Retirement Plan for the Non-Teaching Employees of School District No. 43 (Coquitlam)

Funding Policy

Approved on this 11 day of June, 2019 on behalf of the SD43 Board of Education.

Original signed by C. Nicolls

Signature

Secretary-Treasurer/CFO

Title

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Background

This Funding Policy (the “Policy”) applies to the Retirement Plan for Non-Teaching Employees of School District No. 43 (Coquitlam) (the “Plan”).

The Plan is registered under the BC *Pension Benefits Standards Act (“*PBSA*”)* and the *Income Tax Act* (“ITA”). The PBSA prescribes the minimum level of required contributions, and the ITA prescribes the maximum allowable contributions permitted by applicable legislation.

The Plan is sponsored by the Board of Education of School District No. 43 (“the Board”). The Board acts in two capacities in respect of the Plan “administrator” and “Plan sponsor”. When it acts as the Plan’s administrator, the Board has a duty to act in the best interests of the Plan’s members and former members and any persons entitled to pension benefits under the Plan. However, when acting solely as Plan sponsor, the Board may act in its own capacity and with a view to its own best interests. The Board acts as Plan sponsor when it makes decisions relating to the pace and manner in which the Plan is funded, and all decisions may ultimately be made with a view to the Board’s best interests.

The Board delegates the day-to-day administration, operation and management of the Plan to a 9-member joint Retirement Committee comprised of four Union[1]-appointed representatives, four Board-appointed representatives, and one non-voting retiree representative. It is the Board’s intention to comply at all times with the provisions of the Plan and applicable pension and tax legislation. In accordance with the collective agreement between the Board and the Union, modification of Plan terms can occur only with the unanimous approval of the joint Retirement Committee.

This Policy is the responsibility of the Board. The Board has delegated to the Retirement Committee the duties to implement and review this Policy and make recommendations to the Board for any changes. This Policy is open for review and amendment at any time but must be reviewed at least triennially by the Retirement Committee in advance of each formal actuarial valuation of the Plan to determine whether they want to recommend any modifications and may be amended by the Board from time to time in whole or in part considering any changes recommended by the Retirement Committee.

Examples of events that could trigger a review or amendment of the Policy include:

- Change in investment strategy;
- Change in a Plan’s time horizon
- Significant change in funded position after actuarial review;
- Significant change in membership; and/or
- Legislative changes.

The Board may encounter extenuating circumstances under which their preferred decision related to the funding of the Plan differs from this Policy. In that case, subject to the Plan terms and applicable legislation, the Board may make such alternate funding decisions and should, as soon as possible thereafter, amend this Policy accordingly.

[1] The “Union” is the Canadian Union of Public Employees, Local 561

Purpose of the Funding Policy

The Board has adopted this Policy as an element of overall good Plan governance. The purpose of the Funding Policy is to establish a framework for the Board's Plan funding decisions. It has been drafted to be compliant with the requirements of the PBSA and consistent with industry best practice standards and guidelines[1].

The Policy outlines principles to guide the Board and the Plan's actuary in managing the financial position of the Plan and maintaining a balance between Plan assets and liabilities and managing contributions. The Policy establishes guidelines for the Board and the actuary in:

1. carrying out periodic actuarial valuations;
2. addressing funding excesses and deficits; and
3. setting contribution rates for the Plan contributors.

The funding framework takes into account factors that are relevant to the Plan and the Board, including the following:

- benefit security;
- stability and/or affordability of contributions;
- the financial position of School District No. 43 ("SD43") and competing organizational demands for cash;
- the demographic characteristics of those entitled to benefits from the Plan;
- the financial position of the Plan;
- the minimum and maximum funding requirements under applicable pension and tax legislation; and
- legislative and Plan terms with respect to the utilization of funding excess and amortization of funding deficiencies.

