Municipal Pension Plan
Funding Policy

TABLE OF CONTENTS

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 Municipal Pension Plan Rules (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;
- setting limits on Cost of Living Adjustments (COLA) and providing annual COLA in accordance with the provisions of the Plan Rules;
- managing the Rate Stabilization Account (RSA); and
- managing the Group Contribution Rate Rebalancing Account (GCRRA) and setting the terms for converting Special Agreement (SA) funds into pensions.

2.0 AUTHORITIES

2.1 This policy is subject to the provisions of the Joint Trust Agreement (JTA) and amendments, 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 (5^{th} 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 Plan 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 COLA are granted and funds are transferred to the Basic Account, they become part of the guaranteed pension benefit. However, future COLA are 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 SAs 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 are granted.

3.7 Effective January 1, 2022 post-retirement group benefits have been provided through the Municipal Retiree Benefit Trust, which is a separate trust with its own funding policy and hence no further consideration is given to the funding issues for the post-retirement group benefits within this funding policy.

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 COLA: The second priority of the board is to provide COLA within the long-term funding capacity of the IAA and to provide COLA 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 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;
- Setting policy for the funding and utilization of the RSA;
- Annually updated stochastic modeling of the Basic account funded position, RSA and contribution requirements;
- Implementation of the sustainable COLA program, which uses a triennial valuation model to determine the level COLA that can be provided;
- Annually updated stochastic modeling of the sustainability of indexing; 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 Basic pension benefit are set out in Parts 4 through 7 of the Plan Rules.

5.1.2 Member Basic Account contributions are set out in s. 5 of the Plan Rules.

5.1.3 Employer Basic Account contributions are set out in s. 6 of the Plan Rules. 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.

5.1.4 Costs are shared between plan members and employers. 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."* and Section 10.3(c)(iii) states that excess surplus may be used to *"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".*

5.2 Issues / Constraints

5.2.1 Section 11 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 amended 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 such provisions of the PBSA and the regulations thereunder which are applicable to the Pension Plan and Appendix C."* The Pension Plan therefore continues to be funded in voluntary compliance with the going concern funding requirements of the PSBA as they existed prior to the amendments made to the PBSA effective December 31, 2019. Appendix C of the JTA (JTA-C) confirms those funding requirements. 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.

5.2.5 Appendix B of the JTA sets out the funding arrangements the plan must comply with. Actuarial deficits will be amortized over 15 years, as required by JTA-C and contribution rate increases will be shared 50/50 by members and employers. Actuarial gains and surpluses must be used in the following sequence to:

a) First eliminate unfunded liabilities in the Basic Account and ensure the Plan is funded at the Entry Age Normal Cost if possible. For greater certainty:
   - If the current contribution rate is less than the Entry Age Normal Cost (EANC), then use actuarial excess to support the lowest possible contribution rate below the EANC that is not less than the current contribution rate.
   - If the required contribution rate is higher than the current contribution rate, then funds will be drawn from the RSA as needed to support the lowest possible contribution rate that is not less than the current contribution rate.

b) Then split any remaining surplus on a 50/50 basis between the IAA and RSA, unless the IAA has sufficient funds to provide full sustainable indexing without a cap or the RSA has reached the targeted funding level, in which case the share that would otherwise go to the IAA or RSA will go to the other account until both targets are met.

c) The Plan Partners maintain the discretion to direct the Board otherwise at each valuation, provided this is exercised within 6 months of receipt of the Valuation Report.

5.2.6 In accordance with the provisions of Articles 10 and 11 of the JTA, if the surpluses have been used in accordance with 5.2.5 above, and the Plan still has an actuarial excess, such actuarial excess will be considered unallocated actuarial excess of the Plan unless and until the Board elects to apply it in one or more of the following manners so as to achieve over time an equitable sharing of benefits of the actuarial excess between plan member and employers:

- transferred to the RSA;
- transferred to the IAA;
- used to apply an equal reduction in plan member and employer contribution rates to the Basic Account for a period of time;
- used to improve benefits subject to s. 11.5 of the JTA (amortized over 25 years); and/or
- apply towards the payment of contributions otherwise payable by Plan Members, Employers, or both, pursuant to the Pension Plan Rules (amortized over a period of 15 years).

