



December 21, 2018

Via E-mail and Mail

Mark Schaan
Director General
Innovation, Science and Economic Development Canada
235 Queen Street, 10th Floor
Ottawa, ON K1A 0H5

Dear Mr. Schaan:

Re: Consultation Document: Enhancing Retirement Security for Canadians

On behalf of the Board of Trustees (the "Board") of the Canadian Energy and Related Industries Pension Plan ("CERi Plan"), we are taking this opportunity to make a submission on the recent Federal Government Consultation Document concerning Enhancing Retirement Security for Canadians (the "Consultation Document"). The Consultation Document notes that defined benefit (DB) pension plans have traditionally been the predominant type of employment-based pension arrangement in Canada but that there has been a troubling decline in private sector defined benefit (DB) pension plan membership. The Board of Trustees of the CERi Plan are currently attempting to implement a DB pension arrangement, which represents a significant and positive move away from that trend and which would result in approximately 2,700 employees moving from the Plan's current defined contribution (DC) arrangement to a DB arrangement. However, the Board's efforts are impeded by the current state of certain Federal pension regulations. The Board has been actively advocating for an exemption from a specific requirement of the Federal pension regulations.

With this submission, we are providing further background on the CERi Plan, the impact of Federal pension regulations on the Board's efforts to implement a DB pension arrangement, and the Board's request for regulatory change which would allow the implementation of a DB pension arrangement to proceed for our members.

Executive Summary

The CERi Plan is a federally regulated defined contribution (DC) multi-employer pension plan (MEPP), established by major unionized employee groups representing scientists, engineers, technicians, technologists, firefighters, security personnel and other professionals at former Atomic Energy Canada Limited (AECL) assets in Candu Energy Inc. (SNC Lavalin) and Chalk River Canadian Nuclear Laboratories (CNL).



Prior to the Federal Government's privatization of AECL assets, these employees were eligible for membership in the Federal Public Service Pension Plan (PSPP). The decision by the previous Government to sell the assets of AECL created a unique situation that left these employees without the secure DB pension safety net that the PSPP provided to them as public service employees of a Crown corporation. The consequences of this decision have left thousands of employees in a situation that will impact their financial security during retirement.

The mandate given to the Board by the participating unions and their members is to transition to a DB type of pension plan as a replacement to the PSPP. Consistent with information set out in the Consultation Document, we believe that a DB type of pension plan is preferable to a DC type of plan. The Board and its advisors are far along in a project to design and implement a DB type of plan where the pension benefits are set according to a defined formula but are not guaranteed. Such benefits are typical of multi-employer DB plans where the employer contributions are fixed by collective agreements. However, the current Federal regulatory funding requirements currently make it prohibitive for us to implement such a plan. This is because the Federal regulations require that such plans meet the same solvency funding requirements as apply to the funding of DB plans sponsored by single employers. **The solvency funding requirements are not appropriate for the CERi Plan since its benefit promise (once the DB formula is implemented) and fixed, negotiated contributions are significantly different from single employer DB plans.** In single employer DB plans, benefits are guaranteed, and the employer is obligated to increase its contributions, if required to support the guaranteed benefits.

The imposition of the current Federal solvency funding rules in the design and implementation of a DB type of pension benefit for the CERi Plan, results in a loss of at least 30% in members' pension benefits today and creates the potential for unacceptable intergenerational transfers of wealth in future.

In response to the Consultation Document, the Board respectfully submits that the following:

The CERi Plan within the Federal jurisdiction

- **The CERi Plan is a new union-sponsored pension plan, implemented in 2014. It was implemented as a DC type of pension arrangement, with the intent of transitioning as soon as feasible to an arrangement that is more consistent with the DB arrangement that our members were forced to leave and is better able to provide them with retirement income security than a DC plan.** The Board of Trustees is made up of representatives of the participating unions. The employers have no role in the governance or administration of the CERi Plan, as that is solely the responsibility of the Board, with assistance from its professional advisors. It is completely understood and acknowledged by the parties to the arrangement (the employers and unions) that the participating employers' obligations are to make fixed contributions as specified in the applicable collective agreements. The employers would have no obligation to increase contributions if that is required to support the benefits set by the DB formula. If the CERi Plan is changed to a DB

arrangement, it would be considered a *Negotiated Contribution Plan* under the Federal pension legislation, often referred to generically as a “multi-employer defined benefit pension plan” or sometimes referred to more specifically as a “multi-employer target benefit pension plan”. Our understanding is that there are less than 20 federally regulated multi-employer pension plans, and many of these are DC arrangements. In contrast to the relative handful of federally regulated “multi-employer defined benefit pension plans”, there are over 1,200 federally regulated pension plans (as of March 2017), over 400 of which have a defined benefit provision. Thus, it is somewhat understandable that the primary focus of the Consultation Document is on employer-sponsored DB pension plans and that there are currently no statutory or regulatory provisions in the Federal jurisdiction dealing specifically with target benefits. **Notwithstanding that, we strongly believe that union-sponsored plans, such as the CERi Plan, could play a critical role in promoting greater retirement security for employees.**

