Canadian Forces Non-Public Funds

Employees Pension Plan

Members Report

2015

Your Plan at a Glance

$287.6 MILLION

Assets available for Benefits as at 31 December 2015

125.2%

Fully funded on a going concern basis 2015 (vs. 122.7% in 2014)

85.6%

Solvency ratio 2015, declined slightly (vs. 86.3% in 2014)

4.3%

2015 Net Rate of Return

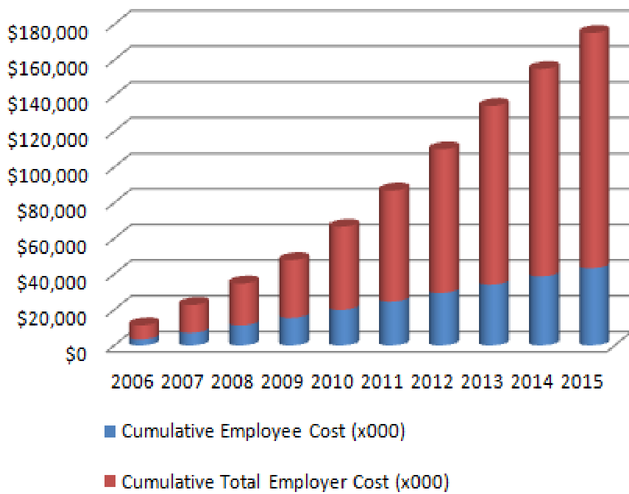
8.6%

Four-year Annualized Rate of Return

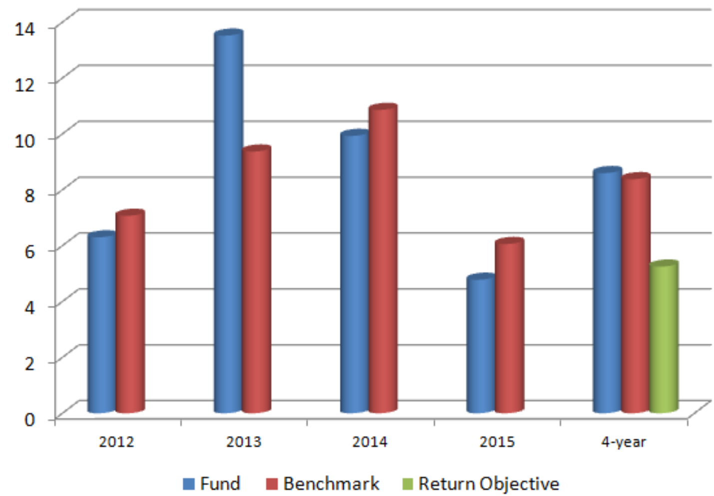
$7.5 MILLION

Solvency deficit payments paid by the Employer

10-Year Cumulative Contributions (x000's)

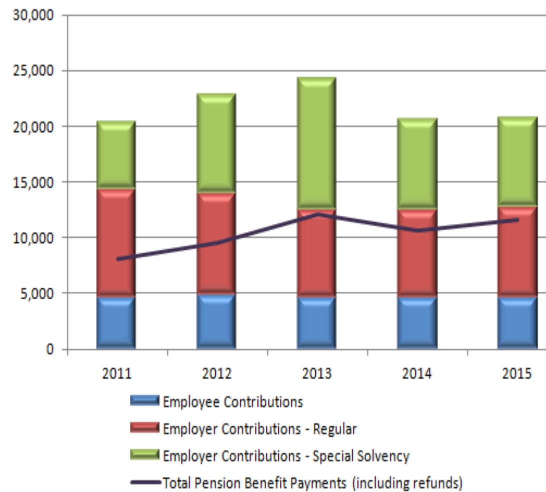


Rate of Return (%)



Asset Mix

Funding Mix



Membership (2015)

A YEAR IN REVIEW

The Canadian Forces Non-Public Funds Employees Pension Fund achieved a positive investment return of 4.3% in 2015, and the market value of investments increased from $264.5 million to $287.6 million.

