Canadian Blood Services Defined Benefit Pension Plan

Funding Policy

Purpose

The purpose of this policy is to outline the principles that will guide the Board of Trustees (the Trustees) of the CBS Defined Benefit Pension Plan (the Plan) and its Actuary in making funding decisions about the Plan in order to accumulate the funds needed to fulfil the Plan's obligations to the members and beneficiaries, whether the Plan continues or is wound up.

Background

The Plan is a defined benefit plan, jointly sponsored by CBS and participating unions. It is funded by employees and CBS as per a cost-sharing agreement, spelled out in the Plan text, according to which the contribution rates paid by CBS and employees fluctuate with the financial position of the Plan. As such, the Plan is a jointly sponsored pension plan (JSPP), as defined in the Ontario Pension Benefits Act (the Act).

Because of its status as a JSPP, the governance of the Plan is shared by the Plan Sponsors (CBS and the participating unions). Generally, it is the role of the Sponsors to adopt and review governance policies, including this one and the Plan's investment policy. However, in practice, these decisions have been delegated to the Trustees by the Sponsors.

The historical contribution rates to the date of this document are as follows:

		Contribution rate, as % of pensionable pay		
Start Date	End Date	Members	CBS	Total
Sept. 28, 1998	Dec. 31, 2000	4.00%[1]	6.75%	10.75%
Jan. 1, 2001	Feb. 28, 2003	4.75%	6.75%	11.50%
Mar. 1, 2003	Dec. 31, 2008	5.00%	7.00%	12.00%
Jan. 1, 2009	Dec. 31, 2011	5.15%	7.15%	12.30%
Jan. 1, 2012	-	5.90%	7.90%	13.80%

Pensions from the Plan are payable at age 65 on an unreduced basis. They are calculated as 2.0% of a member's best 5-year average earnings, multiplied by pensionable service before November 1, 1997, plus 1.6% of a member's best 5-year average earnings, multiplied by pensionable service from November 1, 1997. After retirement, pensions are indexed annually to reflect 75% of the increase in the Consumer Price index above 2% (maximum 5.5%).

The Plan is not yet mature. As at the last actuarial valuation for funding purposes as of December 31, 2013, membership was composed of 3,176 active and deferred vested members

[1] Members benefited from a 0.75% temporary partial contribution holiday.

as compared to only 491 pensioners. At that date, only 26% of the Plan's going-concern liability was with respect to pensioners. This proportion is expected to rise substantially over the next 5 to 10 years, as the Plan matures.

The Plan's investment policy is documented in a Statement of Investment Policies and Procedures (SIPP). The asset mix adopted by the Trustees and documented in the SIPP targets 54% of assets invested in equity, 40% invested in fixed income, and 6% in real estate.

Principles Underlying Funding Policy

Given the risk profile of the Plan described in the above Background, the Trustees have developed this policy, building on the following principles:

1. The most important consideration in all funding decisions is the protection of the members' promised benefits;

2. Funding should aim at building and maintaining a cushion against future adverse deviations; and

3. Another objective is stability of the contribution rates.

All Plan funding decisions should be made bearing these principles in mind.

Compliance with Legislation

The Trustees will comply with all applicable laws and regulatory requirements. An actuarial valuation for funding purposes must be filed with the regulatory authorities at least triennially, or more often when required.

All CBS and member contributions to the Plan must be based on the funding valuation last filed with the regulatory authorities and conform to regulatory requirements and contribution limits specified in the Income Tax Act. As described below, the contribution rates may be changed during the period between valuations in some cases, provided that the revised contributions remain within the range of permitted contributions shown in the most recent valuation report.

Beginning in 2013, the Plan is exempt from mandatory funding on a solvency basis, as permitted for JSPPs under the Act. Therefore, minimum funding requirements due to legislation will be related to going-concern valuation results only.

Compliance with Plan Provisions

The Trustees will comply with the provisions of the Plan. In particular,

1. As per Section 3.4(a) of the Plan text, at each Actuarial Valuation Date, as part of the funding valuation process, the Trustees, in consultation with the Actuary, shall determine the member and employer contribution rates to be applied for the period to the next Actuarial Valuation Date.
2. Notwithstanding the above, as per Section 3.4(e), and as explained below, these rates must be reviewed on an annual basis, and may be revised before the filing of the next actuarial valuation report.
3. The plan is considered to be in a surplus position when the actuarial value of assets exceeds 102% of the plan's going-concern liabilities; an amount equal to 2% of the plan's going-concern liabilities must be kept as a margin against future contingencies.
4. In accordance with Section 3.5(b) of the Plan, surplus may be used at the discretion of the Trustees to improve benefits or grant contribution holidays, or it may be kept in the pension fund as a margin against adverse deviation. As per Section 3.6, unused surplus which has not been agreed to be kept as a margin shall be split in two halves and allocated to a Member Surplus Account and an Employer Surplus Account, to be used respectively by members or CBS.

