	Pension Plan Funding Policy
TO:	**Audit Committee / Board of Directors**
MEETING:	February 24, 2015
FROM:	Michael Mooney, Acting Vice-President and CFO
PURPOSE:	Approval of Funding Policy – Pension Plan
DATE:	February 10, 2015

SIGNIFICANT POINTS:

The Office of the Superintendent of Financial Institutions (OSFI) performed an examination of the Corporation's pension plan in August 2014. OSFI's recommendation was for the Corporation to develop and adopt a funding policy by March 31, 2015 (see OSFI letter attached).

The Policy is intended to set out the funding principles that are appropriate given the needs and objectives of the Plan and the Corporation, and to provide guidance to management and the actuary of the Plan on how the Corporation wishes to fund the Plan.

RESOLUTION:

That the Audit Committee recommend to the Board of Directors that the proposed *CBC/Radio-Canada Pension Plan Funding Policy* be approved.

CBC/Radio-Canada Pension Plan Funding Policy

Available In:

EN FR

Effective Date:

Responsibility: Vice-President and Chief Financial Officer

PURPOSE

This Policy is intended to set out appropriate funding principles, taking into account (i) the main factors that affect the CBC/Radio-Canada Pension Plan's (the Plan) going-concern and solvency positions, (ii) the ability of the Corporation and the Plan to meet the Plan's financial obligations, and (iii) the needs and objectives of the Plan and the Corporation. This Policy is also intended to provide guidance to management and the actuary of the Plan on how the Corporation wishes to fund the Plan.

CONTEXT

CBC/Radio-Canada (the Corporation) established the Plan effective September 1, 1961 pursuant to the *Broadcasting Act*. As the Plan sponsor, the Corporation is responsible for ensuring that the Plan is funded in accordance with the *Pension Benefits Standards Act, 1985* and its regulations (PBSA) as well as the *Income Tax Act* and its regulations.

Pursuant to s. 47(1) of the *Broadcasting Act*, CBC/Radio-Canada is an agent of the Crown and therefore has the constitutional immunities, privileges and prerogatives that are enjoyed by the Crown. The Crown is also fully liable and financially exposed for all of CBC/Radio-Canada's actions and decisions while CBC/Radio-Canada is operating within its mandate (including for the funding of the Plan).

DEFINITIONS

Please see the website of the Office of Superintendent of Financial Institutions (OFSI) at: www.osfi-bsif.gc.ca

FUNDING OBJECTIVE

The Corporation shall ensure that the Plan is funded in accordance with at least the minimum levels pursuant to the PBSA (including any funding relief measures that may be permitted from time to time). The Corporation will seek to reduce special payments subject to the limits and parameters set out in the PBSA. In addition, when a going concern unfunded liability and/or a solvency deficiency exists, these liabilities are to be funded over the longest period permitted by the PBSA

EXPECTED FUNDING LEVEL

In respect of the Plan, benefits are funded through a combination of contributions (including special payments) and investment returns. Due to the nature of the Plan, deficits may arise from time to time as actual experience will be different than assumptions.

Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

September 19, 2014

OSFI Plan ID: P-C001

Board of Trustees
c/o Mr. Duncan Burrill
Secretary/Treasurer
CBC Pension Board of Trustees
99 Bank St, Suite 919
Ottawa, Ontario K1P 6B9

Dear Trustees:

Subject: **Canadian Broadcasting Corporation Pension Plan (the Plan)**
Registration Number 55144
Pension Benefits Standards Act, 1985 (PBSA)
Pension Benefits Standards Regulations, 1985 (PBSR)

This letter summarizes the results of our recent on-site examination of the Plan, which took place August 13, 2014 and August 22, 2014. We have included the key finding we have identified as requiring attention as well as our recommendations to address this issue.

