Stakeholders Forum #4

Focusing on the Funding Management Strategy (FMS)
AGENDA

• Recap: How we got here
• Current Funding Management Strategy (FMS)
• Revised FMS
• Next steps
• Open discussion
Recap: How we got here
### Key Definitions / Objectives (January)

#### Defining “sustainability”
- Consistently deliver – through both favourable and adverse circumstances – an appropriate range of benefits within an acceptable range of costs and across generations.

#### Guiding principles
- Secure
- Relevant
- Affordable
- Equitable
- Simple

#### The design challenge
- Balance the “appropriate range of benefits” with the “appropriate range of costs” – without favouring one generation over another.

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*Our fundamental objective is to ensure that the Plan remains viable – and valued by its many constituents – over the next 20, 50, and even 100 years.*
1. The long-term normal cost should be less than 18% (while optimizing guaranteed benefits)

2. There should be at least a 90% chance of average contributions over the next 30 years being less than 22.6% (FMS maximum)

3. There should be no more than a 10% chance of annual contributions over the next 30 years being more than 22.6% (FMS maximum)
A FULL RANGE OF OPTIONS (NOVEMBER 2017)

- Service cap
- Survivor benefits
- Post-retirement indexing
- Non-full-time participation
- Pension formula
- CPP integration
- Early retirement
- Bridge benefit
- Accrual rate
- NRA 60 for paramedics
- Normal retirement
- Other considerations
FOCUS ON CONDITIONAL INDEXING

- Service cap
- Survivor benefits
- Post-retirement indexing
- Accrual rate
- NRA 60 for paramedics
- Normal retirement
- Bridge benefit
- CPP integration
- Early retirement
- Non-full-time participation
- Pension formula
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## CONDITIONAL INDEXING

<table>
<thead>
<tr>
<th>Current Plan</th>
<th>Draft Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Guaranteed</td>
<td>• Conditional, subject to amended funding management strategy (FMS)</td>
</tr>
<tr>
<td>• Up to 6% annually based on CPI</td>
<td>• Provided for retired members until 2025</td>
</tr>
</tbody>
</table>

**Rationale:**
- Addresses plan maturity / enhances risk management capacity
- Provides a lever to manage economic uncertainty
- Enhances potential for intergenerational equity
- Transition plan gives greater certainty for retirees in the short term
Current FMS

Discipline and Transparency

Plan for the Future
MANAGING THE HEALTH OF THE PLAN

• Two levers to manage the Plan’s long-term financial health: benefit levels and contribution rates

• Funding Management Strategy (FMS):
  • outlines how benefits and contributions will be modified (up or down) as the Plan cycles through inevitable periods of funding deficit and surplus
  • helps determine appropriate contribution and benefit levels in the short term, while reducing the risk of deficits over the longer term

Existing FMS will remain in effect for the foreseeable future while Plan stays healthy and members are receiving full indexing
FUNDING MANAGEMENT STRATEGY: A focus on discipline

Surplus management

> 110%

- Maintain the funded status at or above 110%
  - Consider benefit enhancements / lower contributions

Reserve management

100% - 110%

- Enhance the funded position to 110%
  - Use reserve to mitigate undesirable events
  - Restore benefits and stabilize contribution rates

Deficit management

< 100%

- Return the plan to a fully funded position (>100%)
  - Benefit reductions or contribution increases, if necessary
## DEFICIT MANAGEMENT <100% FUNDED

<table>
<thead>
<tr>
<th>Legislated Minimum Funding Rate (employers and members combined)</th>
<th>Benefit Impact</th>
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</thead>
<tbody>
<tr>
<td>• A total blended rate of less than 19.5%</td>
<td>• No changes to benefits</td>
</tr>
<tr>
<td>• A total blended rate of 19.5% or more but less than 21.5%</td>
<td>• Approximately 32.5% of the “new funding” above 19.5% to be met through benefit reductions until the blended contribution rates reach 21.5%</td>
</tr>
<tr>
<td>• A total blended rate of 21.5% or more but less than 22.6%</td>
<td>• Approximately 50% of the “new funding” above 21.5% to be met through benefit reductions until the blended contribution rates reach 22.6%</td>
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<tr>
<td>• A total blended rate of 22.6% or more</td>
<td>• 100% of the “new funding” above 22.6% to be met through benefit reductions</td>
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- Contribution rates at least equal to normal cost plus 2% (1% per side)
- Flexibility to reduce contribution rates if funding situation improves
# RESERVE MANAGEMENT 100% – 110% FUNDED

<table>
<thead>
<tr>
<th>Funded Status</th>
<th>Measures</th>
</tr>
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<tbody>
<tr>
<td>100% to 105%</td>
<td>• Contribution rates at normal cost plus 2% (1% per side)</td>
</tr>
<tr>
<td>105% to 110%</td>
<td>• Contribution rates at normal cost plus 1% (0.5% per side)</td>
</tr>
<tr>
<td></td>
<td>• Prospective restoration of benefits of up to 1%</td>
</tr>
<tr>
<td>110%</td>
<td>• Contribution rates at normal cost</td>
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SURPLUS MANAGEMENT >110% FUNDED

