

College Pension Plan Funding Policy

March 2025

1 Scope

The College Pension Board of Trustees is responsible for administering the pensions and post-retirement benefits of the members of the College Pension Plan (the Plan). The pensions include the basic non-indexed pensions earned plus future indexing on a non-guaranteed basis. The trustees manage the financial position of the Plan by setting the required contribution rate for the guaranteed basic non-indexed pensions or by adjusting the indexing for pensions in pay so that it is sustainable given the contributions and funds available. This funding policy addresses the trustees' approach to meeting their obligations in this regard.

The Plan consists of a number of different accounts that support different benefits, with different objectives, and therefore each account has different funding targets. The Plan Rules and the College Pension Plan Joint Trust Agreement (the JTA) set out the current contribution rates for both members and employers, as well as how changes in the various rates will be established and shared. The JTA also describes the responsibilities of the trustees and the plan partners, and the decision making powers of each with respect to benefits and contributions. Therefore, these two documents provide an important framework within which the Trustees have developed this funding policy.

In addition, the Plan must comply with the requirements of the Income Tax Act (ITA) and due to the terms of the JTA, it has to comply with the going concern funding requirements of the BC Pension Benefits Standards Act (PBSA), as they existed prior to December 31, 2019. The Plan actuary has to comply with the professional standards of the Canadian Institute of Actuaries (CIA). These additional compliance requirements are also taken into account in this funding policy.

The different components of the Plan, the benefits they provide, and the funding target in each case are summarized below:

<u>Component</u>	<u>Benefit</u>	<u>Nature</u>	<u>Funding Target</u>
Basic Benefit	Non-indexed pensions	Basic Benefit	Fully pre-funded
Inflation Adjustment (IAA)	Future indexing	Not guaranteed	From 2011, provide indexing at a level that is sustainable based on the available assets and contributions
Non-pension benefits	Effective September 1, 2009, there are no subsidies for non-pension benefits		

2 Basic Benefit

1 Overview

- (a) Benefits are defined in the plan rules; contributions are set at the level necessary to fully fund the benefits.
- (b) Risks are shared equally by plan members and employers; plan member contributions to the Plan do not exceed one-half of the amount required to fund the promised benefits.

2 Funding objectives

- (a) The Board's overall objective is to maintain the ongoing viability of the Plan over the long term.
- (b) Benefit security is a key component of ongoing viability and is the primary funding objective for the basic account. The jointly trustee nature of the Plan, its broad public sector base, and the resulting low likelihood of the Plan not continuing all contribute to benefit security.
- (c) In addition, contribution stability is an important secondary objective, subject to requirement of the JTA that the first priority must be to reduce contribution rates if possible when current contribution rates are higher than the entry age normal cost. The cost of the Plan should be systematically recognized over time based on a long-term view of the Plan's assets and liabilities.
- (d) As the plan matures, contribution rate volatility could increase and so to limit contribution increases and volatility, the plan maintains a contribution rate reserve when the plan is fully funded.

3 Basic Benefit Risks

- (a) The basic guaranteed non-indexed benefits are pre-funded based on contribution rates that are revised triennially following an actuarial valuation and secured by funds in the Basic Account.
- (b) The key risks to the funding of the basic benefits are:
 - i) Poor investment performance;
 - ii) Experience differing from actuarial assumptions;

- iii) The plan having a high ratio of retired to active members; and
 - iv) Volatility in the funded status causing unacceptable contribution rate volatility which is accentuated by having a high ratio of retired to active members.
- (c) These risks are managed through the Board's approach to investments, which is laid out in the Statement of Investment Policies and Procedures as well as other methods described in this Funding Policy. The Statement of Investment Policies and Procedures is reviewed annually.

As the Plan has a high ratio of retired to active members, the Plan's risk tolerance, reflected in the Statement of Investment Policies and Procedure, requires that the investment manager avoids investment strategies which involve excessive investment risk.

