**COPE 491 Trustee's Report**

**Joint Board of Trustees (JBT)**

**CUPE Employees Pension Plan (CEPP)**

**Submitted by: Br. Brian Edgecombe**

This is a report of JBT activities for the 2014 year. I continue to serve as your trustee and as Co-Chair for the JBT. I share the Co-Chair responsibilities with Br. Charles Fluery.

Since the 2008 crisis of capitalism and the ensuing historically low interest rates, pension plans across the country have faced challenges. Our plan is not an exception. We have had and, as you will see below, continue to have short-term funding challenges. Various governments have being introducing legislative and regulatory initiatives to provide temporary relief and more permenant solutions, but they have almost always resulted in attacks on workers' and the goal of long-term, secure, and adequate retirement income. Workers have responded by fighting attacks at the bargaining table and by campaigning for an expanded Canada Pension Plan. Expanding CPP is the only permenant solution that will meet our long-term objectives.

**Funding Status of the Plan**

In 2014, our plan continued to be well funded on a long-term basis, but is facing short-term funding challenges. We measure the funding status of the plan both ways using two kinds of valuation. One is a short-term solvency valuation that assesses whether there is enough money in the plan to pay out all benefits if the plan winds down immediately. The second is a going concern valuation that assesses whether there is enough money in the plan to pay benefits assuming the plan continues to operate.

For the CEPP, in 2014, we have a solvency deficiency of $20.1 million. This is often expressed as a ration of assets over liabilities and our ration is 96.9% (the goal is to be more than 100% funded). Because we had to file this valuation with the Ontario regulator, there is a cost to fund this deficiency. In 2014, that cost is 2.14% of payroll, and in 2015, that cost is 3.48% of payroll.

The going concern valuation shows that the CEPP has a surplus. In 2014, the surplus was $62.4 million. This surplus takes into account changes made by the JBT on the interest rate assumption we use to calculate the cost of the benefit for all plan members based on the service they have in the plan as of the date of the valuation, and we adjusted the mortality table because people are living longer.

We also caculate how much it costs to buy a year of service for active plan members. This is called the current service cost. The cost for 2014 is 20.38%. The current collective agreement requirements have employees contributing 9.7% and the employer contributing 12.2%. There is a small adjustment of -0.15% for the employer for costs related to previous benefit payment provisions, so the total contribution to the plan is 21.75%

When we conbine the current service post with the cost to fund the difficiency payments, the total cost of our plan is 22.55% in 2014 and 23.86% in 2015. For 2014 there is a shortfall of 0.80% and for 2015 it is 2.11%. It has to be noted that, as far as I know, there is a shortfall like this. Because this is a single employer defined benefit pension plan that is employer sponsored, the employer assumes the funding responsibility for the shortfall.

**Asset Management**

At the beginning of 2014, our assets were at $630.5 million (market value). Investment manager performance of the fund for 2014 was 10.39%. This is pretty consistent with performance of other plane and slightly ahead of the benchmarks we use. It exceeds our assumptions for the going conern valuation and, when we do the valuation for January 1, 2015, will explain why our going concern surplus has grown to about $84 million.

Over the last few years, we have being implementing recommendations from an asset mix review. On advice from our investment consultants, we have being shifting some assets. Some years ago, we put a small portion of the fund in realestate and we are growing the amount for this asset class. We have also made decisions to shift some of the fixed income portion of the investment to a specialized bond mandate. We believe that, with historically low interest rates having an impact on bond market performance, we can improve performance with this strategy. Late in 2014, we decided to make a further asset shift and will be moving some funds into a small caps equity class.

The underlying idea with these changes is that different kinds of assets perform differently under different economic conditions. Having a more diversified fund provides more stability on a longer term basis. These same economic conditions also have an impact on the long-term cost of our benefit. So, if our asset has elements that perform better when the econmic conditions drive up benefit costs, we can better match the asset with the liability.

**Other**

In 2014, we made a decision to improve the CEPP Website. Shortly, we will be rolling out this new site.

It can be found at [www.cepp.ca](http://www.cepp.ca/)

There is all kinds of information about your plan and some resources to help you understand and calculate your benefit. A login is required. You can get in touch with Lyn Thrasher in the Pension Admin office if you need your login information.

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