

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN (#0231910)

NOTICE

To: Members of the Canadian Union of Public Employees Employees' Pension Plan (the "CEPP" or the "Plan") and collective bargaining agents representing Plan members

From: Joint Board of Trustees (the "JBT")

Date: June 2018

Re: **Changes to funding rules and filing of the report on the actuarial valuation of the Plan as at January 1, 2018**

Ontario recently amended the *Pension Benefits Act* and related regulations (collectively, the "PBA") with respect to the framework for funding defined benefit pension plans such as the CEPP. These new rules apply to actuarial valuations with valuation dates on or after December 31, 2017 that are filed with the pension regulator after April 30, 2018. The most recent valuation of the Plan is at January 1, 2018, and this valuation report was prepared using this new framework. The following is designed to provide you with a brief overview of the new framework and funding rules and how they apply to the Plan.

The PBA requires two types of valuations that measure the funding level of the Plan and affect what contributions must be made to the Plan. Each type of valuation, and the changes made under the new framework, are as follows.

- 1. Going concern valuation** assumes that the Plan will continue to operate indefinitely with a long term economic/market horizon such as with the investments of the Plan
 - Old rules: a target of funding 100% of going concern liabilities; any shortfall is funded over 15 years; new payment schedules for experience gains or losses are added as needed but not consolidated with each valuation report.
 - New rules: a target of funding 100% of going concern liabilities plus an additional reserve amount¹; any shortfall is funded over 10 years; payment schedules for experience gains or losses are consolidated with each valuation report.
- 2. Solvency valuation** assumes the Plan is terminated on the valuation date, recognizing a more current economic/market environment, and all accrued benefits are paid out to members in the form of lump sums or annuity purchases
 - Old rules: a target of funding 100% of solvency liabilities; any shortfall is funded over 5 years (*note: the JBT elected two funding relief measures for purposes of the previous actuarial valuation of the Plan as at January 1, 2017. A detailed notice was provided to you in November 2017 in that regard, available on the Plan's website – www.cepp.ca*).
 - New rules: a target of funding 85% of solvency liabilities; any shortfall is funded over 5 years (*note: previously elected funding relief measures by the JBT for the CEPP were eliminated upon filing the new actuarial valuation report as at January 1, 2018 and no longer apply*).

¹ Known as a Provision for Adverse Deviations or "PfAD," this reserve is based on the Plan's characteristics and investments. The PfAD of the CEPP was 9.9% at the most recent valuation date.

As a general overview, contributions to the Plan are based on the Going concern basis, subject to meeting the requirements of the contributions on a Solvency basis. The purpose for these changes is to provide plans such as this Plan, with more consistent and stable funding schedules with lesser impact from short term variations in the market place, to help sustain and keep the Plan operating for a very long time.

To put the new funding rules into perspective, here is some additional information you should know about the Plan and its funding:

- The transfer ratio (ratio of market value of assets to wind-up liabilities) of the Plan as at the valuation date of the last filed report was 93.0%.
- As the Plan is fully funded on a going concern basis, i.e. 129.7% as at the valuation date of the last filed report and the Plan's solvency ratio is above 85%, no special contributions are being made in accordance with applicable pension legislation.
- Current service cost contributions and the applicable PfAD on these contributions are being made to fund the cost of benefits being accrued by plan members.

This Notice is for information purposes only and no action is required on your part.

Should you require more information on this matter, please contact Sister Pierrette Perras at pperras@cupe.ca or at 613-212-4304.