- (d) A major review of the plan's investment policy is conducted triennially. Included in this review is scenario testing and asset/liability modelling to assess the contribution requirements under different investment outcomes.
- (e) Provisions for adverse deviation are used by the actuary in assessing assets and liabilities for the Basic Account to limit any negative effects of deviations in the plan's actual experience from that assumed by the actuary.

4 Actuarial Assessment

- (a) Entry age basis to continue as underlying funding basis.
- (b) Asset values and investment returns should be smoothed over a five-year period when assessing the required contribution rates. The smoothed value of the assets should be limited to no more than 108% and no less than 92% of the market value of the assets. 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.
- (c) Other than where exemptions apply, the valuation and assumptions should be in accordance with the standards established by the CIA.

5 Valuation Assumptions

- (a) 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.

- (b) Assumptions will be based on best estimates with margins 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.
- (c) In order to achieve the objectives of benefit security and contribution rate stability, it is preferable to have a slight bias towards generating surplus. 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.
- (d) The IAA is funded by investment returns, and by member and employer contributions which are set by the partners. In addition, the plan rules permit the Board, at its discretion, to transfer to the IAA excess investment returns over the valuation investment return assumption on pensioner liabilities in the Basic account, i.e. on that part of the Basic account that covers pensions in payment. The actuary should recognize the significance of the excess investment return threshold and its linkage with indexing. However, when setting the investment return assumption, the actuary should focus on expected long-term investment returns and not allow the potential discretionary application of the excess investment return transfer rule to influence any decision on the return assumption.

6 Basic Account Policy

- (a) The JTA provides that if the actuarial valuation report indicates a requirement to increase contribution rates, the increase must be shared equally between plan employers and plan members. If the actuarial valuation report shows that a contribution rate reduction is possible and the Board decides to implement one, any reduction will be shared equally between plan employers and plan members.
- (b) While exempt under the PBSA statute, the JTA requires that "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, the regulations under the PBSA and Appendix B." Appendix B of the JTA (JTA-B) sets out the going concern funding requirements of the PSBA as they existed prior to the amendments made to the PBSA effective December 31, 2019. Therefore, the plan continues to be funded in accordance with these requirements as it has since the plan became a jointly trusted plan. The JTA sets out other constraints and guidelines for the Board that will be discussed later in this policy.

The requirements of JTA-B are as follows:

- (i) pay normal cost (NC)
 - (ii) if there is an unfunded liability (UL), it should be amortized over 15 years
 - (iii) if there is a surplus (S)
 - a surplus cushion equal to 5% of the net liability must be retained (the “JTA-B minimum surplus”),
 - the remaining balance can then be amortized over not less than five years.
- (c) If there is a surplus, the requirements are detailed in section 11.2 of the JTA, which have been copied into Appendix 1 of this funding policy for completeness and consistency of references.:
- (d) Accordingly, and subject to 6 (b), the surplus allocation policy is to maintain the PBSA minimum surplus as a cushion, and use any Accessible Going Concern Excess as follows:
- (i) Firstly, reduce the contribution rate to the greater of the JTA-B Contribution Rate and the entry age normal cost, subject to materiality, but if the current contribution rate is less than the EANC, then use surplus to support a contribution rate of the greater of the current contribution rate and the EANC minus 1.0%,
 - (ii) Secondly, transfer surplus to the IAA to support the indexing and to the Rate Stabilization Account (RSA) to stabilize the contribution rate, as required
 - (iii) Thirdly, consider benefit improvements or contribution rate reductions.

The actions to achieve these steps are described in sections 7 to 10 below.

7 Contribution Rate Changes

- (a) The first priority is to set the contribution rate to the Required Contribution Rate, which is the greater of the JTA-B Contribution Rate and the entry age normal cost. Any reduction should only be made if, in the opinion of the Board, it is material.
- (b) However, if the EANC is greater than the Current Contribution Rate, and there is Accessible Going Concern Excess in the Basic Account as of the effective date of the actuarial valuation report, the Board must use the Accessible Going Concern Excess to fund a reduction in the aggregate Employer and Plan Member contribution rate to the Basic Account equal to the

least of:

- i) the difference between the EANC and the Current Contribution Rate,
- ii) the maximum such reduction that can be funded with the Accessible Going Concern Excess pursuant to JTA-B, and
- iii) the reduction that will result in an aggregate Employer and Plan Member contribution rate to the Basic Account equal to the EANC minus 1.0%.

