CERi PENSION PLAN

MEMBER NEWSLETTER

Welcome to your first CERi Plan member newsletter

Over the past year, the Board of Trustees of the Canadian Energy and Related Industries Pension Plan (the CERi Plan) has engaged and been working with pension and legal advisors to assist with implementing changes to the CERi Plan. These changes are aimed at giving our members access to a pension plan that will provide them with a solid foundation on which to build a financially secure retirement.

This is the first in a series of newsletters, designed to update you – our current CERi Plan members, and those employees who are currently earning benefits in the Pension Plan for the Public Service of Canada (the PSPP) and are prospective CERi Plan members – on the Board's recent and planned activities.

First, we've provided a summary of how the CERi Plan came to be, and what we're working toward. We've included details of our progress to date as well as what remains to be done.

Second, we're highlighting some of the differences between types of pension plans so that you understand our goal – to transition from a multi-employer defined contribution pension plan to a multi-employer target benefit type of pension plan – and why we believe that this is the best pension arrangement for CERi Plan members.

To complement the information you'll find in these pages, we'll also be facilitating in-person meetings in the near future. At these sessions, you'll be provided with more detailed and up-to-date information about our progress, and what you can expect moving forward. You'll also have every opportunity to ask questions.

It is our primary objective to ensure that you remain well-informed as to our progress, and know that we are working – always – in the best interests of CERi Plan members.

In service,

Alex McKinnon, Chair

ISSUE 1
AUGUST 2018

The CERi Plan and our progress to date

HOW WE GOT HERE

The decision by the previous government to sell the AECL assets in Candu Energy Inc. (SNC Lavalin) and implement the GoCo model for Canadian Nuclear Laboratories (CNL) left employees unable to continue participating in the PSPP. The CERi Plan, a union sponsored, multi-employer pension plan, was created as an alternative for employees who are no longer able to participate in the PSPP or were hired after the sale, and for some of those who will be leaving the PSPP in September 2018.

The PSPP is a defined benefit (DB) pension plan – it provides a pension benefit based on a formula that uses a member's final average earnings and years of service. It also provides ancillary benefits, such as an unreduced pension on retirement before age 65 (when meeting certain service requirements), annual inflation adjustments and survivor benefits. PSPP members contribute to the plan at fixed percentages of their earnings, with the balance of the required funding for benefits being made by the Government of Canada. Total contributions to this plan are not fixed in advance or certain, while the benefits are certain.

Since participation in the PSPP was closed for our current, and soon-to-be, CERi Plan members, the objective of the Board has been to provide the best possible replacement for the PSPP's DB-type of pension benefit. It should be noted that implementing a DB-type of pension in the CERi Plan poses challenges not faced by the PSPP, including:

- the CERi Plan doesn't have the security of the Government of Canada's backing for the funding of benefits; however, it will be fully compliant with federal pension regulations;
- although most CERi Plan members' pension contributions (employees' and employers' negotiated contributions combined) will be at or close to the maximum allowed under federal law, these are still less than the level of contributions to the PSPP (employees' and government's contributions combined); and
- the CERi Plan contributions are negotiated and fixed whereas, in the PSPP, the government is responsible for providing additional contributions if investment returns are less than expected.

Given these limitations, the best alternative to the PSPP is a multi-employer target benefit plan, which has been the Board's mandate from inception.

Go to **page 6** for details on the different types of pension plans.

However, there are federal regulatory requirements currently in place (specifically, solvency funding requirements) that make the desired transition to a target benefit pension plan prohibitive, in terms of our ability to provide pension benefits to CERi Plan members that are reasonable in relation to the contributions that have been negotiated and in comparison to the PSPP's benefits. For this reason, with support from our advisors, we have actively been lobbying the Government of Canada for an exemption from the *solvency funding* regulatory requirements that currently apply to all federally-regulated pension plans, whether they are single-employer plans or multi-employer plans such as ours. This exemption would enable the Board to implement a multi-employer target benefit pension plan design, formally known as a multi-employer *Negotiated Contribution Plan* under the federal pension legislation.

Solvency funding measures a plan's costs assuming the plan suddenly stops operating, and that all pension benefits earned must be immediately paid out to members in a lump sum amount.

CERi is requesting an **exemption** from the solvency funding rule, since:

- the plan is not anticipated to stop operating in the foreseeable future;
- applying solvency funding is not appropriate for a multi-employer pension plan with fixed contributions, since an increased cost caused by the solvency measurement does not result in increased contributions from the employer (as is the result for plans sponsored by single employers). Instead, it results in reduced benefits; our analysis indicates that applying the solvency funding rule would mean a reduction in members' pension benefits of 30% or more, in comparison to the benefit level that could otherwise be implemented in a target benefit design for the CERi Plan, if the solvency funding requirements did not apply; and
- all other major provincial pension regulators have moved away from requiring solvency funding for multi-employer plans – only the federal government still requires it.