[1] Primarily, Canadian Association of Pension Supervisory Authorities (CAPSA) Guideline No. 7 – Pension Plan Funding Policy Guideline

Plan Overview

Plan Profile

The Plan is a single employer defined benefit pension plan which was established effective January 1, 1955 to provide for the accumulation of retirement benefits by non-teaching employees of School District No. 43 ("SD43"). Amendments were made to the Plan effective January 1, 1997 for service after that date. Subsequent amendments were made since then reflecting changes to the applicable legislation including amendments effective September 30, 2015 for compliance with the changes to the PBSA.

Effective December 31, 2017, the Plan was closed to future SD43 employees and most active Plan members were moved to the BC Municipal Pension Plan (MPP) for future service after that date. All transferred members received credit in the MPP for all periods of Credited Service and Retirement Service in the SD43 Plan, and assets in respect of these liabilities were contributed to the MPP consisting of a direct transfer from the SD43 Plan combined with a lump sum top up paid directly by SD43. The Plan is thus now a closed Plan covering former members and beneficiaries in receipt of monthly pensions, former members retaining entitlements to deferred pensions, members who were on leave of absence at December 31, 2017 who have not yet returned to active employment with SD43 and two active members who continue to accrue service under the Plan as they are not eligible to join the MPP.

Contributions

Active members contribute 4.9% of their SD43 earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings ("YMPE") and 6.6% of earnings above the YMPE.

The Board pays the balance of the cost of the Plan as estimated through periodic actuarial valuations of the Plan performed by the Actuary.

Benefits

Plan benefits are based on best average earnings and years of service with SD43 and, if applicable, with other employers with whom SD43 participates in a reciprocal transfer agreement. The Plan provides a lifetime pension based on highest average salary and years of recognized pensionable service.

Pensions in pay are increased each April 1. Pensions paid in respect of service prior to 1997 are indexed annually to changes in the consumer price index up to a maximum limit. Pensions in respect of service after 1996 are increased 1.05% per year.

A temporary bridge pension is paid from the early pension commencement date up to age 65. The Plan also provides termination benefits and survivor benefits.

Stakeholders

The key Plan stakeholders, each of which will have independent concerns, are:

- Active Plan members and deferred vested members: They will be concerned that benefits can be paid from the Plan upon retirement;
- Pensioners and other persons in receipt of benefits under the Plan: They will be concerned that the Plan will continue to pay benefits;
- The Board, whose concerns in regards to the Plan are to balance considerations relating to annual cost and financial statement impact, member benefit security, workforce management, and considerations relating to delivery of educational programs;
- The Union, whose concerns include the contributions paid by, and benefits to be received by, its members; and
- BC taxpayers, who will expect appropriate management of costs and financial risks.

In addition to these key stakeholders, other stakeholders include the BC Financial Institutions Commission and the Canada Revenue Agency as pension and tax regulators, the Ministry of Education, and any other creditors of SD43.

Plan Funding Objectives

The Board is responsible for ensuring that the Plan's funding is in accordance with the Plan terms and applicable legislation. The actual amount of funding may depend on SD43's other financial demands. The Board will base its funding decisions on actuarial advice and actuarial valuation reports conducted in accordance with applicable laws and professional actuarial standards.

The Board's focus will be on the going concern funded position of the Plan. The Board's primary funding objectives include the following:

- Going concern assets should ideally be at least 105% of the going concern liabilities;
- Board contributions should be affordable and relatively stable;
- Plan funding provides a reasonable level of benefit security for Plan members; and
- Plan funding minimizes the pension expense[1] reported in SD43's corporate financial statements;

No relative priority is intended or implied by the order that the above objectives appear. The Board's funding decisions will consider and balance all of the objectives.

The Plan is currently required to comply with the PBSA going concern and solvency funding rules. It received a temporary statutory exemption from making solvency funding payments for a three-year period ending October 26, 2017. Following the December 31, 2017 closure of the Plan, the Board, in conjunction with SD43 staff and the Plan's actuary and legal counsel, continue to engage in discussions with the pension regulator and the Ministry of Finance focussed on obtaining a permanent exemption from the PBSA solvency funding rules.

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[1] The going concern basis is also used for accounting purposes.

