Questions Pertaining to the DB Plan

1. **With the PAOC Pension Fund registered federally, and yet contributors being across Canada, why is the Pension Fund's registration in Ontario?**
   Although the Plan does have members across Canada, the plurality of the membership resides in Ontario. And therefore, for funding purposes, the Plan is required to be registered in Ontario. It may be worth noting that individual member benefits are administered according to provincial legislation where the member resides. This would be the administration of cases due to an event occurring, such as retirement.

2. **Is the age still 71 where a member must begin receiving pension funds?**
   Under the DB plan, yes, a member must begin receiving a retirement stream at age 71.

3. **Given the dependence of the Pension Plan on church mortgages, how concerned should we be that the significant impact of the coronavirus pandemic and its potential for church buildings to lose real or perceived value in the ongoing reality could erode Pension Plan funding?**
   In general, our churches are able to maintain ongoing mortgage payments, with less than 20% of churches taking up our offer for deferred principal payments of up to 6 months. As long as payments are current or are within agreed upon terms (e.g. 6 months deferred principal payments) there is minimal risk of reduction in value of church mortgages, or of impact on Pension Plan funding.

4. **Have there been any material changes in the investment portfolio since the December 31, 2019 statement?**
   The overall portfolio as at May 31, 2020 has decreased in value by only 1% since the December 31, 2019 financial statements.

5. **Will there be any increase in the Pension amount paid to recipients this year?**
   During our 2018 General Members Meeting, it was advised that once a surplus in the Fund is reached, consideration will be given to re-engaging the cost of living allowance (COLA), restoring benefits that were previously reduced for contributors, and repatriating a percentage of special contributions back to employers. While we have made significant gains in the Pension Fund and while this remains our goal, we are not in a position to take such action at this time, noting the economic uncertainty caused by the coronavirus pandemic. We will continue to work with our Actuaries and Board of Trustees toward this goal.

6. **What was the return on investment (ROI) for equities in 2019?**
   The ROI for equities was 14.0% in 2019.

7. **I am nearing retirement. Will my cash pension be affected due to the coronavirus?**
   Your pension payments can be strongly expected to be made as calculated upon retirement. As at July 10, 2020, it is quite unlikely that the coronavirus will affect the level of payments you receive. The DB pension plan was in a healthy position as at December 31, 2019 with an estimated Going Concern Funded ratio of 113.3%, which is well above the required threshold. The next valuation will not be required until December 31, 2022. With our new status as a Specified Ontario Multi-Employer Pension Plan, the likelihood has been significantly reduced that the Defined Benefit Pension plan will require special contributions going forward.

8. **Are we in a position that will require employers to make additional payments in light of the equity losses in 2020?**
   No. Our pension remains in a surplus position as at the latest full actuarial valuation on December 31, 2019. The next actuarial valuation is scheduled for December 31, 2022. Even with equity losses in 2020, special payments are not expected to be required through to December 31, 2022. If a full actuarial valuation was completed as at April 30, 2020, our pension is estimated to be in a surplus position, such that no special payments would be expected.

9. **Does this mean that employers do not have to top up if there is a shortfall?**
   If there is a shortfall in the DB plan, it remains possible that employers will have to make special contributions. However, with our new status as a Specified Ontario Multi-Employer Pension Plan, the likelihood has been significantly reduced that the Defined Benefit Pension plan will require special contributions going forward.

10. **Does the Specified Ontario Multi-Employer Pension Plan (SOMEPP) designation mean that employers do not have to top up if there is a shortfall in the pension plan on any basis?**
    The SOMEPP designation significantly reduces the likelihood that the Defined Benefit Pension plan will require special contributions going forward, but does not eliminate the possibility of special contributions. We will be required to adhere to going concern funding requirements only, not solvency funding requirements <u>and</u> going concern funding requirements.

11. **What is the Threshold percentage that the plan would have to maintain before employers may have to pay additional top-up payments?**
As the Plan is only required to fund on a going concern basis moving forward, no additional employer special contributions will be required a long as the Plan maintains a going concern funded position above 100%.

12. **In light of recent downturns in the market, what impact is anticipated for pension revenues?**
As at May 31, 2020, the overall return on investment is – 0.3%. Our pension remains in a surplus position as at the latest full actuarial valuation on December 31, 2019. The next actuarial valuation is scheduled for December 31, 2022. Even with equity losses in 2020, special payments are not expected to be required through to December 31, 2022. If a full actuarial valuation was completed as at April 30, 2020, our pension is estimated to be in a surplus position, such that no special payments would be expected.