Office of the Superintendent of Financial Institutions' (OSFI) Supervisory Process

The objective of OSFI's mandate is to protect the rights and interests of beneficiaries of federally regulated private pension plans. OSFI's supervisory process[1] achieves this objective through:

- Early identification of plans that may have problems meeting minimum funding requirements, complying with the PBSA, or adopting policies and procedures to control and manage risk;

- Prompt communication with plan administrators advising them of material deficiencies and non-compliance issues; and

- Implementation of appropriate interventions to ensure administrators take the necessary corrective measures to address the deficiencies.

OSFI's supervisory process, which includes on-site examinations, sets out a disciplined risk-based approach to identify the significant risks facing pension plans. Where appropriate, this approach reviews the work of the plan administrator's risk management function, including controls and oversight, to understand how effectively a plan administrator manages the risks of the pension plans and their funds. We rely on the Board of Trustees and the external auditor with respect to the fairness of the financial statements and other reports submitted to OSFI. We also rely on the Plan's actuary with respect to the adequacy of the actuarial liabilities.

The scope of our supervisory work for this on-site examination included the solvency status and funding requirements for the Plan.

[1] The supervisory process is documented in OSFI's *Risk Assessment Framework for Federally Regulated Private Pension Plans* available through OSFI's website: www.osfi-bsif.gc.ca.

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Ottawa, Canada
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www.osfi-bsif.gc.ca

Findings and Recommendations

1. Governance Documentation – Funding Policy[2]

Finding:

The examiners noted that, although elements of a funding policy exist, no formal document has been created and signed off by the Board of Directors.

Recommendations:

OSFI encourages administrators and plan sponsors to develop, adopt and regularly review funding policies for their plans. We recommend that the Plan sponsor:

- review CAPSA Guideline No. 7;
- develop, document and implement a comprehensive funding policy for the Plan that is designed to achieve its funding objectives; and
- periodically review and update, as appropriate, the Plan's funding policy.

We request that the Plan sponsor submit to OSFI, by March 31, 2015, either:

- a copy of the funding policy adopted for the Plan together with a copy of the minutes of the meeting of the Board of Directors evidencing its adoption; or
- a summary of its review and decision not to adopt a funding policy for the Plan, together with a copy of the minutes of the meeting of the Board of Directors evidencing this decision.

We would appreciate acknowledgement of receipt of this letter by October 31, 2014. Please feel free to comment on our finding and recommendation at this time.

Please provide a copy of this letter to each member of the Board of Trustees and the Board of Directors. You may also provide a copy of this letter to the Plans' various committees and third-party service providers as you consider appropriate.

We would like to express our appreciation to your staff for the co-operation extended to us during our supervisory work. If you have any questions, please contact me at (613) 998-7667 or mike.ius@osfi-bsif.gc.ca.

Yours sincerely,

Mike Ius
Senior Supervisor
Private Pension Plans Division

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[2]The *Pension Plan Funding Policy Guideline* (CAPSA Guideline No. 7) was released in November 2011 by the Canadian Association of Pension Supervisory Authorities (CAPSA) and is available through CAPSA's website: www.capsa-acor.org.

In the short-term, the expected funding level is to achieve full funding of the Plan on a going concern basis.

Over the long-term, the expected funding level is to achieve full funding of the Plan on both a going concern and solvency basis in a range that provides flexibility for the Corporation's normal cost contributions (i.e. no funding deficits or excesses).

The employees' contributions rates are established in section 4 of the Corporation's Bylaw Schedule B "CBC/Radio-Canada Pension Plan" as amended from time to time. The Corporation aims to align the employee's contribution share with those of the Federal Public Service Pension Plan.

INTEGRATION WITH INVESTMENT POLICY

The Plan's investment policy is determined by the CBC Pension Board of Trustees, as amended from time to time.

FUNDING IN EXCESS OF THE MINIMUM

The Corporation reserves the right to fund the Plan in excess of the legislated minimum requirement, but not more than the maximum levels pursuant to the *Income Tax Act* as determined by the actuarial valuations.

KEY RISKS

The CBC Pension Board of Trustees is responsible for the management of the risks associated with Plan's performance.

