# CONSULTATION PAPER

## REVISED PROPOSED REGIME FOR NEGOTIATED COST PENSION PLANS

**Response due by: December 15, 2016**

FCAA

Financial and Consumer Affairs Authority

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## Part 1: Introduction & Background

### 1.0 Introduction

This consultation paper (“paper”) reflects the revisions made to FCAA’s original consultation paper (“original paper”) titled *Proposed Regime for Negotiated Cost Pension Plans.* In response to the original paper, we received many suggestions which were well thought out and we appreciate the time that each respondent took in preparing a reply. The purpose of this paper is to provide an opportunity for you to comment on the proposed regime for negotiated cost pension plans (“NCPPs”) as has been revised (“Proposed Regime”).

This paper follows the same format as the original paper, and sets out several key components of the Proposed Regime, which are described further in this paper under the following headings:

Part 2: Funding
Part 3: Benefit Improvements & Reductions
Part 4: Benefit Types
Part 5: Communications
Part 6: Administration & Governance
Part 7: Transition Rules

“Commentary” sections are found throughout this paper which outline changes and clarifications, if any, between the regime as was proposed in the original paper to the Proposed Regime outlined in this paper.

Further, additional considerations can be found in Part 8.

Questions related to this paper and the consultation process, including the deadline for submissions and our contact information, is found in Part 9.

### 1.1 Proposed Regime

In general the Proposed Regime is as follows:

- Permanent exemption from funding solvency deficiencies;
- Requirements respecting provisions for adverse deviation (“PfAD”);
- Restrictions on benefit improvements;
- Allow NCPPs to calculate commuted values (“CV”) in accordance with a new methodology which would be based on the going concern (“GC”) discount rate of the most recently filed actuarial valuation report (“AVR”), referred to as “GC CV” throughout this paper; and
- Enhanced member communications.

Scenarios have been provided in Appendix A to assist in your general understanding of the Proposed Regime.

# Part 2: Funding

## 2.0 Introduction

The purpose of this Part is to outline the funding requirements that would be applicable to NCPPs under the Proposed Regime.

## 2.1 Proposed Funding Regime

Currently, all NCPPs must fund on both a GC and solvency basis[1]. As is currently the case, under the Proposed Regime, CSC and GC liabilities must continue to be valued using best estimate actuarial assumptions.

### 2.1.1 Proposed Funding Regime – Transition Report

Under the Proposed Regime, with the filing of an AVR with a review date of December 31, 2016 or later ("Transition Report"), subject to the transition rules outlined in Part 7, the following would apply:

1. Contribution requirements:

    - Current Service Costs, referred to as "CSC" throughout this paper:
        - Monthly contributions, an amount that is equal to 1/12 of the annual CSC.
        - NOTE: The minimum required PfAD on CSC had funding been required, hereinafter referred to as "CSC PfAD", must be communicated in the Transition Report but need not be funded during the transition period; funding on the minimum required CSC PfAD would commence with the next filed AVR.

        CSC PfAD is discussed further in section 2.4.

    - Going Concern, referred to earlier as "GC":
        - Unfunded Liability ("UL") special payments, if any
        - NOTE: There would be no minimum required PfAD to be included on the GC balance sheet, hereinafter referred to as "GC PfAD". This is except in the case of a benefit improvement for pensioners as is described briefly in point 2. below and in greater detail in Part 3.

        GC valuations and funding is discussed further in section 2.3. GC PfAD is discussed further in section 2.4.

2. Solvency Valuations and Funding:

    Under the Proposed Regime, a NCPP would not be required to fund on a solvency basis. As mentioned above, where the NCPP's negotiated contributions are not enough to cover the

[1] Several NCPPs have elected a four-year period of relief from funding solvency deficiencies established in an actuarial valuation report with a review date between Dec. 31/12 and Dec. 31/14.

funding requirements (i.e. under the Proposed Regime – CSC plus CSC PfAD and UL special payments, if any; solvency funding not required) future and/or accrued benefits could be reduced and/or contribution rates increased. Benefit reductions and/or contribution rate increases would not be required to meet solvency funding, as solvency funding would no longer be required.

Certain rules regarding solvency valuations and funding would continue to apply. Solvency valuations and funding is discussed further in section 2.2.

3. Benefit Improvements

PfADs play a critical role in the rules relating to benefit improvements. In general the benefit improvement rules are as follows:

- For the purposes of this paper, a benefit improvement to pensions-in-pay ("BIP") means "an amendment to the NCPP which improves the monthly pension of a former member who has commenced his or her pension (a "pensioner")".

  Under the Proposed Regime, a BIP would be permissible so long as the NCPP's actuary can certify that the negotiated contributions will be enough to cover the NCPP's funding requirements (i.e. CSC, CSC PfAD, and UL special payments, if any). The two points to take note of are:

  - The GC balance sheet which would reflect the BIP would have to include a minimum required PfAD, herein after referred to as a "GC PfAD"; and
  - Any portion of the UL which is attributable to the BIP would have to be amortized over a period of not greater than 5 years[2].

  GC valuations and funding is discussed further in section 2.3.

  GC PfAD is discussed further in section 2.4 and the chart with the minimum required GC PfAD in the event of a BIP can be found in Part 3.

- For the purposes of this paper, any other benefit improvement ("OBI") means "an amendment to the NCPP which improves benefits which would not be considered a BIP".

  Under the Proposed Regime, an OBI would be permissible as long as the NCPP's actuary can certify that the negotiated contributions will be enough to cover the NCPP's funding requirements (i.e. CSC, CSC PfAD, and UL special payments, if any). In the case of an OBI,

[2] The remainder of an established UL, and all previously established ULs, would continue to be subject to the 15 year amortization period as is currently required under *The Pension Benefits Act, 1992,* referring to the "Act" throughout this paper.

there would be neither a minimum required GC PfAD nor special amortization requirements related to the portion of a UL attributable to an OBI.

Benefit improvements are discussed further in Part 3.

4. Stress testing:

   Under the Proposed Regime, there would be no legislative requirements related to stress testing.

   ***Commentary:***

   ***While the Deputy Superintendent has determined that all defined benefit plans, including NCPPs, should perform stress testing, the Deputy Superintendent will not recommend that the Proposed Regime include a mandated requirement for stress testing. Best practices indicate that all defined benefit plans, including NCPPs, should perform stress testing.***

2.1.2 Proposed Funding Regime – Subsequent Reports

Under the Proposed Regime, with the filing of an AVR subsequent to the Transition Report, in addition to points 2. to 4. above and subject to the transition rules found in Part 7, the following would apply:

1. Contribution requirements:

   - Current Service Costs, or "CSC" as referred to earlier:
     - Monthly contributions, an amount that is equal to 1/12 of the annual CSC; and
     - Monthly contributions, an amount that is equal to 1/12 of the product of the PfAD (expressed as a percentage of the actuarial liability) multiplied by the annual CSC, this was referred to earlier as CSC PfAD.

     CSC PfAD is discussed further in section 2.4.

   - Going Concern, referred to earlier as "GC":
     - UL special payments, if any
     - NOTE: There would be no minimum required GC PfAD. This is except in the case of a BIP (i.e. a benefit improvement for pensioners) as is described in greater detail in Part 3.

       GC valuations and funding is discussed further in section 2.3. GC PfAD is discussed further in section 2.4.

   As is currently the case, where the NCPP's negotiated contributions are not enough to cover the funding requirements (i.e. Under the Proposed Regime – CSC , CSC PfAD, UL special payments, if any), future / accrued benefits could be reduced and/or contributions increased.

## 2.2 Solvency Valuations and Funding

Under the Proposed Regime, a NCPP would not be required to fund any solvency deficiency – including a solvency deficiency established in an AVR filed before the Transition Report, in the Transition Report, or in a subsequent report.

