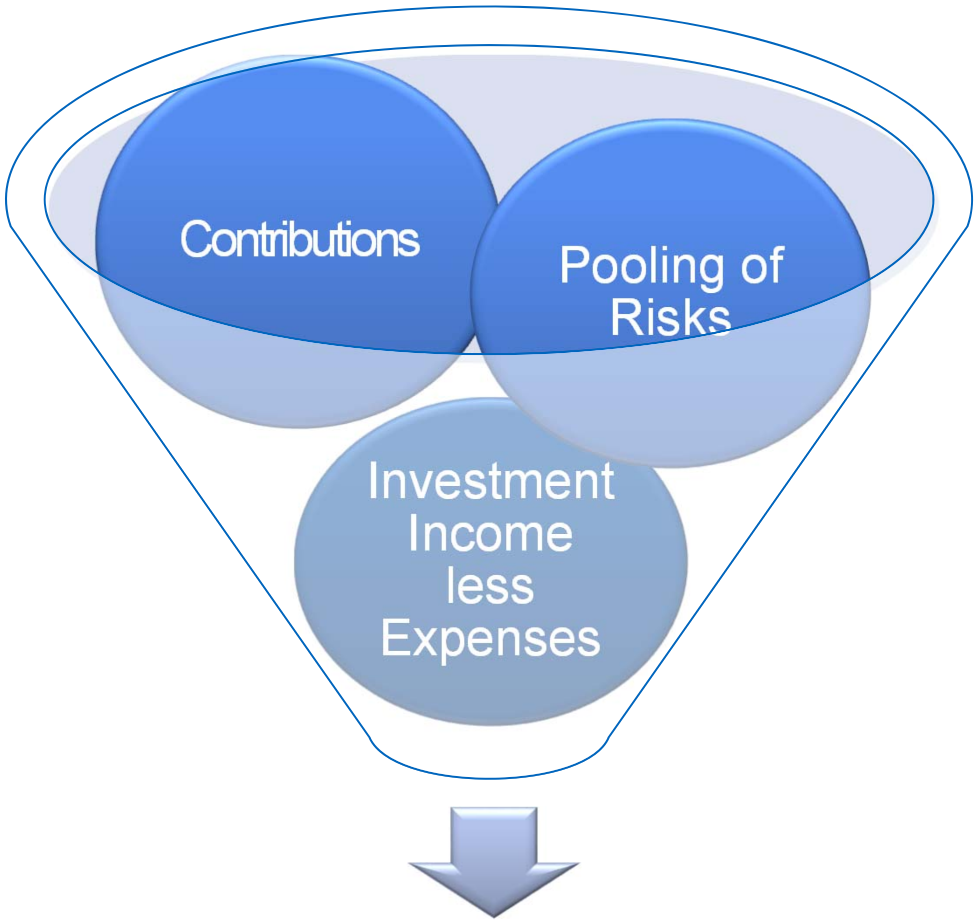
1. Focus on ongoing funding
- Modify solvency funding rules
- Strengthen going concern funding
- Amortization period
- Provision for adverse deviation (PfAD)
- Transfer rules

