

Funding for the Retired Benefit Account

The Retired Benefit Account (RBA) holds the pension annuity commitments made to retirees prior to July 2003 when a member had the option to elect to receive a pension from the Plan. The pensions negotiated with retirees (prior to July 2003) were based upon factors such as form of benefits, age (and therefore life expectancy of the applicant), as well as the assumption of a continuous 7% return on the amount of money being paid by the applicant in return for a negotiated pension.

Under the Alberta Legislation (where the plan is registered), a defined benefit pension plan must be periodically monitored in order to ensure that it is properly funded. This is done through an actuarial valuation every three years. If the actuarial valuation indicates that the assets in the Retired Benefit Account are sufficient (basis the actuarial assumptions) to meet the commitments to pensioners, the pension plan is assumed to be sound for the next three years. If an actuarial valuation indicates that the Pension Plan does not have sufficient assets to meet its obligations (basis the actuarial assumptions), then two things happen:

- participating employers are required to increase their contributions to the pension plan to deal with the deficiency over a prescribed period of time, and
- actuarial valuations must be completed on an annual basis until the unfunded liability and insolvency deficiency is eliminated.

A pension plan's ability to pay a pension promised to a pensioner can be impacted by:

- market gains and losses on investments;
- changes to actuarial assumptions such as life expectancies applicable to the persons receiving pensions;
- mortality rates amongst those receiving pensions (lower than expected mortality will have a negative effect on the obligations of the pension plan); and
- fluctuations in interest rate (with increases in interest rates over rates in effect at the time a pension was negotiated with a retiree having a positive impact, and decreases in interest rates having a negative impact).

The equity market suffered significant losses in 2001 and 2002. Investments in the RBA suffered as a result of this (as did many other pension plans which had invested assets on a diversified basis). From 2003 to 2007, the RBA has realized strong positive investment returns. Notwithstanding these gains, the funded status of the RBA has not completely recovered from the equity market decline a few years ago, due in part to historically low long term interest rates.

A review of the investment strategy was undertaken in 2007 and it was decided to move to a more conservative portfolio and minimize market volatility impacting the RBA. An investment manager was hired to provide an immunized portfolio, where the duration and expected returns on the assets (investments) will match those of the liabilities (pension commitments). This strategy virtually eliminates the future market risk of the plan and provides certainty to the supplemental funding period required to eliminate the unfunded liability.