The solvency position of a NCPP would, however, continue to be measured and reported in each AVR. The solvency position would be calculated and illustrated as a fresh start. As no solvency deficiency payments are required, solvency assets would not be increased in consideration of any future special payments towards a solvency deficiency. However, solvency assets would include the present value of five years of unfunded liability payments, where applicable, as is currently the case.

The solvency position of the NCPP would be used for management purposes, and for establishing the solvency ratio. In addition, the solvency ratio would continue to have to be communicated to members. Further, if the NCPP continues to calculate CIA CVs, the solvency ratio would be used to apply the transfer deficiency rules of *The Pension Benefits Regulations, 1993* (the "Regulations"). The transfer deficiency rules would not apply to GC CVs.

***Commentary:***

***Under the Proposed Regime, there would be no requirement to provide the payment schedule related to any solvency deficiency. Respondents to the original paper opposed the requirement that the payment schedule must be provided in the solvency valuation, citing the administrative costs of doing so would be unfavourable.***

***Solvency valuations offer valuable information to pension plan stakeholder and therefore should still be reported in the AVRs.***

## 2.3 Going Concern Valuations and Funding

Under the Proposed Regime, a NCPP would continue to be required to fund a UL over a period not greater than 15 years. In addition, under the Proposed Regime, as it relates to benefit improvements, a UL that is the result of a BIP would be required to be amortized over a period not greater than 5 years. Please see Part 3 for further details on benefit improvement restrictions.

The GC PfAD, which is the PfAD to be included on the GC balance sheet, is expected to act as a buffer that would increase or decrease based on plan experience and/or contributions. Except in the event of BIPs, the GC PfAD can be anywhere between 0% and the amount determined by the Board of Trustees and preferably documented in the NCPP's funding / benefit policy. While we recommend that NCPPs aim for the target PfAD as should be set out in the NCPP's funding / benefit policy, the actual GC PfAD presented in the GC balance sheet could be as little as 0%.

GC PfAD is discussed further in section 2.4 and the chart with the minimum required GC PfAD in the event of a BIP can be found in Part 3. Benefit improvements are discussed further in Part 3.

***Commentary:***

***In light of a significant amount of feedback regarding the original proposal regarding benefit improvement restrictions, further analysis was undertaken regarding alternatives for benefit improvement restrictions. Please see Part 3 for further details on benefit improvement restrictions.***

***Several respondents suggested that NCPPs be provided with the delayed commencement of contributions and special payments as is currently provided to Public Sector Plans. Under the Proposed Regime, there will be no change recommended regarding the timing of when contributions and special payments must commence. As is currently the case, special payments must commence the day following the review date. Often this means that a lump-sum payment is made shortly after the filing of an actuarial valuation report and/or the actuary has accounted for the delay within the GC valuation.***

### 2.4 Provisions for Adverse Deviation

Under the Proposed Regime, solvency funding would not be required. A funding requirement strictly based on the existing GC basis may not be sufficient to ensure a reasonable likelihood of benefit payments. As such, the Proposed Regime includes PfAD requirements. In general, a PfAD is an additional liability, over and above the actuarial liability. It would be expressed as a dollar amount and a percentage of the actuarial liability. The level of the PfAD would be based on the NCPP's asset allocation.

***Commentary:***

***Replacing solvency funding with a PfAD requirement was generally well received by the respondents to the original paper, though there were several suggestions for improving it.***

#### 2.4.1 Funding the PfAD

Section 2.1 discusses the proposed funding regime. The following is meant to summarize the funding requirements related to the PfAD:

- The minimum required CSC PfAD must be funded
- ULs must be amortized
  - Except in the case of a BIP, the GC balance sheet may include a GC PfAD of anywhere between zero and the amount determined by the Board of Trustees and preferably documented in the NCPP's funding / benefit policy. Any portion of an established UL that is not attributable to a BIP must be amortized over a period of not more than 15 years.
  - In the case of a BIP, the GC balance sheet must include a GC PfAD that is at least the minimum required GC PfAD. Any portion of an established UL that is attributable to a BIP[3] must be amortized over a period of not more than 5 years. Please see Part 3 for more information on benefit improvements.

[3] All of the UL which is attributable to the GC PfAD, including any part of the GC PfAD which is attributable to the BIP, would continue to have to be amortized over a period not greater than 15 years.

***Commentary:***

***Several respondents to the original paper wanted the minimum standard for the amortization of ULs to be the lesser of 15 years or the NCPP's expected average remaining service life. In order to reduce complexity and to continue to be flexible, this suggestion was not included in the Proposed Regime. The Administrator continues to be able to have the ability to amortize an unfunded liability over a shorter period based on the NCPP's funding / benefit policy.***

2.4.2 Calculating the Minimum Required CSC PfAD

It is expected that NCPPs adopt a written funding / benefit policy which considers the nature of the plan, the fiduciary obligations of the Administrator, and industry best practices.

The proposed PfAD percentages have been reduced from those presented in the original paper and the increase to PfAD (if the discount rate exceeds the benchmark discount rate) has been eliminated altogether. The result is a minimum PfAD of 0% to 10%, depending on the NCPP's asset allocation. For example, a NCPP with 0% equity allocation would require a PfAD of 0%, and the PfAD would gradually increase to 10% for a NCPP with 100% equity allocation. It is expected that within a NCPP's funding / benefit policy, target PfADs will be established that are higher than those set out as a minimum standard under the Proposed Regime.

Under the Proposed Regime, the minimum required CSC PfAD would be based on this table:

| Equity Allocation (%) | Minimum Required CSC PfAD (%) | Equity Allocation (%) | Minimum Required CSC PfAD (%) |
|---|---|---|---|
| 0 | 0 | | |
| 10 | 5 | 60 | 7.5 |
| 20 | 5 | 70 | 10 |
| 30 | 5 | 80 | 10 |
| 40 | 7.5 | 90 | 10 |
| 50 | 7.5 | 100 | 10 |

Funding the CSC PfAD is discussed further earlier in this section.

2.4.3 Calculating the Minimum Required GC PfAD

The GC PfAD is expected to act as a buffer that would increase or decrease based on plan experience and/or contributions. Please note that, except in the case of BIPs, the GC PfAD could be anywhere between 0% and the amount determined by the Board of Trustees and preferably documented in the NCPP's funding / benefit policy.

BIPs are discussed further in Part 3.

In the event of a BIP, at the time of that benefit improvement, the minimum required GC PfAD would be as follows:

| Equity Allocation (%) | Minimum Required GC PfAD (%), in the event of a BIP | Equity Allocation (%) | Minimum Required GC PfAD (%), in the event of a BIP |
|---|---|---|---|
| 0 | 0 | | |
| 10 | 5 | 60 | 7.5 |
| 20 | 5 | 70 | 10 |
| 30 | 5 | 80 | 10 |
| 40 | 7.5 | 90 | 10 |
| 50 | 7.5 | 100 | 10 |

At the time of any actuarial valuation, under the Proposed Regime, it would be acceptable to have different PfADs on CSCs and on the GC balance sheet, provided the minimum standard is met.

Funding the GC PfAD is discussed further earlier in this section.