Primary risks faced by the Plan

The Plan faces a number of risks, which could increase contribution volatility, and/or ultimately affect its ability to pay the promised level of benefits. The following are the most significant of these risks:

- *Poor investment performance*: To the extent that the Plan's investments do not generate investment earnings at the level expected, additional contributions may be required to make up the shortfall.
- *Asset/liability mismatch*: The Plan's liabilities, particularly on a wind-up basis, are affected by changes in market interest rates in a similar way as a bond portfolio. To the extent that the pension fund is invested in assets other than bonds with a duration matching that of the Plan's liabilities, changes in interest rates will cause volatility in the funded position.
- *Intergenerational equity*: As the plan matures, a much greater proportion of the liabilities will be related to inactive members (primarily retirees). Deficits developing, which may be related in large part to these retirees' growing liabilities, must then be funded in part by a shrinking proportion of active members.
- *Experience differing from assumptions*: Over time, actual Plan experience will differ from the valuation assumptions, sometimes significantly. For example, increases in inflation or longer life expectancy could raise the cost of the Plan.

- *Changes in legislation or actuarial standards*: Changes in legislation or actuarial standards may suddenly increase the liabilities of the Plan and require additional funding.
- *Affordability*: As the cost of the Plan rises, it may become difficult for members and/or Canadian Blood Services to make the contributions necessary to fund the Plan in accordance with the valuation results and this policy. Ultimately, unaffordable contribution rates could lead to a reduction of benefits.

While the risks above may become significant over time, they can be mitigated through prudent benefit, investment and funding policies.

It should also be noted that since the Plan is a JSPP, Ontario members are not covered by the Pension Benefits Guarantee Fund in case of wind-up with insufficient assets to cover benefits. This puts Ontario members in the same situation as members from other jurisdictions; should the Plan be wound up in a deficit position, members could suffer a reduction of benefits.

Policy

Funding Target

The funding target for the Plan is to have a funding ratio of at least 100% on a going-concern basis. When the funding target is not met, special payments will be made in accordance with the *Contributions* sub-section of this policy.

Actuarial valuation basis – Going-concern basis

In performing the actuarial valuation of the going-concern position of the Plan, the Actuary shall use assumptions that are mutually acceptable to the Actuary and the Trustees. The assumptions should be the Actuary's best estimate of the contingencies which may impact the financial position of the Plan, adjusted for an appropriate margin for adverse deviations. Such margin shall meet the requirements of the Trustees' funding policy, as described below.

In order to provide the desired level of benefit security while allowing for some flexibility to vary contribution rates, the margin to be included in the discount rate should be within the range of 0.4% – 0.9%[2]. The actual selected margin will consider other factors such as asset smoothing and the Plan's hypothetical wind-up position.

The margin described above assumes that all other valuation assumptions are best estimates, based on economic and demographic factors and Plan experience. To the extent possible, the margin for adverse deviations is to be included in the discount rate only. Should other assumptions not be established as best estimate assumptions, the liability and current service cost calculated using the valuation basis shall be equivalent to those arrived at by applying a margin, within the range described above, only to the discount rate.

[2] Range for margin for adverse deviation determined based on the Plan's target asset mix as of adoption of this policy.

Assets shall be valued at their market value on the valuation date, adjusted to smooth out short-term market fluctuations. In order to provide for the desired level of benefit security while ensuring that the adjusted market value is within a reasonable range of the actual market value, the adjusted market value shall be constrained to fall within 90% – 105% of the market value.

The accrued benefit actuarial cost method with projected salaries shall be the going-concern actuarial cost method.

Actuarial valuation basis – Solvency basis

As a JSPP, the Plan is exempt from mandatory funding on a solvency basis.

Actuarial valuation basis – Wind-up basis

Funding of the hypothetical wind-up basis is not required by the Act. Nonetheless, as part of the funding valuation process, the Actuary will disclose the financial position of the Plan on a wind-up basis. This basis will be determined by the Actuary, in accordance with applicable actuarial standards.

