

THE PENSION PLAN OF THE UNITED CHURCH OF CANADA

FUNDING POLICY

INTRODUCTION

The Pension Plan of The United Church of Canada (the "Plan") is a multi-employer pension plan maintained for the benefit of eligible employees of Participating Employers. The Executive of the General Council (the "Executive") is the Administrator ("Administrator") pursuant to the Pension Benefits Act (Ontario) and has established the Pension Board ("Board") to support the Executive in governing, managing and operating the Plan and the Fund (i.e., the assets of the Plan) as set out below. The Executive continues to be responsible for overseeing all aspects of the Plan and the Fund.

One of the documents which the Board has established in support of the Plan's goals is the Funding Policy (the "Policy").

PURPOSE

The purpose of the Funding Policy is to:

- promote the long-term security of accrued benefits;
- allow for stable and predictable contributions from Participating Employers and members;
- provide guidelines for a buffer against future adverse events.

The Policy will:

1. Guide decisions of the Board and all its delegates concerning Plan funding and contribution and benefit levels, based on principles in the Statement of Beliefs and Guiding Principles (the "Statement") including:
 - The Administrator and all its delegates must be guided by what is in the best interest of the Plan members in all investment and administrative activity. In matters relating to Plan design and funding, the broader interest of the Church and Participating Employers (including, without limitation, their financial circumstances) should also be considered.
 - The Administrator and all its delegates should strive to maintain stable contribution levels that should not exceed the current levels (6% employee and 9% employer contributions).
 - The Administrator and all its delegates should strive to provide a retirement income from the Plan which generally maintains its real value over the long-term subject to available funding and to the provisions of the Funding Policy
 - Funding levels must ensure a high level of certainty regarding the security of benefits under the Plan.
 - Equity among the membership generations is desirable in terms of contribution levels and allocation of surplus to fund future benefit upgrades or Plan improvements.

2. Articulate such guidance through clearly defined steps, to communicate with all stakeholders, particularly Plan members and their beneficiaries; and
3. Promote good governance of the Plan and the Fund, including compliance with all applicable legislation and documentation. Within the context of Plan funding, this means maintaining sufficient funding of the Plan, in concert with benefit levels deemed by the Board to be appropriate and sustainable in the long term. This is a particular issue for multi-employer plans, as benefit levels may be decreased if the level of contributions is deemed inadequate and increasing contributions is not feasible.

The Board and all its delegates recognize the prudence of keeping the Plan solvent and fully funded.

PLAN OVERVIEW

The Plan is a career average earnings, multi-employer, contributory pension plan with contributions currently set at 9% for employers and 6% for employees. The Plan has no provision for automatic indexation but is prudently managed with the goal of providing benefit improvements to active and inactive members, without jeopardizing the future health of the Plan and striving to maintain intergenerational equity among Plan members. The Plan has a strong governance structure with most responsibilities delegated to the Pension Board and its standing committees, the Pension Plan Advisory Committee and the Investment Committee, and pension management activities performed by UCC Staff.

POLICY REVIEW

The Policy is a living document and should be reviewed for applicability under various economic conditions and Plan situations such as a significant change in asset performance or mix or changes in the beliefs and guiding principles or Plan design, with the over-riding goal of Plan sustainability. In any event, it should be reviewed periodically, typically every three to five years.

FUNDING RISKS

The key funding risks which may potentially affect the security of benefits or future funding requirements may be broadly categorized as follows:

Risk Area	Description
Investment risk	Risk of investment returns being lower than assumed resulting in under funding of the Plan. This includes the impact of external macro factors such as global pandemics, climate change and environmental risks.
Mismatch of plan's asset and liability	The Plan's liabilities, particularly on a solvency basis, are affected by changes in market interest rates. To the extent there is a mismatch between the interest rate sensitivity of assets relative to the liabilities, changes in interest rates will cause volatility in the Plan's funded position

Risk Area	Description
Demographic risks, including longevity	Demographic risk factors for the plan include the general characteristics of the plan's population, such as members' age, sex, marital status, expected longevity, salary progression rates, termination rates and early retirement rates. These variables directly impact the projected pension liability and, over the short term, there is a risk that the plan's demographic experience varies from the assumptions. While demographic factors generally evolve slowly, they are important drivers of long-term plan funding risk, particularly long-term longevity factors. If members live longer than expected, this could result in shortfalls in plan funding.
Inflation risk	Inflation risk is not significant as there is no built-in provision in the plan to provide inflation-adjusted benefits. Ad hoc inflation adjustments are granted from time to time when affordable.
Plan maturity	For a plan with a high proportion of inactive members, adverse experience may translate into contribution volatility when expressed as a % of payroll

RISK APPETITE_

The Board aims to fund the Plan in such a way as to provide stable and predictable contributions from Participating Employers and members within the Enterprise Risk Management (ERM) Pension Framework, as reviewed and updated from time to time.

