

SUBJECT	UBC STAFF PENSION PLAN FUNDING POLICY
MEETING DATE	SEPTEMBER 21, 2017

Forwarded to the Board of Governors on the Recommendation of the President

**APPROVED FOR
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

DECISION REQUESTED	IT IS HEREBY REQUESTED that <i>the UBC Board of Governors approve the UBC Staff Pension Plan Funding Policy, effective July 1, 2017.</i>
Report Date	July 21, 2017
Presented By	Lisa Castle, Vice-President Human Resources Orla Cousineau, Executive Director, Pensions

EXECUTIVE SUMMARY

The UBC Staff Pension Plan (the “Plan”) was granted an extension by the pension regulator to December 31, 2017, for adopting a written funding policy that complies with the new requirements under the *Pension Benefits Standards Act*.

The Pension Board has developed the UBC Staff Pension Plan Funding Policy, dated June 21, 2017, and the Pension Board is recommending it to the Board of Governors for approval.

The UBC Staff Pension Plan Funding Policy is attached.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning
 Research
 Innovation
 Engagement
 International
 (Internal / External)

or **Operational**

DESCRIPTION & RATIONALE	<p>The purpose of the UBC Staff Pension Plan Funding Policy is to set out the funding objectives for the Plan and the intended method for achieving those objectives. It identifies the material risks that could impact the funded position of the Plan, and how these risks are being monitored by the Pension Board.</p> <p>The Funding Policy incorporates Article 13 of the Plan text, which describes the Plan’s Benefits/Funding Test. It is the Plan’s Benefits/Funding Test that imposes constraints on the Pension Board and ensures a long-term view is incorporated into all benefit design decisions.</p> <p>The Funding Policy will be posted to the Staff Pension Plan website. As well, a summary of the Funding Policy will be prepared to help the members understand this Policy, and in particular the factors affecting the Plan’s funded position, the security of their benefits, and the risks faced by the Plan.</p>
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The Funding Policy will be reviewed at least every three years by the Pension Board, and if any changes are necessary or desirable, the Pension Board will recommend such changes to the Board of Governors for their approval.

The Funding Policy has been reviewed and approved by the Plan's Actuary, Aon Hewitt.

BENEFITS The UBC Board of Governors has governance and fiduciary duties for the Learning, Research, Financial, Sustainability & Reputational administration of the UBC Staff Pension Plan. The purpose of the funding policy is to establish a framework for making decisions that will impact the financial position of the pension plan, the security of members' benefits, and the ongoing viability of the Plan.

Developing a funding policy improves the identification, understanding and management of the risk factors that affect the funded position of the Plan and the security of the members' benefits.

Appendix 1

The University of British Columbia Staff Pension Plan

Funding Policy

Effective July 1, 2017

Approved by the UBC Staff Pension
Plan Board on June 21, 2017

The University of British Columbia Staff Pension Plan Funding Policy

1. Introduction

- 1.1 The University of British (the “University”), acting through its board of governors (the “Board of Governors”) is the sponsor and administrator of the UBC Staff Pension Plan (the “Plan”). The Board of Governors has established a pension board to oversee the management and administration of the Plan, and to act on behalf of the Board of Governors (the “Pension Board”).
- 1.2 The Board of Governors has adopted Terms of Reference and the Governance Policy to document the various powers and duties it has delegated to the Pension Board.
- 1.3 The Board of Governors has delegated to the Pension Board responsibility for formulating and recommending to the Board of Governors the terms of the Statement of Investment Policies and Procedures, and the terms of this Funding Policy.

2. Background

- 2.1 The Plan is a non-collectively bargained multi-employer target benefit plan that has operated as a target benefit plan since its inception on January 1, 1972.
- 2.2 Prior to the *Pension Benefits Standards Act SBC 2012 c.30 (“PBSA”)* coming into force on September 30, 2015, the pension legislation did not fully recognize the target benefit plan design structure. The PBSA fully recognizes the target benefit plan design structure and the Plan text was restated effective September 30, 2015 to comply with the PBSA.