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<tr>
<td>110% +</td>
<td>1. Contribution rates at normal cost</td>
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<td>2. Prospective restoration of benefits</td>
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<tr>
<td></td>
<td>• benefits begin to accrue at ‘normal’ level</td>
</tr>
<tr>
<td></td>
<td>3. Retrospective restoration of benefits (as funding permits)</td>
</tr>
<tr>
<td></td>
<td>• past benefits restored to ‘normal’ level</td>
</tr>
<tr>
<td></td>
<td>4. Temporary contribution reductions and benefit improvement</td>
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• Retrospective restoration of benefits impacts liabilities, which impacts the funded status
• Therefore, retrospective restoration only occurs:
  • to the extent that the funded status would not be reduced below 110% following restoration
  • funded status for this purpose uses the lower of market and smoothed value of assets
WHY REVISE THE CURRENT FMS?

- Need to consider a revised FMS when looking at conditional indexing
  - Current FMS is based on guaranteed indexing only
- The revised FMS will help determine when indexing can be granted, suspended, resumed and restored based on Plan’s future funded status
- Any changes to the FMS or the adoption of any proposed Plan change would have no impact on benefits that active members accrue (earn) up to the effective date
  - Members would receive full indexing for service up to the effective date plus conditional indexing (full or partial) on the portion of service after the effective date
Revised FMS
OBJECTIVES

• Leverage the existing FMS

• Grant the maximum, sustainable level of conditional indexing wherever possible, including when the Plan is in a deficit position

• Resume full (100%) indexing as soon as the associated cost can be supported on a sustained basis

• Restore pension payments for any indexing forgone in the past (before other benefit enhancements and/or contribution decreases are considered)

• Reflect the intention of the Conditional Indexing Restoration Plan (CIRP)
1. Retirement - indexing provided
   • Indexing deemed sustainable at retirement

2. Indexing suspended (or reduced)
   • Deficit Management

3. Indexing resumes (prospective)
   • Reserve Management (i.e., 105% - 110%)

4. Pensions increased to normal level (retrospective)
   • Surplus Management (i.e., 110%)

5. Lost indexing
   • Surplus Management (before contribution reductions and/or benefit enhancements)
REVISED FMS (AUGUST – SEPTEMBER)

**Surplus management**
- Funded status: > 110%

Maintain the funded status at or above 110%
- Restore “lost indexing” payments
- May reduce contributions or enhance benefits at 115%
- No measure may reduce funded status below 110%

**Reserve management**
- Funded status: 100% - 110%

Enhance the funded position to 110%
- Resume full indexing (or highest sustainable level)
- Maintain contribution levels
- No measure may reduce funded status below 105%

**Deficit management**
- Funded status: < 100%

Return the Plan to a fully funded position (>100%)
- Provide indexing based on Plan’s health
- Benefit reductions or contribution increases, if necessary

*Note: Funded status for FMS measured reflecting ‘sustainable’ indexing*
Return the Plan to a fully funded position (>100%)

- Maximum level of indexing that can be sustained based on the FMS contribution rate (100% at the current funding rate)
- The level of indexing to be calculated as part of the valuation process/cycle
- Enhanced levels of indexing could be provided subject to “alternative” benefit reductions and/or contribution increases
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**Note:** Under the Conditional Indexing Restoration Plan (CIRP), full cost-of-living-adjustments will be granted to January 1, 2025 unless an increase in contribution rates is required.
Enhance the funded position to 110%

**Funded status: 100% - 105%**
- Any measures from Deficit Management remain in effect
- No changes to contribution or benefit levels

**Funded status: 105% - 110%**
- Prospective restoration of benefits by an amount that can be sustained, and maintains funded status at 105% or more
- Provide indexing at 100% or the highest possible level that is sustainable (and maintains funded status above 105%)
- No change to contribution rates or other benefit levels until prospective indexing is fully restored
Maintain the funded status at or above 110%

**Funded status: 110% - 115%**
- Provide indexing at 100% (to a maximum of 6% annually)
- Return pension levels to the rate they would have been had indexing been provided at 100% for the full period
- Provided the funded status does not drop below 110%
- Prospective restoration of benefits, as funding permits

**Funded status: 115%+**
- Board to consider benefit enhancements and/or further contribution rate reductions that are:
  - Determined under a formal sustainability study, and
  - Maintain the funded status at 115% or more
- Provide indexing at 100% (to an annual maximum of 6%)
- Restore value of “lost” indexing payments (or equivalent)
- No change to contribution rates or benefit levels until value of “lost” indexing benefits (or equivalent) is restored
1. Retirement - indexing provided
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Next Steps
Open discussion