Key Risks

The following risks influence the Plan's future financing obligations and achievement of the Plan's funding objectives noted above. Shown alongside are strategies that the Board, in consultation with the Retirement Committee if appropriate, may employ in their discretion to manage or mitigate these risks. The Board generally has low tolerance for risks that may significantly increase their funding requirements. Therefore, the Board has implemented certain of the following controls to help mitigate these risks and may consider other controls in the future.

Objective	Risks	Internal Controls to Manage or Mitigate Risk
Benefit Security	Poor asset performance Unfavourable economic or demographic experience Mismatched assets and liabilities Plan sponsor's ability to fund Plan	Retention and monitoring of professional advisors and fund managers Investment quality requirements Investment diversification Actuarial assumptions with deliberate margins Funding excess retention Asset/liability matching (type, duration, inflation sensitivity) Funding or securing of deficits Liability settlement
Acceptable Cost	Poor asset performance High Plan expenses	Retention and monitoring of professional advisors and fund managers Investment diversification and continued investment in growth assets Monitoring Plan costs
Stable Contribution Rates	Volatile asset values Interest rate sensitive liabilities Changes in demographics Mismatched assets and liabilities Maturing plan	Retention and monitoring of professional advisors and fund managers Investment diversification Asset smoothing Liability cost method that stabilizes rates Actuarial assumptions with margins Funding excess retention Asset/liability matching (type, duration, inflation sensitivity) Strategic amortization of deficits or excesses Letter of Credit

Benefit security can be measured by the Plan's going concern funded ratio which indicates its ability to pay pensions as they fall due on an ongoing basis.

The Board and Retirement Committee understand that a plan that does not have fully matched assets and liabilities will experience volatility in its funded position, and therefore in its contribution requirements.

Plan Funding Approach

Based on the Plan funding objectives articulated earlier, the Board has developed the following approach to funding the Plan. The Board believes this approach appropriately balances the interests of the Plan stakeholders.

The results of the most recently completed actuarial valuation of the Plan, including the funded status and contribution requirements, can be found in Appendix A. Updates to Appendix A will be prepared after each formal valuation and will not be considered to be amendments to the Funding Policy that require approval of the Board of Education.

Actuarial Valuations

Under the PBSA, an actuarial valuation must be conducted, and a report filed with the pension regulator at least every three years. However, if an event occurs that materially affects the Plan's funding, either positively or negatively, an actuarial valuation must be conducted on the effective date of the event. The Superintendent of Pensions also has the discretion to request an actuarial valuation be conducted and report filed at other than the legislated times.

Following the Plan closure, the Superintendent of Pensions accepted an Actuarial Certification at December 31, 2017 (effective date of the closure) providing an update from the December 31, 2016 actuarial valuation of the Plan and has requested that the next formal valuation be conducted as at December 31, 2018.

Actuarial valuations must be conducted having regard to the following basic principles:

- compliance with applicable laws;
- compliance with actuarial professional standards; and
- long-term viability of the funding objectives.

In accordance with the current provisions of the PBSA, the valuation of this Plan must be performed on a going-concern basis and on a solvency basis.

The actuary will provide the Board and the Retirement Committee with a formal valuation of the Plan's funded status on a triennial basis unless otherwise required by applicable laws. Between filings, the Board may request valuation updates or projections at any time from the actuary based on updated economic assumptions or other relevant considerations. If the Board wishes to establish new contribution rates on the basis of one of these interim valuation updates, a formal valuation must be conducted and report filed with the regulatory authorities within the required timeline.

The Board has established the following requirements for each formal actuarial valuation:

- The valuation must be performed on a going concern basis and a solvency basis.
- The going concern valuation should be performed using the projected unit credit actuarial cost method. The Board understands that this method produces a normal cost for an individual member that increases with age. For a closed plan with only two active members, the impact on cost stability for the Board is no longer an issue, but the Board confirms continued application of this cost method. Alternative methods may be used to provide supplemental information if the actuary believes that additional analysis is warranted.