Although it was, without doubt, a challenging year for financial markets, the Canadian Forces Non-Public Funds Employees Pension Fund (the Fund) performed well in 2015, with an increase of $23.1 million in assets. Reflecting slow global economic growth, greater market volatility and modest returns throughout the year, the Fund earned an investment return of 4.3%. Not surprising, given the investment environment, this is down from last year's return of 9.9%.

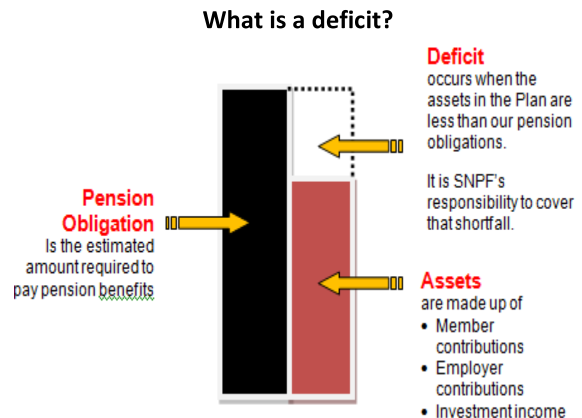
The Plan remains fully funded on a going-concern basis, which means there are sufficient assets to pay pension benefits on an ongoing basis. At the end of 2015, the funding ratio was 125% up slightly from the funding ratio of 123% at the end of 2014. This increase is due mainly to positive investment returns and the over $7 million in additional payments made in 2015 by the Staff of the Non-Public Funds (SNPF) toward reducing the solvency deficit.

On a solvency basis (which hypothetically assumes that the Plan would be terminated on the date of the valuation), the Plan had a deficit of $48 million, compared with $42 million at the end of 2014, and a solvency ratio of 85.6%. This means special payments to reduce the deficit will continue in 2016.

Staff of the Non-Public Funds (SNPF) pays $2 in regular Employer contributions for every $1 paid by members. In addition, SNPF makes special payments toward the solvency deficit. Since 2009, those special payments have totalled over $46 million. Looking to the future, an asset liability modelling study was conducted in 2015 to project how our Plan's assets and obligations would be affected by various economic and investment conditions.

The study showed that our Plan is expected to stay in a solvency deficit for the next 10 years. It is becoming clear that interest rates, the main driver of our Plan's solvency deficit, are not expected to rise in the foreseeable future. The prospect of having to fund our solvency deficit over the long term is a growing concern.

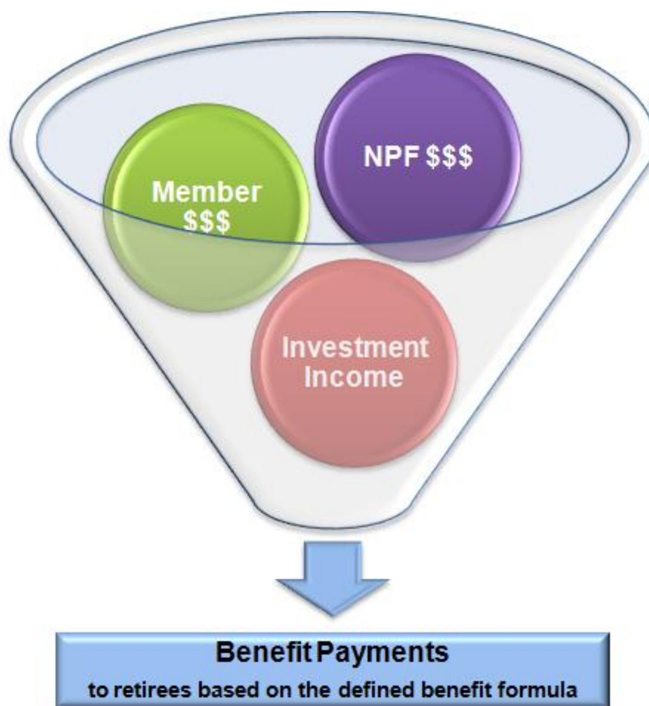
What is a deficit?



How the Plan works for you…

You make pension contributions during your working years. SNPF also makes contributions in order to fund the pension plan's promised pension benefits. Member and employer pension contributions are invested according to the Plan's Investment Policy, using a balanced and diversified approach.