3. Purpose of Funding Policy

- 3.1 The purpose of this Funding Policy is to establish a framework for outlining the Plan funding objectives and the intended method for achieving those objectives.

4. Key Authorities

- 4.1 This Funding Policy is subject to the provisions of the Plan text.
- 4.2 This Funding Policy is subject to the applicable provisions of the following two Acts and Regulations as amended from time to time:
 - *Income Tax Act of Canada and Regulations (ITA);and*
 - *Pension Benefits Standards Act and Regulations (PBSA).*

5. Stakeholders

- 5.1 The key stakeholders for the Plan, each of whom will have independent concerns and priorities, are:
- A. Active plan members and deferred vested members;
 - B. Pensioners and other persons in receipt of benefits under the Plan;
 - C. The Board of Governors;
 - D. Other participating employers; and
 - E. The provincial pension regulator and tax authorities.

6. Plan Overview

- 6.1 As at January 1, 2017, the Plan has 7,614 active members, 2,001 inactive members, and 2,342 retired members, for a total of approximately 11,957 Plan members.
- 6.2 Members are required to contribute 6.5% of their salary, and the University contributes 10% of the member's salary, less CPP offset. These contribution rates are fixed and set out in the Plan text. There is no opportunity for additional contributions, other than those committed by the University.
- 6.3 The Plan provides a basic pension benefit, determined by a formula based on final average earnings and years of pensionable service. Retirement pensions are indexed subject to the Plan's ability to pay, each January 1.
- 6.4 If there is not adequate funding, the Plan text requires a reduction of benefits, starting with future indexing.
- 6.5 Pensions have been increased by 100% of the change in the Consumer Price Index (CPI) from 1974 until 2012.
- 6.6 Based on the results of the actuarial valuation as at December 31, 2010, it was determined under the Plan's Benefits/Funding Test that full indexing of pension benefits was not sustainable and should be reduced from 100% to 50% of the change in CPI effective January 1, 2012. The subsequent actuarial valuations at the end of 2013 and 2016 have confirmed that indexing of pension benefits should remain at 50% of the change in CPI so that the Plan is sustainable.

7. Plan Priorities

- 7.1 The Pension Board has confirmed that its priorities with respect to the Plan are:
- 1) The provision of basic pension benefits;
 - 2) The provision of pension indexing, subject to available funds;
- and this is described in Article 13 of the Plan text.
- 7.2 The Pension Board has confirmed its objective is to provide 100% indexing, subject to the Plan's ability to finance it in a stable and sustainable manner.

8. Key Risks Faced by the Plan

8.1 The Plan faces a number of risks that could impact the funded position of the Plan and affect the Plan's ability to pay benefits. The following are the most significant of these risks:

- Actual Plan experience being different from actuarial assumptions for economic factors including short and long-term investment returns, inflation, and interest rates;
- Actuarial Plan experience being different from actuarial assumptions for demographic factors, including longevity, withdrawals and retirements;
- Changes in expectations with regards to the economic outlook impacting assumptions from one valuation to the next;
- The maturity of the Plan, in particular, an increase in the average age of the active member population, and unexpected large shifts in demographic characteristics of active membership;
- Fail the funding test prescribed by the PBSA and as a result the Plan is required to adjust benefits in a manner inconsistent with the results of the Benefits/Funding Test;
- The margin included in the Benefits/Funding test is insufficient and creates future shortfalls that result in lower future benefits than currently paid from the Plan; and
- The margin included in the Benefits/Funding Test is too large so that unnecessary reserves are held that limit the benefits that could have been paid to members.