***Commentary:***

***Respondents provided strong evidence that the requirement to have Actuarial Going Concern Excess ("AGCE"), as outlined in the original paper, before any benefit improvements would be permissible would be counterproductive as it would likely "choke off" contributions to NCPPs, push them into accelerated maturity and possibly plan wind-up, for which sufficient funding would likely not exist. This was not our intent for the AGCE requirement.***

***Respondents provided strong evidence that the Benchmark Discount Rate ("BDR"), as outlined in the original paper, would be volatile in times of economic uncertainty. It was noted that the BDR formula would produce rates that are very high or very low and would be unpredictable. This would be very similar to the prescribed discount rates that apply to the current solvency funding regime. It was stated that the BDR would add significant volatility to the Proposed Regime, leading to significant benefit reductions or allowing for significant benefit improvements during periods of economic uncertainty. This was not our intent for the BDR formula.***

***We acknowledge that the minimum funding standards should recognize that different NCPPs may be designed to meet different levels of benefit risk. Some NCPPs may adopt minimum margins focusing on intergenerational equity with more frequent increases and decreases to benefit levels while other plans may adopt larger PfAD provisions focusing on contribution / benefit stability. With this in mind, the minimum PfAD amounts have been reduced and it is the Deputy Superintendent's expectations that the Administrator ensure that the NCPP's funding / benefit policy provide for PfADs that meet or exceed the minimum standards.***

***We reviewed the principles upon which the minimum required PfAD were based and have determined that by establishing the minimum standard within legislation and continuing to expect Administrators to establish target PfADs within the NCPP's funding / benefit policy, we have found a compromise between regulation and benefit security and flexibility.***

***Additional commentary related to PfADs and benefit improvement restrictions can be found in Part 3.***

2.4.4 Benefit Improvement Restrictions

As mentioned earlier, PfADs play a critical role in the rules relating to benefit improvements. The topic of "benefit improvements" is discussed in greater detail in Part 3.

## 2.5 Actuarial Gains

Under the current regime, if the current AVR establishes that the total amount of all unfunded liabilities is less than the total amount of all unfunded liabilities projected in the previous AVR, the amount of that actuarial gain may be used to:

- Reduce or eliminate the outstanding balance of any unfunded liability, with the oldest established unfunded liabilities being eliminated or reduced before later ones; and
- Further special payments may be reduced on a prorated basis over the remainder of the applicable amortization period or current service contributions may be reduced.

Under the Proposed Regime, the current rules will continue to apply to NCPPs. In the event that surplus is built up on the GC balance sheet, that surplus could continue to be applied to the funding requirements of the NCPP.

***Commentary:***

***In the original paper, it was proposed that it would not be permissible to use actuarial gains (i.e. surplus) to support required contributions. Respondents identified a potential conflict that may arise where significant surplus is built up on the GC balance sheet yet the negotiated contributions may not be enough to cover the CSC and CSC PfAD requirements. The result of the conflict would be a possible reduction to accrued / future benefits or an increase in contributions negotiated despite the fact that significant surplus existed on the GC balance sheet. The conflict would further be exacerbated due to restrictions imposed by the*** **Income Tax Act** ***(Canada) on increasing contributions when a plan is in surplus. In this scenario, the only option available to the NCPP, if there was a restriction against using surplus to support required contributions, would be to increase future benefits. This may not be seen as appropriate or fair to the membership of the NCPP.***

***To ensure as much administrative, benefit and funding flexibility as possible, the restriction on the use of actuarial gains for the purposes of what is sometimes referred to as a "contribution holiday" is no longer included in the Proposed Regime. The Deputy Superintendent expects administrators to ensure that the NCPP's funding / benefit policy will set out the rules regarding the use of actuarial gains which comply with*** **The Pension Benefits Act, 1992** ***(the "Act") and Regulations.***

## 2.6 Funding / Benefit Policy

It is not anticipated that the Proposed Regime will prescribe the requirement to establish and maintain a funding / benefit policy. The Deputy Superintendent expects that pension plans will be administered in accordance with the Act and Regulations, and that the Administrator and plan decision makers will carefully consider industry best practices in administering the plan.

The Deputy Superintendent has endorsed the CAPSA documents published with respect to pension plan funding policies and pension fund prudent investment. Specific to this subject, are "*Guideline No. 6 – Pension Plan Prudent Investment Practices Guideline*" and "*Guideline No. 7 – Pension Plan Funding Policy Guideline*".

***Commentary:***

***To ensure as much flexibility as possible, the requirement to have a funding / benefit policy would not be mandated under the Proposed Regime.***

## Part 3: Benefit Improvements and Reductions

### 3.0 Introduction

The purpose of this Part is to outline the proposed benefit improvement restrictions and benefit reduction requirements that would be applicable to NCPPs. Consultation questions related to this topic are found in Part 9.

***Commentary:***

***There was a consensus view expressing concern about requiring benefits to be "pre-funded" by requiring Accessible Going Concern Excess, as described in the original paper, before benefits can be improved. All respondents wanted a greater link between increased benefits and the contributions that support them.***

***In light of the feedback, we have reconsidered the benefit improvement restriction under the Proposed Regime.***

***We note that the BIP restrictions are greater than OBI restrictions and that this may seem unfair to pensioners. The basis for the different treatment includes:***

- ***Under the proposed regime, the active member benefits are funded with CSC and CSC PfAD and the pensioner benefits have already been funded, however the funding of these pensioner benefits may see further funding needs in the form of UL special payments. The GC PfAD requirement in the event of a BIP brings the funding of the increase to pensioner benefits more on balance with the funding of active member benefits.***
- ***This provision takes into consideration intergenerational equity.***
- ***This provision creates the incentive to fund GC PfAD, in order to make BIP easier in the future.***

***We note that the benefit improvement restriction rules as set out in the Proposed Regime were derived primarily from the rules of Alberta and British Columbia (AB/BC regime). The AB/BC regime has a restriction related to temporary benefit improvements, which means "a temporary increase to the pensions to which retired members are entitled to receive". Under the Proposed Regime, the restriction would apply to amendments which increase pensions-in-pay; however, any future changes (reductions / increases) would continue to be subject to the traditional method of making an amendment to a pension plan (i.e. no "temporary" language will be included recommended under the Proposed Regime).***

#### 3.1.1. Benefit Improvements – Pensioners

Under the Proposed Regime, BIPs would be permissible if:

- at the time of the BIP, the GC balance sheet must include a PfAD that is equal to or greater than the minimum required GC PfAD (see the below chart which outlines the minimum required GC PfAD);

- any UL attributable to the BIP must be amortized over a period not greater than 5 years (this 5 year amortization requirement would not apply to any UL resulting from the portion of the GC PfAD which would be attributable to the BIP – any UL resulting from a GC PfAD would be required to be amortized over a period of no more than 15 years); and
- as is currently the case, the NCPP's negotiated contributions must be enough to cover the funding requirements (i.e. CSC, CSC PfAD and ULs, if any) of the NCPP. Recall that a UL would've been derived from a GC balance sheet that would've included the minimum required GC PfAD.

At any valuation date, BIPs would not be permissible unless the actual GC PfAD found in the GC balance sheet was equal to or greater than minimum required GC PfAD. In the case of a BIP, the minimum required GC PfAD would be:

| Equity Allocation (%) | Minimum Required GC PfAD (%), in the event of a BIP | Equity Allocation (%) | Minimum Required GC PfAD (%), in the event of a BIP |
|---|---|---|---|
| 0 | 0 | | |
| 10 | 5 | 60 | 7.5 |
| 20 | 5 | 70 | 10 |
| 30 | 5 | 80 | 10 |
| 40 | 7.5 | 90 | 10 |
| 50 | 7.5 | 100 | 10 |

As mentioned earlier, a GC PfAD presented in a GC balance sheet forms part of the GC liabilities. As with any UL illustrated on a GC balance sheet, where the GC liability, which includes the GC PfAD, exceeds GC assets, the excess **must** be amortized over a period not greater than 15 years. Under the Proposed Regime, any part of the UL which is attributable to a BIP must be amortized over a period not greater than 5 years; this five year amortization requirement would not apply to any UL resulting from the portion of the GC PfAD which could be attributable to the BIP – any portion of the UL resulting from a GC PfAD would be required to be amortized over a period of no more than 15 years).

Under the Proposed Regime, the GC PfAD would be built up during times of positive actuarial experience plus any excess contributions and would be drawn upon during periods of adverse plan experience. Except for the purposes of a BIP, the minimum required GC PfAD which must be reflected in the GC balance sheet would be 0 (zero).