5.2.7 The Board has not set a policy with regard to allocating remaining actuarial excess between the options set out in 5.2.6.

5.2.8 JTA-C sets additional minimum contribution requirements 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 below the Entry Age Normal Cost 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.

5.2.9 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 Rate Stabilization Account

5.3.1 As a result of a Basic account surplus at the 2015 valuation, a Rate Stabilization Account (RSA) was established effective January 1, 2016 in accordance with the Plan Partner Agreement of October 10, 2014.

5.3.2 The Plan Partner Agreement of December 7, 2020 (the 2020 Plan Partner Agreement) modified the operation of the RSA effective January 1, 2022.

5.3.3 The 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.

5.3.4 The RSA balance will be reported in the notes to the financial statements, even if the account is drawn down to a zero balance.

5.3.5 Interest will be credited annually to the RSA at the smoothed investment return rate as calculated by the actuary, provided that the balance in the RSA, after interest is added, does not exceed the Maximum RSA amount as described in section 5.3.7 below.

5.3.6 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.

5.3.7 At each future valuation, unless the plan partners direct otherwise within 6 months of receipt of the valuation report , if there is a Basic Account Surplus after retiring any past unfunded liabilities and then ensuring that the Plan is funded at the Entry Age Normal Cost as set out in 5.2.5(a) above, 50% of this surplus will be transferred to the RSA provided that the total balance in the RSA after the transfer does not exceed the amount required in the RSA in order to keep the stochastically modeled likelihood of the Basic Contribution Rate being no higher than the entry age normal cost at 80% over a period of 15 years following the valuation in question (the Maximum RSA Amount).

If 50% of the surplus would cause the RSA balance to exceed the Maximum RSA Amount, surplus will be transferred so that the RSA balance equals the Maximum RSA Amount and the remainder will be transferred to the IAA if needed.

In other words, the maximum amount in the RSA will be the amount required to achieve an 80% likelihood that the required plan contributions will be no higher than the entry age cost for at least 15 years.

5.3.8 If the IAA has reached the "target IAA balance" as described in 5.4.2 below, the 50% referred to throughout 5.3.7 above will increase up to 100%.

5.4 Transfers to the Inflation Adjustment Account

5.4.1 As per the JTA, after using actuarial gains or surplus as set out in 5.2.5 (a) above, any remaining surplus will be split on a 50/50 basis between the IAA and RSA, unless the IAA has sufficient funds to provide full sustainable indexing without a cap or the RSA has reached the targeted funding level, in which case the share that would otherwise go to the IAA or RSA will go to the other account until both targets are met.

5.4.2 The IAA will be considered to have sufficient funds when the balance in the IAA equals or exceeds the amount required to keep the stochastically modeled likelihood of an indexing cap being reinstated to less than 25% over a period of 15 years following the valuation in question, the "target IAA balance".

5.4.3 At each future valuation, unless the plan partners direct otherwise within 6 months of receipt of the valuation report, if there is a Basic Account Surplus after retiring any past unfunded liabilities and then ensuring that the Plan is funded at the Entry Age Normal Cost as set out in 5.2.5(a) above, 50% of this surplus will be transferred to the IAA provided that the total balance in the IAA does not exceed the target IAA balance.

If 50% of the surplus would cause the IAA balance to exceed the target IAA balance, surplus will be transferred so that the IAA balance equals the target IAA balance and the remainder will be transferred to the RSA if needed.

5.4.4 If the RSA balance equals or exceeds the Maximum RSA Amount, the 50% referred to throughout 5.4.3 above will increase up to 100%.

5.5 Group Contribution Rate Rebalancing Account

5.5.1 The 2020 Plan Partner Agreement allocated $32 million of the December 31, 2018 surplus to establish a Group Contribution Rate Rebalancing Account (GCRRA).

5.5.2 The GCRRA will be used to mitigate the impact of contribution rate increases to Group 5 and Group 2 arising as the result of the need to rebalance contribution rates between the groups in the plan.

