

2022 Plan Review

Determinations of Public Service Superannuation Plan Trustee Inc.

The Board of Public Service Superannuation Plan Trustee Inc. (Trustee) has given substantial attention over the past months to the 2022 Plan Review report and the 31 recommendations set out therein. Periodic comprehensive review of the Public Service Superannuation Plan (PSSP or Plan) by an expert external party (Plan Reviewer) is mandated by the *Public Service Superannuation Act* (PSSA). The Trustee's determinations on the report's 31 recommendations are set out below.

The Trustee will be proceeding with implementation of the recommendations on which it has decided to act at this time. Further communications can be anticipated regarding those recommendations as implementation plans unfold.

The Trustee wishes to thank those Plan members and stakeholders who made submissions, the Plan Reviewer, and all who supported the review process from its commencement more than a year ago.

Recommendation #1: In alignment with CAPSA Guideline #7, the Board should formally assess and document their funding and benefit objectives. This will consider and prioritize maintaining a fully funded plan, their approach to the delivery of indexing in retirement, the level and stability of required contributions, and the desire to maintain other Plan benefits.

The Trustee has created a funding philosophy to help guide it when making future decisions or recommendations regarding Plan funding and benefits. The Trustee recognizes the importance of maintaining a fully funded Plan to support the delivery of indexing in retirement while maintaining other Plan benefits and keeping contribution levels stable.

Recommendation #2: The Trustee should complete another stochastic modeling exercise which reflects the current economic environment. This will recognize the funding and benefit objectives established by the Board per Recommendation #1. The Trustee should also assess the likelihood of required benefit reductions and the level of benefit reductions that would be required. Additionally, in considering the Plan's main risks, the Trustee should assess the impact associated with a prolonged period of low interest rates. This may be measured by assuming bond yields remain at current levels, both in the asset and liability modeling of the stochastic exercise.

The Trustee directed the Plan's actuary to review existing modelling and complete additional modelling, which the Trustee has deemed appropriate in assessing the recommendations of the 2022 Plan Review Report.

Recommendation #3: Based on the current terms of the funding policy, no changes should be made to the timing of Funded Health reviews or to the timing of benefit or contribution changes resulting from Funded Health reviews. Any change to the operation of the funding policy considered by the Board should add conservatism.

The Trustee, at this time, is not making any changes regarding the frequency of the Plan's funded health reviews or the operation of the Plan's funding policy.

Recommendation #4: The Board should establish an Assumptions Policy. This policy would document the approach on the manner in which actuarial assumptions are set, the frequency of experience studies, the approach to the inclusion of any margin for adverse deviations, and whether assumptions differ for funding valuations and Plan financial reporting purposes. This would also support recommended documentation under CAPSA Guideline #7 relating to Funding Policies.

The Trustee has directed the Board's Audit, Actuarial and Risk Committee to assess this recommendation and report whether it considers action to be required.

Recommendation #5: The Board should consider the benefits of performing experience studies on termination, mortality, the demographic elements of salary, and retirement over the next five years. A review of certain Plan termination and retirement provisions would be supported by these experience studies and may be considered priorities.

The Trustee has directed the Board's Audit, Actuarial and Risk Committee to assess this recommendation and report whether it considers action to be required.

Recommendation #6: The Board should endeavour to increase the funding excess. The level of excess would be derived from its long-term goals that we recommend the Board establish as part of the Plan's funding policy. It would also be considered in conjunction with our recommendation on CPP integration, per Recommendation #9.

The Trustee continues to agree that increasing the Plan's funding excess remains a high priority.

Recommendation #7: Following any changes in benefit provisions the Board makes based on our recommendations, the CPP-integrated contribution rates should be re-determined. This would recognize the relative value of accruing service, as represented by the current service cost determined in the Plan's funding valuation, on earnings above and below the YAMPE.

The Trustee is not taking any action on this recommendation at this time.

Recommendation #8: The Trustee should decide on whether the Plan will be amended to integrate with enhanced CPP or if it will not. The decision should consider the impact on the Trustee's funding and benefit objectives established in accordance with Recommendation #1.

The Trustee is not taking any action on this recommendation at this time.

Recommendation #9: The Plan should be integrated with enhanced CPP. Benefits will be integrated on a prospective basis for future service with an accrual rate of 1.1% of average earnings up to the YAMPE and 2.0% of average earnings above the YAMPE. This would naturally mean the Plan's bridging benefit payable to age 65 will be increased to 0.9% of average earnings up to the YAMPE for future service. Total contributions to the Plan should be unchanged. This approach should be assessed stochastically and

measured against the Trustee's funding and benefit objectives that we have recommended they establish in accordance with Recommendation #1.

