Funding Policy

Board Policy

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Funding Policy

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Funding Policy

Summary

The purpose of the Funding Policy (Policy) is to establish a framework for the sound financial management of the Saskatchewan Healthcare Employees' Pension Plan (Plan). It does so by reflecting the funding risks facing the Plan, setting out the priorities for the orderly funding of the Plan and providing the rationale for the chosen funding practices.

1 Statement of Principles and Purpose

1.1 The Board of Trustees (Board) of the Plan developed this Policy to:

a) Establish a framework for the sound financial management of the Plan;

b) Articulate the rationale behind the Board's funding practices;

c) Document the Board's intentions for the orderly funding of the Plan; and

d) Reflect the significance of the risks facing the Plan.

While the Board will continue to comply with all of the requirements of *The Pension Benefits Act, 1992* (Saskatchewan) relating to the valuation of the Plan's liabilities, this Policy reflects the Board's view that the Plan's financial health is best measured on a going-concern basis, and it is on that basis that the Board will manage the Plan's financial status.

1.2 The Policy has been approved by the Board, and the Board will review and can amend the Policy as outlined below.

2 Plan Overview

2.1 The Plan is a multi-employer, contributory, defined benefit pension plan. It was established in 1962 and became jointly trusteed in 2002. The Plan is governed by the Board consisting of eight members; four persons appointed by Health Shared Services Saskatchewan (3sHealth); and four persons appointed by the following unions: Canadian Union of Public Employees (CUPE); Health Sciences Association of Saskatchewan (HSAS); Saskatchewan Union of Nurses (SUN); and Service Employees' International Union – West (SEIU- West).

2.2 The basic purpose of the Plan is to provide retirement income to eligible healthcare employees, in addition to any benefits provided by the Canada Pension Plan and the *Old Age Security Act*. The Plan is registered under both *The Saskatchewan Pension Benefits Act,* 1992 (PBA) and the *Income Tax Act* (Canada) (ITA). The Plan's registration number is 0304667.

2.3 Benefits:

a) The Plan provides benefits based on a formula of average contributory earnings (highest 4 years) times the years of credited service times pension accrual factors. For service after 2000, the pension accrual factors are 1.4% per year of service of a member's average contributory earnings up to the average Year's Maximum Pensionable Earnings (YMPE) plus 2% of service of member's average contributory earnings in excess of the average YMPE;

b) The normal retirement age is 65. Early and postponed retirement is permitted. Effective January 1, 1999, members may retire without reduction when their age plus credited service equals 80. Members that meet the eligibility for early retirement receive a bridge benefit to age 65; and

c) There is no provision for automatic indexation of pensions in payment.

2.4 Contributions

Active members and participating employers are required to contribute to the Plan to meet the current service cost of the Plan and to satisfy the going-concern unfunded liability within the regulated deadlines. Members and participating employers contribute in the ratio of 1 to 1.12;

a) The combined member plus employer required contribution rate is 18.3% of payroll. A breakdown of the contribution rate for payroll deduction and monthly remittance is set out below:

	Member Contribution Rate	Employer Contribution Rate
Pensionable earnings ≤ YMPE*	8.1%	9.07%
Pensionable earnings > YMPE	10.7%	11.98%

*YMPE for 2023 is $66,600 and for 2024 is $68,500.

b) Under the terms of the Trust Agreement, in the event of a funding shortfall, or unfunded liability, both active member and participating employer required contribution rates are subject to increase, in the ratio of 1 to 1.12, as recommended by the Plan actuary to cover the shortfall unfunded liability.