NEXT STEPS

Together with the lobbying effort described above, the Board continues to move forward with the foundational analysis, governance and structural work required to ensure that we are ready to implement and manage a multi-employer target benefit pension plan as soon as we determine that it is feasible to do so.

KEY MILESTONES AND TIMING

DATE	MILESTONE	NOTES
October 2, 2014	Defined contribution (DC) plan started.	Originally started by the Society of Professional Engineers and Associates (SPEA) for SPEA members working at Candu Energy.
January 2017	CERi Plan becomes a multi-employer pension plan (MEPP) when CNL new hires joined the plan.	• Eligible to provide a target benefit pension plan structure under the federal pension laws, as a *Negotiated Contribution Plan*. • The CERi Plan is currently a defined contribution pension plan.
Fall 2017-Winter 2018	Eckler Ltd., Koskie Minsky LLP, BDO LLP and Aurora Strategy Group engaged as advisors to the plan.	• Eckler provides actuarial analysis, design and other consulting services, including project management, investment and communication consulting. • Koskie Minsky is counsel to the plan, providing legal and regulatory advice. • BDO provides audit, tax filing and related advice to the pension fund. • Aurora is leading the solvency funding exemption lobbying effort, in coordination with the Board and other advisors.
	Statement of Investment Policies & Procedures (SIPP) updated and approved.	SIPP reflects current investment objectives, policies and procedures for the current DC plan design.

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April 2018	Request for Solvency Funding Exemption prepared and submitted.	Submission sent to Minister of Finance, circulated to other Ministries and Finance Canada.
	Data received from Candu Energy and CNL.	Membership data and collective agreement documentation required for actuarial analysis.
June 2018	Asset allocation strategy analysis for target benefit pension plan implementation.	Investment strategy decided for member/employer contributions to be made toward target benefit formula.
	Solvency lobbying efforts continued.	Meetings with Finance Canada and senior policy staff for Minister of Finance, Minister of Public Services and Procurement, and Treasury Board.
	Communication strategy and rebrand.	Strategy and new branding put in place to better communicate the current plan and ongoing efforts. Easier recognition of plan materials.
July 2018	Completed investment manager analysis, interviewed three short-listed managers.	Greystone Managed Investments and Phillips, Hager & North selected. These two managers will invest member/employer contributions to be made toward target benefit formula, once in place.
	Preliminary target benefit pension plan design analysis completed based on member demographics.	Additional analysis being prepared.
	Pension fund audited statements presented, approved and filed with regulator.	
	Engaged legal firm Deeth Williams Wall (DWW) LLP.	DWW to pursue trademark search and trademark registration for CERi name and logo.
August 2018	CERi Plan Newsletter emailed to current/prospective plan members.	
September 2018 and onward	In-person meetings for current/prospective plan members.	Provide detailed and up-to-date information, what to expect moving forward. Opportunity for Q&A. Meeting dates to be announced.

We are pleased with the progress we've made, but the process is complex.

We believe that the solvency funding exemption we are requesting from the government is justified by the unique circumstances of the AECL privatization and the CERi Plan. Our communications with government and federal pension policy staff are ongoing, and we are optimistic and hopeful that the CERi Plan will receive this exemption.

The Board is continuing to work with its advisors, focusing on these main areas:

- Meet and follow-up with policymakers and politicians to push for a solvency funding exemption;
- Review and execute contracts with Greystone Managed Investments and Phillips, Hager & North;
- Complete additional required analysis and approve final target benefit pension plan design, to be implemented once we secure the solvency funding exemption;
- Grow the Plan through discussions with other groups who have expressed interest in the CERi Plan; and
- Start process for hiring a target benefit fund custodian and administrator.

A Multi-Employer Target Benefit Pension Plan

HOW IT WORKS AND WHAT IT MEANS TO YOU

Under Federal pension legislation, a multi-employer target benefit type of pension plan is referred to as a *Negotiated Contribution Plan:* a multi-employer pension plan that has a defined benefit pension formula and under which all participating employers' contributions are set in accordance with a collective agreement.

In January 2017, the CERi Plan became a multi-employer defined contribution pension plan. This is the type of plan in which current CERi Plan members participate, and in which prospective members will participate, effective September 13, 2018.

As noted, our goal is to transition to a multi-employer target benefit (TB) pension plan.

There are many reasons why we have concluded that a TB pension plan is the best type of pension arrangement for our members. To better understand these reasons, we thought it best to explain the differences between each type of pension plan.

How a TB pension plan works is a bit different than how either traditional defined benefit (DB) or defined contribution (DC) plans work.
In fact, it's sort of like a hybrid of the two, where there are fixed, pre-set contributions (what goes into the plan, as with a DC plan), as well as a TB pension formula (what you expect to receive as a monthly pension at retirement, as with a DB plan).