- The actuarial value of assets for the going concern valuation should incorporate an adjustment to smooth out short term market fluctuations, determined by modifying the market value of assets on an accrual basis to recognize asset gains or losses over a 4-year period. The smoothed market value is then constrained to within +/- 10% of the market value.
- The Plan actuary, after considering professional and regulator guidance, develops "best estimate" assumptions regarding future economic and demographic variables that affect Plan costs. After consultation with the Retirement Committee and the Board, the actuary establishes the assumptions to be used in the valuation. Through this consultation process, the actuary will include margins which the Board considers appropriate in the context of the Plan's funding objectives.
- Most solvency valuation methods and assumptions are prescribed by legislation in combination with actuarial professional standards, leaving little room for discretion; however, the Board may instruct the actuary to apply adjustments and actuarial techniques permitted under the applicable legislation and professional actuarial standards in order to minimize solvency funding requirements.

Funding and Securing of Deficits

Emerging Plan experience, changes in assumptions, and any changes to past service benefits will result in actuarial gains and losses, sometimes giving rise to going concern and/or solvency funding deficits which may impact contribution rates.

Over the past several years, the Board, along with SD43 staff and the Plan's actuary and legal counsel, have been engaged with the pension regulator, the Ministry of Finance and the Ministry of Education in discussions related to the applicability to this Plan of the PBSA's solvency funding rules. For the three-year period ending October 26, 2017, the Plan was exempted by an Order-In-Council ("the OIC") from having to make solvency funding payments, and SD43 implemented a Letter of Credit in respect of PBSA-required solvency funding payments due prior to the OIC effective date.

Effective October 28, 2017, the Board recommenced making additional contributions to the Plan in respect of the amortization of consolidated solvency deficiencies reported in the December 31, 2016 valuation.

The Board is committed to continuing discussions with the parties noted above with an aim to obtain a permanent exemption from the PBSA's solvency funding rules. Consequently, this Policy maintains primary focus on the going concern funded position of the Plan. The Board will fund any going concern unfunded liability payments over the maximum period allowed under the PBSA.

Additional Contributions to Fund Lump Sum Payments

Regardless of whether the Board is required to comply with the PBSA solvency funding rules, the actuary must continue to conduct the periodic actuarial valuations of the Plan on both a going concern and a solvency basis. If the solvency funded ratio of the Plan is less than 1 based on the most recently filed valuation of the Plan, then a transfer deficiency exists. This implies that lump sum transfers out of the Plan may impair the Plan's ability to pay benefits on an ongoing basis. In this case, when a lump sum benefit is to be paid from the Plan, the Board must pay the full amount of the lump sum when it is first payable by making an additional contribution to the Plan in the amount of the unfunded portion.

Solvency Reserve Account

Subject to applicable legislation and the terms of any temporary or permanent solvency funding exemptions or extensions, any contributions that the Board makes to the Plan towards the payment of solvency deficiencies shall be deposited into a Solvency Reserve Account (SRA) which has been established as a separate trust account within the Plan's Fund for this purpose.

SRA assets are considered to be part of the Plan's funds while they are required to maintain the Plan's solvency funding, but may be withdrawn by the Board in accordance with applicable legislation if a future valuation identifies that the Plan has more than a prescribed level of funding excess based on assets excluding the SRA.

Use of Going Concern/Solvency Funding Excesses

In evaluating how and when to use any funding excess, the Board will consider the funding objectives discussed in this Policy, the recommendations of the Retirement Committee, and information provided by the Plan actuary. Such decisions will be in accordance with applicable pension and tax legislation and the terms of the Plan.

Any funding excess determined by the actuary in the course of a formal Plan valuation may, at the discretion of the Board:

- be left in the fund as a cushion against future adverse Plan experience;
- be used while the Plan is ongoing to reduce the contributions that the Board would otherwise have been required to make under the Plan; or
- be returned to the Board.

Should the Board elect to withdraw funding excesses, such amounts will be restricted to those that can, upon receiving the required approval from the pension regulator, be withdrawn from the Solvency Reserve Account.

Investment Strategy

While recognizing that the inclusion of certain asset classes may increase the volatility of its short-term funding requirements, the Board prefers to invest the Plan's assets in a variety of asset classes, including growth assets, with the goal of improving investment performance and reducing long term contributions. The Board is willing to assume some asset/liability mismatch risk, and therefore some fluctuation in its short-term pension expense and cash contribution levels, in order to attain this goal.