The Trustee is not taking any action on this recommendation at this time.

Recommendation #10: The Board should change the part-time eligibility criteria to 35% of the full-time equivalent working hours. The Board should consider amending the Plan to explicitly include definitions of casual, seasonal, or other non-full-time employees and extending membership eligibility criteria to those classes of employees, subject to the Board's assessment, following a consultation with the Plan Administrator, of the risk of undue administrative burden. For casual and seasonal employees, meeting the thresholds over a two-year period would be consistent with PBA criteria and require some continuity in employment.

The Trustee considers the Plan to appropriately accommodate less-than-full-time work arrangements and is not taking any action on this recommendation at this time.

Recommendation #11: The Board should assess the financial impact of introducing immediate vesting. This should reflect the recommended termination experience study and the recommended change in retirement criteria (Recommendation #13).

The Board has assessed the financial impact of introducing immediate vesting and is not taking any action on this recommendation at this time.

Recommendation #12: The Board should assess the actuarial basis used for the determination of commuted values. This would compare amounts available to terminating members, consider tax implications, and the impact on Plan funding.

The Trustee has directed the Board's Audit, Actuarial and Risk Committee to assess this recommendation and report whether it considers action to be required.

Recommendation #13: The Board should increase the service criteria for unreduced retirement at age 60 to, at a minimum, 10 years of service. This change can be made on a prospective basis, such that the reduction applies to future service accruals only. We would also support the Board should they wish to apply this change in respect of prior service, in the context of supporting broader Plan goals and objectives developed under Recommendation #1 and/or based on their further assessment of benefit utilization and consultations under Recommendation #14. Each approach would consider appropriate communication and notification of the change to Plan members.

The Trustee is not taking any action on this recommendation at this time.

Recommendation #14: The Board should formally assess the importance and value of the Plan's current early unreduced retirement criteria amongst its membership. This would cover a variety of employee groups, and could include alternative designs to continue to provide flexibility to its members in setting retirement plans. In evaluating the benefits of such a change, the Board would consider how such a change

impacts its goals around other benefits, such as the expected level of future indexing and, from an inter-generational equity perspective, the expected timing and affected service of these changes.

The Trustee is not taking any action on this recommendation at this time.

Recommendation #15: The Board should eliminate the 35-year cap on accrual of pensionable service for members who have not yet reached the cap.

The Trustee accepts this recommendation and will eliminate the 35-year cap on accrual of pensionable service for all Plan members who are actively employed by a participating employer on or after April 1, 2026 and who are contributing to the Plan or would be contributing to the Plan had they not reached the 35-year cap. For any Plan member who is actively employed by a participating employer on or after April 1, 2026 and who would be contributing to the Plan had they not reached the 35-year cap, that member shall: (1) resume accruing pensionable service and the member and the member's employer shall resume making contributions to the Plan; and (2) have the opportunity to purchase, under the applicable purchase of prior service rules, any pensionable service in excess of 35 years that the member would have, therefore, accrued before April 1, 2026.

Recommendation #16: The Board should consider introducing optional forms of pension to allow members greater flexibility in tailoring their retirement benefits to their own personal circumstance. Optional forms should be determined on a basis that is neutral to the Plan's funding and provides a manageable number of choices, such as no more than five options.

The Trustee accepts this recommendation regarding the introduction of optional forms of pension and is prepared to proceed to offer options for members with spouses who retire on or after April 1, 2024. It is anticipated the options will include survivor pensions at 75% and 100% of the member's pension, guaranteed for 15 years, with appropriate actuarial reductions of the payment amounts for each option. The current survivor pension of 100% of the member's pension, guaranteed for 5 years, with no actuarial reduction of the payment amount, would also be maintained.

Recommendation #17: The Board should amend the small amount unlocking threshold consistent with pension benefits legislation.

The Trustee is not taking any action on this recommendation at this time. Small amounts are already easily accessed by non-vested terminated members, and vested terminated members are permitted to access their funds until the time they are immediately entitled to receive a reduced or unreduced pension.

Recommendation #18: The Board should consider adding unlocking options consistent with pension benefits legislation of those provinces which provide both shortened life-expectancy and non- resident unlocking.

The Trustee is not taking any action on this recommendation at this time.

Recommendation #19: The Board should amend the Act to explicitly provide for deductions authorized by members for repayment of overpayments and consider the ability to deduct overpayments after notice and reasonable opportunity for members to respond.

The Trustee is not taking any action on this recommendation at this time. A detailed process is already in place regarding recovery of overpayments.