The CERi Plan is unique

- The CERi Plan’s members are in a unique situation. This is, in part, because they are in a type of pension arrangement which is not very common in the Federal context, but primarily because of having had their participation in the DB PSPP closed off due to the AECL privatization. **The implementation of DB pension arrangement for these members is a union-driven solution to a problem created by the previous Government.** In creating this solution, the Board recognizes that the benefit amounts and security of the pension that members would have previously received from the PSPP cannot be replicated. However, the Board’s intent is to implement a pension arrangement that provides a pension “soft landing”, for members who were forced to leave the PSPP.

Regulatory change required

- The unique and difficult situation that our members are in, following the AECL privatization, requires a regulatory change by the Federal Government. The regulatory change that the Board is requesting would permit our CERi Plan members, currently numbering about 2,700, to move from the Plan’s current DC type of pension arrangement to a DB type of arrangement. **Specifically, our request is for the Federal Government to implement the necessary regulatory amendments to exempt the CERi Plan from the solvency funding requirements set out in the Pension Benefits Standards Regulations, 1985. The exemption we are seeking would not require a legislative change.** Indeed, there are already other examples where regulations have been passed pursuant to the *Pension Benefits Standards Act, 1985* (PBSA) in regards to specific pension plans. The PBSA specifically provides that all pension plan funding requirements shall be prescribed by regulation (section 9(1)) and, further, that regulation can exempt any plan or class of plans from any provision of the PBSA (section 39(1)(k)). Please refer to Appendix B, a letter previously prepared by the CERi Plan’s legal counsel, which sets out the simple regulatory change that would be required to provide this exemption.

No Government liability due to requested regulatory change

- **There is no Government financing required for the CERi Plan related to the requested regulatory change, now or in future.** Once the Plan transitions to a DB arrangement, it would be considered a *Negotiated Contribution Plan* under the Federal pension legislation, with participating employers' obligations limited to making fixed contributions as specified in the applicable collective agreements, in addition to members' contributions specified in those agreements. In the event that the negotiated contributions are ever determined to be insufficient to fund the benefits under the Plan, the legislation and the Plan's documents would allow for benefits to be reduced. This is no additional financing contemplated in this event, either from the participating employers or Government.

We believe the regulatory change we are requesting is wholly appropriate in the circumstances of the CERi Plan and its members, for the reasons set out in further detail below.

Background: The CERi Plan

The CERi Plan provides pension coverage for federally regulated employees who are members of the Society of Professional Engineers and Associates (SPEA), United Steelworkers (USW), the Professional Institute of the Public Service of Canada (PIPSC) and the International Association of Fire Fighters (IAFF). The CERi Plan is registered with the Federal Office of the Superintendent of Financial Institutions (OSFI), with registration number 57772, and must comply with the Pension Benefits Standards Act, 1985 (PBSA) and Regulations thereunder.

Participating employers include Canadian Nuclear Laboratories (CNL) and Candu Energy Incorporated (SNC Lavalin). The CERi Plan was established in 2014 as a union-trusteed, federally-regulated DC pension plan - the Board of Trustees is made up of entirely of representatives of the participating unions. Related to the Federal Government privatizing operations at Atomic Energy of Canada Limited, employees of Candu Energy, as well as new employees at the Chalk River Laboratories (CRL) facility hired from September 15, 2015, were no longer eligible for membership in the Federal Public Service Pension Plan (PSPP) and therefore became members of the CERi Plan. There were approximately 1,100 employees in the CERi Plan prior to September 2018. Approximately 1,600 members of the PSPP employed at the CRL facility were not eligible to participate in the PSPP after September 12, 2018 and became members of the CERi Plan after that date. Currently, there are approximately 2,700 active members in the Plan.