Contributions

In accordance with pension plan legislation, contributions must be calculated and remitted to the Plan monthly based on the Actuary's recommendation included in the most recently filed actuarial valuation report. The Actuary's recommendation will specify the range of contributions acceptable to the Financial Services Commission of Ontario and the Canada Revenue Agency. The Trustees will select the contribution rates from this range, taking into consideration the following guidelines:

- Under provincial legislation, any going-concern deficit (i.e. funding ratio below 100%) must be liquidated by additional contributions over a period of 15 years or less. Given the long-term nature of the Plan and the going-concern valuation basis, the Trustees will set contribution rates in accordance with this minimum funding requirement.

- For an ongoing pension plan, there is no legislative requirement to fund on a wind-up basis. Given the long-term nature of the Plan and the margin for adverse deviation built into the going-concern discount rate, no additional funding shall be made in respect of any hypothetical wind-up or solvency funding deficiency.

Annual Review of Contribution Rates

In accordance with the Plan text, the Actuary must annually review the funded status of the Plan and modify this recommendation if it is no longer appropriate. This might involve recommending that a new actuarial valuation be filed if it is perceived that the Actuary's contribution recommendation from the most recently filed valuation is no longer suitable to the Plan's funding situation. Upon the Actuary's recommendation, the Trustees must determine if action needs to be taken and determine the member and employer contribution rates for each year.

The following is a guideline to assist the Trustees in setting the member and employer contribution rates for inter-valuation periods for the various possible financial positions of the Plan.

Significant deterioration of financial position
If the estimated financial position of the Plan has deteriorated significantly since the most recently filed actuarial valuation, the Trustees may consider increasing the contribution rates if permitted as per the most recently filed actuarial valuation (for instance, if plan members and/or CBS were benefiting from a contribution holiday or partial contribution holiday), or filing a new actuarial valuation. For this purpose, a significant deterioration of the financial position of the Plan would be characterised by an expected increase in the total contribution rate by 2% of pay or more, if a new actuarial valuation were to be performed. However, depending on the circumstances, and given the long-term view in funding the Plan, the Trustees may choose to defer any increase in contributions until the next actuarial valuation required by legislation.

Immaterial change of financial position
If the estimated financial position of the Plan has not changed significantly since the most recently filed actuarial valuation, the Trustees should maintain contribution levels in accordance with the most recently filed actuarial valuation.

Significant improvement of financial position
If the estimated financial position of the Plan has improved significantly since the most recently filed actuarial valuation, the Trustees may consider decreasing the contribution rates if permitted by the most recently filed actuarial valuation, or filing a new actuarial valuation, to the extent that the funding target described above is exceeded. A significant improvement of the financial position of the Plan can be represented by an expected decrease of the Plan's total contribution rate by 2% of pay or more, if a new actuarial valuation were to be prepared.

Use of Surplus

If funding surplus develops in the Plan, the Trustees may decide how it is to be used. There are three options available:

1) Retention of surplus as a provision against adverse deviations, subject to *Income Tax Act* requirements,
2) Improvement of benefits[3], and
3) Contribution holiday for Members and/or CBS

[3] Benefit improvements may be granted at the discretion of the Trustees, in accordance with the Plan provisions, if this does not cause the total contribution rate to exceed 11.5%. These benefits may include ad hoc pension increases beyond the level of indexation automatically provided by the Plan.

For purposes of this policy, "surplus" is defined as any Plan assets above those required to cover:

- 110% of the Plan's going concern liabilities, and
- 100% of the Plan's hypothetical wind-up liabilities

as per the most recent actuarial valuation of the Plan. In other words, the first 10% of funding excess on a going concern basis is kept in the pension fund as a provision for adverse deviation.

It is understood that benefit improvements and contribution holidays would typically be granted only to the extent that they do not cause the surplus to fall below the above funding levels.

Communication

This policy is available to Plan members on request.

Policy Amendment

This policy shall serve the Trustees as a guideline only. It shall not prevent the Trustees from making decisions that differ from this policy when the Trustees consider this appropriate.

This policy shall be periodically reviewed by the Trustees. It may be amended from time to time as deemed appropriate by the Trustees. It will also be reviewed if there has been a material (as determined by the Trustees) change in one or more of the following:

- the demographic characteristics of the Plan's beneficiaries
- the minimum funding requirements under applicable pension legislation
- the financial position of the Plan
- the terms of the plan documents
- the financial position of CBS

Amended and approved by the Trustees on September 7, 2016.