The Accessible Going Concern Excess must be so applied by amortizing it over a 25-year period from the effective date of the valuation assuming an open group of Plan Members. Any such reduction must be shared equally between the Employers and the Plan Members, and the Board must amend the Pension Plan Rules accordingly. The resulting contribution rate becomes the Required Rate.

8 Transfers to support indexing at the current target level

To implement 11.2(f)(ii) of the JTA, the following will be considered:

- (a) If there is "excess basic surplus" after amortizing the surplus in excess of the JTA-B minimum surplus over a 25 year period, assets will be transferred to the IAA to support indexing and to meet the target IAA funding amount.
- (b) The assets transferred will be the lesser of
 - i) 50% of the excess basic surplus (This will increase to 100% of the excess basic surplus if the RSA has met its target funding amount (discussed below)), and
 - ii) The amount required to reach the target IAA funding amount

The target amount in the IAA to achieve a prudent reserve as per the JTA is the amount required in order to keep the stochastically modeled likelihood of an indexing cap being reinstated to less than 15% over a period of 15 years following the valuation in question.

9 Rate Stabilization Account

- (a) The 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.

- (b) The RSA balance will be reported in the notes to the financial statements, even if the account is drawn down to a zero balance.
- (c) Interest will be credited annually at the smoothed investment return rate as calculated by the actuary.
- (d) At each future valuation, if the Plan actuary identifies that the Basic Account will have an unfunded liability, the balance in the RSA will be drawn down to the extent needed to keep the required Basic contribution rates unchanged.
- (e) The target amount required in the RSA is the amount required in order to keep the stochastically modeled probability of the Basic Contribution Rate being equal to the entry age normal cost at 80% over a period of 15 years following the valuation in question.
- (f) In other words, the maximum amount in the RSA will be the amount required to achieve an 80% probability that the required plan contributions will be no higher than the entry age cost for at least 15 years.
- (g) If there is "excess basic surplus" after amortizing the surplus in excess of the JTA-B minimum surplus over a 25 year period, assets will be transferred to the RSA to stabilize the future contribution rate.
- (h) The assets transferred will be the lesser of
 - i) 50% of the excess basic surplus (This will increase to 100% of the excess basic surplus if the IAA has met its target funding amount (discussed above)), and
 - ii) The amount required to reach the target RSA funding amount

10 Other use of surplus

- (a) If there is any Accessible Going Concern Excess remaining after both the IAA and RSA have reached their target amounts, the Board may:
 - i) Increase benefits
 - ii) Reduce the contribution rate to a maximum of 1%, i.e. 0.5% each, below the EANC
 - iii) Leave it as an additional contribution stabilization reserve.

- (b) Given the expectation that a situation where there is a remaining balance of excess basic surplus will not arise in the near future, the Board has not set further priorities for excess surplus use at this stage.
- (c) The treatment of excess surplus is, of course, subject to the ITA rules regarding permissible contributions to a plan. In particular, the ITA does not allow contributions if the surplus exceeds certain levels. At all times, the surplus must be managed so that the contributions to the plans are permissible in terms of the ITA.
- (d) Benefit increases can arise either as a result of excess surplus or as a result of a decision by the plan partners to increase the benefits and meet the cost either by making a lump sum payment or increasing the contributions. When considering a benefit increase, the Board will consider the attendant cost of indexing at the current maximum sustainable level and will require that an appropriate amount be allocated to the IAA account to meet this cost.