5.5.3 The GCRRA is a notional account within the Basic Account. At each future valuation the GCRRA 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.

5.5.4 The GCRRA balance will be reported in the notes to the financial statements, even if the account is drawn down to a zero balance.

5.5.5 Interest will be credited annually at the smoothed investment return rate as calculated by the actuary.

5.5.6 At the 2021 and subsequent valuations the actuary will calculate the adjustments to the group contribution rates required to ensure that each group is paying a contribution rate that correctly reflects the cost of the benefits for that group.

5.5.7 If this adjustment results in a reduction in the Group 2 and Group 5 contribution rates, then no further action is required with respect to the GCRRA.

5.5.8 If this adjustment results in a contribution rate increase for either Group 2 or Group 5, then the actuary will calculate whether the balance in the GCRRA is sufficient to amortize this increase over 15 years as a percentage of the Group 2 or 5 payroll on an open group basis. If it is, the Group 2 or Group 5 contribution rate will not be increased and annually an amount equal in value to the required percentage of payroll increase will be transferred from the GCRRA to the Basic Account. In other words, the Group 2 or Group 5 contribution rate will not be increased for rebalancing, and the contribution required for rebalancing will be paid from the GCRRA.

5.5.9 If the amount in the GCRRA is insufficient to amortize the total increase, then an amount equal to the maximum that can be amortized over 15 years as a percentage of Group 2 or 5 payroll will be transferred annually from the GCRRA and the Group 2 or Group 5 contribution rate will increase by the balance of the total increase. In other words, the Group 2 or Group 5 contribution rate will increase due to rebalancing, but only to the extent that the GCRRA is unable to cover the cost of the increase.

5.5.10 If there is a surplus at future valuations after funding the RSA and the IAA as required by the JTA, the Board will consider, after seeking the advice of the actuary, transferring a portion of Group 2 and Group 5's share of surplus to the GCRRA in order to ensure that there remains a positive balance available to offset the effect of any future rebalancing increases. For clarity, surplus should be applied equitably across the Groups, and considering the options under section 5.2.6.

5.5.11 For clarity, it is emphasized that the GCRRA is only to be used to offset Group 2 or Group 5 contribution rate increases arising as a result of rebalancing of the contributions between the groups. It will not be used to offset the effect of increases applied equally to all groups.

5.6 Benefit Improvements

5.6.1 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.

5.7 Funding Objectives

5.7.1 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.

5.7.2 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.

5.7.3 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.

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

5.8 Monitoring Funding Objectives

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

- **Likelihood of significant contribution rate increase** – The likelihood of an increase in contribution rate of more than 1% of pay will be tracked. If this likelihood 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.

- **Likelihood of RSA reaching the Maximum Amount** – The likelihood of the RSA reaching its maximum amount will be tracked.

  Monitoring of additional key outcomes around indexing are covered in section 6.5.1.

5.9 Expectations for the Going Concern Funded Ratio

5.9.1 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 JTC-C.

5.9.2 If surpluses emerge due to favorable experience, the funded ratio, excluding the RSA, will not exceed 100% until the RSA is funded to the maximum level and the IAA has reached the target IAA balance. The RSA will help keep the funded ratio of the basic account including the RSA above 100%.

5.9.3 If surpluses emerge due to favourable experience, contributions will not be reduced below the then current contribution rate unless an unallocated actuarial excess exists, at which point the options in 5.2.6 will all be considered. In tandem with the RSA, this will help keep the funded ratio above 100%.

5.9.4 The aim will be to have a funded ratio of at least 100%. Expectations for the funded ratio, should an unallocated actuarial excess exist due to experience gains, will depend on the Board's surplus policy, which has not been set at this time.

5.10 Framework for Going Concern Actuarial Valuation

5.10.1 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.

5.10.2 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.

5.10.3 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).

- At each actuarial valuation, the Actuary establishes the required total contribution rate and the resulting required total contribution adjustment, which is split equally between members and employers. This adjustment is 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 adjustment. 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 adjustment 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 equal adjustment in the employer and member contribution rate for the group(s) for which an imbalance has been identified after taking into account the GCRRA policy outlined in 5.5.