The restriction on BIPs would apply immediately on the effective date of the amending regulation, but would not apply to any benefit improvements negotiated prior to the effective date of the amending regulation.

***Commentary:***

***As mentioned in our earlier commentary sections, the concept of AGCE and BDR has been eliminated and replaced with simpler and less conservative benefit improvement restriction rules. We have removed the requirement that the NCPP be near or 100% funded before benefit improvements of any type could be made to a NCPP, lowered the minimum required GC PfAD and narrowed the benefit***

***improvement restriction rules from application to all benefit improvements to just BIPs. This will still provide an acceptable level of benefit security, while given the NCPP sponsors leeway to provide benefits improvements as long as the negotiated contributions will be adequate to support the improvement. It will also result in less intergenerational inequity.***

#### 3.1.2. Benefit Improvements – All Other Benefits

Under the Proposed Regime, OBIs would be permissible if:

- As is always the case, the NCPP's negotiated contributions must be enough to cover the funding requirements of the NCPP (i.e. CSC, CSC PfAD and ULs, if any).

At any valuation date, OBIs would be permissible so long as the NCPP's actuary can certify that the negotiated contributions will be enough to cover the NCPP's funding requirements (i.e. CSC, CSC PfAD, and UL special payments, if any).

Under the Proposed Regime, the CSC PfAD would be funded and a reserve could be built up during times of positive actuarial experience plus any excess contributions and could be drawn upon during periods of adverse plan experience. The minimum required CSC PfAD is outlined in the chart found in section 2.4 of Part 2.

The restriction on OBIs would apply immediately on the effective date of the amending regulation, but would not apply to any benefit improvements negotiated prior to the effective date of the amending regulation.

***Commentary:***

***We provided additional commentary regarding PfADs earlier in this paper.***

***All respondents suggested that benefit improvement rules be more closely linked to the negotiated contributions applicable to the NCPP. Further, several respondents suggested that OBIs be viewed separately from BIP. The benefit improvement rules found above are a result of this feedback.***

### 3.2 Benefit Reductions

3.2.1 Ongoing NCPP – Funding Requirements

Currently, a NCPP's negotiated contributions must cover the following costs:

- Current service costs;
- Unfunded liability special payments, if any; and
- Solvency deficiency special payments[4], if any.

[4] Several NCPPs have elected a four-year period of relief from funding solvency deficiencies established in an actuarial valuation report with a review date between Dec. 31/12 and Dec. 31/14.

Under the Proposed Regime, a NCPP's negotiated contributions would have to cover the following costs:

- Current service costs,
- The CSC PfAD,
- UL special payments (amortized over 15 years), if any, and
- UL special payments related to the cost of a BIP (amortized over 5 years), if any.

We remind the reader of this paper that, as is currently the case, a PfAD presented in a GC valuation forms part of the GC liabilities. As with any UL established in a GC valuation, where the GC liabilities, which includes any actual PfAD, exceeds GC Assets, the excess **must** be amortized over the appropriate amount of time.

As is currently the case, under the Proposed Regime, if a NCPP's negotiated contributions are not enough to cover the funding requirements, the NCPP would be required to reduce benefits (i.e. future, accrued or both). Regardless of the manner in which the commuted value is calculated (i.e. CIA CV or GC CV), a NCPP would continue to be able to reduce benefits in order to meet the funding requirements. Any benefit reductions must comply with the minimum standards of pension legislation and should be completed in accordance with a funding / benefit policy and funding / benefit policy.

It should be noted, that as an alternative to or in addition to benefit reductions, contribution rate increases could be negotiated. Recall as well that actuarial gains may be used in certain circumstances; the use of actuarial gains is discussed in section 2.5.

At any valuation date, if the CSC PfAD is less than the minimum required CSC PfAD, then either higher contributions would need to be negotiated and/or some form of benefit reductions would need to be considered.

These changes (i.e. benefit reductions and/or contribution rate increases) would continue to have to be made via amendment to the plan documents, which must be filed with the Deputy Superintendent for registration.

***Commentary:***

***Under the Proposed Regime, the order of benefit reductions would not be mandated and would be left to the discretion of the appropriate decision makers and should be carefully outlined in the NCPP's funding / benefit policy. FCAA recognizes that the order of benefit reductions is a complex process that depends on each plan's circumstances and history. Section 40(6) of the Act provides the Deputy Superintendent with the authority to approve or refuse any benefit reductions to a NCPP.***

3.2.2 Termination of a NCPP ("Plan Termination")

Currently, benefits can be reduced on Plan Termination if the NCPP's assets are not enough to cover its liabilities. The Proposed Regime does not contemplate any changes to this methodology. The distribution of assets on Plan Termination would continue to be subject to section 39 of the Regulations.

### 3.3 Funding / Benefit policy

It is not anticipated that the Proposed Regime will prescribe the requirement to establish and maintain a funding / benefit policy. The Deputy Superintendent expects all pension plans will be administered in accordance with the Act and Regulations, and that the Administrator and decision makers carefully consider industry best practices.

The Deputy Superintendent has endorsed the CAPSA documents published with respect to pension plan funding policies and pension fund prudent investment. Specific to this subject, are "*Guideline No. 6 – Pension Plan Prudent Investment Practices Guideline*" and "*Guideline No. 7 – Pension Plan Funding Policy Guideline*".

***Commentary: No change was made to this provision under the Proposed Regime.***

## Part 4: Benefit Types

### 4.0 Introduction

The purpose of this Part is to set out the pension benefit types of a NCPP under the Proposed Regime.

***Commentary:***

***There was consensus among the respondents that GC CV was appropriate for NCPPs. Furthermore, there was significant evidence provided which supports the application of GC CV retrospectively on all transfers of benefits out of a NCPP.***

### 4.1 Types of Benefits

A member of a NCPP can usually[5] transfer the commuted value of that benefit out of the plan on termination of membership. That commuted value must currently be determined in accordance with the standards of practice issued by the Canadian Institute of Actuaries. This commuted value was referred to earlier as a "CIA CV". If the plan is underfunded at the time of termination of membership, the person would receive only the funded portion (based on the solvency ratio) of the CIA CV and would receive the remaining portion of the CIA CV within five years. It is important to note that, if the NCPP's negotiated contribution rates are not sufficient to cover the funding requirements of the plan, a NCPP is required to reduce benefits, which could include any held back portions of transfers.

Under the Proposed Regime, a NCPP could continue to calculate commuted values using the CIA CV methodology. It would also be possible for the NCPP to be amended, or a new NCPP established, to provide for the calculation of commuted values using the GC CV methodology. Calculating commuted values using the GC CV methodology would be a plan design option for a NCPP. At their core, benefits calculated using the GC CV methodology would have the following characteristics:

- The intended pension benefit is based on a formula, as with any other defined benefit provision,
- The commuted value would be based on the funded position of the NCPP (on a GC basis) and calculated using the GC discount rate of the most recently filed AVR. Calculating the GC CV is discussed further under section 4.2; and
- Accrued / future benefits can still be reduced to meet the funding requirements of the NCPP.

### 4.2 Calculating the Commuted Value

<u>CIA CV</u>

Under the Proposed Regime, NCPPs could continue to provide benefits that are calculated using the CIA CV methodologies. The transfer deficiency rules as set out in section 28 of the Regulations would apply to a CIA CV.

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[5] Provided the person is terminating membership in the plan and is younger than the early retirement age of the plan, the person may transfer the value of his or her benefit out of the plan.

As is currently the case for all NCPPs, the value that a person (i.e., member, former member, spouse on death of member/former member, etc.) is or may become entitled to receive must be determined in accordance with the standards of practice issued by the Canadian Institute of Actuaries. With respect to what we are referring to as the "CIA CV", this rule will not change.

The calculation and payment of the CIA CV is as follows:

- On termination of membership, the member's commuted value is calculated using the Canadian Institute of Actuaries rates. The transfer is then paid out at the lesser of:

  - the CIA CV; and
  - the CIA CV multiplied by the solvency ratio of the plan.

