## Funding Action Plan

The Board of Trustees has developed and is deeply engaged in the deployment of a plan to improve the Plan's funded position. The key elements of the funding action plan are highlighted below:

- The Board reviewed and amended its Funding Policy to confirm that the funding priorities are first to secure members' pensions and second to keep contribution rates as stable as possible.
- The Board has commissioned actuarial valuations of the Plan to be performed on December 31, 2009 and December 31, 2010 to carefully monitor changes in the Plan's funded position and to provide opportunity for any required contribution increases to be introduced in stages.
- The focus of the December 31, 2009 actuarial valuation will be exclusively the going concern funding requirements of the Plan.
- Solvency funding (a regulatory requirement to set contribution rates on the basis of the greater of the cost of the Plan as a going concern and the cost of immediately winding up the Plan) will be addressed in the December 31, 2010 actuarial valuation. At that time the Board will determine whether it will elect the voluntary three-year moratorium from funding any solvency deficit arising from the December 31, 2010 valuation. The solvency funding moratorium was made available to all Saskatchewan registered defined benefit pension plans in 2009. It should be noted that the Plan's solvency deficit at December 31, 2009 would require a further contribution rate increase.
- An asset/liability study will be performed in 2010-2011 to support the Board's ongoing assessment of its investment beliefs and philosophy. The study will help in the development and execution of investment policies to optimize investment returns over the long term within an appropriate and prudent level of risk to meet the obligations of the Plan.
- Investment risk is a primary consideration for the Plan and, as the Plan matures and the Plan's funded status improves, the Board will consider strategies and opportunities to reduce investment risk.

## *Reminders*

- Visit SHEPP's web site at www.shepp.ca for up-to-date news about the Plan.
- Don't forget to try out *SHEPPWeb*, the secure online service available to active members of the Plan. Use your SHEPP ID and password to logon to *SHEPPWeb* through the secure portal access which is located on SHEPP's home page. *SHEPPWeb* offers active members the ability to calculate a pension projection, price the cost to purchase prior service, print your most recent annual statement and update your SHEPP information.

SHEPP
SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

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*This newsletter contains general information only. In the event of any error or misunderstanding, the terms of the Plan text will apply. Here is our contact information:*

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SHEPP
SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

*September 2010*

# News

*For SHEPP members*

## Update on SHEPP's Funded Position

The results of the December 31, 2009 actuarial valuation of the Plan are in. On a going concern basis the Plan's funded ratio has decreased from 92.2 per cent at December 31, 2007 to 83.8 per cent at December 31, 2009. In dollar terms the Plan's unfunded liability has increased from $255,034,000 to $623,002,000 during the same period.

While the actuarial value of the Plan's assets grew from $3.01 billion at December 31, 2007 to $3.23 billion at December 31, 2009, the Plan's liabilities increased from $3.27 billion to $3.85 billion during the same period.

## Update on SHEPP's Funded Position (con't)

These results show that the Plan's assets have not yet fully recovered from the ground lost during the significant downturn in the financial markets in 2008 and early 2009.

| | December 31, 2007 | December 31, 2009 |
|---|---|---|
| Actuarial Value of Assets | $3,010,880,000 | $3,226,080,000 |
| Actuarial Liabilities | $3,265,914,000 | $3,849,082,000 |
| Going Concern Unfunded Liability | $255,034,000 | $623,002,000 |
| Going Concern Funded Ratio | 92.2% | 83.8% |

Based on the results of the December 31, 2009 valuation, the Plan Actuary has recommended to the Board of Trustees that contribution rates be increased effective April 2011. In accordance with the terms of the SHEPP Trust Agreement the Board of Trustees has approved the recommendation of the Plan Actuary. The increased contribution rates are set out in the following table:

| April 2011 | Active Members | | Participating Employers | |
|---|---|---|---|---|
| *Contribution Rate* | *Present Rate* | *New Rate Effective April 2011* | *Present Rate* | *New Rate Effective April 2011* |
| On Pensionable Earnings up to the YMPE | 7.2% | 7.7% | 8.07% | 8.62% |
| On Pensionable Earnings over the YMPE | 9.6% | 10.0% | 10.75% | 11.20% |
| YMPE is the Year's Maximum Pensionable Earnings under the Canada Pension Plan. The 2010 YMPE is $47,200. | | | | |

The combined member and employer contribution rate is presently 16.16 per cent of pensionable earnings. Effective April 2011 the combined rate will be 17.30 per cent.

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# Understanding the Contribution Rates

It is very important to understand that the SHEPP contribution rate is made up of two parts:

| | |
|---|---|
| Part One | The rate required to fund the new pensions being earned by members from this point forward. This is called the current service cost of the Plan. Plan members can think of this as the normal or ongoing contribution rate of the Plan. |
| Part Two | The rate required to fund any unfunded liability or deficit for pensions already earned by members. This is a past service cost that requires special temporary contributions to eliminate the current unfunded liability shown above within a specified time period (usually 15 years). |

The December 31, 2009 actuarial valuation tells us that, on a going concern basis, Plan members and participating employers must increase their combined contribution rate from the current 16.16 per cent to 17.30 per cent of pensionable earnings.

The two parts of the 17.30 per cent contribution rate are:

| Component Parts of SHEPP Contribution Rate | Combined Member and Employer Contribution Rate |
|---|---|
| Part One: Current Service Cost | 12.66 per cent |
| Part Two: Special Temporary Contributions to Pay Off Three Outstanding Unfunded Liabilities Totaling $623 million as of December 31, 2009 | 0.98 per cent to fund the remainder of the December 31, 2002 unfunded liability by December 31, 2012<br>1.27 per cent to fund the remainder of the December 31, 2007 unfunded liability by December 31, 2022<br>2.39 per cent to fund the new December 31, 2009 unfunded liability by December 31, 2024 |
| Total Contribution Rate | 17.30 per cent |

All else being equal, as the unfunded liability is eliminated the Plan's contribution rate will revert to the current service cost.

If the Plan experiences gains in the future, the SHEPP Trust Agreement requires that any surplus from those gains be applied to reduce the unfunded liabilities. In that case, the special contributions could end sooner than their scheduled end dates noted above.