3 Sustainable Indexing

1 Application

- (a) Sustainable indexing will be provided in accordance with section 73 (4) of the Plan rules. In other words, sustainable indexing will be the lesser of:
 - i) the increase in the average CPI for the 12 months ending October 31 over the highest average CPI for any previous 12 month period ending October 31, and,
 - ii) the maximum sustainable indexing rate set by the Board,provided there are sufficient funds in the IAA to meet the cost of the increase.
- (b) The maximum sustainable indexing rate will be set by the Board, based on the advice of the actuary, every three years as part of the triennial valuation.
- (c) Pensions will not be reduced in years of deflation.
- (d) In years immediately following a period of deflation, pensions will only be increased as described above once there is net positive inflation over the period since the pensions were last increased.

2 Objective

- (a) The key objective is to offer a maximum sustainable indexing rate that, as much as possible, minimizes intergenerational inequity.
- (b) The maximum sustainable indexing rate is the level rate of indexing that is estimated to be sustainable indefinitely taking into account the overall resources of the Plan.
- (c) It is anticipated that the maximum sustainable indexing rate will vary every three years as a result of experience gains or losses, or actuarial basis changes.
- (d) A key objective is to provide indexing fairly to members over time.
- (e) An important secondary objective is to stabilize, to the extent possible, the maximum sustainable indexing rate. In other words, it is desirable that the maximum sustainable indexing rate does not change significantly from one valuation period to the next.

3 Risks to Sustainable Indexing

- (a) The main risk to sustainable indexing is providing indexing at a rate that is too high in the short to medium term, causing the Inflation Adjustment Account to become depleted and indexing to future generations of pensioners to fall significantly. This is addressed by means of the sustainability framework described in this funding policy.
- (b) 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 sustainable level of indexing to drop to a level that causes the purchasing power of the pensions provided to significantly erode over time. This risk is managed by means of the plan's investment policy.
- (c) In addition to adjusting the sustainable indexing rate as part of the triennial actuarial valuation, as described below, scenario testing of the IAA is carried out annually using a simplified model of the IAA and its ability to provide indexing at the sustainable level.

4 Method

The maximum sustainable indexing rate will be set following each valuation as follows:

- (a) The rate will be based on a valuation of the total Plan, i.e. the Basic account plus the IAA will be taken into account.
- (b) The actuarial basis for this assessment will be the same as that used for the corresponding Basic Funding valuation, but using best estimate investment return and inflation assumptions, i.e. with the margins for adverse deviations in the investment return and inflation assumptions removed.
- (c) As for the Basic Account assessment, asset values and investment returns should be smoothed over a five-year period. To prevent the IAA from being run down faster than appropriate in periods of extremely weak investment returns, the smoothed value of all the assets should be limited to no more than 105% of the market value of the assets. 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.
- (d) The actuary will calculate the level rate of increase that can be sustained over the lifetime of the current members of the Plan, taking into account:
 - i) The smoothed value of the assets in the Basic and IAA accounts,

- ii) The value of the contributions to the Basic Account at the rate required by the corresponding Basic Account valuation,
- iii) The current contributions to the IAA, and
- iv) Any future increases already approved by the Plan Partners.

(ii), (iii) and (iv) together are referred to as the "available contributions"

- (e) In assessing the sustainable indexing rate, the contribution rate required to fully fund the Plan at the maximum sustainable indexing rate must be set equal to the long term level equivalent of the available contributions. The required contribution at the maximum sustainable indexing rate will consist of the entry age normal cost of the Plan when benefits are indexed at the sustainable rate, 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 maximum sustainable indexing rate, the required contribution rate will be a level rate that is expected to be sustainable indefinitely into the future.

5 Funding levels

- (a) Pursuant to JTA, the Board does not have the authority to raise overall contribution rates except in the case where the Plan must increase contributions to the Basic Account due to a requirement of the JTA-B. As a result, the Board cannot raise overall contribution rates to improve the funded status of the IAA and thus it is impossible for the Board to guarantee any level of inflation protection. The Plan will, however, adjust pensions annually by the amount the actuary determines can be paid sustainably.

Given that, the Board is satisfied that capping inflation adjustment levels at the sustainable rate set by the actuary is sufficient to meet the objective of maintaining the funded ratio as is.