  If the amount transferred is less than the CIA CV, the amount that is not paid out initially is paid within five years' time. For example, if the CIA CV is calculated to equal $80,000 and the solvency ratio of the plan is 75%, the amount transferred now would be $60,000 and the remaining $20,000 would be paid out within five years' time.

<u>GC CV</u>

Under the Proposed Regime, a NCPP can be amended (or established) to provide for the calculation of commuted values based on the GC CV methodology, on either a go forward or retrospective basis. The transfer deficiency rules would not apply to a GC CV. The calculation and payment of the GC CV would be as follows:

- On termination of membership, the member's benefit value is calculated using the GC discount rate used in the most recently filed AVR. The member's GC CV is equal to the lesser of:

  - the benefit value; and
  - the benefit value multiplied by the funded ratio of the plan.

  The member's GC CV does not include the unfunded portion of the benefit value (as is the case in a CIA CV). For example, if the benefit value was $55,000 and the GC funded position of the plan was 80%, the amount transferred – the GC CV - would be $44,000. There would be no holdback payable.

The Proposed Regime would allow a NCPP to calculate commuted values based on the CIA CV and/or GC CV methodologies. As discussed under section 4.4 using this GC CV methodology would be on either a go forward or retrospective basis; conversion of accrued benefits using the CIA CV methodology to benefits using the GC CV methodology would be permissible. In either case, go forward or retrospective, the use of the GC CV would require an amendment to the NCPP.

Where NCPP's GC funded position is below one, the GC CV would be reduced to the funded position of the NCPP. Where the NCPP's GC funded position is above one it would be a matter of plan design whether the surplus would be included.

***Commentary:***

***All of the respondents to the original paper wanted the ability to calculated CVs using the GC CV methodology retrospectively. More than half of those respondents wanted the GC CV methodology to be mandatory for NCPPs and the CIA CV to be removed all together. We are interested in better understanding the reasons why those respondents would prefer that GC CV's be mandatory and not an optional plan design feature for NCPPs.***

***While several respondents indicated that the Regulations should be amended to require an annual update to the GC funded position for the purposes of the GC CV calculations, others provided strong evidence which support the traditional triennial filing (or earlier filing, if decided by the administrator or Deputy Superintendent). We note that the GC funded position reported in the most recently filed AVR is reflected in any contributions that are earmarked for amortization of the GC UL. Since those contributions only change when an AVR is filed with FCAA and since applying the NCPP's GC funded ratio to the GC CV is a mechanism to reflect a terminating member's portion of the GC UL, the funded ratio should only be updated when a new AVR is filed with the Deputy Superintendent.***

***We received unanimous response in favour of the GC CV methodology. Key points made include:***

- ***The basic benefit of any defined benefit plan is a monthly lifetime pension paid to plan members upon retirement not a lump sum savings program that provides lump sum payouts.***
- ***If the CV basis is used to determine CVs, the amounts paid from the NCPP would not be inflated due to low interest rate environments.***
- ***Using the GC CV basis (including applying the GC funded ratio) will correct any inequities between members who remain in the NCPP and receive a monthly pension as compared to those members who elect a CV. In addition, the provision of a GC CV will not provide additional incentive for members to take lump sum CVs as compared to receiving an immediate or deferred pension from the NCPP.***

## 4.3 Benefits Payable on Termination of Membership

### 4.3.1 CIA CV

Under the Proposed Regime, there would be no change to the payment of the CIA CV.

If the NCPP is fully funded (on a solvency basis) in the most recently filed AVR, on termination of membership, the member is entitled to receive 100% of the commuted value.

If the NCPP is not fully funded (on a solvency basis) in the most recently filed AVR, on termination of membership, the member is entitled to receive the funded portion of the commuted value. Any held-back portion would be transferred, with interest, to the member within five years. As mentioned earlier, if, during that five year window, the NCPP's negotiated contribution rates are not sufficient to meet the funding requirements of the plan, a NCPP would be required to reduce accrued benefits, which could include any held back portion of a transfer.

#### 4.3.2 GC CV

Under the Proposed Regime, the GC CV takes into consideration the funded position of the NCPP (on a GC basis).

If the NCPP is fully funded (on a GC basis) in the most recently filed AVR, on termination of membership, the member will receive 100% of his or her benefit value. If the NCPP is not fully funded (on a GC basis) in the most recently filed AVR, on termination of membership, the member will receive only the funded portion of his or her benefit value. There would be no future amount payable with respect to the unfunded portion of the benefit value.

The calculation and payment of the GC CV can only be reduced when the GC CV is transferred out of the NCPP. If the entitlement remains in the NCPP, it would not be acceptable to reduce the entitlement on individual termination of membership. However, as mentioned earlier, a NCPP continues to be able to reduce accrued and future benefits in order to meet the funding requirements of the NCPP.

This is not a change to the Proposed Regime, but rather a point of clarification: The GC CV or CIA CV apply to any transfer made at the decision of the member (or a former spouse, surviving spouse, beneficiary, etc.) in the case of termination of membership, death, and division. In the event that the NCPP does not provide a retiring member or former member with the option to remain in the NCPP as a pensioner but rather requires the retiring member or former member to commence a pension outside of the NCPP (i.e. the pension is not paid directly from the NCPP but instead is paid from a life insurance company in the form of an immediate annuity), then the GC CV methodology would not apply; in this situation, the retiring member or former member would be entitled to receive an immediate annuity which provides a monthly annuity payment equal to the pension that otherwise would've been payable from the NCPP. Under the Proposed Regime, it is expected that the NCPP's funding / benefit policy (for a NCPP which is designed to not pay the pensions directly from the NCPP) would ensure that the GC liabilities take these annuity purchase liabilities into consideration, as the current solvency valuation does.

### 4.4 Applying the GC CV methodology to accrued benefits

Under the Proposed Regime, amending the plan such that accrued benefits (those which would've been subject to the CIA CV methodology) may be calculated and paid using the GC CV methodology would be permissible, subject to the following conditions:

- While the amendment may be retrospective, the effective date of the amendment would have to be January 1, 2018 or later;
- The administrator would be required to provide notice of the amendment to each member and former member within 30 days after the date the decision to amend was made;
- The administrator would have to file a copy of the notice of amendment with the amendment;
- The administrator would have to file the actuarial valuation report or cost certificate mentioned in 8(3) of the Regulations with the amendment; and
- The administrator would have to file the revised basis for the computation of commuted values currently mentioned in section 24 of the Regulations with the amendment.

Under the Proposed Regime, the Superintendent would have the authority to impose any other conditions on the registration of the amendment.

Pursuant to subsection 19(2) of the Act, under the Proposed Regime, an amendment that provides that accrued benefits (those which would've been subject to the CIA CV methodology) may be calculated and paid using the GC CV methodology could not be administered until the amendment was registered by the Superintendent.

Under the Proposed Regime, a NCPP could:

- Establish a new plan that provides for benefits using only the GC CV methodology and freeze or close the NCPP that holds the accrued benefits calculated using the CIA CV methodology;
- Amend the current plan to provide for the calculation of benefits using the GC CV methodology on a go forward basis and freeze, close, or maintain the accrued benefits that use the CIA CV methodology under the current plan; or
- Amend the current plan to provide for the calculation of benefits using the GC CV methodology on a go forward and retrospective basis, thereby eliminating the need to calculate accrued benefits using the CIA CV methodology.

### 4.5 Benefits Payable on Plan Termination

As is currently the case, full funding on plan termination is not required under the Act. It is anticipated that this will not change under the Proposed Regime. Under the Proposed Regime, section 39 of the Regulations would continue to set out the methods for allocation and distribution assets on plan termination.