The CERi Plan's participating employers' commitment is limited to making fixed, negotiated contributions. Plan members also contribute in accordance with the collective agreements. The participating unions have determined that the best available replacement retirement arrangement to provide their members with as comparable as possible financial security in retirement, given the constraint of fixed employer contributions, is a DB arrangement where the benefit can be altered based on the plan's funding.

From the time of the Plan's inception in 2014 (originally as a pension plan for SPEA employees of Candu Energy Incorporated and, starting in 2017, with the addition of employees of Chalk River Laboratories with the other unions noted above), the Board has been committed to transitioning from the current DC pension arrangement to a DB arrangement, as well as providing this arrangement to new members in the future. The Board is currently trying to implement a DB pension arrangement as a Negotiated Contribution Plan. Our actuary has prepared analysis indicating that the solvency funding requirements within the existing regulations are expected to result in at least a 30% reduction in benefit rates which can be implemented, versus the benefit rates which could be set if the CERi Plan was exempt from the solvency funding rules. **The Board believes that it is not feasible to implement the DB arrangement absent the solvency exemption, since the pension benefit formula would be so much lower than the PSPP formula that most of our members previously enjoyed and would be hugely disappointing for these members. Thus, the Board's concern is that the "status quo" situation of having our CERi Plan remain as a DC pension arrangement will continue to expose our members to the investment and longevity risks that affect all individual DC plan members adversely, that reduce their financial security in retirement and that can be much better managed and mitigated through the implementation of a DB type of arrangement.**

The CERi Plan's desire to implement a DB pension arrangement as a Negotiated Contribution Plan is entirely aligned with the Government's interests, as the "status quo" DC outcome that concerns the Board, and our members, is precisely the type of adverse outcome that we believe concerns the Government and that is motivating its broader Consultation initiative.

Background: Pension Plan Solvency Funding and Regulatory Landscape

DB pension plans have the primary purpose of accumulating assets to provide pensions – determined according to a pre-set formula - to plan members in retirement. DB plans are operated with an orientation to operating indefinitely; with this orientation, such plans' funding sufficiency is measured on a "going concern" basis, comparing:

- plan liabilities – calculated with long-term assumptions for economic and demographic factors; and
- plan assets

Pension legislation changes starting in the 1980's saw most Canadian jurisdictions impose solvency funding requirements on DB pension plans with the intended purpose being to mitigate plan members' risk of a pension plan not being able to pay 100% of the pension promises if the plan is terminated and not fully funded on a settlement basis at that time. The Federal PBSA solvency funding requirements require:

- calculation of the pension plan's solvency liabilities, in the hypothetical scenario that the plan is fully wound-up at the valuation date and using discount rates based on Government of Canada bond yields; and
- any solvency funding shortfall¹ (solvency liabilities greater than assets) to be funded by contributions over five years.

Economic conditions and monetary policy over the period since the 2008 financial crisis have contributed to historically low interest rates being assumed for calculating solvency liabilities; since 1990 bond yields have fallen over 8% and have increased DB plan solvency liabilities in the range of 700% to 800%.

A "Negotiated Contribution Plan" is defined under the PBSA to be "*a multi-employer pension plan that includes at least one defined benefit provision and under which a participating employer's contributions are limited to an amount determined in accordance with an agreement entered into by the participating employers or a collective agreement, statute or regulation **and which amount does not vary as a function of the prescribed tests and standards for solvency...***" [emphasis added] The objective of a Negotiated Contribution Plan is a DB or "target benefit" pension, but the employers' liability is limited to the contributions that have been negotiated. Under the funding rules set out in the PBSA and its Regulations for all federally regulated DB plans, including Negotiated Contribution Plans, if the solvency funding valuation indicates that the plan's assets are not sufficient in the event of the plan's hypothetical wind-up at the valuation date – unlikely as that event may be – the negotiated contributions must be sufficient to fund the wind-up deficiency over 5 years, in addition to being sufficient to cover the expected cost of benefits being earned and expenses being incurred on an ongoing basis. If there is a solvency deficiency identified in the valuation of a single-employer DB plan, then the employer's contributions must be increased in order to fund the deficiency over 5 years. In the case of a Negotiated Contribution Plan, if there is a solvency deficiency and the negotiated contributions are not sufficient to fund the deficiency over 5 years, then the trustees of a Negotiated Contribution Plan must reduce the "target benefits" under the plan (past and/or future benefits, subject to OSFI's approval). For a Negotiated Contribution Plan, the solvency funding requirement does not improve the security of benefits for members since, in reality and unlike the case with single employer-sponsored DB pension plans, there is no mechanism to result in any more money being put into the plan beyond the contributions required by the collective agreements, if a solvency valuation indicates there is a wind-up funding deficiency. In actual fact, benefit reductions can be forced upon a Negotiated Contribution Plan by the solvency funding rules, which require that a hypothetical plan wind-up scenario be anticipated.