8.2 These risks are monitored by the Pension Board through:

- An actuarial valuation of the Plan, at least every 3 years which determines, based on the Benefits/Funding Test described in the Plan, the sustainability of the base benefit and the level of indexing that can be provided;
- An annual review of the Statement of Investment Policies and Procedures (SIPP),
- Ongoing review of the Plan's investment performance and asset class returns;
- Regular review of the Plan's estimated funded position, Benefits/Funding Test and PBSA Funding Tests in the intervaluation period;
- A major review of the Plan's investment policy at least every 5 years. Included in this review is scenario testing and modelling to assess the risks to the sustainability of the Plan, and test alternative benefit/funding and margin strategies as well as alternative investment strategies.

9. Funding Objectives

9.1 The funding objectives of the Pension Board are to:

- Ensure the long-term financial sustainability of the Plan as measured by the Benefits/Funding Test.

- Ensure the benefits provided under the Plan are kept in balance with the capacity of the Plan's funding to support them or more than sufficient to support the benefits both now and in the future; and
- Manage the Plan's exposure to adverse risks.

10. Plan's Benefits/Funding Test

10.1 Origins and Purpose of the Benefits/Funding Test:

The purpose of the Benefits/Funding Test is to assess the long-term sustainability of the Plan by comparing in a single test accumulated assets and future contributions, against benefits earned to date and in the future. This takes a long term view of the benefits that can be provided, with no undue weight to short term market movements. By looking at past and future benefits and contributions in a single test, it also ensures benefits are provided that are consistent across the whole plan membership. The Benefits/Funding Test was adopted by the Plan in the 1990s to reflect the fixed contribution, variable benefit nature of the Plan and ensure long-term planning was incorporated into all benefit design decisions. The policy became effective for the January 1, 1999 and subsequent valuations.

The Benefits/Funding Test as described in Article 13 of the Plan text is set out in its entirety in Appendix A.

- 10.2 The Benefits/Funding Test, set out in Article 13 of the Plan, determines whether the Plan's funding is insufficient, sufficient, or more than sufficient to support the benefits both now and in the future.
- 10.3 Effective January 1, 2011, the Benefits/Funding Test requires that an explicit margin be included in the calculation of the Benefits/Funding Test to protect the Plan against future adverse deviations.
- 10.4 The margin included in the Benefits/Funding Test is adopted by the Pension Board on the advice of the Plan Actuary.
- 10.5 Where the Benefits/Funding Test shows that the funding is insufficient or more than sufficient, Article 13 prescribes certain actions to restore the balance, with future indexing being the first item to be addressed.

11. Contingency Reserve and Income Tax Act Carryforward

- 11.1 The application of the policy in Article 13 calls for an explicit contingency allowance to be built into the Plan's funding when assets permit. This consists of two parts; the Contingency Reserve and the Income Tax Act Carryforward.

The Contingency Reserve must grow to a maximum level, or ceiling, before the assets reach a threshold at which the funding can be considered to be more than sufficient for the Plan's needs. The Contingency Reserve and Income Tax Act Carryforward are defined in terms of assets accumulated in excess of liabilities (of benefits earned to date).

Liabilities are calculated assuming full Plan benefits with 100% indexing on an unbiased, best estimate basis, with no margin for adverse deviation.

- 11.2 On February 15, 2007 the CRA approved a Contingency Reserve ceiling of 40% of unbiased liabilities (past service liabilities with no margin for adverse deviation).

12. Actuarial Methods, Assumptions and Reporting

- 12.1 In performing the actuarial valuation the Actuary shall use “best estimate” actuarial assumptions that are recommended by the Actuary and approved by the Pension Board.
- 12.2 The going concern valuation uses the projected unit credit method to measure the Plan’s liabilities.
- 12.3 For purposes of the Benefits/Funding Test asset values and investment returns are smoothed over a 5-year period. The smoothing technique, which must be consistent with accepted actuarial practice, will be chosen by the Actuary and approved by the Pension Board. Unless the Actuary believes there are reasons to change it, the smoothing technique must be applied consistently over time.

13. Communication

- 13.1 The Funding Policy will be posted to the Staff Pension Plan website. As well a summary of this Funding Policy will be prepared to help the Plan members and beneficiaries understand this Policy.