2.5 Liabilities

a) The last actuarial valuation of the Plan was performed on December 31, 2022. The purpose of that valuation was to set the member and participating employer contribution rates to meet the funding requirements of the Plan. In that valuation, the Plan actuary advised that the funding requirements of the Plan are as follows:

Item	**Combined Member and Employer Required Contribution Rate as a Percentage of Payroll**
Best Estimate Current Service Cost	12.36%
Contribution Stabilization Margin	3.00%
Total Current Service Cost	15.36%
Additional cost to fund $175 million going-concern unfunded liability by 2025	2.94%
Total Going-Concern Funding Contribution	18.3%

b) At December 31, 2022 the Plan's best estimate funded ratio was 116.9%;
c) At December 31, 2022 the Plan's funded ratio was 98% including the Benefit Security Margin; and
d) At December 31, 2022 the Plan's solvency ratio was 98%.

2.6 Time Horizon

a) The average age of active Plan members was 43.4 years old as at the end of 2022. About 80.6% of members were under 55, and about 68.9% under 50. Currently, active members dominate the Plan, comprising 61.1% of membership and 38.3% of the going-concern actuarial liability. As a result of these characteristics, the Plan has a long-term investment horizon.

2.7 Liquidity

a) The Fund is expected to continue to grow over the next several years. A significant portion of the Fund is invested in liquid assets and investment returns are available to pay for benefit payments and expenses. Liquidity currently is not expected to be a concern for funding purposes.

3 Funding Risk

The financial position of the Plan is subject to various short-term and long-term funding risks.

3.1 Experience Risk

The Plan is subject to the risk of actual experience being significantly different than anticipated by the best estimate going-concern actuarial assumptions. In particular, the Plan may have:

a) Poor mortality experience from unanticipated increases in the life expectancies of the retired members of the Plan, resulting in pensions being paid from the Plan for periods longer than anticipated;

b) Poor termination experience from:

- Active members terminating from the Plan at rates less than anticipated by the termination rates, resulting in more pensions being paid from the Plan than anticipated; and/or

- The commuted values of the termination benefits being significantly higher than anticipated in the going-concern valuation of the Plan, resulting in larger payments being made from the Plan.

c) Poor retirement experience from active members retiring at ages earlier than anticipated, thereby increasing the actual period that pensions and bridge benefits are paid, as compared to what is anticipated by the actuarial assumptions;

d) Poor salary increase experience from unanticipated increases in the salary level of Plan members; and

e) Poor investment experience from a mismatch of asset and liability cash flows and from market performance of the assets that is less than anticipated.

The experience risks noted above could cause the Plan to accumulate excessive losses over time, which would result in going-concern unfunded liabilities being revealed in future valuations.

3.2 Intergenerational Funding Risk

Intergenerational funding risk is the risk that contribution rates for a cohort of Plan members at any given point in time are significantly different than the contribution rates for a cohort of Plan members at a different point in time. This type of funding risk is possible under the following scenarios:

a) The accumulation of large surpluses in the Plan due to funding contributions being significantly larger than the ultimate cost to provide benefits from the Plan or from the accumulation of excessive gains over time. This funding risk is due primarily from margins built into the actuarial assumptions which may be larger than necessary, over the long term of the Plan;

b) The accumulation of large deficits in the Plan due to funding contributions being significantly less than the ultimate cost to provide benefits from the Plan. This funding risk is due primarily to underestimating the level of benefits that will ultimately be paid from the Plan or overestimating the long-term investment returns of the Plan; or

c) The use of surplus assets at a given measurement date to provide for an increase in benefits which is not sustainable for the long term, but rather requires an increase in the contribution rate in future years to support the benefit improvement.

Intergenerational funding risk is in regard to significant overestimation or underestimation of the long-term required funding contributions of the Plan. For greater clarity, intergenerational funding risk is not in regard to anticipated shorter-term fluctuations in the funding contributions of the Plan that can be expected to cancel out over the long term.

3.3 Insolvency

The Policy reflects the Board's view that the Plan is not at a meaningful risk of being involuntarily terminated due to the insolvency of a sponsoring employer. The Plan is funded by 50 separate employers with the largest employer being the Saskatchewan Health Authority representing over 90% of the Plan members. Most of the Plan's participating employers are employers that receive substantially all of their funding from government, and all are in an industry that is not subject to significant cyclical fluctuations or declines. The risk that any of the participating employers will become insolvent is remote.