The Board will invest the Plan's assets in accordance with the Plan's Statement of Investment Policies and Procedures ("SIPP"), which gives consideration to the Plan's funded position and membership composition. The Board established the investment strategy set out in the SIPP to align with an acceptable and controlled level of long term investment risk. To enhance benefit security, the SIPP specifies investment quality and diversification restrictions for the Plan's assets. Now that the Plan is closed and primarily covering inactive members who are not accruing additional benefits, the Board may consider implementing a derisking strategy, under which assets would be split into two components; a liability driven investment component ("LDIC") and a growth component ("GC"). The percentage of the total assets allocated to each component would be based on a glide path that would be articulated in the SIPP. The objective of derisking is to reduce the interest rate risk and the inflation risk in order to help the Plan achieve rates of return closer to the rate of change in the Plan's liabilities. If a derisking strategy is adopted in the future, it will be incorporated into this Funding Policy.

Appendix A - Summary of Valuation Results

The following table summarizes the results of the most recent actuarial valuation at December 31, 2016. The results as at December 31, 2013 are also shown for comparison purposes.

Going Concern

	December 31, 2016	December 31, 2013
Actuarial Value of Assets	**$164,462,000**	**$134,574,000**
Going Concern Liabilities		
Active members	$71,725,000	$66,350,000
Inactive and deferred members	5,473,000	5,486,000
Retired members and beneficiaries	79,418,000	59,936,000
Voluntary contribution accounts	732,000	617,000
Total Liabilities	**$157,348,000**	**$132,389,000**
Excess/ (Unfunded Liability)	**$7,114,000**	**$2,185,000**
Funded Ratio	**105%**	**102%**

Solvency

	December 31, 2016	December 31, 2013
Solvency Assets	**$164,555,000**	**$137,698,000**
Solvency Liabilities		
Active members	$100,778,000	$90,700,000
Inactive and deferred members	8,320,000	6,862,000
Retired members and beneficiaries	103,460,000	72,393,000
Voluntary contribution accounts	732,000	617,000
Total Liabilities	**$213,290,000**	**$170,572,000**
Solvency Position	**$(48,735,000)**	**$(32,874,000)**
Solvency Ratio	**77%**	**81%**

Contribution Requirements

The contributions being made to the Plan following the December 31, 2016 and December 31, 2013 valuations are as follows, as a percentage of respective pensionable earnings:[1]

	December 31, 2016	December 31, 2013
Total Normal Cost	14.26%	13.08%
less Member Required Contributions	(4.98%)	(4.97%)
Board Normal Cost	9.28%	8.11%
plus: Administrative Expense Allowance	1.40%	1.20%
Solvency deficiency amortization	5.49%	0.70%[2]
Board Contributions	**16.17%**	**10.01%**

Valuation Assumptions

	December 31, 2016		December 31, 2013	
	Going Concern	**Solvency**	**Going Concern**	**Solvency**
Discount Rate	5.25% per year	*Annuity purchases:* 3.12% per year *Transfers:* 2.20% p.a. for 10 yrs; 3.50% thereafter	5.75% per year	*Annuity purchases:* 3.88% per year *Transfers:* 3.0% p.a. for 10 yrs; 4.6% thereafter
Inflation Rate	2.00% per year	*Annuity purchases:* 3.21% per year *Transfers:* 1.10% p.a. for 10 yrs; 2.20% thereafter	2.25% per year	*Annuity purchases*: 3.72% per year *Transfers:* 1.3% p.a. for 10 yrs; 2.3% thereafter
Pensionable Earnings Increase	2.50% per year	Not applicable	2.50% per year	Not applicable
Mortality Table	1.05*CPM-2014 Public; generational scale B	1.05*CPM-2014 Public; generational scale B	CPM-2014 Public; generational scale B	UP94 generational
Retirement Rates	See table below	Earliest unreduced age	See table below	Earliest unreduced age

[1] Estimated pensionable earnings in 2017 are $39,985,000; in 2014, they were $39,096,000.