## Part 5: Communications

### 5.0 Introduction

The purpose of this Part is to set out the communication and disclosure requirements and expectations of a NCPP under the Proposed Regime. Consultation questions related to communication and disclosure requirements can be found under Part 9.

### 5.1 Communications with Members

Currently, as would be the case under the Proposed Regime, NCPPs are required to provide various communication and disclosure items to plan participants.

Under the Proposed Regime, the following additional information would be required on the NCPP member's annual statement:

- The NCPP's GC funded ratio,
- If the GC funded ratio is less than 100%, then:
  - A statement that the NCPPs assets are not sufficient to cover the costs of benefits and a statement of the steps being taken to address that shortfall;
  - A statement that failure to amortize the unfunded liability may result in benefit reductions;
  - An explanation of how member's benefits would be affected if the member were to terminate membership and transfer out their benefit entitlement when the GC funded ratio is less than 100%.

Similar disclosure requirements would be required for statements respecting death, termination of membership, plan termination, and spousal relationship breakdown.

As was noted by several respondents to the original paper, with respect to the GC CV, "*… communications to plan members is of critical importance so that members fully understand the amount they crystallize by taking out their GC CVs when the GC funded position is less than one versus the risk they have by retaining their pension in the NCPP.*"

***Commentary:***

***Slight changes were made to this section. The more technical communication requirements have been removed. Under the Proposed Regime, it will be up to the Administrator to determine if more technical information needs to be provided to members and former members.***

# Part 6: Administration & Governance

### 6.0 Introduction

The purpose of this Part is to set out the requirements and expectations for the administration and governance of a pension plan. Consultation questions related to administration and governance can be found under Part 9.

### 6.1 Plan Administrator

Under the Proposed Regime, there are no changes anticipated regarding who can be an Administrator. Under the current rules, the Administrator of each of the current eligible NCPPs is a board of trustees.

It is acceptable under the current rules for a joint governance structure to exist; one that involves the participation of employers, members, retirees, other plan beneficiaries and independent participants. As is currently the case, the plan documents must provide for the administration and maintenance of the NCPP.

### 6.2 Governance Policy

It is anticipated that the Proposed Regime will not prescribe the requirement to establish and maintain a governance policy. The Deputy Superintendent expects all pension plans to be administered in accordance with the Act and Regulations, and that the administrator and decision makers carefully consider industry best practices.

The Deputy Superintendent has endorsed the Canadian Association of Pension Supervisory Authority's (CAPSA) published documents respecting pension plan governance and administration. Specific to this subject, is "*Guideline 4: Pension Plan Governance Guidelines and Self-Assessment Questionnaire*".

***Commentary: No change was made to this provision under the Proposed Regime.***

## Part 7: Transition Rules

### 7.0 Introduction

The purpose of this Part is to set out the transition rules and considerations. Consultation questions related to transition rules can be found under Part 9.

### 7.1 Applicable Date and Transition Report

**The Proposed Regime would apply to a NCPP with the filing of a Transition Report, which is an AVR with a review date of December 31, 2016 or later.**

The Transition Report would be required to reflect the CSC PfAD requirements addressed earlier in this paper. The Transition Report would serve as information for the Deputy Superintendent as it related to the CSC PfAD and would not trigger the requirement to fund the CSC PfAD.

With the filing of the subsequent AVR, the requirement to fund the CSC PfAD would commence.

***Commentary***

***With the reduced minimum required CSC PfAD and GC PfAD and the changes to benefit improvement restrictions, the transition rule was found to remain reasonable and was not amended.***

### 7.2 GC CV

Under the Proposed Regime, a NCPP may provide benefits that are calculated using the GC CV methodology. A NCPP would not automatically be considered a plan which calculates commuted values using the GC CV methodology. In order to use the GC CV methodology, the Administrator of a NCPP would be required to submit the following:

- An amendment to the plan documents which incorporates the GC CV methodology; and
- An AVR that reflects the benefits that are calculated using the GC CV methodology.

NCPPs can be amended, or established, to calculate benefits using the GC CV methodology on either a go forward or retrospective basis. In the event that the GC CV methodology were to apply on a go forward basis only, the NCPP may continue to maintain benefits calculated using the CIA CV methodology on either a going concern, closed, or frozen plan basis.

### 7.3 Restrictions of Benefit Improvements

The restriction on benefit improvements would apply immediately on the effective date of the regulatory amendment, but would not apply to any benefit improvements negotiated prior to the effective date of the amending regulation.

## Part 8: Additional Considerations

### 8.0 Introduction

The following section provides additional topics which are of interest.

### 8.1 Other Types of Pension Plans

We had asked a question in the original paper which read "Should a framework similar to the Proposed Regime be an option available to other types of pension plans registered under the Act?"

The Proposed Regime provides new a new funding regime for the current six private sector NCPPs. In addition, any new NCPP that is registered would likely[6] fall under that new regime. This would be the case regardless of whether the plan is single-employer or multi-employer, public or private, unionized or not. The Act already allows single employer NCPPs. Therefore, to the extent that the NCPP would comply with the *Income Tax Act* (Canada), the Act would allow it to be registered.

There are currently a few public sector NCPPs registered under the Act which are subject to the Specified Plans funding rules. It is not proposed that those public sector NCPPs will fall under these new NCPP funding rules. Additional amendments to the Regulations would be required in order to apply the new NCPP funding rules to those public sector NCPPs. Once the new NCPP funding rules are in place, if the plan sponsor(s) of a public sector NCPP are interested, we would be willing to discuss further recommendations to Government regarding amendments[7] to the Regulations with respect to a public sector NCPP which would bring that public sector NCPP into the new NCPP funding rules and out of the Specified Plans funding rules.

The retrospective conversion of the traditional defined benefit plan (i.e. not a NCPP) to a NCPP (one that can reduce accrued and/or future benefits) will not be permissible under the Proposed Regime.

### 8.2 Multi-Jurisdictional Pension Plans

In the original paper, we asked "What issues do you foresee will need to be addressed with respect to GC CVs and multi-jurisdictional plans?"

Several respondents acknowledged that the main issue with multi-jurisdictional NCPPs will be what may appear to be an inequity in the CV calculation between plan members from different jurisdictions. As these respondents noted, and as it true, there is limited ability within any one statute to avoid the situation entirely. To the extent possible, we have harmonized with the provinces of British Columbia and Alberta with respect to the methodology which supports the GC CV. We note that other jurisdictions seem to be conducting similar consultations and may be heading in a similar direction with respect to GC CVs. In addition, it has come to our attention that the Canadian Institute of Actuaries may be considering changes with respect to the CV basis of benefit payable under NCPPs.

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[6] If the employer's funding liability is not limited by collective bargain agreement, but by some other means, then section 40(5) of the Act would require the plan to be prescribed in the Regulations.

[7] In order to become subject to the new funding rules for NCPPs, we believe that the public sector NCPP would have to be removed from the listing of Specified Plans.

## Part 9: Consultation Questions & Process

### 9.0 Introduction

The following sections set out our consultation questions and the consultation process.

### 9.1 Consultation Questions

With respect to each Part and section of this paper, please provide any comments, concerns or considerations that you wish to identify.

In addition, we have the following questions for NCPP Administrators and stakeholders:

1. All of the NCPP respondents to the original paper wanted the ability to calculated CVs using the GC CV methodology retrospectively. More than half of those respondents wanted the GC CV methodology to be mandatory for NCPPs and the CIA CV to be removed all together. We are interested in better understanding the reasons why those respondents would prefer that GC CV's be mandatory and not an optional plan design feature for NCPPs.
2. Are you aware of any stakeholders who are opposed to the retrospective application of GC CVs?
3. In addition, we are interested in knowing how the NCPP Administrators intend to address the implementation of the retrospective application of the GC CV. What would be your transition plans? We note that members and former members not yet in receipt of a pension may be interested in commuting their accrued benefits using the CIA CV methodology prior to the implementation of GC CV. Do you have concerns with this and/or plans to manage this?

