

To all plan members and employers, unions
 and associations
 From Municipal Pension Board of Trustees
 April 21, 2008



What does it mean when the Municipal Pension Plan has an actuarial surplus?

The results of the December 31, 2006 actuarial valuation showed a small \$438 million surplus in the Plan, compared to the deficit of \$789 million identified in the December 31, 2003 actuarial valuation. This change is primarily the result of the contribution rate increase implemented July 1, 2005.

Actuarial valuations are conducted every three years and compare the assets in the Plan with the current liabilities plus projected future liabilities of the Plan at the time of the valuation. When there is a shortfall, the contributions levels increase.

When there is a surplus, there are specific rules in the Joint Trust Agreement (JTA) that tell the Municipal Pension Board of Trustees (the Board) what it can do with that surplus.

In the short term, the surplus must remain in the Plan, where it will provide a buffer against future financial changes (for example, financial market changes or changes in actuarial assumptions). If and when a large enough surplus has accumulated, the Board is required to use the money (in the following order) to:

1. Eliminate unfunded liabilities
2. Simultaneously:
 - Change the normal form of pension from a single life without guarantee to a single life with a 10-year guarantee,
 - Change the benefit formula from 1.3/2.0 per cent to 1.35/2.0 per cent, and
 - Rebalance employer and member contribution rates and eliminate doubling (where the employer pays double the contribution rate for employees over a certain age).
3. Transfer equal funds to a contribution rate stabilization reserve and to the Inflation Adjustment Account (IAA) to a total of \$1 billion.

The Board is only able to use the surplus as specified in the second step, above, when the surplus is big enough to make all of the changes at once.

After all the “transitional provisions” listed above have been achieved, the JTA provides the following rules that apply to the management of the Plan, including:

1. Contribution rate changes will continue to be shared 50/50 by members and employers.
2. Unfunded liabilities will be amortized over 15 years.
3. Surpluses may be:
 - a. transferred to the contribution rate stabilization reserve,

- b. transferred to the IAA,
- c. used to reduce employer and member contributions rates for a period of time, and/or
- d. used to improve benefits.

The Board has not set a post-transition surplus allocation policy at this time. In the short term, the Plan is financially healthy.

Please contact the Municipal Pension Board of Trustees for further information.

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