Funding risks for the Plan are driven primarily by the financial position of the Plan; that is, the sufficiency of the Pension Fund's assets to meet the Plan's liabilities. The financial position of the Plan is determined through actuarial valuations that assess the financial position under two approaches: on a going concern basis and on a solvency basis.

The financial position of the Plan is impacted by demographic and economic factors, including the Pension Fund's actual and expected investment returns. Mismatches in the performance of the assets relative to the liabilities result mainly from the following:

- Actual experience being different from actuarial assumptions for economic factors, including in relation to the Pension Fund's short- and long-term investment returns and inflation, which is caused in particular by mismatches between the nature of the assets and the nature of the liabilities (e.g. in terms of the timing and predictability of cash flows). For example:
    - Higher inflation than expected increases liabilities (increases deficit/reduces surplus under both bases). It is recognized that such liability increases may somewhat be offset by increases in investment returns
    - Investment returns that are below expectation increase deficit/reduce surplus under both bases (since assets are less than expected).
- Changes in expectations with regards to the economic outlook also have an impact on the assumptions and more so regarding changes in assumptions from one valuation to the next.

- Interest rates are the key driver of the liabilities as measured on a solvency basis. The solvency valuation is used for setting the requirement for deficit funding, therefore low interest rates increase funding pressure by increasing the deficit funding requirement. Also, low interest rates and lack of indication of timing and pace of future increases create uncertainty that drive a lower discount rate for the going-concern valuation hence increasing the normal cost

- Inflation (current and expected) is an important component of the determination of both the solvency discount rate and the going-concern discount rate

- Lower market return expectations or increased uncertainty drive a lower discount rate for the going concern valuation.

- Actual experience being different from actuarial assumptions for demographic factors, including longevity, withdrawals, and retirements.

    - Longevity is the primary demographic risk. Risk is either a change in expectation (new mortality table like the one adopted in the December 2013 valuation) or longevity experience that differs from expectations. Mortality expectations contain two parts: current rates and an improvement scale.

- The maturity of the Plan, including its aging membership and declining active member population.

- Changes in the legislative and regulatory environments, especially in the funding requirements which are a key risk considering that the Corporation apply minimum funding hence any changes in the requirement could generate a positive or negative impact depending on the changes adopted.
- Actuarial standards, which impact the actuarial valuations.

From the perspectives of various stakeholders, funding risks can have the following implications:

- For the Corporation, the Plan sponsor, funding risks can result in changes to contribution requirements, which can create significant cash flow challenges for the Corporation
- For active members, funding risk can be a factor leading to changes to employee contribution levels.

UTILIZATION OF FUNDING EXCESS

If and when a surplus arises under the Plan, the Corporation may use the surplus to reduce the Corporation's funding requirements (to the extent permitted under the PBSA and the governing documentation), increase the benefits payable under the Plan, reduce employee contributions or any such other permitted action as it may deem appropriate.

ACTUARIAL METHODS, ASSUMPTIONS AND REPORTING

The actuarial methods and assumptions are selected by the CBC Pension Board of Trustees with the Plan actuary by virtue of the Trust Deed between the Corporation and the Trustees dated August 3, 1961 as amended from time to time.

FREQUENCY OF VALUATIONS

In accordance with the directives of OSFI pursuant to the PBSA, and unless otherwise directed by OSFI, the CBC Pension Board of Trustees ensures that actuarial valuations will be undertaken as prescribed by legislation and file the actuarial reports (or, in the case of Plan amendments, interim or amendments to reports) with OSFI within six months of the date of the valuation.

POLICY REVIEWS

The Vice-President and Chief Financial Officer shall review this Policy on a triennial basis or more frequently, as necessary or appropriate, and report to the Audit Committee on such review, and submit, as necessary or appropriate proposed policy changes for approval.

REFERENCES

- CBC/Radio-Canada Bylaws Schedule B "CBC/Radio-Canada Pension Plan"
- CBC/Radio-Canada Bylaws Schedule C "CBC/Radio-Canada Pension Plan Trust Deed"

INQUIRIES

All questions pertaining to the interpretation or application of this Policy should be referred to the Vice-President and Chief Financial Officer.