### 9.2 Consultation Process

We are interested in hearing your comments. FCAA is seeking feedback from all interested parties on how best to implement a new regulatory and funding regime for private-sector negotiated cost pension plans. This consultation process will help inform the development of the framework. While some parts of this paper are of a more technical nature, comments of any level of detail are welcome.

Your comments may be disclosed to others who have provided feedback, or any other interested parties, during and after the consultation process. Your personal information will not be disclosed without your express written consent; however, the identity of an organization may be made public in connection with its submission or comments. *The Freedom of Information and Protection of Privacy Act* of Saskatchewan will apply to any submission received by our office.

Comments must be submitted by December 15, 2016. You can email your comments to Tami Dove, Senior Policy Analyst, FCAA at tami.dove@gov.sk.ca. Alternatively, comments can be mailed or faxed to:

Pensions Division, Financial and Consumer Affairs Authority
Suite 601, 1919 Saskatchewan Drive
REGINA SK S4P 4H2
Tel: (306) 787-7650
Fax: (306) 798-4425

## Appendix A - Scenarios

<table>
<tr><th colspan="4">Scenario 1 – NCPP has neither an GC UL nor a GC surplus (i.e. 100% funded)<br>and is meeting the minimum funding requirements</th></tr>
<tr><th>Negotiated contributions</th><td>110</td><th colspan="2">Going Concern (GC) Balance Sheet</th></tr>
<tr><th colspan="2">Current Service Costs (CSC)</th><th>Assets</th><td>1,100</td></tr>
<tr><th>Best Estimate CSC</th><td>100</td><th>Best Estimate GC Liabilities, includes GC PfAD of 10%</th><td>1,100<br>(1000 GC liabilities plus<br>100 GC PfAD)</td></tr>
<tr><th>Actual CSC PfAD</th><td>10%</td><th>Surplus / (Deficit)<br>[GC Funded Ratio]</th><td>0<br>FR 100%</td></tr>
<tr><th>Minimum Required<br>CSC PfAD</th><td>10%</td><th rowspan="2">Minimum Required GC PfAD (assume no BIP) / Minimum Required GC PfAD (assume BIP)</th><td rowspan="2">0% / 10%</td></tr>
<tr><th>Minimum Required CSC with CSC PfAD</th><td>110</td></tr>
<tr><th>Negotiated Contributions (going to CSC)</th><td>110</td><th>Negotiated Contributions (going to UL)</th><td>n/a</td></tr>
<tr><th>Commentary:</th><td colspan="3">In this scenario, the NCPP’s negotiated contributions are enough to cover the funding requirements of the plan (CSC, CSC PfAD, no UL special payments).<br><br>We note as well that the NCPP has built up GC PfAD (either by funding it directly or due to plan experience).<br><br>Action:  status quo until the next AVR<br><br>Benefit improvements:  The scenario does not reflect any benefit improvement.  If the negotiated contributions remained enough to cover the funding requirements of the plan (CSC, CSC PfAD, UL special payments, if any), an OBI and/or a BIP could be considered in the above scenario.<br><br>Conflict:  no apparent conflicts</td></tr>
</table>

<table>
<tr><th colspan="4">Scenario 2 – NCPP has a GC surplus and is meeting the minimum funding requirements</th></tr>
<tr><td>Negotiated contributions</td><td>120</td><td colspan="2">Going Concern (GC) Balance Sheet</td></tr>
<tr><td colspan="2">Current Service Costs (CSC)</td><td>Assets</td><td>1,300</td></tr>
<tr><td>Best Estimate CSC</td><td>100</td><td>Best Estimate GC Liabilities, includes GC PfAD of 10%</td><td>1,100<br>(1000 GC liabilities, plus 100 GC PfAD)</td></tr>
<tr><td>Actual CSC PfAD</td><td>20%</td><td>Surplus / (Deficit)<br>[GC Funded Ratio]</td><td>200<br>FR 118%</td></tr>
<tr><td>Minimum Required CSC PfAD</td><td>10%</td><td rowspan="2">Minimum Required GC PfAD (assume no BIP) / Minimum Required GC PfAD (assume BIP)</td><td rowspan="2">0% / 10%</td></tr>
<tr><td>Minimum Required CSC with CSC PfAD</td><td>110</td></tr>
<tr><td>Negotiated Contributions (going to CSC)</td><td>120</td><td>Negotiated Contributions (going to UL)</td><td>n/a</td></tr>
<tr><td>Commentary:</td><td colspan="3">In this scenario, the NCPP’s negotiated contributions are more than enough to cover the minimum funding requirements of the plan (CSC, minimum required CSC PfAD, no UL special payments).<br><br>We note as well that the NCPP has built up GC PfAD (either by funding it directly or due to plan experience) and that the NCPP is in surplus.<br><br>Action: status quo until the next AVR; given the excess contributions available (i.e. negotiated contributions > CSC, CSC PfAD, no UL special payments), the surplus available on the GC balance sheet, and the fact that there is a built up GC PfAD, the administrator may consider an OBI and/or BIP.<br><br>Benefit improvements: The scenario does not reflect any benefit improvement. If the negotiated contributions remained enough to cover the funding requirements of the plan (CSC, CSC PfAD, UL special payments, if any), an OBI and/or a BIP could be considered in the above scenario. The opportunity to provide an OBI and/or a BIP is further enhanced for the reasons presented under “action”.<br><br>Conflict: no apparent conflicts</td></tr>
</table>

| **Scenario 3 – NCPP has an GC UL and is meeting the minimum funding requirements** | | | |
|---|---|---|---|
| **Negotiated contributions** | 120 | **Going Concern (GC) Balance Sheet** | |
| **Current Service Costs (CSC)** | | **Assets** | 900 |
| **Best Estimate CSC** | 100 | **Best Estimate GC Liabilities, includes GC PfAD of 0%** | 1,000<br>(1000 GC liabilities, plus 0 GC PfAD) |
| **Actual CSC PfAD** | 10% | **Surplus / (Deficit)**<br>**[GC Funded Ratio]** | (100)<br>FR 90% |
| **Minimum Required CSC PfAD** | 10% | **Minimum Required GC PfAD (assume no BIP) / Minimum Required GC PfAD (assume BIP)** | 0% / 10% |
| **Minimum Required CSC with CSC PfAD** | 110 | **Negotiated Contributions (going to UL)** | 10 |
| **Negotiated Contributions (going to CSC)** | 110 | | |
| **Commentary:** | In this scenario, the NCPP's negotiated contributions are enough to cover the funding requirements of the plan (CSC, CSC PfAD, UL special payments).<br><br>We note as well that the NCPP has no GC PfAD.<br><br>Action: status quo until the next AVR<br><br>Benefit improvements: The scenario does not reflect any benefit improvement. If the negotiated contributions remained enough to cover the funding requirements of the plan (CSC, CSC PfAD, UL special payments, if any), an OBI could be considered in the above scenario. There is no GC PfAD and as such a BIP could not be considered.<br><br>Conflict: no apparent conflicts | | |