5.11 Setting Valuation Assumptions

5.11.1 The Board should set actuarial assumptions within the context of the funding objectives set out in section 5.7.

5.11.2 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.

5.11.3 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.

5.11.4 In order to achieve the objectives of benefit security and contribution rate stability, it is preferable to have a slight bias towards generating surplus. 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.

5.11.5 Excess investment return occurs when the rolling Fund five-year annualized rate of return exceeds the actuarially assumed rate of return. Prior to November 23, 2023, the excess investment return earned on the portion of the Fund represented by liabilities to retirees was transferred from the Basic Account to the IAA. Effective November 23, 2023, no transfer of excess investment return from the Basic Account to the IAA will be made.

5.11.6 Given the funding objectives set out in section 5.7, 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.

5.12 Solvency Valuation Issues

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

5.12.2 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.

5.12.3 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.

5.12.4 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 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. Prior to January 1, 2022, 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 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 SAs.

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 exceeds the current IAA contribution rate 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 IAA contributions are set out in s. 5 of the Plan Rules for Members and s. 6 for Employers.

6.3.2 When considering a benefit increase, 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 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 SA 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 "maximum sustainable COLA", the highest rate of COLA, to a maximum of 100% of CPI, that can be sustained indefinitely into the future, on the advice of the Actuary, as part of the triennial actuarial valuation.
- If the maximum sustainable COLA is less than full CPI, the Board will establish a "sustainable COLA cap" that will apply to granting COLA for the next three years.
- The sustainable COLA cap, if one is established, 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 shall be the lesser of the sustainable COLA cap - when a sustainable COLA cap is in place - 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 i.e. reflecting any required sustainable COLA cap, 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 Account 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 maximum sustainable COLA 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 maximum sustainable COLA will consist of the entry age normal cost of the Plan when benefits are subject to COLA at the maximum sustainable COLA, 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 COLA, 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 cap 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.

6.5 Expectations with respect to future indexing

6.5.1 The Actuary will use the stochastic model to track the following:

- When a sustainable COLA cap is not in place, tracking the likelihood of needing to establish a sustainable COLA cap at future valuations.
- When a sustainable COLA cap is in place, tracking the likelihood of being able to lift the cap at future valuations.

7.0 SPECIAL AGREEMENTS

7.1 Description / Funding

7.1.1 Employers may apply to the Board and the Board may approve 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 Effective January 1, 2022, in line with the 2020 Plan Partner Agreement, a trust known as the Municipal Retiree Benefit Trust (the "MRBT") was established to provide all post-retirement group benefits for retired Pension Plan members.

Employer contributions of 0.6% of salaries, paid in addition to any contribution requirement due to the Pension Plan, will flow to the MRBT. A separate funding policy will be established for the MRBT and hence no further consideration is given to the funding of post-retirement group benefits within this policy covering the Pension Plan.

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: 2023-11-23

Effective: 2023-11-23

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 such provisions of the PBSA and the regulations thereunder which are applicable to the Pension Plan and Appendix C.

(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 ITA, the Funding Arrangement set out in Appendix B and the Minimum Funding Requirements set out in Appendix C, if an actuarial valuation report indicates that the Pension Plan has actuarial excess, as defined in Appendix B, 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 IAA;

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 funding requirements set out in Appendix C 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 were continued and replaced with the Pension Plan Rules.

(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 going concern funding requirements in Appendix C.

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 AND POST-RETIREMENT GROUP BENEFITS

1. Terminology

In this Appendix B, "**actuarial gain**" and "**unfunded liability**" have the meanings given to those phrases in Appendix C and "**actuarial excess**" shall mean the amount, if any, by which the value of the assets of the Pension Plan exceed to value of the liabilities of the Pension Plan calculated on a Going Concern Basis as that term is defined in Appendix C. 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.

2. Funding Arrangement

(a) Employers and members will equally share the effects of group contribution rate rebalancing from the 2018 valuation and all future group rebalancing requirements.

(b) The unfunded liabilities in the Plan established prior to 2018 will be funded with 2018 actuarial excess.