¹ Based on 3-year average solvency ratio, as permitted under and determined in accordance with PBSA

The impact for members is that:

1. in the unlikely event that the plan is actually terminated: members end up with a higher percentage of a reduced benefit, which is equal to a lower percentage of the higher benefit, had no reduction been imposed prior to the plan termination; and
2. in the much more likely event that the plan continues to operate as a going concern: current retirees and members closer to retirement will end up receiving lower benefits than would be considered “fair” for at least some significant period of time, while those members who are farther from retirement may end up receiving higher benefits than would be considered “fair” (e.g. with benefit reductions being reinstated as actual plan experience proves to be better than that assumed in the wind-up scenario).

In summary, for Negotiated Contribution Plan members the solvency funding rules:

- **lead to enhanced security in respect of a lower benefit level, which does not contribute to overall financial security for those members in retirement; and**
- **contribute to benefit volatility and intergenerational inequities between membership groups that can erode members’ confidence in the trustees’ management of such plans and possibly lead to irrational and extremely harmful decisions by members.**

Because of changes in the economic environment and a growing recognition of the adverse impacts of the solvency funding rules, most jurisdictions in Canada are at some stage of implementing pension funding reforms. For example, Ontario, Quebec, Alberta, Saskatchewan and British Columbia have all moved away from solvency funding rules for multi-employer pension plans (MEPPs). In fact, the Federal jurisdiction will soon be the last major pension regulator to still require DB MEPPs to be subject to solvency funding requirements.

Solvency Funding Impact on the CERi Pension Plan

As noted, the Board has been committed to transitioning the CERi Plan’s membership from the current multi-employer DC pension arrangement to a multi-employer DB arrangement. The Board understands that the benefit value and security of the pension that members would have previously received from the PSPP cannot be replicated, because:

- the contribution levels negotiated with the participating employers are lower than the employer contributions to the PSPP; and
- employer contributions are fixed and set out in collective agreements – the risk of poor investment or other outcomes is not backstopped by an employer, as it is with the PSPP, but must be borne by the CERi Plan’s members.

With these limitations in mind, the Board hoped to implement a DB type of pension arrangement that would still provide a “soft landing”, from a pension perspective, for members who were forced to leave the PSPP. However, the solvency funding requirements under the Regulations are not only a problem for the ongoing management of a plan, as indicated above, they are a major impediment to accomplishing this “soft landing” for the CERi Plan members. As solvency funding requirements must currently be taken into account in setting the Plan’s DB or “target benefit” formula, benefits will need to be set at an unreasonably low level. This is primarily because of the very low interest rates that must be assumed in the solvency valuation for calculating benefit costs. In effect, the Board will be forced to set very low benefit levels so that plan members have a very high probability of receiving a very low benefit. As noted earlier, our actuary has prepared analysis indicating that the solvency funding requirements are expected to result in at least a 30% reduction in benefit rates which can be implemented, versus the benefit rates which could be set if the CERi Plan was exempt from the solvency funding rules. This would lead to a pension benefit formula that is much lower than the PSPP formula that most of our members previously received and would obviously be hugely disappointing for these members. Please refer to the attached Appendix A analysis of the impact of the solvency funding rules on benefits, prepared by the CERi Plan’s actuary.

In addition to the impediment that the solvency rules pose for implementation of a multi-employer DB pension arrangement for the CERi Plan, we believe that in a post-implementation scenario:

- solvency funding requirements based on “point in time” interest rates could cause unnecessary and harmful volatility in benefits delivered by the CERi Plan;
- if benefit levels in the CERi Plan’s DB design were to be implemented with the solvency funding requirements taken into account, it is likely that, in the fullness of time, the Board would be able to make benefit improvements based on longer-term experience of the plan, including investment returns that would likely far exceed the low investment return assumption required in the solvency funding calculations. However, such future benefit improvements would effectively be paid for, at least in part, by prior member cohorts’ contributions (including contributions for individuals who are no longer CERi Plan members), which makes the Board’s fiduciary duty to treat different generations/cohorts of members fairly and even-handedly more difficult, if not impossible, to carry out.