[2] The Board was exempt from making solvency funding contributions for a three years period ending October 27, 2017.

Going Concern Retirement Rate Assumptions

	Male & Female	
	Credited Service	
Age	Less than 10 years	More than 10 years
55	0.0%	5.0%
56	0.0%	5.0%
57	0.0%	5.0%
58	0.0%	5.0%
59	0.0%	5.0%
60	2.5%	15.0%
61	2.5%	15.0%
62	2.5%	15.0%
63	2.5%	15.0%
64	2.5%	25.0%
65	100.0%	100.0%

For the valuation as at December 31, 2013, assumed retirement rates varied by age and service. Sample rates are shown below:

Event	**Rate**
Before early retirement eligibility	Nil
Attaining 50 with 10 years pensionable service	10%
After 50 with 10 years pensionable service	5%
On first attaining 60 with 10 years pensionable service	25%
On first attaining age plus pensionable service = 80	25%
Age 65	100%

Appendix B – December 31, 2017 Cost Certificate

The following table summarizes the results of the actuarial cost certificate that was registered following the transition of members to the BC Municipal Pension Plan as at December 31, 2017 and the associated transfer of assets and liabilities to the MPP. It also reflects the change in the post-1996 service pension indexing provision (flat 1.05% pa). The results before the transfer and indexing amendment are shown for comparison purposes.

	December 31, 2017	
Going Concern	**After Transfer**	**Before Transfer**
Assets	$ 108,379,000	$ 179,979,000
Liabilities	104,433,000	169,461,000
Surplus/(Deficit)	**$ 3,946,000**	**$ 10,518,000**
Funded Ratio	104%	106%

	December 31, 2017	
Solvency	**After Transfer**	**Before Transfer**
Assets	$ 113,380,000	$ 184,980,000
Liabilities	141,313,000	232,078,000
Surplus/(Deficit)	**$ (27,933,000)**	**$ (47,098,000)**
Solvency Ratio	80%	80%

Appendix C - Glossary

- **Actuarial Valuation** means the process by which the Plan's financial position is assessed.
- **Actuary** means a person who is a Fellow of the Canadian Institute of Actuaries, appointed by the Board for the purposes of assessing the Plan's financial position and providing the necessary opinions and certifications required by the applicable legislation.
- **Fund** means the fund in which the Plan's assets are held and includes assets in any Solvency Reserve Account.
- **Funding Approach** means the specific processes established by the Plan that guide and manage the Plan's funding so as to help ensure the realization of the Funding Objectives.
- **Funding Objectives** means the objectives that the Plan's particular funding strategy is expected to achieve in terms of both an end result and the means to a particular end result.
- **Funded Ratio** means the ratio of assets to actuarial liabilities.
- A **Going Concern Valuation** is performed to determine the Plan's funded status, on the premise that the Plan will continue for many years.
- **Letter of Credit** means a mechanism whereby a portion of a solvency deficiency is secured through a letter of credit meeting prescribed criteria rather than making cash remittances.
- **Margins** for conservatism or provisions for adverse deviation have been built into the going concern assumptions where appropriate. The margins have been chosen so as to balance the competing objectives of benefit security, acceptable cost and stable contributions.
- The **Normal Cost** is the portion of the total Plan cost that the chosen actuarial cost method attributes to the year following the valuation date.
- The Plan's membership falls into the following categories:
  - Members are active and disabled employees currently participating in the Plan.
  - Former Members are members who have terminated employment as of the valuation date and who are entitled to a deferred monthly pension.
  - Retired Members are members who have retired as of the valuation date and are in receipt of a pension from the Plan. Pensioners include surviving spouses and beneficiaries of deceased former employees.
- A **Solvency Reserve Account** is a separate account set up within the Plan's fund as allowed under the PBSA to hold payments made by the Board in respect of a solvency deficiency, and from which the Board can withdraw subject to prescribed limits and rules.
- A **Solvency Valuation** is performed to determine the funded status of the Plan as if it was terminated on the valuation date.