2. Alternative funding arrangements
- "Side-car fund"
- Letter of Credit

3. Enhanced governance

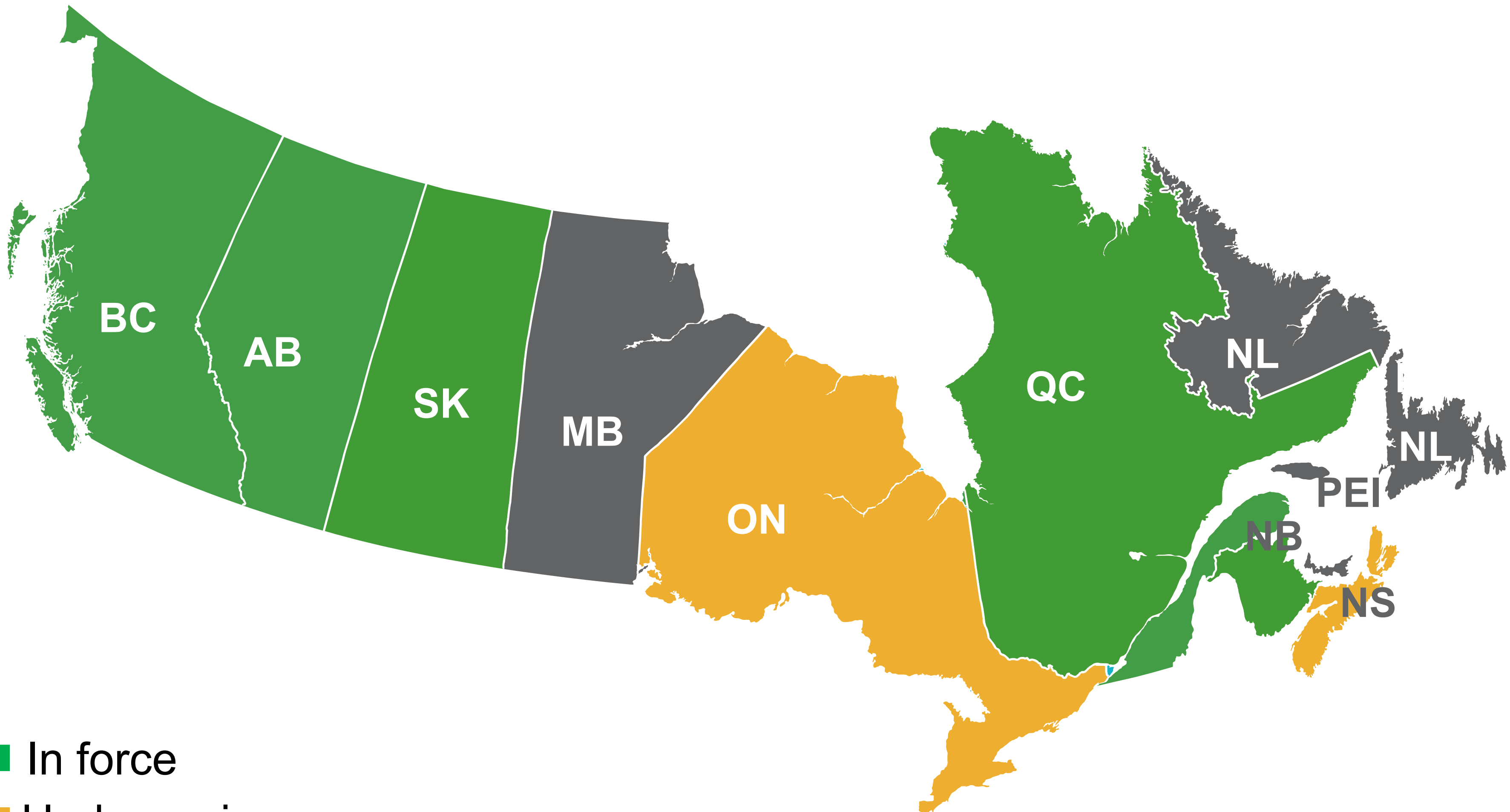
4. Plan design alternatives
- Cost shared plans
- Target benefit plans

Target Benefit Plan (TBP)



Target Benefit is based on a "target benefit" formula where the benefit may be reduced or increased over time.

Target Benefit Plan
Legislations Across Canada



- In force
- Under review
  - Fedral
- No changes announced

Target Benefit Plan
Establishing a TBP

- New plans can be registered as a TBP
- Existing MEPP's in BC can convert past service
- Existing MEPP's in Alberta cannot convert past service
  - Upon application the regulator allows for MEPP's to apply some TBP funding rules for all service
- Federal legislation is proposing that members may consent to the transfer of their accrued DB benefits

Target Benefit Plan
Governing and Administrating

- The administrator should be a Board of Trustees or similar body
- Governance Policy
- Funding policy
  - Establishes fixed contributions
  - Identifies when benefits increase or decrease

Target Benefit Plan
Funding

Not subject to funding based on the mark-to-market solvency valuation

Funding is based on the going concern valuation with a required margin known as a Provision for Adverse Deviation (PfAD)

Provision for Adverse Deviation (PfAD) Going Concern Plus (GC+)

- Movement away from Solvency funding
- Introduction of a **P**rovision **f**or **A**dverse **D**eviation to the going concern valuation
- Additional cost to the Plan
- PfAD is defined by the legislation
- In QC the terminology is stabilization provision
  - Does not apply to MEPP's
- In BC and Alberta PfAD applies to Target Benefit Plans
  - Also applies to qualified MEPP's in Alberta
- In Saskatchewan PfAD only applies to MEPP's
- In Ontario the PfAD only applies to single employer plans

PfAD
BC and Alberta

WHAT	(**P**rovision **f**or **A**dverse **D**eviation) Extra cushion to be set aside to ensure safety of benefits. Expressed as a percentage of costs
WHY	To mitigate against risk factors
WHO	The PfAD is required for all Target Benefit Plans and for qualified MEPP's in Alberta
WHEN	Applied to normal cost for future service. Must fund for past service for benefit increases
HOW	Based on the plan's equity allocation ***plus*** a portion based on the difference between the actuarial discount rate and the "benchmark" discount rate

Example of PfAD Applicable in BC and Alberta Asset Mix Component

Equity allocation in plan is 65%. This adds **17.75%** to the PfAD

Plan's Equity Allocation %	Asset Allocation Adjustment %
0	5.00%
10	7.50%
20	10.00%
30	11.50%
40	13.00%
50	15.00%
60	**17.00%**
70	**18.50%**
80	20.00%
90	22.50%
100	25.00%