- (b) In the event that, given the current and known future expected contributions to the IAA, the actuary determines that there are more assets in the IAA than are necessary to make full inflation adjustments on a sustainable basis, the contributions directed to the IAA will continue to be made at the same level so as to create an asset cushion that increases the probability that the Plan will be able to continue making full inflation adjustments on a sustainable basis even if the returns on assets are less than expected.

4 Communication

The Funding Policy will be posted on the College Pension Plan website. The Board will also maintain a plain language publication titled "How Your Pension is Funded" to clarify this policy for plan members.

5 Review

This policy will be reviewed every three years, or whenever there is a significant change to the Plan structure or benefits, or whenever there is a change in legislation or professional guidance relating to funding.

Effective Date: September 1, 2009

Revision Dates: December 9, 2009
September 18-19, 2012
June 6-7, 2013
December 3-4, 2015
March 22-23, 2016
June 9-10, 2016
October 28, 2021
March 6-7, 2025

Appendix 1 – Section 11.2 of the JTA

11.2 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, the regulations under the PBSA and Appendix B.
- (b) In each actuarial valuation report prepared pursuant to subsection 0 the Plan actuary must calculate and identify the following, each effective as of the effective date of the actuarial valuation report:
 - (i) the entry age normal cost of the Plan (the "**EANC**"),
 - (ii) the "**PBSA Contribution Rate**", being the aggregate Employer and Plan Member contribution rate to the Basic Account calculated in accordance with Appendix B assuming that:
 - A. any unfunded liability identified in the valuation will be amortized over the maximum period permitted by Appendix B, and
 - B. the Basic Account does not include the assets notionally allocated to the Rate Stabilization Account,
 - (iii) the "**Required Contribution Rate**", being the greater of the EANC and the PBSA Contribution Rate so identified,
 - (iv) the Surplus Assets in the Basic Account, if any, and
 - (v) the "Accessible Going Concern Excess", as defined in Appendix B, if any.
- (c) If the Required Contribution Rate identified in an actuarial valuation report of the Plan filed with the Superintendent of Pensions is less than the aggregate Employer and Plan Member contribution rate to the Basic Account then in effect (the "**Current Contribution Rate**"), the Board must reduce the aggregate Employer and Plan Member contribution rate to the Basic Account to the Required Contribution Rate. The decrease must be shared equally between the Employers and the Plan Members, and the Board must amend the Pension Plan Rules accordingly. Despite the preceding two sentences, if the Board determines that a reduction in the aggregate Employer and Plan Member contribution rate to the Basic Account otherwise mandated by this subsection (c) is not material, and would be unduly disruptive to the Employers and Plan Members to implement, the Board may choose to not implement the reduction.
- (d) If the Required Contribution Rate identified in an actuarial valuation report of the Plan filed with the Superintendent of Pensions is greater than the Current Contribution Rate, the Board must increase the aggregate Employer and Plan Member contribution rate to the Basic Account to the Required Contribution Rate. The increase must be shared equally between the Employers and the Plan Members, and the Board must amend the Pension Plan Rules accordingly.
- (e) If the EANC identified in an actuarial valuation report of the Plan filed with the Superintendent of Pensions is greater than the Current Contribution Rate, and there is Accessible Going Concern Excess in the Basic Account as of the effective date of the actuarial valuation report, the Board must use the Accessible Going Concern Excess to fund a reduction in the aggregate Employer and Plan Member contribution rate to the Basic Account determined pursuant to subsection (d) equal to the least of:

- (i) the difference between the EANC and the Current Contribution Rate,
- (ii) the maximum such reduction that can be funded with the Accessible Going Concern Excess pursuant to Appendix B, and
- (iii) the reduction that will result in an aggregate Employer and Plan Member contribution rate to the Basic Account equal to the EANC minus 1.0%.