Thus, an exemption from solvency funding would make the CERi Plan’s benefits more predictable and more reasonable and make the CERi Plan much more equitable for members, now and in future.

In summary, due to the existing Federal solvency funding requirements set out in the Regulations, the implementation of a “Negotiated Contribution Plan” with DB benefits for CERi would require a very low benefit rate and involves the almost guaranteed likelihood of inequitable redistributions of benefits between different generations of members. It is thus not practically possible or acceptable to our members.

Accordingly, and for the reasons outlined above, we believe that there are adverse social and economic impacts in the future for over 2,700 employees in the case of the CERi Plan if the solvency funding rules are not changed for the CERi Plan.

Request for Solvency Funding Exemption

The Board is committed to transitioning the Plan from the current DC pension arrangement to a multi-employer DB type pension arrangement. This DB type of arrangement is necessary due to the membership's preference for a DB pension arrangement and the reality of fixed employer contributions. The Board strongly believes that implementing a DB type pension arrangement is the best feasible option for providing retirement security to CERi Plan members in the future.

Our request is that the necessary steps be taken to provide the CERi Plan with a regulatory exemption from solvency funding requirements. Such an exemption would permit the Board to proceed with a DB implementation that we believe is beneficial to members and represents a positive action that could be taken by the Federal Government to mitigate the loss of PSPP participation for these employees and provide financial security and a stable lifetime retirement income to our CERi Plan members. Our request for an exemption from solvency funding has the support of the participating unions and the CLC.

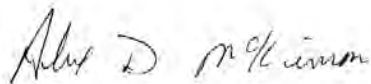
As a Board of Trustees to a pension plan with close to 3,000 members, we of course welcome the Government's interest in the issue of retirement security, as set out in the Consultation Document. This fundamental issue is important to all pension plans and hundreds of thousands of pension plan members. However, we wish to stress that:

- **we have had a DC pension arrangement in place for over 4 years and, over that time, have been working on implementing a DB benefit arrangement that would provide our members with greater retirement security;**
- **in September 2018, we had an additional 1,600 members that were forced out of the PSPP and joined the CERi Plan, so that we are now have over 2,700 members in the CERi Plan;**
- **CERi Plan members are very concerned about their loss of membership in the PSPP, and their consequent loss of a DB pension benefit, and are anxious to see a transition of the CERi Plan so that it provides DB benefits that more closely align with the PSPP than the current DC arrangement;**
- **our request does not require any statutory amendments and would have no impact on current laws regarding corporate insolvency or governance; indeed, our request requires a very simple change to the Regulations that can be made pursuant to the PBSA;**
- **we do not believe providing the CERi Plan with a regulatory exemption from solvency funding requirements raises any adverse precedential implications for the Government, for a number of reasons including:**

- the CERi Plan's situation appears to be the only potential situation of a new DB type of arrangement being implemented to accommodate former PSPP members due to the AECL privatization;
- our issues with the Federal solvency funding regime are specific to DB MEPPs, known as *Negotiated Contribution Plans* under Federal pension legislation, and there are a relative handful of such plans;
- we believe the private sector initiative, in this case taken by our participating unions, to implement a pension "soft landing" for former public-sector employees unable to continue in the PSPP should be regarded by Government as the most *positive* precedent and outcome achievable, given the prior Government's privatization decision, and absolutely no Government financing of any sort would be required.

While we are supportive of the general thrust of the Consultation Document and of the areas considered, we believe our situation is unique and our request is quite specific and has no implications for some of the broader marketplace framework issues discussed in the Document. We are hopeful that the Government will respond to our unique concerns and request in a timely fashion.

Yours truly,



Alex McKinnon
Chair, Board of Trustees

MEMO

TO : Board of Trustees, Canadian Energy and Related Industries Pension Plan (“CERi Plan”)
FROM : Mark Davis, Josh Ingram, Eckler Ltd.
DATE : April 6, 2018
RE : **Impact of Solvency Funding on Potential Benefits for the CERi Target Benefit Plan – Plan Design Illustration as of December 31, 2017**

We have been requested to prepare initial plan design analysis to evaluate the impact on benefit rates that could be provided under a Target Benefit Plan (“TBP”) design for the CERi Plan, with and without the imposition of the solvency funding requirements under the Pension Benefits Standards Act (PBSA).

Executive Summary

We have made a preliminary benefit assessment and funding analysis as of December 31, 2017, based on the membership data described below, hypothetical plan provisions described in Appendix B, and going concern and solvency assumptions and methods described in Appendices C and D.