Pension obligations (the promised benefits) are determined by plan provisions, such as the benefit formula, early retirement eligibility, and bridge benefits. Investment income helps to increase funds available to pay the pension obligation. Any deficit between available funds and the cost of the pension obligation is the responsibility of the Employer.



You and SNPF fund your Plan

The contributions you and SNPF make now and in the future make it possible for you to receive pension benefits while in retirement. Investment returns add valuable funds to the Plan but can be unpredictable.

Your pension does not depend on how much you contribute to the plan or how well the pension fund investments perform.

Did You Know?

The average member age is	**44.6 years**
The average pensioner age is	**71.9 years**
The average years of member service is	**7.3 years**
The average annual pension payable to retirees is	**$7,610**

PENSION CHALLENGES

Pension plans in Canada – a changing picture

There have been significant changes in retirement in recent decades. For example, Canadians are living longer and retiring earlier. In the 1960s, the average worker retired at age 65. He or she could expect to live for another 15 years. Now, the average employee retires at age 60. He or she can expect to live for another 25 years.

Defined Benefit (DB) pension plans pay a fixed monthly pension to retirees for as long as they live. With people living much longer, DB pensions are being paid for 50% more years on average than they were in the 1960s which requires more funds to make those payments. Many retirees are receiving pension payments for more years than they paid into the plan.

Evolution of pension plans

Pension plans in Canada trace their roots back to the 19th century. Early plans had no employer contributions and no guarantee that pensions would be paid to retirees. After the Second World War, the economy was booming, new jobs were created, and birth rates increased significantly ("the baby boom"). Employers were offering DB pension plans to attract and retain employees. The plans provided employees with financial security after retirement by guaranteeing a monthly pension based on their earnings and years of service.

Many DB plans had a normal retirement age of 65 at the time, including the federal Public Service Pension Plan.

In the 1970s, the baby boomers started entering the workforce. Employers made room for this new wave of workers by offering incentives to older employees to retire early.

Into the 1980s, the country had periods when inflation was high. This inflation increased the cost of living and made it difficult for retirees living on a fixed income. Pensions were increased to cover the cost of inflation, usually with a one-time increase in benefits.

There followed a period, **in the 1990's**, when investment markets gave DB pension plans strong returns every year. Many plans had healthy surpluses meaning they had more money than they needed to pay benefits. Some plans used these surpluses to provide more inflation protection either on an ad hoc or permanent basis.

In the 2000's, investment market returns were much more unpredictable than in previous decades. The financial crash of 2008 pushed most DB pension plans into significant deficits meaning they had less money than they needed to pay benefits. Many plans have been unable to recover and funding DB pension plans became a major concern for employers.

Why Defined Benefit plans need to adapt

Defined benefit pension plans across Canada are facing unprecedented challenges. Today is very different from previous decades. Birth rates are lower and people are staying healthy and productive for longer. The massive wave of baby boomers is at or approaching retirement age. Early retirement incentives are not needed the same way as in the 1970s. Interest rates have dropped to record low levels and are staying there, keeping the cost of pension obligations high. DB pension plans are struggling with financial pressures due to factors beyond their control.

Most DB plans are still in a deficit. This means their pension obligations (what the plans owe) are greater than the value of their assets (their available funds). Pension deficits are a huge financial challenge to employers, and also of concern to employees and governments.

DB pension plans still exist, mainly in the public sector, but very few new plans are being created. In the private sector, the number of DB plans has fallen by more than 30% in the last decade, as DB plans are being converted to Defined Contribution (DC) plans.

Employers who sponsor plans, pension experts and employee groups are all looking at ways to tackle the challenges facing pension plans today. Many organizations are considering or have already made plan design changes, such as Ford, the Ontario Teachers' Pension Plan, the Bank of Canada and the Province of New Brunswick, just to name a few. The Canada Pension Plan (CPP) has increased the penalty for taking CPP early. The federal Public Service Pension Plan introduced a later retirement age and increased member cost sharing. Other plan changes include eliminating indexing, removing or reducing early retirement provisions, and increasing member contributions. Even some public sector pension plans have been converted to DC plans to ensure predictable funding costs.