The Accessible Going Concern Excess must be so applied by amortizing it over a 25 year period from the effective date of the valuation assuming an open group of Plan Members. Any such reduction must be shared equally between the Employers and the Plan Members, and the Board must amend the Pension Plan Rules accordingly.

- (f) If an actuarial valuation report of the Plan filed with the Superintendent of Pensions indicates that the Basic Account has Surplus Assets, the Board must transfer from the Basic Account to the Inflation Adjustment Account an amount equal to the least of:
 - (i) 50% of the Surplus Assets remaining after the implementation of subsection (e),
 - (ii) the amount that has to be transferred to the Inflation Adjustment Account so that it has
 - A. sufficient assets to index all benefits payable from the Basic Account for accrued and future service at a rate equal to the best estimate long term rate of inflation assumed in that actuarial valuation report, and
 - B. a prudent reserve, and
 - (iii) the amount that has to be notionally allocated to the Rate Stabilization Account so that it has the target amount set in the funding policy adopted pursuant to subsection 7.2(g).
- (g) If an actuarial valuation of the Plan filed with the Superintendent of Pensions indicates that the Basic Account has Surplus Assets, the Board must notionally allocate from the Basic Account to the Rate Stabilization Account an amount equal to the amount transferred to the Inflation Adjustment Account pursuant to subsection (f).
- (h) If after implementing subsections (f) and (g) there are Surplus Assets remaining in the Basic Account, the objective described in paragraph f(ii) has been achieved, but the objective described in paragraph f(iii) has not been achieved, the Board must notionally allocate from the Basic Account to the Rate Stabilization Account an amount equal to the lesser of:
 - (i) the Surplus Assets remaining after implementing subsections (f) and (g), and
 - (ii) the further amount that has to be notionally allocated to the Rate Stabilization Account to achieve the objective described in paragraph f(iii).
- (i) If after implementing subsections (f) and (g) there are Surplus Assets remaining in the Basic Account, the objective described in paragraph f(iii) has been achieved, but the objective described in paragraph f(ii) has not been achieved, the Board must transfer from the Basic Account to the Inflation Adjustment Account an amount equal to the lesser of:
 - (i) the Surplus Assets remaining after implementing subsections (f) and (g), and
 - (ii) the further amount that has to be transferred to the Inflation Adjustment Account to achieve the objective described in paragraph f(ii).

- (j) If after implementing subsections (f), (g), (h) and (i) there are Surplus Assets remaining in the Basic Account, those Surplus Assets will be considered unallocated Surplus Assets of the Basic Account unless and until the Board elects to apply the Surplus Assets in one or more of the following manners:
 - (i) implement in accordance with Section 13.4 a reduction in the aggregate Employer and Plan Member contribution rate to the Basic Account, which reduction must:
 - A. be shared equally between the Employers and Plan Members,
 - B. be in addition to any reduction implemented pursuant to subsection (e), and
 - C. not result in an aggregate Employer and Plan Member contribution rate to the Basic Account that is less than the EANC minus 1.0%;
 - (ii) fund changes to the benefit provisions set out in the Pension Plan Rules as provided in Section 13.4.
- (k) Any action taken by the Board under any of subsections (c) through (j) must comply with the funding requirements set out in Appendix B, and must result in the Pension Plan being funded in accordance with such funding requirements.
- (l) Assets notionally allocated to the Rate Stabilization Account shall be notionally allocated back to the Basic Account to stabilize the aggregate Employer and Plan Member contribution rate to the Basic Account in such amounts and at such times as the Plan actuary recommends. For greater certainty, such notional allocations can occur in conjunction with the preparation of an actuarial valuation report, and may occur as of the effective date of that actuarial valuation report. If such a notional allocation occurs on the effective date of an actuarial valuation report, all of the calculations and determinations provided for in this Joint Trust Agreement, including the calculation of the Basic Account's Surplus Assets and the PBSA Contribution Rate, will be performed having regard to the reduced value of the Rate Stabilization Account after such a notional allocation.
- (m) Prior to the Board taking action under any of subsections (e) through (j) the Board will consult with the Partners.