FUNDING VOLATILITY and MANAGEMENT/MITIGATION of RISKS_

The Board periodically reviews the volatility of the Plan's funded position and the potential impact of different risk factors on the funding requirements for the Plan, based on potential future outcomes. Specifically:

1. The Board has an established practice of conducting asset liability management (ALM) studies as needed. The ALM provides an assessment of the Plan's asset mix in relation to the liability structure. The study is also used to validate decisions relating to the allocation of the Plan's assets and illustrates the impact of different scenarios on the Plan's funding requirements.
2. The mortality and longevity risks, as well as any other demographic risks may be measured by performing experience studies as appropriate.
3. The estimated funded status of the Plan on a going concern and solvency basis is reviewed on a regular basis by the Plan actuary.
4. Sensitivity testing of the funded position is performed on a regular basis by the Plan actuary and is included in the actuarial valuation report and other reporting to the Board and its delegates.

ACTUARIAL VALUATIONS

1. Actuarial valuations will be conducted at least every three years to comply with legislation or regulatory requirements or if the Administrator deems it to be warranted. Whenever an actuarial valuation is conducted, consideration should be given to undertaking an asset liability management study and/or experience study.
2. The selection of actuarial methods and assumptions underlying ad-hoc actuarial studies and other actuarial funding valuations should be consistent with the dual goals of targeting stable contribution rates for Plan members and Participating Employers while, at the same time, striving to ensure that assets remain sufficient to fund the Plan.
3. In selecting actuarial assumptions and methods, it should be assumed that the Plan will remain a Going Concern.
4. The modified aggregate cost method and other appropriate methods may be used for the actuarial valuation of the Plan with a goal of ensuring stability of contributions.
5. Smoothing methods may be applied, with a smoothing period as permitted by legislation.
6. Actuarial assumptions will be best estimate assumptions, with an appropriate margin for adverse future deviations in experience. The discount rate is based on the long-term strategic asset mix as set out in the Statement of Investment Policies and Procedures ("SIPP") and the long-term expected passive returns recommended by the external actuary. The discount rate may include margin, based on the recommendation of the actuary, in addition to the explicit Provision for Adverse Deviation (PfAD) required by legislation. This additional margin, if any, may be used to protect the Plan in high volatility and uncertain market environments.
7. Actuarial valuation results for ad-hoc actuarial studies could include projections of funded status beyond the date of the actuarial valuation to permit a review of medium to long term funding.

MANAGING FUNDING LEVELS

Making a decision on the level of reserves to hold in a pension plan is partly science and partly art. If there are medium/long-term improvements in funding which are perceived to be sustainable, benefit improvements and/or future contribution reductions may be considered.

Guidelines include:

1. The Administrator should strive for a minimum funding “buffer” against adverse experience before allowing for possible benefit improvements and/or contribution reductions.

The buffer should be determined, using the actuarial bases employed in the Plan’s most recent funding actuarial valuation report. The minimum buffer should be reviewed periodically in light of such factors as intergenerational equity, changes in funding regulations, maturity of the Plan, and market conditions.

2. The buffer required before benefit improvements can be considered is such that:
 - (i) Solvency Assets must be at least equal to Solvency Liabilities, and
 - (ii) As measured on a going concern basis that considers both past and future service, there should be a Going Concern Funding Excess of at least 15% of the sum of the Going Concern Liabilities and the provision for adverse deviation in respect of the Going Concern Liabilities.
3. To the extent that any benefit improvements are granted, the conditions in 2 (i) and 2 (ii) must generally be maintained, subject to the Board’s review of the prevailing environment at the time the benefit improvement is contemplated.
4. Future contributions should generally cover the cost of future benefit accruals.
5. After taking a holistic view of the Plan’s current and projected future financial status, future contribution reductions may be considered, instead of or in addition to benefit improvements. Intergenerational equity and the impact on the various groups of Plan members (e.g. employees and retirees) should be considered as part of any recommendation.

Benefit improvements may be implemented in respect of either or both of past service and future service occurring after the effective date of the improvements.

At all times, Plan benefit and contribution levels must be developed and maintained in compliance with applicable legislation and regulatory requirements, including any prescribed limits thereof.

ANNUAL CONSIDERATION OF BENEFIT IMPROVEMENTS

1. In the first quarter of each year, staff should obtain estimated funded positions at December 31 of the prior year on going concern and solvency bases.
2. Typically, in the Spring of each year, the Pension Plan Advisory Committee (“PPAC”) should consider benefit improvements based on funded positions determined as at December 31st of the prior year. Market activity from year-end and forward-looking scenario testing should be incorporated into the decision-making process.
3. PPAC will provide a preliminary recommendation with respect to a potential benefit improvement, to the Board at its June meeting.