13. **Are we in a position that will require employers to make additional payments in light of the equity losses in 2020?**
No, employers will not be required to make additional payments in light of equity losses (as at May 31, 2020). With an estimated going concern funded ratio of 113.3% as at December 31, 2019, a significant buffer exists before additional payments would be required due to any equity losses. The next actuarial valuation is scheduled for December 31, 2022. Even with equity losses in 2020, special payments are not expected to be required through to December 31, 2022.

14. **Could previous extra payments be refunded?**
Yes, it is possible that previous extra payments could be refunded in the future, however probability and timing of such payments is unknown at this time. During our 2018 General Members Meeting, it was advised that once a surplus in the Fund is reached, consideration will be given to re-engaging the cost of living allowance (COLA), restoring benefits that were previously reduced for contributors, and repatriating a percentage of special contributions back to employers. While we have made significant gains in the Pension Fund and while this remains our goal, we are not in a position to take such action at this time, noting the economic uncertainty caused by the coronavirus pandemic. We will continue to work with our Actuaries and Board of Trustees toward this goal.

15. Are members able to transfer from Defined Benefit to Defined Contribution plans if they choose?

DB members will not be able to transfer their DB contributions over to the DC. That stated, DB members can suspend or terminate contributions to the DB plan and commence contributions to the DC plan. We would encourage DB members to continue in the DB plan, so that their known retirement income stream will continue to increase. With our new status as a Specified Ontario Multi-Employer Pension Plan, the likelihood has been significantly reduced that the Defined Benefit Pension plan will require special contributions going forward.

16. If a church in the DB plan closes or terminates from the plan, do its obligations: a) get factored into the actuary's numbers, or b) flow to the rest of the churches?

a) The benefits that were accrued through service with a church that closes or terminates remain in the Plan (i.e. the member does not lose their benefit in a situation such as this). The actuary will continue to factor these members into the calculations. A liability will be calculated for these members, until the benefit is settled.

b) The only way a church obligation would be passed on to other churches is if we have to make additional payments like we did following the 2008/09 financial crisis. However, with the reclassification of the pension plan to a Specified Ontario Multi-Employer Pension Plan, this risk is greatly reduced. Closure of churches should not be much of a concern. If a church is closed there are no more employees and therefore no more contributions or future liability created.

17. What is the advantage of participating in the DB plan instead of the DC plan, for employee and for employer?

<u>Employee</u>

a) The certainty of post-retirement income. The retirement income stream is predetermined based on contributions and removes the uncertainty of just how much the pensioner will be receiving during their retirement years. The income stream will not stop prior to death.

b) Income is stable throughout retirement. This provides future security during periods of market uncertainty.

c) The pensioner can ensure their spouse will be taken care of. Options are available to ensure the surviving spouse will receive an ongoing income stream if the pensioner dies.

<u>Employer</u>

a) Comfort and relief that the employee's financial needs will be taken care of in a certain and stable way upon retirement.

18. **Can an employee participate in both DB and DC plans?**
Technically yes, an employer and employee can participate in both plans. However, please take into consideration the following:
a) There will be added administration for the employer:
- Will be sending payment and file information to PAOC for the DB plan for each employee.
- Will be sending payment and file information to Canada Life for each employee for both the employer portion and the individual RRSP portion.
b) The employee will need to keep in mind their RRSP limits when considering how much can go into the employer portion of the DC and the employee RRSP portion of the DC, after the DB portion has been deducted from the RRSP limits.
- DB and DC contributions go against the RRSP limits, though there is a formula for the DB portion, so the employee will need to ensure they do not over-contribute.

We would encourage DB members to maximize contributions to the DB plan so their known retirement income stream will continue to increase. With our new status as a Specified Ontario Multi-Employer Pension Plan, the likelihood has been significantly reduced that the Defined Benefit Pension plan will require special contributions going forward.

Questions Pertaining to the DC Plan

1. **Does an employer have to match employee contributions to the DC plan? If a church cannot afford to participate in the DC plan, or a credential holder is in between churches and thus does not currently have a participating employer, can the individual participate on their own in the group RRSP, allowing them to take advantage of the low investment fees offered for the group?**
To join the plan an employee must have a sponsoring employer who is also contributing for him/her. An employee who was on the plan and then leaves the employ of the original sponsor (employer) may continue to make voluntary contributions into the plan. This is the only scenario in which an individual who is not an employee or a sponsoring employer may make contributions without an employer match.

2. **Can a minister participate if on Long Term Disability?**
Yes, an existing member could continue to make contributions to the plan while on disability.