	Going Concern	Going Concern and Solvency
Monthly benefit as % of total remitted contributions	0.80% to 0.95%	0.55% to 0.65%
Equivalent average annual benefit as % of Member pensionable earnings	1.60% to 1.90%	1.10% to 1.30%
Benefit reduction due to Solvency funding requirements		30% to 35%

The range of results above reflect the impact of varying the unreduced early retirement age provisions, as indicated in Appendix B.

In summary, our assessment is that reflecting the PBSA solvency funding requirements, in addition to the going concern funding requirements, will result in:

- **the benefit rate in the TBP design being reduced by approximately 30% to 35%; and**
- **consequently, the introduction of a pension design for CERi Plan Members that provides an inadequate level of retirement income security.**

Further details of our preliminary analysis are provided in Appendix A.

Membership Data

For purposes of this benefit assessment, we have relied on membership data provided by Manulife, the current CERi Plan’s defined contribution recordkeeper. A preliminary review of this data for reliability and consistency against reports from the recordkeeper has been performed. As of December 31, 2017, our

MEMO (cont.)

analysis reflects 1,082 current CERi Plan Members (who work for either Canadian Nuclear Laboratories or Candu Energy Inc.) with an average age of 42.7 and an average annual salary of \$94,500.

The estimated benefit rates summarized above may change when the analysis is further refined to reference data for active employees who are not currently CERi Plan Members, but are anticipated to become CERi Plan Members in the near future. However, we fully expect that the differential between the benefit rates determined with and without the solvency funding requirements would remain significant.

Supplementary Comments on Analysis and Possible Variances in Results

As noted above, our main conclusion is that the requirement to reflect the solvency funding requirements, results in the benefit rate in the TBP design being reduced by about 30% to 35%.

We could perform analysis using any of the following scenarios:

- alternative provisions for ancillary benefits (e.g. form of pension, early retirement, etc.) from those set out in Appendix B; and/or
- alternative going concern assumptions and methods from those set out in Appendix C; and/or
- alternatives to the excess contribution provision requirements set out in Appendix D.

However, while the introduction of such variances in our analysis may result in changes to the pension benefit rates determined using the going concern and/or solvency bases, the differential between the benefit rates determined in any particular scenario would remain significant. In particular, we would characterize the going concern framework that we have used as being rather conservative. A going concern framework that is less conservative could be supported and would result in a higher benefit rate (when determined on the going concern basis only) and an even greater gap when compared to the benefit determined with solvency funding requirements.

Thus, in our opinion, the solvency funding requirements could be expected to result in a reduction of at least 30% in benefit rates, assuming a reasonable range of alternatives for ancillary benefits and going concern and solvency funding assumptions and methods.

We would be pleased to discuss these results further with you, should you have any questions.

MEMO (cont.)

APPENDIX A**Canadian Energy and Related Industries Pension Plan – December 31, 2017 Plan Design
Preliminary 2018 Contribution Requirements**

We have estimated the following 2018 contribution requirements based on:

- membership data as previously described;
- hypothetical plan provisions as outlined in Appendix B;
- going concern assumptions and methods as outlined in Appendix C; and
- solvency assumptions and methods as outlined in Appendix D.

	Going Concern	Going Concern and Solvency
	(in \$ millions)	(in \$ millions)
Estimated contributions	17.2	17.2
Current service cost	13.4	15.3
Provision for non-investment expenses	0.4	0.4
Provision for adverse deviations (PfAD)	2.0	N/A
Total required contributions	15.8	15.7
Excess/(deficiency) of contributions	1.4	1.5

The going concern results summarized above reflect a hypothetical funding policy that aims to maintain:

- a relatively conservative going concern investment return assumption of 5.50% per annum;
- a going concern PfAD equal to 15.0% of the current service cost; and
- an excess contribution provision, after the inclusion of an explicit PfAD, equal to approximately 10% of the current service cost.

We note that the determination of a going concern funding basis for purposes of preparing an actuarial valuation under Federal jurisdiction does not require an explicit provision for adverse deviation (PfAD). However, based on discussions with the Board of Trustees, we understand the Board wishes to determine benefit rates in a prudent and appropriate manner, including margins for adverse deviations to be included, such that the Plan has a high probability of remaining fully funded in future. In setting such a margin in this preliminary analysis, we have incorporated a PfAD that would be equal to the PfAD determined under proposed Ontario funding rules for target benefit multi-employer pension plans, released April 4, 2018, and assuming non-fixed income assets comprise 70% of the fund's long-term asset allocation.

