The Pension Plan of the United Church of Canada

Funding Policy

A. GENERAL

The Pension Plan of The United Church of Canada (the "Plan") is a multi-employer pension plan maintained for the benefit of eligible employees of Participating Employers ("Participating Employers"). The Plan is sponsored by the Participating Employers, which include pastoral charge employers (i.e., pastoral charge and mission units of the Church having members employed in pensionable service) and certain administrative employers, organizational employers and conditional employers.

The Executive of the General Council (the "Executive") is the Plan Administrator pursuant to the Pension Benefits Act (Ontario), and has established the Pension Board (the "Board") to support the Executive in governing, managing and operating the Plan and the Fund. The Board has in turn delegated certain functions to the Pension Plan Advisory Committee, Investment Committee and Staff. Any and all of the foregoing parties may from time to time establish special purpose supporting standing sub-committees, and/or ad hoc units. Each of these entities operates pursuant to its own specified written terms of reference, as well as within an integrated governance framework and in accordance with the terms and provisions of written supporting functional documentation and applicable legislation and government regulations. Further support and assistance is provided through external providers engaged by the Board and its Committees.

One of the documents which the Board has established in support of the Plan's goals, is the Funding Policy (the"Policy"), as set forth herein.

B. PURPOSES

The purposes of the Policy are to:

1. Guide decisions of the Board and all its delegates concerning Plan funding and contribution and benefit levels, based on principles in the Statement of Beliefs and Guiding Principles (the "Statement") including:

   - The Plan Administrator and all its delegates must be guided by what is in the best interest of the Plan members in all investment and administrative activity. In matters relating to plan design and funding, the broader interest of the Church and Participating Employers should also be considered.
   - Retirement income from the Plan should maintain its real value over the long term subject to available funding.
   - Funding levels must ensure a high level of certainty regarding the security of benefits under the Plan.
   - Contributions from the pastoral charges, other Participating Employers and members should be stable and predictable.
   - Equity among the membership generations is desirable in terms of contribution levels and allocation of surplus to fund future benefit upgrades or Plan improvements.

2. Articulate such guidance through clearly defined steps, to communicate with all stakeholders, particularly Plan members and their beneficiaries; and

3. Promote good governance of the Plan and the Fund, including compliance with all applicable legislation and documentation. Within the context of Plan funding, this means maintaining sufficient funding of the Plan, in concert with benefit levels deemed appropriate and affordable. This is a particular issue for multi-employer plans, as benefit levels may be decreased if the level of contributions is deemed inadequate and increasing contributions is not feasible.

C. POLICY REVIEW

The Policy is a living document and should be reviewed for applicability under various economic conditions and Plan situations such as a significant change in asset performance or mix or changes in the beliefs and guiding principles or plan design, with the over-riding goal of Plan sustainability. In any event, it should be reviewed not less frequently than before each scheduled actuarial valuation.

Actuarial valuations will be conducted at least every three years, or earlier to comply with legislation or regulatory requirements or if the Plan Administrator deems it to be warranted. Whenever an actuarial valuation is conducted, consideration should be given to undertaking an asset liability study and/or experience study in conjunction therewith.

The review of this policy may suggest that an off-cycle actuarial valuation, asset liability study and/or simplified stress tests are warranted.

D. ACTUARIAL BASIS

1. The selection of actuarial methods and assumptions underlying ad-hoc actuarial studies and other actuarial funding valuations should be consistent with the dual goals of targeting level contribution rates for Plan members and Participating Employers while, at the same time, striving to ensure that assets remain sufficient to fund the Plan.

2. In selecting actuarial assumptions and methods, it should be assumed that the Plan will remain a Going Concern.

3. Asset/Liability Smoothing Methods may be applied, with a smoothing period as permitted by legislation for the purpose of smoothing contributions over the expected economic cycle.

4. Actuarial assumptions will be best estimate assumptions, with an appropriate margin for adverse future deviations in experience.

5. Actuarial valuation results for ad-hoc actuarial studies could include projections of funded status beyond the date of the actuarial valuation to permit a review of medium to long term funding.

