Public Service Pension Plan

FUNDING POLICY STATEMENT

Revised Date: November 30, 2022

Public Service Pension Plan

CONTENTS

1. INTRODUCTION

Background and Plan History

The Public Service Pension Plan ("Plan") was established under the *Public Sector Pension Plans Act* and continued under the *Joint Governance of Public Sector Pension Plans Act* ("the Act"). The Plan is subject to the *Employment Pension Plans Act* (the "EPPA") and its *Regulation*, as modified by the Act and the *Exemption (Public Sector Pension) Regulation,* and the *Income Tax Act (Canada)*. The purpose of the Plan is to provide retirement benefits to employees of the Government of Alberta, specified universities and public colleges, provincial corporations, several government boards, agencies and commissions and three pension trust corporations. Funding of the Plan is shared equally between the Plan members and employers.

The Plan is a contributory defined benefit plan that was established in 1947 by the Alberta Legislature for the employees of the Alberta government and certain other provincial agencies. Benefits are based on years of credited service and the member's highest five consecutive years' pensionable salary. On service after 1965, the benefit accrual rate is 1.4% up to the Canada Pension Plan (CPP) Year's Maximum Pensionable Earnings (YMPE) and 2% above the YMPE.

The Plan rules provide for annual Cost-of-Living Adjustments (COLA) at 60% of the annual increase in the Alberta Consumer Price Index. However, depending on the funded status of the Plan and its funding requirements, the PSPP Sponsor Board has the discretion to increase COLA benefits above the 60% increase.

The PSPP Sponsor Board is established under the Act to represent the Plan sponsors. Four individuals are appointed to the PSPP Sponsor Board by sponsor organizations representing employees and four individuals are appointed to the PSPP Sponsor Board by specified employer organizations. The Act sets out the authorities and responsibilities of the PSPP Sponsor Board, which include making and amending a plan text, setting contribution rates in accordance with funding requirements, and establishing a funding policy.

PSPP Corporation is established under the Act and is the Trustee and Administrator of the Plan. PSPP Corporation is governed by a Board of Directors made up of eight individuals. PSPP Corporation is responsible for establishing a statement of investment policies and procedures, having regard to the provisions of the funding policy.

Purpose

The level of assets required to fund the promised pensions prior to their commencement cannot be determined with 100% certainty and consequently guidance on the Plan's funding is desirable. The PSPP Sponsor Board has adopted this policy statement to provide such guidance with its primary purpose being to document:

- the relevant environment within which the Plan operates;
- the primary risks that threaten the Plan's financial well-being and the implications of such risks;
- the desired Funding Principles for the Plan;
- the Funding Controls that have been established for the Plan to assist with decision making involving the funding of the Plan's benefits; and
- the governance process that is to be followed in relation to this policy statement.

A glossary accompanies this policy statement and words and phrases contained in the glossary have been capitalized throughout the document.

2. ENVIRONMENT AND RISKS

The environment within which the Plan operates and the risks that threaten the realization of the desired funding outcomes provide important context to the Funding Policy Statement. Over time, the Funding Policy Statement will need to be reviewed and updated to reflect changes in these environmental and risk factors.

Environment

The following table summarizes the environmental factors within which the Plan operates.

Factor	Commentary
Regulatory Influence	• The Plan was established under the *Public Sector Pension Plans Act* (PSPPA) and continued under the Act. • The Plan is subject to the EPPA, its Regulation (EPPR), and the *Exemption (Public Sector Pension) Regulation*. • The Plan operates under a bi-cameral governance structure. • The PSPP Sponsor Board is established under the Act to represent the Plan sponsor organizations (both employer and employee). The Act sets out the authorities and responsibilities of the Sponsor Board, which include making and amending a plan text, setting contribution rates in accordance with funding requirements, making any decision to terminate or modify the nature of the Plan, and establishing a funding policy. • PSPP Corporation is established under the Act and is the Trustee and administrator of the Plan. PSPP Corporation is governed by a Board of Directors and is responsible for the Plan fund, including investment of the assets and making payments from the fund. As the Administrator of the Plan, PSPP Corporation is responsible for carrying out and performing the duties, functions and responsibilities of an administrator under the EPPA, except to the extent that responsibility has been expressly assigned to the Sponsor Board by the Act. • While Section 33(6) of the Act provides for permanent exemption from solvency funding, the Plan must report solvency valuation results.