The determination of a going concern funding basis to be implemented for the CERi Plan will require additional analysis and discussion with the Trustees. The going concern funding basis described herein has been determined for purposes of creating a baseline for comparison with the solvency analysis. It is not intended to define the basis that should necessarily be adopted by the Trustees in implementing a funding policy for the CERi Plan or that should be required by the Federal jurisdiction's going concern funding requirements. The current objective is to estimate the impact of solvency funding requirements on the CERi Plan's target benefits using a reasonable methodology.

MEMO (cont.)

The contribution requirements determined on a solvency basis reflect current PBSA regulations and the need to fund the Plan such that solvency deficiencies are not expected to arise in the early years of the implementation of the Plan. The benefit rate in the solvency valuation was determined to produce an excess contribution provision approximately equal to 10% of the current service cost, with no other explicit PfAD being made in the calculation. The contribution excess is intended to provide a margin to absorb increases in costs of up to a 50-basis point reduction in prescribed solvency discount rates.

MEMO (cont.)

APPENDIX B

Canadian Energy and Related Industries Pension Plan – December 31, 2017 Plan Design Hypothetical Plan Provisions

Effective Date

A target benefit formula is assumed to be implemented in respect of total contributions remitted on and after January 1, 2018.

Contributions

Employers and Members contribute to the Plan in accordance with the current Collective Agreements.

Normal Retirement Date

A Member's Normal Retirement Date is the last day of the month coincident with or next following the day on which the Member attains age 65.

Early Retirement Date

A Member may retire after his 55th birthday.

Normal Retirement Benefit

The benefits earned each Plan year by a Member and payable on his Normal Retirement Date are to be expressed as a percentage of total contributions remitted (both by the Employer on the Member's behalf and by the Member).

Early Retirement Benefit (2 Scenarios Analyzed)

The Member shall receive the Normal Retirement Benefit accrued to the Early Retirement Date, reduced by one half of one percent for each month (6.0% per year) such Early Retirement Date precedes:

- 1) the Normal Retirement Date
- 2) Age 62

Survivor Benefit

If a Member with a spouse at retirement dies, his or her spouse is entitled to receive a pension payable at 60% of the Member's pension for the remainder of his or her lifetime.

A Member without a spouse at retirement is entitled to a pension paid for his or her lifetime with a 15-year guarantee period. If the Member then dies during the guarantee period, the Member's beneficiary or estate will receive his or her pension for the remainder of the guarantee period.

Termination Benefit

If a Member terminates, he will receive a deferred pension, payable from his Normal Retirement Date, in the amount of the pension accrued to his date of termination.

A terminated Member may elect to have his deferred pension start on an Early Retirement Date, in which event his deferred pension will be reduced by one half of one percent for each month (6.0% per year) such Early Retirement Date precedes his Normal Retirement Date.

Alternatively, if the Member has not attained age 55, he may elect to have the value of his pension transferred to another registered savings vehicle in accordance with applicable legislation.

MEMO (cont.)

APPENDIX C

Canadian Energy and Related Industries Pension Plan – December 31, 2017 Plan Design Going Concern Actuarial Assumptions and Methods

Investment Return

We assumed a long-term investment return of 5.50% per annum, net of investment related expenses.

Based on our economic modelling as of December 2017, this rate of return has been set approximately 0.75% less than the best estimate expected return we would calculate for going concern valuation purposes. The expected return calculation has assumed an asset allocation of 70% equity and 30% fixed income, reflecting expected long term returns for each asset class by using historic returns, current yields, and forecasts to develop expected long-term capital market returns, standard deviations and correlations for each asset class. We then stochastically generated projected asset class returns for 1000 paths over 20 years and blended the expected returns and standard deviations based on the Plan's asset allocation using the percentage asset allocation as the weight. The margin for adverse deviation of 0.75% that we have determined assumes no added-value returns from an active management strategy being employed.

Mortality

Mortality during retirement for all Members was assumed to follow 100% of the mortality rates of the CPM 2014 Private Sector Table with generational improvements using Scale CPM-B. No allowance has been made for mortality prior to retirement.

Termination and Disability

No decrement has been assumed for Members terminating from the Plan or becoming disabled prior to retirement.