4 Funding Objectives

4.1 Primary Funding Objective

In establishing a framework for the sound financial management of the Plan, the Board's primary and overriding objective is to ensure the security of benefits to be provided from the Plan.

4.2 Secondary Funding Objective

Once the primary funding objective has been met to the satisfaction of the Board, the Board's secondary funding objective is to achieve contribution stability throughout periods of fluctuating Plan experience.

4.3 Tertiary Funding Objective

Once both the primary and secondary funding objectives have been met to the satisfaction of the Board, the Board's tertiary funding objective is to enhance the Plan through improved pension and ancillary benefits on a sustainable and equitable basis and in accordance with Section 12.05 of the Agreement and Declaration of Trust (Trust Agreement) dated December 31, 2002 between the Saskatchewan Association of Health Organizations and the relevant healthcare unions.

4.4 Other Funding Objective

Once the primary, secondary and tertiary objectives have been met to the satisfaction of the Board, the Board will, to the extent possible, promote contribution rates that are both affordable and within a tolerable threshold from both the members' and participating employers' perspectives.

5 Funding Strategies

In an effort to meet the Board's funding objectives, the Board has established the following funding strategies:

5.1 Benefit Security

The Board recognizes that a level of margin in the actuarial liabilities and the current service cost of the Plan provide a buffer against adverse Plan experience. Such margins will enhance the ability of the Board to fulfill its primary funding objective of the security of benefits promised by the Plan.

Hence, the Board, to the extent possible, wishes to establish contribution rates which will contribute to the build-up and maintenance of the Benefit Security Margin in the total actuarial liabilities of the Plan which is in the range from 0% to 25% of the Plan's best estimate actuarial liabilities.

A Benefit Security Margin of $1,516 million, or 19.1% of the Plan's best estimate actuarial liabilities, was added as a provision for adverse experience as of December 31, 2022. This Benefit Security Margin is an aggregate of the margins established to cover risks relating to: mortality; termination and retirement; salary increases; and asset volatility.

The Board recognizes that the margins required to provide a buffer against adverse experience can change over time and may vary from valuation to valuation. As such, the following provides guidance in setting the overall Benefit Security Margin for the Plan from valuation to valuation.

Funding Risk	Benefit Security Margin
Mortality Risk	0% - 3%
Termination and Retirement Risk	0% - 5%
Salary Increase Risk	0% - 5%
Market Volatility *	0% - 20%
Total Benefit Security Margin	0% **- 25%**

*In order to cover a 1 in 20-year asset drawdown event without creating a new deficit, a margin of approximately 20% is required.

5.2 Contribution Stability

To support the secondary funding objective, the Board anticipates including a Contribution Stabilization Margin in the contributions to the Plan which is in the range from 0% to 30% of the Plan's best estimate current service cost.

A Contribution Stabilization Margin of 3.00% of pay, or 24.2% of the Plan's best estimate current service cost, was included in the total required contributions as of December 31, 2022.

5.3 Plan Enhancements

The use of surplus to enhance the Plan (via improved pension and ancillary benefits or reduced contributions to the Plan) in accordance with Section 12.05 of the Trust Agreement and Section 62 of PBA, will not be considered unless the Board is satisfied that the financial position of the Plan contains adequate margins in order to meet the primary and secondary objectives.

For example, a primary risk of the Plan is the investment risk which stems from the asset mix of the Plan. Margins have been set in light of the current level of investment risk and the Board's current level of investment risk tolerance.

The level of Benefit Security Margin, that is included in the total actuarial liabilities of the Plan, will generally be in excess of 25% of the Plan's best estimate actuarial liabilities before Plan enhancements are considered. For greater certainty, a Benefit Security Margin of 25% is generally maintained after any benefit improvements or contribution rate reductions are implemented by the Board.