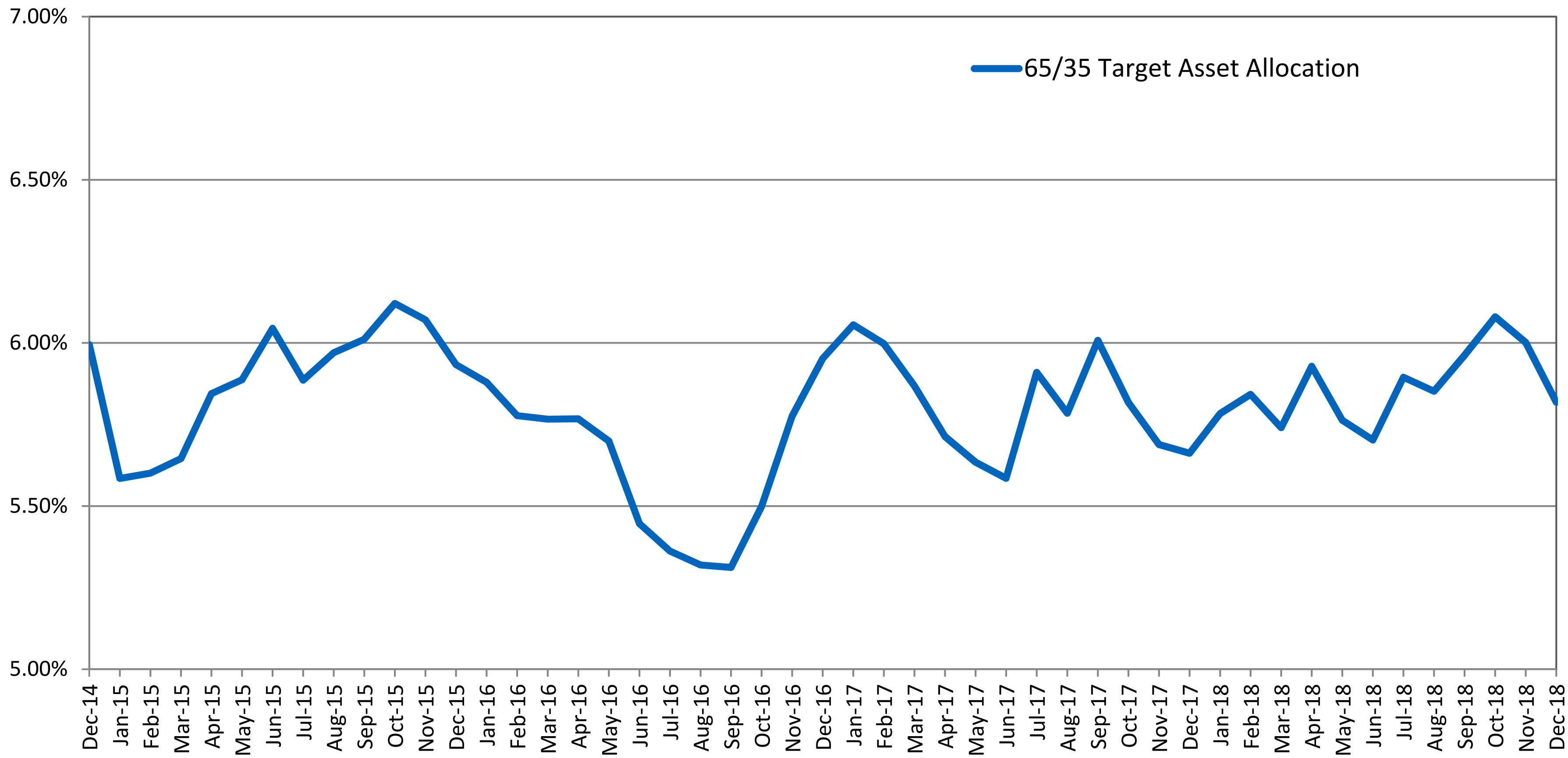
Example of PfAD Applicable in BC and Alberta Discount Rate Component

	Equities	Non Equities
(A) Expected long term annual return[1]	6.15%	4.06%
(B) Weight of asset class in Plan	65%	35%
(C) Expected return from asset class (A) x (B)	4.00%	1.42%
(D) Expected Portfolio return *(sum of returns above)*	5.42%	
(E) Regulatory margin	0.40%	
(F) Benchmark rate (D) + (E)	5.82%	
(G) Actuarial discount rate	6.00%	
Difference to benchmark (G) – (F)	0.18%	
Portion allocated to PfAD (0.18 x 15% from regulations)	**2.70%**	

[1] The long term returns on this line are mandated by the Regulations. By definition, these rates of return can fluctuate from valuation to valuation. The return on equities is determined by taking the yield of Canadian Long Bonds at the valuation date and adding a 4% risk premium (2.15% + 4.00% at December 31, 2018). The return on non-equities is determined by the 30-year spot rate for AA-rated corporate bonds.