(c) The 2022 Basic Account contribution rates effective January 1, 2022 are as follows:

Group 1 members and employers 7.34% of salary

Group 2 members 7.14% of salary and Group 2 employers 10.84% of salary

Group 5 members 9.08% of salary and Group 5 employers 12.79% of salary.

(d) Employers and members will equally share future adjustments to contribution rates by member group.

(e) The cap on the RSA which was established following the 2015 valuation (the "RSA") will be removed as of December 31, 2021. A target funding level for the maximum size of the RSA to be set by Board policy subject to paragraph 2 (h).

(f) Subject to paragraph 2 (i), all remaining 2018 actuarial excess after the Pension Plan Rules are amended in accordance with the Partners and Signatories Agreement dated December 7, 2020 will be transferred to the RSA.

(g) The current level of sustainable indexing of 2.1% should be maintained for all benefits until at least the 2021 valuation. Thereafter the level of sustainable indexing shall be set by the Board after receiving advice from the actuary.

(h) Future actuarial gains will be used to first retire any unfunded liabilities and to ensure that the Plan is funded at the Entry Age Normal Cost if possible. For greater certainty:

• If the current contribution rate is less than the EANC, then use actuarial excess to support the lowest possible contribution rate below the EANC that is not less than the current contribution rate.

• If the required contribution rate is higher than the current contribution rate, then funds will be drawn from the RSA as needed to support the lowest possible contribution rate that is not less than the current contribution rate.

Then any remaining actuarial excess will be split on a 50/50 basis between the IAA and the RSA. For greater certainty: when the IAA has sufficient funds to provide full sustainable indexing without a cap, or the RSA has reached the targeted funding level, the share that would otherwise go to either the IAA or the RSA will go to the other account (i.e., IAA or RSA) until both targets are met.

The Signatories will maintain the discretion to direct the Board otherwise at each valuation. If no Signatory decision is made within 6 months from the time Signatories are in receipt of the valuation report, the Board will act as per the above.

(i) A Group Contribution Rate Rebalancing Account (GCRRA) shall be established in the Basic Account using $32 million of actuarial excess from the 2018 valuation for the purpose of rate stability for Groups 2/5 when group contribution rate rebalancing is required as per the Board's funding policy.

3. **Post-Retirement Group Benefits**

(j) Prior to December 31, 2021 the Signatories shall establish a trust to be known as the Municipal Retiree Benefit Trust (the "MRBT"). The MRBT shall qualify as an employee life and health trust under the ITA.

(k) As of and from January 1, 2022 (the "Effective Date"), or as soon thereafter as is practicable, all post-retirement group benefits for retired Pension Plan members shall be provided through the MRBT.

(l) Initially the MRBT shall continue the program of post-retirement group benefits for retired Pension Plan members sponsored by the Board in effect immediately prior to the Effective Date. Thereafter post-retirement group benefits shall be as determined by the MRBT.

(m) The program of post-retirement group benefits provided through the MRBT shall be for all purposes the program of post-retirement group benefits sponsored by the Board pursuant to the Act and in that regard the Board may in its discretion provide advice, data and information to the MRBT with respect to any aspect of the post-retirement group benefits program.

(n) As of the Effective Date ongoing employer contributions of 0.6% of salary that would otherwise go to the IAA shall be made to the MRBT in lieu of the current funding allocation of a portion of employer contributions to post-retirement group benefit subsidies. Ongoing employer MRBT contributions shall flow through the supplemental benefits account.

(o) $100 million in seed money shall be accumulated by deductions from 2021 employer contributions that would otherwise go to the IAA and shall be transferred to the MRBT on or before December 31, 2021 to flow through the supplemental benefits account.

(p) The Board shall have no responsibility or liability for any action, error or omission of the trustees of the MRBT, the investment of the MRBT fund or the application of the seed money, the retired Pension Plan member contributions or the ongoing employer contributions once transferred to the MRBT.

(q) The Pension Plan's post-retirement group benefit rules shall be amended as necessary to implement the provisions of this Appendix B.