<table>
<tr><th colspan="4">Scenario 4 – NCPP has an GC UL and is meeting the minimum funding requirements,<br>plus has excess funding on the CSC</th></tr>
<tr><td>Negotiated contributions</td><td>130</td><td colspan="2">Going Concern (GC) Balance Sheet</td></tr>
<tr><td colspan="2">Current Service Costs (CSC)</td><td>Assets</td><td>900</td></tr>
<tr><td>Best Estimate CSC</td><td>100</td><td>Best Estimate GC Liabilities, includes GC PfAD of 0%</td><td>1,000<br>(1000 GC liabilities, plus 0 GC PfAD)</td></tr>
<tr><td>Actual CSC PfAD</td><td>20%</td><td>Surplus / (Deficit)<br>[GC Funded Ratio]</td><td>(100)<br>FR 90%</td></tr>
<tr><td>Minimum Required CSC PfAD</td><td>10%</td><td rowspan="2">Minimum Required GC PfAD (assume no BIP) / Minimum Required GC PfAD (assume BIP)</td><td rowspan="2">0% / 10%</td></tr>
<tr><td>Minimum Required CSC with CSC PfAD</td><td>110</td></tr>
<tr><td>Negotiated Contributions (going to CSC)</td><td>120</td><td>Negotiated Contributions (going to UL)</td><td>10</td></tr>
<tr><td>Commentary:</td><td colspan="3">In this scenario, the NCPP's negotiated contributions are more than enough to cover the minimum funding requirements of the plan (CSC, minimum required CSC PfAD, no UL special payments). There is additional PfAD, above the minimum required CSC PfAD, built into the actual CSC.<br><br>We note as well that the NCPP has no GC PfAD. We note that the actuary could've used the excess negotiated contributions to amortize the UL over a shorter period of time.<br><br>Action: status quo until the next AVR; given the excess contributions available (i.e. negotiated contributions > CSC, CSC PfAD, UL special payments), the administrator may consider an OBI.<br><br>Benefit improvements: The scenario does not reflect any benefit improvement. If the negotiated contributions remained enough to cover the funding requirements of the plan (CSC, CSC PfAD, UL special payments), an OBI could be considered in the above scenario. The opportunity to provide an OBI is further enhanced for the reasons presented under "action". However, depending on the plan's funding / benefit policy, this "opportunity" may be counterbalanced by the fact that the plan is in deficit. There is no GC PfAD and as such a BIP could not be considered.<br><br>Conflict: no apparent conflicts</td></tr>
</table>

<table>
<tr><th colspan="4">Scenario 5 – NCPP has neither a GC UL nor a GC surplus (i.e. 100% funded)<br>and is NOT meeting the minimum funding requirements</th></tr>
<tr><td>Negotiated contributions</td><td>105</td><td colspan="2">Going Concern (GC) Balance Sheet</td></tr>
<tr><td colspan="2">Current Service Costs (CSC)</td><td>Assets</td><td>1,050</td></tr>
<tr><td>Best Estimate CSC</td><td>100</td><td>Best Estimate GC Liabilities, includes GC PfAD of 5%</td><td>1,050<br>(1000 GC liabilities, plus 50 GC PfAD)</td></tr>
<tr><td>Actual CSC PfAD</td><td>5%</td><td>Surplus / (Deficit)<br>[GC Funded Ratio]</td><td>0<br>FR 100%</td></tr>
<tr><td>Minimum Required CSC PfAD</td><td>10%</td><td rowspan="2">Minimum Required GC PfAD (assume no BIP) / Minimum Required GC PfAD (assume BIP)</td><td rowspan="2">0% / 10%</td></tr>
<tr><td>Minimum Required CSC with CSC PfAD</td><td>110</td></tr>
<tr><td>Negotiated Contributions (going to CSC)</td><td>105 – but s/b 110</td><td>Negotiated Contributions (going to UL)</td><td>n/a</td></tr>
<tr><td>Commentary:</td><td colspan="3">In this scenario, the NCPP’s negotiated contributions are not enough to cover the minimum funding requirements of the plan (CSC, minimum required CSC PfAD, UL special payments, if any).<br><br>We note that the NCPP has built up a small GC PfAD of 5%.<br><br>Action:  the administrator would need to reduce accrued and/or future benefits or higher contributions must be negotiated.<br><br>Benefit improvements:  Neither an OBI nor a BIP could be considered in the above scenario.<br><br>Conflict:  no apparent conflicts</td></tr>
</table>

<table>
<tr><th colspan="4">Scenario 6 – NCPP has an GC UL and Is NOT meeting the minimum funding requirements</th></tr>
<tr><td>Negotiated contributions</td><td>105</td><td colspan="2">Going Concern (GC) Balance Sheet</td></tr>
<tr><td colspan="2">Current Service Costs (CSC)</td><td>Assets</td><td>900</td></tr>
<tr><td>Best Estimate CSC</td><td>100</td><td>Best Estimate GC Liabilities, includes GC PfAD of 0%</td><td>1,000<br>(1000 GC liabilities, plus 0 GC PfAD)</td></tr>
<tr><td>Actual CSC PfAD</td><td>5%</td><td>Surplus / (Deficit)<br>[GC Funded Ratio]</td><td>(100)<br>FR 90%</td></tr>
<tr><td>Minimum Required CSC PfAD</td><td>10%</td><td rowspan="2">Minimum Required GC PfAD (assume no BIP) / Minimum Required GC PfAD (assume BIP)</td><td rowspan="2">0% / 10%</td></tr>
<tr><td>Minimum Required CSC with CSC PfAD</td><td>110</td></tr>
<tr><td>Negotiated Contributions (going to CSC)</td><td>105 – but s/b 110</td><td>Negotiated Contributions (going to UL)</td><td>0 – but s/b 10</td></tr>
<tr><td>Action:</td><td>Increase contributions or reduce accrued and/or future benefits</td><td>Action:</td><td>Increase contributions or reduce accrued and/or future benefits</td></tr>
<tr><td>Commentary:</td><td colspan="3">In this scenario, the NCPP's negotiated contributions are not enough to cover the minimum funding requirements of the plan (CSC, minimum required CSC PfAD, UL special payments).<br><br>We note that there is no GC PfAD.<br><br>Action: the administrator would need to reduce accrued and/or future benefits or higher contributions must be negotiated.<br><br>Benefit improvements: Neither an OBI nor a BIP could be considered in the above scenario.<br><br>Conflict: no apparent conflicts</td></tr>
</table>

<table>
<tr><th colspan="4">Scenario 7 – NCPP has a GC Surplus but is NOT meeting the minimum funding requirements</th></tr>
<tr><td>Negotiated contributions</td><td>105</td><td colspan="2">Going Concern (GC) Balance Sheet</td></tr>
<tr><td colspan="2">Current Service Costs (CSC)</td><td>Assets</td><td>1,300</td></tr>
<tr><td>Best Estimate CSC</td><td>100</td><td>Best Estimate GC Liabilities, includes GC PfAD of 10%</td><td>1,100<br>(1000 GC liabilities plus 100 GC PfAD)</td></tr>
<tr><td>Actual CSC PfAD</td><td>5%</td><td>Surplus / (Deficit)<br>[GC Funded Ratio]</td><td>200<br>118%</td></tr>
<tr><td>Minimum Required CSC PfAD</td><td>10%</td><td rowspan="2">Minimum Required GC PfAD (assume no BIP) / Minimum Required GC PfAD (assume BIP)</td><td rowspan="2">0% / 10%</td></tr>
<tr><td>Minimum Required CSC with CSC PfAD</td><td>110</td></tr>
<tr><td>Negotiated Contributions (going to CSC)</td><td>105 – s/b 110</td><td>Negotiated Contributions (going to UL)</td><td>n/a</td></tr>
<tr><td>Commentary:</td><td colspan="3">In this scenario, the NCPP's negotiated contributions are not enough to cover the minimum funding requirements of the plan (CSC, minimum required CSC PfAD, UL special payments).<br><br>We note that the NCPP has built up GC PFAD and the Plan is in surplus.<br><br>Action: The administrator would need to consider either reducing accrued and/or future benefits, seeking to have higher contributions negotiated or using a portion of the GC surplus to fund the CSC / CSC PfAD requirements.<br><br>Benefit improvements: Despite the fact that there is GC surplus, the administrator will have to consider either increasing contributions (if permitted under the ITA), reducing accrued / future benefits, or using GC surplus to fund the CSC / CSC PfAD requirements; cannot consider BIPs as the negotiated contributions are not sufficient to cover the minimum funding requirements. OBIs could not be considered in the above scenario.<br><br>Conflict: no apparent conflicts</td></tr>
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