Retirement Age (2 Scenarios Analyzed)

All Members are assumed to retire at:

- 1) age 65, or one year after the valuation date if older than age 65
- 2) age 62, or one year after the valuation date if older than age 62

Marital Assumption

80% of Members are assumed to have a spouse at retirement. Female spouses are assumed to be the same age as the Member. Male spouses are also assumed to be the same age as the Member.

Interest Credited On Member Contributions

We assumed Member contributions will be credited at a fund rate of return, assumed to be 5.50% per annum.

Level of Work

All Members are assumed to work full-time in the year following the valuation date.

Non-Investment Related Expenses

A provision of 2.5% of estimated contributions has been included in the contribution requirements for general (non-investment related) expenses.

MEMO (cont.)

Provision for Adverse Deviation (PfAD)

15% - See description in Appendix A.

Excess Contribution Target (after inclusion of PfAD)

10% of current service cost.

Asset Valuation Method

There are no assets assumed to be accumulated as of the valuation date in this TBP design illustration.

Actuarial Cost Method

Accrued benefit (unit credit) actuarial cost method.

MEMO (cont.)

APPENDIX D

Canadian Energy and Related Industries Pension Plan – December 31, 2017 Plan Design Solvency Actuarial Assumptions and Methods

Discount Rates

All Members are assumed to elect a commuted value on Plan termination. The per annum interest rates used are 2.60% per annum for 10 years and 3.40% per annum thereafter. These rates are determined for a valuation date of December 31, 2017, in accordance with section 3500 (“Pension Commuted Values”) of the Canadian Institute of Actuaries’ Standard of Practice Values effective April 1, 2009 and revised October 1, 2015.

Mortality

Mortality for all Members was assumed to follow the CPM 2014 Combined Table projected with improvement Scale CPM-B, after retirement only.

Termination and Disability

No decrement has been assumed for Members terminating from the Plan or becoming disabled prior to retirement.

Retirement Age (2 Scenarios Analyzed)

All Members are assumed to retire at:

- 1) age 65, or immediately if older
- 2) age 62, or immediately if older

Marital Assumption

80% of Members are assumed to have a spouse at retirement. Female spouses are assumed to be the same age as the Member. Male spouses are also assumed to be the same age as the Member.

Wind-up Expenses

Administration and other general expenses on Plan termination are not necessary for this TBP design illustration.

Provision for Adverse Deviations (PfAD)

None.

Excess Contribution Target (after inclusion of PfAD)

10% of current service cost.

Asset Valuation Method

There are currently no assets assumed to be accumulated in this TBP design illustration.

Actuarial Cost Method

Accrued benefit (unit credit) actuarial cost method.



April 13, 2018

Michael Mazzuca *
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mmazzuca@kmlaw.ca

Via E-mail and Regular Mail

The Hon. William Francis Morneau
Minister of Finance
House of Commons
Ottawa, ON K1A 0A6

Dear Minister Morneau:

Re: Canadian Energy and Related Industries Pension Plan
Re: Request for Solvency Funding
Our File No.: 180916

We have reviewed a copy of the letter to you from the Board of Trustees of the Canadian Energy and Related Industries (CERi) Pension Plan dated April 13, 2018, and we fully support the Board's request for permanent or temporary relief from solvency funding requirements. This request would place the CERi Pension Plan in a similar position as most other multi-employer pension plans (MEPPs) in Canada, as the Federal jurisdiction is the only major Canadian jurisdiction that has not put in place some type of solvency funding relief for MEPPs.

The request from the CERi Pension Plan could be addressed with a simple regulatory change. The request could be addressed by a regulation that exempts the CERi Pension Plan from the solvency funding requirements set out in the Pension Benefits Standards Regulations, 1985 (SOR/87-19), ss. 9(4)(c) and (d).

We would be pleased to discuss this matter with you or your staff should you have any questions or concerns.

Yours truly,

KOSKIE MINSKY LLP

A handwritten signature in blue ink, appearing to read "Michael Mazzuca".

Michael Mazzuca
MM:ik

- c. The Honourable Scott Brison, MP, PC, President of the Treasury Board
- The Honourable James G. Carr, MP, PC, Minister of Natural Resources
- The Honourable Patty Hajdu, MP, PC, Minister of Labour
- The Honourable Carla Qualtrough, MP, PC, Minister of Public Services and Procurement
- Kim Rudd, MP, Parliamentary Secretary to the Minister of Natural Resources
- Ian Foucher, Senior Policy Advisor, Office of the Prime Minister
- Lynn Hemmings, Senior Chief, Pension Policy, Department of Finance

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