The Board recognizes that this level of margin, before Plan enhancements are considered, must be reviewed periodically and, if necessary, increased or decreased in recognition of any increases or decreases in investment risk resulting from changes to the asset mix of the Plan. The Board also recognizes that the level of margin must be reviewed in light of increases or decreases in either:

a) The other risks inherent in the Plan (for example, a change in the overall demographic risk of the Plan resulting from changes in the life expectancies of Plan members); and/or

b) The risk tolerance of the Board.

5.4 Asset De-risking Strategy

Consideration may be given to de-risking the asset mix of the Plan in order to supplement the benefit security and contribution stability objectives of the Plan. The Board recognizes that such a strategic shift in the asset mix towards asset classes that have lower expected return and volatility levels would result in a decrease in the valuation discount rate. This, in turn, would result in an increase in the actuarial liabilities and current service cost of the Plan. The Board recognizes that consideration could be given to using a portion of any excess of the contributions rates over the minimum funding requirements of the Plan, or to using surplus assets of the Plan to allow for such asset de-risking strategies.

6 Other Funding Considerations

6.1 Funding Restrictions

In implementing this Policy, and in addition to the funding considerations set out above, the Board recognizes and will administer this Policy in light of the following funding restrictions:

a) Participating employer contributions will always remain at 112% of member contributions;

b) Contribution rates shall be set in accordance with the requirements of the PBA, the Pension Benefits Regulations, 1993 (PBR), the ITA and Article XII of the Trust Agreement;

c) Contribution rates shall be adjusted so that going-concern actuarial valuation unfunded liabilities (measured using best estimate actuarial liabilities plus the Benefit Security Margin) are amortized over periods no longer than those permitted under the PBA, the PBR, the ITA and Article XII of the Trust Agreement;

d) If an actuarial valuation of the Plan on a going-concern basis, filed with the regulatory authorities, discloses that either:

- The combined member and participating employer contribution rate is less than the best estimate current service cost plus the Contribution Stabilization Margin and there is insufficient surplus to cover the shortfall for the subsequent three years; and/or
- The Plan has a going-concern unfunded liability;
- Each member and participating employer must make additional contributions to the Plan in the amount recommended by the Plan's actuary that are necessary to make up the contribution shortfall and/or to amortize the going-concern unfunded liability. The contributions for members and participating employers are increased at the ratio of 1 to 1.12 respectively.

e) If an actuarial valuation of the Plan on a going-concern basis, filed with the regulatory authorities, discloses a going-concern surplus, member and participating employer contributions cannot exceed best estimate current service cost plus the Contribution Stabilization Margin identified in that valuation. Any special payments in respect of any unfunded liabilities identified in previous valuations must be discontinued.

Contributions can only be reduced below the current service cost in accordance with Section 12.05 of the Trust Agreement.

6.2 Timing of Actuarial Valuations

Actuarial valuations prepared in accordance with the PBA are required to be filed with the provincial regulator at least every three years. Actuarial valuations may be conducted more frequently if required by the Board or the regulatory authorities.

An annual valuation will be prepared for each year unless a new deficit is forecasted for the year a valuation is being contemplated. If a deficit is being forecasted, at its first meeting of the year the Board will determine whether to prepare an actuarial valuation for the preceding calendar year. The Board ultimately maintains the discretion to decide when a valuation should be prepared and if the results should be filed by considering the benefits and the costs in order to serve the best interests of the Plan and its members.

6.3 Timing of Contribution Rate Changes

Contribution rate changes, as determined in accordance with this Funding Policy, may be effective on a date subsequent to the current or most recent valuation date if it is deemed necessary for administrative or implementation purposes.

7 Management of Going-Concern Surpluses, Unfunded Liabilities and Margins

7.1 Under-Funded Position

An Under-Funded Position exists when the market value of the assets of the Plan is less than the actuarial liabilities of the Plan (the unfunded liability), where the actuarial liabilities are measured as the sum of:

a) The best estimate actuarial liabilities of the Plan; plus

b) The Benefit Security Margin that has been established by the Board.