Pension plans have evolved in the past based on changing needs and conditions. Employees and employers need pension plans to be sustainable, provide appropriate benefits and be affordable. To meet these shared goals, pension plans are adapting again to protect future benefits.

HOW DOES THIS AFFECT OUR PLAN?

Defined Benefit plans in general are struggling as a result of low interest rates and unpredictable investment markets. Over 90% of Canadian DB plans have a solvency deficit. Our Plan's solvency funding level of 86% is similar to the average DB plan in Canada. But, pension law requires employers to make special payments to return their plans to a fully funded level. Maintaining long-term deficit funding is getting harder each year. Investment returns alone cannot be relied upon to bridge the gap.

Understanding the Challenges of Your Pension Plan

The environment	The efforts	The challenge
People are living longer. Number of retired members compared to active members is growing every year. This means our pension payment obligations are increasing every year. Chronically low long-term interest rates are keeping the Plan in solvency deficit. Volatile investment markets have less predictable returns to bridge the gap between assets available and assets needed to fund pension obligations. Funding the plan deficit within a limited period of time is required by law.	SNPF has contributed $84.5 million in regular contributions to the Plan since 2005. Over and above this amount, $47.4 million has been paid in special payments to cover deficits. That means SNPF has paid over 75% of total pension costs over the past 10 years. We're taking steps toward sustainability: • Exploring funding options, • Investments in certain asset classes such as real estate and infrastructure to help achieve more stable investment returns …but more is needed to address the pension challenges. SNPF and your Pension Board are dedicated to managing and administering the Plan prudently and effectively.	The **immediate issue** is that the Plan's deficit cannot be funded at this level indefinitely. The proportion of funding paid by SNPF is not sustainable in the long-term. Deficit funding continues to exert financial pressure on available operating funds. The Asset Liability Modeling study indicates that, without change, the Plan's deficit situation is expected to continue for the next 10 years. **Status quo is not an option.**

Your Pension Board believes that a Defined Benefit pension plan is the best approach to ensure the post-retirement financial security of plan members. But, changes within the Plan may be necessary to protect future pension benefits. The current pension environment has fundamentally changed from when DB plans were created and our Plan, like many others, may have to adapt to the new environment.

Over the next 12 months, your Pension Board will be actively studying options and alternative approaches to ensure our DB Plan is sustainable. We are committed to keeping you informed as decisions are made on the way forward.

WHAT'S NEW?

Your pension plan has been amended...

The pension plan was revised, effective April 29, 2016, to comply with the Pension Benefits Standards Act's 50% contribution rule. This rule applies to members if their plan membership stops, they retire, they die before retirement or if the plan is terminated. The rule requires employers to pay at least 50% of the transfer value of the member's pension benefits. Member contributions plus interest that make up more than one-half of the transfer value of a member's pension benefits must be used to increase the member's pension benefits.

In addition, the income replacement benefit, paid to employees in Quebec while awaiting a worker's compensation decision, is no longer considered as an earning for pension purposes. Since the payment is a benefit, not a wage, and is refundable if the worker's compensation claim is denied, it does not qualify as pensionable earnings. Pensionable earnings during a worker's compensation claim is based entirely on deemed earnings.

A new version of the pension booklet will be posted on the pension website shortly.

Your pension plan website has changed...

A major re-design of the pension website was undertaken in 2015, introducing new information and tools, as well as links to crucial government websites. You can also find information on retirement options, post-retirement wellness, pension governance, member issue escalation, and much more. Check it out!

Keeping track of plan members.....

One of the pension administrator's most difficult tasks is keeping track of members once they leave active employment. Please do your part by ensuring your home address is kept up to date at all times.

If you would like more information about your defined benefit pension plan, there are several options available to you:

- Contact Coughlin and Associates by email at npfpension@coughlin.ca or call toll-free at **1-888-613-1234**.
- Visit the HR Website at https://www.cfmws.com/en/EmployeeZone/Pages/default.aspx
- Contact your local Human Resources professional.