3. **Does the DC option obligate you to void the DB? I am currently a DB member and do not have a church at present. I would like to contribute to the new DC plan without giving up the DB Benefits.**
No, if someone chooses to go on the DC option, their DB participation is not voided. An individual who is not presently in a DB church could contribute to the new DC plan without giving up DB benefits. Their status in the DB plan would be considered "Active Non-Contributing". They would receive a retirement income stream which would be based on employer and employee contributions to date. They would not be able to make further contributions to the DB plan while not in a DB church. However, if they become employed by a church that participates in the DB plan, they can start contributing again.

4. **Will there be an online report/package accessible after the online pension meeting? I would like our Board and HR Committee to see the information, but they were not able to join the livestream.**
Please follow this link: https://paoc.org/events/pension-fund-meeting/recorded-meetings.

5. **Are the percentage restrictions in the DB plan also applicable to the DC plan contributions?**
Employers have the freedom to structure matching contributions with employees as they see fit up to a maximum of 18% total.

6. **Can an individual choose which mutual funds their contributions are invested in? Will the RRSP account be in their name (their property) or the property of the church?**
Individuals will direct their own contributions into any fund(s) they see fit from the fund lineup provided. The employer contributions will be invested at the direction of the Board of Trustees. The RRSP account is the property of the employee, subject to any applicable vesting legislation.

7. **Where an individual currently has RRSPs being managed by other managers, what kind of savings might they realize in management fees?**
While every situation is unique, members could reasonably expect to save about 0.8% or more in Investment Management Fees, which could improve to savings of about 1.5% as the DC grows in asset size.

8. **What are the investment plan options in the DC plan (i.e. balanced, low risk, growth, etc.)?**
The options are outlined in the fund lineup. There you will find investment options in all major asset classes and risk tolerances.

9. **With the understanding that RRSP existing funds can be transferred to the DC plan, depending on the RRSP set-up, what should an individual look for in their current RRSP contribution from their church which will enable them to transfer? In a situation where a church currently contributes monthly to a bank-owned RRSP for their employee, can the church redirect that monthly contribution to the DC plan?**

   At this time in order for members to join the plan they must contribute into the RRSP, and the employer into the DC account. So, yes, the church could join the plan and begin directing these contributions into the new DC component of the plan.

10. **What happens to a DC member's investments if they die before starting their pension, and if they die after starting their pension?**

    In either case there should be a named beneficiary who will receive the assets. In the absence of a named beneficiary the assets will go the estate of the deceased.

11. **Are there any other pension plans in Canada that offer both DB and DC plans, where employees have a choice? (We know there are employers that have both DB and DC, but the DB is closed to new members).**

    BMA Benefits does not currently work with any clients who offer both a DB and DC option to employees, however, this certainly does not mean that they do not exist.

12. **What is the advantage of participating in the DC plan instead of the DB plan, for employee and for employer?**

    <u>Employee</u>

    a) Any funds remaining upon the death of the pensioner and spouse will go to the estate, to children, to charity, etc. This assumes that assets contributed into the plan will not run out prior to death.
    b) An employee will be able to utilize RRSP funds for the First Time Homebuyer's Plan and the Lifelong Learning Plan, subject to government requirements.

    <u>Employer</u>

    a) No requirement to make special contributions if investments weaken and/or interest rates drop. However, the risk of this happening has been significantly reduced for the DB plan going forward given the recent change in our status to a Specified Ontario Multi-Employer Pension Plan; the DB will only be required to adhere to Going Concern funding requirements, rather than both Going Concern and Solvency funding requirements.

13. **Will the PAOC maintain involvement with the new DC plan?**
Yes, the Board of Trustees that oversees the DB will also oversee the DC. The PAOC Pension Fund Executive Director will also be involved in monitoring and oversight of the DC. Investments will need to meet guidelines set out in the Statement of Investment Policies & Procedures (SIPP) and will receive input as necessary from the Board of Trustees and the PAOC Pension Fund Executive Director. BMA Benefits will maintain front relationships with employers and employees and will provide ongoing professional financial advice. Canada Life will be the fundholder and provide regulatory reporting, etc.

14. **How will DC funds be invested?**
This is at the discretion of the Pension Fund Board of Trustees. Generally speaking, one could assume that the DC funds will be invested proportionately in asset classes that are nearly identical to those of the DB plan. Following the build-up process which could take approximately 3 to 5 years, those assets in the fixed income asset class will be transferred to the PAOC mortgage fund as appropriate.

15. **Currently, my church contributes to an RRSP each month through my bank. Can my church contribution to an RRSP be directed to DC and also transfer my existing RRSP to DC?**
At this time in order for members to join the plan they must contribute into the RRSP, and the employer into the DC account. So, yes, the church could join the plan and begin directing these contributions into the new DC component of the plan.