Recommendation #20: The Plan should allow designation of a post-retirement spouse in any optional forms that are available and establish procedures for members to provide direction to the Administrator.

The Trustee will provide for designation of a spouse at the time of retirement in any optional forms that are available and establish procedures for members to provide direction to the Administrator. As such, the plan text will be amended accordingly, on a go-forward basis effective April 1, 2024, removing any provision of a spousal survivor pension for a person who was not a spouse at the time of retirement.

Recommendation #21: The Board should amend the Plan text to allow for division of benefits by separation agreement.

The Trustee is not taking any action on this recommendation at this time. The Trustee will maintain the existing procedure of requiring a final divorce decree or corollary relief order in determining pension allocation in the circumstances of a marital breakdown.

Recommendation #22: The Board should consider the option of allowing former spouses to receive a pension in accordance with an agreement or court order while maintaining the option of immediate payout in accordance with such agreement or court order.

The Trustee is not taking any action on this recommendation at this time. The Trustee will maintain the existing procedure of providing a commuted value payout to the former spouse at the time of a marital breakdown.

Recommendation #23: The Board should align pre-retirement death benefits with the PBA, providing a 100% commuted value payment. This would apply where additive to the current provisions to Plan, such as with respect to members who die with no surviving spouse, qualifying children or dependents.

The Trustee accepts this recommendation and will implement an amendment to the Plan to provide for payment of full commuted value to the estate or designated beneficiary of a member who dies pre-retirement and has no spouse or eligible dependents. It is anticipated that this amendment will be effective April 1, 2023.

Recommendation #24: The Plan should be amended to provide a 15-year guarantee period for single members retiring in the future.

The Trustee accepts this recommendation and will implement an amendment to the Plan to provide for a 15-year guarantee period for retiring without-spouse members. It is anticipated that this amendment will be effective the same time optional forms of survivor pension are introduced.

Recommendation #25: The Plan should allow designation of a court-ordered representative as an alternative to a beneficiary. The Plan should also allow assignment of pension benefits to such representative in the case of incapacity of the member.

The Trustee is not taking any action on this recommendation at this time.

Recommendation #26: Consistent with more inclusive language, we recommend that the Board consider removing references to "survivor" in favour of "beneficiary" with principal/primary beneficiary used for the spouse, as applicable.

The Trustee is not taking any action on this recommendation at this time.

Recommendation #27: The Board should collect and analyze data on the utilization of benefits based on gender and family status with an objective of ensuring, within the financial constraints of the Plan, benefits are aligned with members' needs and circumstances and are not discriminatory.

Aside from retiring without-spouse members – addressed above in #24 – the Trustee has not identified any specific issue within the Plan relating to gender/family status that requires consideration at this time.

Recommendation #28: The Plan should continue to pursue opportunities to merge other public, quasi-public and private sector employer plans with the understanding that any new employers and employees come into the Plan with the existing contribution and benefit structure. At the same time, the Board should develop rules or policies to address identified risks. The Plan text should be amended to explicitly address the terms applicable to members of plans that have or are to be merged into the Plan.

The Trustee agrees that continuing to pursue new employers to join the Plan, including private-sector employers, remains a high priority.

Recommendation #29: The Trustee should adopt a formal process to identify upcoming vacancies and engage in discussions with the relevant appointing organization as to the desired skills of the person to fill such vacancy and any objectives from a Board diversity standpoint. Such a process would not be intended to derogate from the appointing organization's discretion in filling the vacancy, however, we believe an appointing organization should have such information and be able to take it into account before filling a vacancy.

The Trustee agrees with this recommendation and has made revisions to its process to encourage appointing bodies to consider desired skill sets and diversity in filling vacancies.

Recommendation #30: The Trustee should amend its education policy to implement a structured approach to Board education to ensure that directors, individually, and the Board, collectively, has sufficient skills and knowledge to carry out their duties. Such an approach would involve each director preparing an individual

development plan annually to include their goals and objectives which would be reviewed and approved by the Board chair or the chair of the Governance Committee.

The Trustee agrees with this recommendation and will review its approach to identifying gaps in skill sets of Board directors and to identifying and communicating education opportunities for directors.

Recommendation #31: The Trustee should update and document the Board's policies and practices consistent with CAPSA Guideline #4. This would include documenting the mandate and responsibilities of directors, documenting a risk management framework, a policy for communicating with members and other stakeholder, and a formal process for periodically reviewing the Plan's governance framework.

The Trustee will take CAPSA guideline #4 into consideration in its future review of existing policies and practices and in the creation of new Board policies and practices.