14. Review and Amendment

- 14.1 This Policy will be reviewed at least every three years by the Pension Board, in order to determine whether any modifications are necessary or desirable.
- 14.2 The Pension Board shall recommend to the Board of Governors such changes to the Policy as it considers appropriate or necessary.

Appendix A

Article 13– Relationship between Funding and Benefits

13.01. Actuarial Valuation

The University, or the Pension Board as described in Article 18, will commission actuarial valuations of the Plan no less frequently than is required by Applicable Legislation. Such actuarial valuations must be prepared in accordance with the funding rules in the PBSA applicable to target benefit provisions.

13.02. Benefits/Funding Test

An actuarial valuation will include a Benefits/Funding Test at least every three years. If a benefit reduction is in effect, an estimated Benefits/Funding Test will be performed annually and a full actuarial valuation and Benefits/Funding Test will be performed if determined by the Pension Board. For the purposes of this Section, a Benefits/Funding Test will determine the Funds Available and the Funds Required subject to the following requirements:

- (a) The actuarial assumptions will be estimates made by the Actuary and approved by the Pension Board that:
 - i. may contain reasonable simplifications and approximations;
 - ii. will be determined without regard to the results they would produce;
 - iii. must be consistent with accepted actuarial practice, and
 - iv. to the extent possible, must contain no intentional margin or understatement.
- (b) The Actuary will value the Plan's assets using a technique that smoothes market fluctuations over a period not exceeding 5 years. The smoothing technique, which must be consistent with accepted actuarial practice, will be chosen by the Actuary, and approved by the Pension Board. Unless the Actuary believes there are reasons to change it, the smoothing technique must be applied consistently over time.
- (c) The projections of future contributions and normal costs will be performed over a period of 25 years using assumptions as to future changes in the composition of the membership, including a new entrant assumption. The Actuary will determine these assumptions as in (a), except that the membership projections may not anticipate growth in the number of Members who are contributing and accruing Pensionable Service.

13.03. Consequences of Benefits/Funding Test

The consequences of the Benefits/Funding Test are, subject to Applicable Legislation, as set out below.

(a) Funds Available Exceed Funds Required

If the Funds Available exceed the Funds Required the following actions are to be taken in the following order of priority and to the extent possible:

Priority	Action
1.	Reinstate any previous benefit reductions. The benefits will be reinstated for payments falling due on and after one year following the effective date of the Benefits/Funding Test.
2.	To the extent permitted by Applicable Legislation, build a contingency reserve to the level recommended by the Actuary and approved by the Pension Board.
3.	Build additional assets to the extent permitted as a carry-forward of surplus under Applicable Legislation.
4.	Subject to limits in Applicable Legislation and an amendment to the Plan text, improve the pension formula for Pensionable Service before the effective date of the Benefits/Funding Test. The improvement applies to benefits payable on and after that effective date.
5.	Subject to limits in Applicable Legislation and an amendment to the Plan text, allocate any remaining excess funds in proportion to the accrued liabilities as at the effective date of the Benefits/Funding Test and distribute them to, and only to, Members, Limited Members, Spouses in receipt of a pension, joint annuitants in receipt of a pension, and Beneficiaries of the Plan as at that date. The distribution will be made in a manner permitted by Applicable Legislation and determined by the Pension Board.

(b) Funds Available Are Less than Funds Required

If the Funds Available are less than the Funds Required the following actions are to be taken in order of priority to the extent necessary to eliminate the shortfall:

Priority	Action
1.	Reduce the level of future Indexing for Indexing adjustments occurring one year or more after the effective date of the Benefits/Funding Test.
2.	Reduce the pension formula for Pensionable Service occurring one year or more after the effective date of the Benefits/Funding Test.

If the Pension Board concludes that these measures are insufficient to eliminate the shortfall or that the benefit reductions are so severe as to threaten the Plan's ongoing viability, it will so advise the University. The University will then be required to make other amendments to the Plan to eliminate the shortfall and restore its viability, or to terminate the Plan.