In an Under-Funded Position, the actuary will determine the contribution rates that are necessary to fund the sum of:

a) The current service cost of the Plan determined as the best estimate current service cost plus the Contribution Stabilization Margin that has been established by the Board; plus

b) The amount of additional contributions necessary to amortize the Plan's unfunded liability over the maximum period permitted by the PBA.

7.2 Normal-Funded Position

A Normal-Funded Position exists when the market value of the assets of the Plan is within a range defined by:

a) The best estimate actuarial liabilities of the Plan plus the Benefit Security Margin that has been established by the Board; and

b) One hundred and twenty five percent (125%) of the best estimate actuarial liabilities of the Plan.

In a Normal-Funded Position, the actuary will adjust the actual Contribution Stabilization Margin that is included in the funding contributions to the Plan, within the ranges specified by the Board, in order to meet, to the satisfaction of the Board, the secondary objective of the stability of contributions to the Plan.

7.3 Excess-Funded Position

An Excess-Funded Position exists when the market value of the assets of the Plan is greater than 125% of the best estimate actuarial liabilities of the Plan.

In an Excess-Funded Position, the Board is empowered to apply such surplus in accordance with paragraphs 8.06(a) and 12.05(b) of the Trust Agreement.

7.4 Changes in Funded Position from Valuation to Valuation

The Plan's funded position is expected to change over time. The Board will generally use the principles laid out in this Policy to manage such changes in the funded position of the Plan as they are revealed in future valuations.

For greater certainty:

a) If the Plan remains in an Under-Funded Position from a previous valuation and a net actuarial gain is revealed from the previous valuation, the net actuarial gain will be used to reduce any amortization periods for unfunded liabilities established in previous actuarial valuations, starting with the oldest amortization period.

b) If the Plan remains in an Under-Funded Position from the previous valuation and a net actuarial loss is revealed from the previous valuation, the net actuarial loss will be funded through an additional amortization schedule.

c) If the Plan moves from an Under-Funded Position from the previous valuation to a Normal-Funded Position or an Excess-Funded Position, any amortization schedules established in previous valuations will be eliminated by reducing the contributions to the Plan by the amortization amounts, and contributions to the Plan will be set in accordance with the Normal-Funded Position or Excess-Funded Position described above.

8 Policy Amendment and Review

8.1 The Board can amend or rescind this Policy at any time and to any extent it feels is appropriate, except that in no event will this Policy supersede the Plan Text, the Trust Agreement or the relevant pension legislation. Further, if there is a conflict between this Policy and the relevant pension legislation, this Policy will be read so as to be consistent with the relevant pension legislation.

On an annual basis, the Board will review compliance with this Policy. At least once every three years, the Board will review this Policy and either confirm or amend it. Notwithstanding the timing of these reviews, the Board will review and make any appropriate amendments to this Policy whenever any significant changes are made to the Statement of Investment Policies and Procedures (Statement) or the Benefit Policy of the Plan.

9 Linkage with Statement of Investment Policies and Procedures

9.1 The Board's intention is for this Policy to be read in conjunction with the Plan's Statement. However, the Board intends for risks related to contribution rates, funding levels and associated volatility to be governed and regulated by this Policy alone. Therefore, the objectives of the Statement should not conflict in any way with the objectives of this Policy.

10 Related Documents

- Plan Text;
- Trust Agreement;
- Statement of Investment Policies and Procedures;
- *The Pension Benefits Act*, 1992 (Saskatchewan);
- Pension Benefits Regulations, 1993 (Saskatchewan); and
- *Income Tax Act*.

11 Policy Updates

- December 2023;
- December 2022;
- December 2021;
- December 2020;
- December 2019;
- May 2019;
- December 2017;
- November 2016;
- December 2014;
- September 2014;
- November 2012;
- February 2010;
- September 2007.

Authorization

Authorized by the SHEPP Board of Trustees:

Date: December 6, 2023

Andrew Huculak
Chair

Jeff Stepan
Vice Chair