E. FAVOURABLE PLAN FUNDING LEVELS

Making a decision on the level of reserves to hold in a pension plan is partly science and partly art. If there are medium/long term improvements in funding which are perceived to be sustainable, benefit improvements and/or future contribution reductions may be considered. Guidelines include:

1. The Plan Administrator should strive for a minimum funding "buffer", to allow for adverse experience to avoid benefit reductions and allow for possible benefit upgrades and/or contribution reductions.
2. The buffer should be determined using the actuarial bases employed in the Plan's most recent funding actuarial valuation report.
3. The minimum buffer required before benefit improvements can be considered is such that:
   (i) Solvency Assets must exceed Solvency Liabilities by at least 10%, and
   (ii) As measured on a past service basis, there should be a Going Concern Funding Excess of at least 5% of Going Concern Liabilities.
4. Once the minimum buffer is reached, benefit improvements will be considered. To the extent that any benefit improvements are granted, the associated cost must not reduce the buffer below the minimum level.

Benefit improvements may be implemented in respect of either or both of past and future services occurring after the effective date of the improvements.

After taking into account a holistic view of the Plan's current and projected future financial status, future contribution reductions may be considered, instead of or in addition to benefit improvements.

At all times, Plan benefit and contribution levels must be developed and maintained in compliance with applicable legislation and regulatory requirements, including any prescribed limits thereof.

<u>Managing the Buffer</u>
Maintaining the buffer above a specific level could be a challenge due to its inherent volatility, which can be impacted by many factors, including:

1. The proportion of Equities (and other risky assets) versus Fixed Income in the Asset Mix policy, and

2. The composition of the Equity and Fixed Income portfolios.

And, to a lesser extent,

3. Mortality and other demographic factors and

4. Changes to benefits and/or contributions in response to inflation and salary growth, taking into account the Plan's financial position.

It may be appropriate to review the target buffer, especially if the Asset Mix changes materially.

Higher levels of equity risk would create a need for higher asset levels through a higher target buffer.

F. FUNDING CONCERNS

The following Guidelines pertain to a situation where there are funding concerns.

1. If there are short-term concerns with Plan funding, contribution and benefit levels should remain unchanged. No benefit improvements should be granted until the funding concerns have been addressed.
2. If there are medium/long term concerns with funding, consideration should be given to undertaking an ad-hoc actuarial study to determine what, if any, changes might be required to benefit levels, contribution rates and/or investment policy.
3. In the event that an actuarial valuation indicates that a continuation of current contribution levels is inadequate to satisfy legislative or regulatory requirements, benefit reductions and/or contribution increases will be considered unless an alternative solution can be determined and implemented before any applicable deadline.
4. As a multi-employer pension plan, benefits may be reduced if deemed necessary, where applicable legislation allows. However, the Plan provisions indicate that prior to Plan wind-up, no reduction will be made to benefits accrued before 2003. Should benefit reductions be deemed necessary and to the extent that legislation precludes even-handed application of such reductions across the Plan membership in all jurisdictions, the Plan Administrator may consider additional measures with a view to maintaining reasonably equitable treatment among the members.

GLOSSARY

Word/Term	Description
Asset Mix	Percentage of an investment portfolio that is invested in each of the three major classes of assets: (1) cash and equivalents, (2) Fixed Income and, (3) Equities.
Board	The Board or Pension Board is comprised of individuals appointed by the General Council Executive to perform certain oversight functions associated with the Plan.
Equities	Equities are pieces of a company, also known as "stocks." When you buy stocks or shares of a company, you're basically purchasing an ownership interest in that company. A company's stockholders or shareholders all have equity in the company, or own a fractional portion of the whole company.
Fixed Income	Fixed income investments generally pay a return on a fixed schedule, though the amount of the payments can vary. Individual bonds may be the best known type of Fixed Income security, but the category also includes bond funds, exchange-traded bond funds (ETFs), Certificates of Deposit (CDs), and money market funds.
Fund	The assets of the Plan including assets received from prior funds and investment income and contributions remitted by members and Participating Employers.
Going Concern	Going concern means “continuing”. Going-concern liabilities represent the expected cost of the promised pension benefits based on the assumption that the Plan is continuing. The terms Going Concern Liabilities and Going Concern Funding Excess as used herein refer to concepts appearing in the most recent funding actuarial report for the Plan.
Plan	The Pension Plan of The United Church of Canada.
Participating Employers	Administrative employers, conditional employers, organizational employers and/or pastoral charge employers who are required to or have elected to participate in the Plan.

Plan Solvency	Funding actuarial reports determine the Plan’s financial position and contribution requirements on a Solvency basis, in addition to the Going Concern basis, in accordance with legislative and regulatory requirements. “Solvency” results are based on the assumption that the Plan is winding up or closing (in contrast to the assumption that the Plan is continuing to operate or remaining a “Going Concern”). The terms Solvency Assets and Solvency Liabilities as used herein are as defined under the Ontario Pension Benefits Act and Regulations thereunder.