The goal for a TB pension plan is, of course, to maintain a sustainable formula that provides a predictable future pension benefit for you – and all members.

An important thing to remember: TB pensions are paid for life, and longevity and investment risks are shared by all members, which means you don't have to worry about how to invest your own money while working, or after you retire, or about outliving your savings once you are retired. Because the contributions are fixed and the benefit formula is a target, the benefit can be decreased or increased. There are several factors that lead to a TB plan being expected to produce a higher and more predictable amount of monthly pension per dollar contributed, than is expected to be delivered through a member's individual account in a DC plan, the key ones being:

- the pooling, or sharing, of risks (primarily, risks of investment volatility and of outliving your savings) over all members, rather than being borne by members individually;
- the investment of plan contributions by professional investment managers in line with an investment strategy appropriate to the plan membership in aggregate; and
- access to sophisticated investment management at lower investment management fees is achieved by investing assets in one large fund, rather than in many smaller individual member accounts.

DEFINED BENEFIT (DB) PLAN

It's the benefit – the amount of money you get out of the plan (your monthly pension benefit) – that is defined by a formula, typically related to your earnings and years of service.

The assets in the plan are pooled and managed by investment professionals hired by the plan sponsor, which typically leads to better investment returns than returns for individuals investing on their own.

Risks are pooled over all plan members and funding shortfalls are made up by the employer – by increased contributions.

DEFINED CONTRIBUTION (DC) PLAN – CURRENT CERi PLAN TYPE

It's the amount of money that goes into the plan (your and your employer's monthly contribution) that is defined and fixed.

Your income in retirement is dependent upon the lump-sum accumulated total of the contributions made to your DC account, investment earnings on those contributions, and what retirement income that total will provide at your retirement.

Investment and longevity risks ("outliving retirement savings") are borne by plan members individually.

TARGET BENEFIT (TB) PLAN

A hybrid plan with a pre-set formula – for contributions made to the plan and for the monthly benefit that plan members receive at retirement.

The assets in the plan are pooled and professionally managed by investment professionals hired by the plan trustees, in a similar fashion to DB plans.

Investment and longevity risks are pooled over all plan members and shared collectively.

Contributions are fixed, so funding shortfalls are not made up by the employer. This means that the plan does not provide a benefit guarantee and must have the ability to decrease or increase benefits.

A note about the current CERi Plan

HOW THE PLAN WORKS

The CERi Plan in which members currently belong – and that prospective members will join effective September 13, 2018 – is a defined contribution pension plan.

Under a DC plan, the employee and the employer make contributions according to their respective bargaining agreements, which are deposited to an account in the plan member's name.

Contributions within each individual member account are invested in the Manulife Balanced Index Portfolio Fund. At retirement, the member's account balance – the total contributions plus net investment earnings on those contributions – is used to provide the member with retirement income.

FOR EXISTING MEMBERS

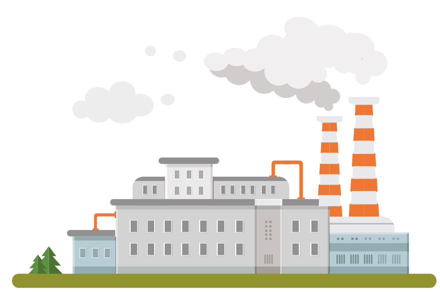
Learning more about the plan, and/or to view details about your plan member account, is easy. Simply visit the Manulife VIP Room (**https://viproom.manulife.com**).

You will first need to register with Manulife to access your account online. To do so, you will need the USER ID and PIN, both mailed to you after you enrolled in the Plan. Then simply follow the online instructions.

Need immediate assistance? A Manulife representative is available at 1 800-242-1704, Monday through Friday, 8 a.m. to 8 p.m. ET. Representatives can guide you through the registration process, and can provide you with detailed account information. The CERi Plan number is RS105099/001.

FOR NEW/PROSPECTIVE MEMBERS

To register with Manulife for online access, you must be enrolled in the CERi Plan. Enrolment will occur later in September for employees who are leaving the PSPP and eligible to join the CERi Plan. Employees who have previously joined the CERi Plan are already enrolled.



Learning more in a location near you!

We know that reading a newsletter just isn't the same as having the opportunity to listen to someone knowledgeably speak about the same topic or to be able to ask questions.

That's why you can look forward to in-person sessions – to be held in the months of September and October – that are designed to:

- Update you on progress we've made following the publication of this newsletter;
- Provide some additional context around, and education about, the CERi Plan – both the current DC plan and the TB pension plan design to be implemented;
- Outline the outcomes and expected timing related to our lobbying efforts; and
- Enable an opportunity for all members to ask questions.

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