(r) The Board shall enter such agreements and do such acts as may be required to transition the program of post-retirement group benefits to the MRBT and to support the administration of the program of post-retirement group benefits provided through the MRBT.

(s) $70 million in further seed money shall be accumulated by deductions from 2022, 2023 and 2024 employer contributions that would otherwise go to the IAA and shall be transferred to the MRBT in up to three tranches if necessary on or before December 31, 2024, all to flow through the supplemental benefits account.

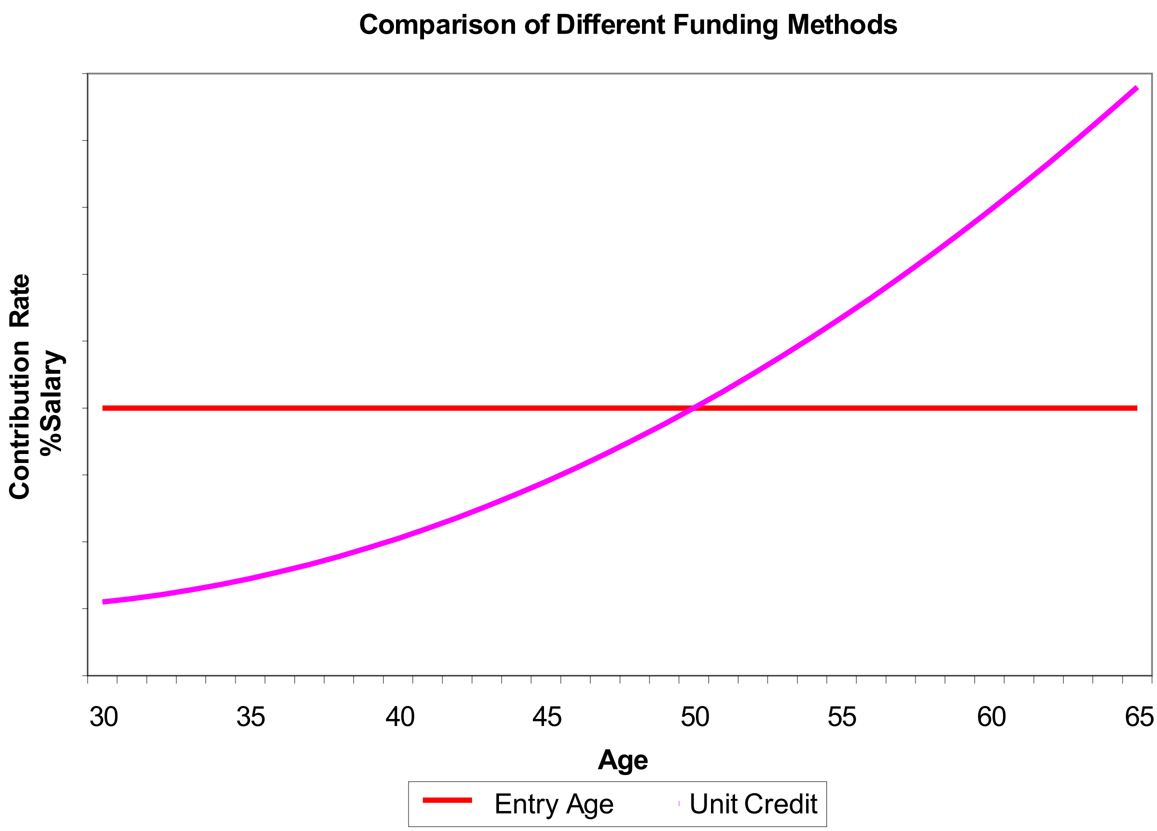
Appendix 2 – Glossary

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:



Entry Age Normal Cost: The level, long term percentage contribution rate required to finance the benefits of new entrants to the Plan over their working lifetimes, as calculated under the Entry Age Funding Method.

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	• Effective January 1, 2022, the Municipal Retiree Benefit Trust	• Access to and subsidies of EHC and access to Dental subject to Board policy and available funding	• Not guaranteed	• Effective January 1, 2022, employer contributions in addition to those required by the pension plan, which will flow into the MRBT