If based on preliminary valuation results, a benefit improvement is being considered,

4. In valuation years, PPAC should review final valuation results at its September meeting, or earlier, before formulating a recommendation to the Board with respect to a possible benefit improvement.
5. The recommendation in favour of a benefit improvement should be presented to the Board for consideration at the October Board meeting.
6. If a benefit improvement is approved by the Board, staff will begin implementation following the October Board meeting, for an effective date of January 1 of the following year.

UTILIZATION OF FUNDING EXCESS/PAYMENT OF FUNDING DEFICIENCIES

A portion of the funding excess is generally used to improve benefits as stated in this Funding Policy, subject to the buffer and various thresholds established herein.

In the event of a Plan deficiency that needs to be funded (i.e., if the going-concern position is below 100% without the additional margin or the solvency position is below 85%), the Administrator would use the current fixed contributions of 9%/6% to cover both the current service cost and the special payments required. This may lead to a temporary reduction of future benefit accruals under the Plan.

ADDITIONAL CONSIDERATIONS

1. If there are short-term concerns with Plan funding, contribution and benefit levels should remain unchanged. No benefit improvements should be granted until the funding concerns have been addressed.
2. If there are medium/long term concerns with funding, consideration should be given to undertaking an ad-hoc actuarial study to determine what, if any, changes might be required to benefit levels, contribution rates and/or investment policy. Such actuarial study shall include scenario testing (“stress tests”) reflecting potential expectations with respect to future economic and demographic environments. Changes to benefit levels and/or contribution rates should consider intergenerational equity among Plan members.
3. In the event that an actuarial valuation indicates that a continuation of current contribution levels is inadequate to satisfy legislative or regulatory requirements, benefit accrual reductions for future service and/or contribution increases will be considered unless an alternative solution can be determined and implemented before any applicable deadline.

4. As a multi-employer pension plan, subject to applicable pension laws and the Plan terms, benefits accrued for past service may be reduced if the Board determines it necessary to do so. That said, applicable pension laws with respect to reduction of past service benefits vary from jurisdiction to jurisdiction. Given the practical challenges to evenly reducing past service benefits for all members, past service benefit reductions are not perceived to be a readily available option to address funding concerns.

Certain unforeseen or unusual economic events or demographic changes may require the Board to deviate from the Funding Policy in order to act in the best interests of Plan members and other beneficiaries.

COMMUNICATION POLICY

The Funding Policy is available to all Plan members and Participating Employers.

GLOSSARY

Word/Term	Description
Asset Mix	“Cash and equivalents” include cash on hand and investments securities that are meant for short-term investing; they have high credit quality and are highly liquid. The description generally includes treasury bills, short term notes and bankers’ acceptances, term deposits, and guaranteed investment certificates having a term of one year or less. “Fixed Income” investments generally pay a return on a fixed schedule, though the amount of the payments can vary. The description includes debt instruments of corporations, governments, agencies, including real return bonds, asset and mortgage-backed securities and private debt. “Equities” are pieces of a company or physical assets. When you buy shares of a company or invest in a real estate or infrastructure fund, you're purchasing an ownership interest in that company or part of an asset. The description includes in publicly traded equity instruments, private equity, and Infrastructure.
Board	The Board or Pension Board is comprised of individuals appointed by the General Council Executive to perform certain oversight functions associated with the Plan.
Fund	The assets of the Plan including assets received from prior funds and investment income and contributions remitted by members and Participating Employers.
Going Concern	Going concern means “continuing”. Going-concern liabilities represent the expected cost of the promised pension benefits based on the assumption that the Plan is continuing. The terms Going Concern Liabilities and Going Concern Funding Excess as used herein refer to concepts appearing in the most recent funding actuarial report for the Plan.
Plan	The Pension Plan of The United Church of Canada.
Participating Employers	Administrative employers, conditional employers, organizational employers and/or community of faith employers who are required to or have elected to participate in the Plan.

Plan Solvency	Funding actuarial reports determine the Plan's financial position and contribution requirements on a Solvency basis, in addition to the Going Concern basis, in accordance with legislative and regulatory requirements. "Solvency" results are based on the assumption that the Plan is winding up or closing (in contrast to the assumption that the Plan is continuing to operate or remaining a "Going Concern"). The terms Solvency Assets and Solvency Liabilities as used herein are as defined under the Ontario Pension Benefits Act and Regulations thereunder.
---------------	---