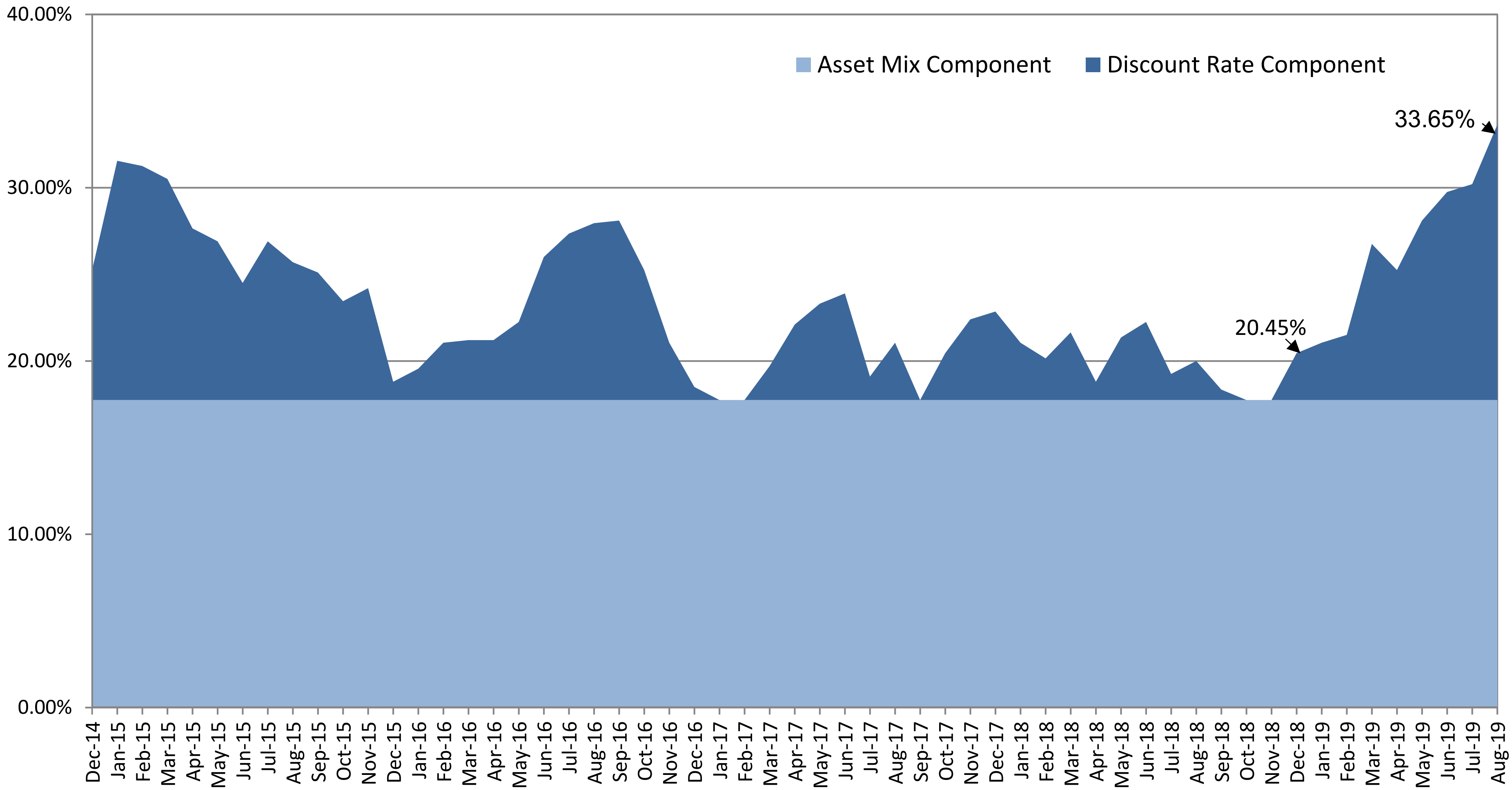
TOTAL PfAD = 17.75 + 2.70 = 20.45%

PfAD
Benchmark Discount Rate[1]



[1] The benchmark discount rate as defined by the Target Benefit Regulations in Alberta and British Columbia. It is composed of long-term Government of Canada bonds and Canadian Corporate bond yields.

PfAD
Historical PfAD for a Typical MEPP in BC and ALberta



Significant Volatility Appears in the Discount Rate Component

Is the Target Benefit Plan the Future?

Questions Discussion