Factor	Commentary
	• Adequate contributions on a going concern basis are required to fund current service costs and to amortize deficits over no longer than 15 years in accordance with the EPPA. • The Plan is registered under the *Income Tax Act (Canada)* as a registered pension plan and subject to the contribution and benefit limits prescribed therein.
Trusteeship of Assets	• The assets of Plan are held in the Public Service Pension Fund (the “Fund”). Member and employer contributions and investment earnings are paid into the Fund; Plan benefits, investment and administration costs are paid out of the Fund. • PSPP Corporation is the Trustee of the Fund. Alberta Investment Management Corporation (“AIMCo”), a provincial crown corporation, manages and invests the Fund under an investment management services contract with PSPP Corporation.
Investment Policy	• PSPP Corporation is responsible for setting investment policy. • Assets are invested by AIMCo in accordance with the policies approved by PSPP Corporation. • In order to keep Plan costs at a reasonable level, the Plan necessarily invests in certain asset classes that have uncertain and volatile returns. This funding policy statement describes the risks inherent with the Plan’s investments, the tolerance to those risks, and various internal controls used to manage risk. • For additional detail concerning the Plan’s investments, please refer to the Statement of Investment Policies & Procedures.
Contribution Rate Setting	• On the advice of the actuary, the Sponsor Board is responsible for setting contribution rates that satisfy minimum and maximum regulatory funding requirements. • The Sponsor Board may adjust both employer and employee contribution rates. • The cost of the Plan is borne by employers and employees and the cost sharing is determined by the Sponsor Board. The Plan currently observes a 50/50 cost sharing between employers and employees.

Factor	Commentary
Membership	• The Plan is open to new members. Employees hired by a participating employer are eligible or required to commence participation in the Plan in accordance with the requirements identified in Article 4 - Eligibility for Plan Membership – of the Plan text. • The Plan is relatively mature in that active member liabilities compose approximately 40% of total Plan liabilities; this figure is projected to decrease over time. Further, total Plan liabilities represent approximately 5 times the pensionable earnings base from which contributions are generated. • The Plan's maturity can also be assessed by evaluating cash flows. Benefit payments are roughly equal to Contributions, if Contributions included no amortization of funding shortfalls.
Benefit Level	• For each year of pensionable service after December 31, 1966, the benefit payable at normal retirement date (age 65) is equal to: ▪ 1.4% of the best consecutive five-year average pensionable earnings up to the average five-year YMPE; plus ▪ 2.0% of the best consecutive five-year average pensionable earnings in excess of the average five-year YMPE. • Pensionable service is limited to 35 years. • Unreduced early retirement at earlier of age 65 and when age plus pensionable service equals 85.
Cost-of-living Increases	• Pensions payable to retired members, former members with deferred pensions and survivors are increased annually to reflect 60% of the increase in the Consumer Price Index for Alberta. • The PSPP Sponsor Board may, based on the advice of the actuary, establish a higher rate of increase in respect of any single plan year on ad hoc basis, subject to income tax limits.
Expenses	• Expenses that relate to the Plan's governance, administration of benefits and funding and investment activities are paid from the Plan's assets.

Risks and Their Implications

Through this policy statement, the Plan has adopted a number of desired Funding Principles. These principles are primarily aimed at ensuring sufficient assets are accumulated to meet benefit obligations. However, there are a number of risks that threaten the realization of this goal, the most significant of which are summarized in the following table. Also included are qualitative assessments of the Plan's ability to tolerate such risks without significant Plan contribution or benefit implications (e.g., Risk Tolerance equal to "High" means that the Plan is well equipped given its Funding Principles and Controls to manage the described risk).

Risks	Commentary
Investment Risk	• In order to keep Plan costs at a reasonable level, the Plan necessarily invests in certain asset classes that have uncertain and volatile returns. Investment Risk is defined as the risk that the Plan assets do not consistently generate investment returns at the expected levels incorporated into the determination of the Discount Rate. RISK TOLERANCE: HIGH

Assumption Risk (Going Concern)	• Defined as the risk that actual events turn out to be worse than originally anticipated by the assumptions under the Going Concern Basis which results in funding shortfalls.
	• With all actuarial assumptions there is an element of uncertainty as to the extent actual experience will deviate from that assumed. The greater the uncertainty associated with an assumption, the greater the potential that the Plan's funding objectives will not be met.
	• Other assumptions that involve significant degrees of uncertainty include:
	  • future salary increases;
	  • future cost-of-living adjustments;
	  • early retirement; and
	  • mortality.
	RISK TOLERANCE: MEDIUM

Risks	Commentary
Asset-Liability Mismatch Risk	• A function of long-term Investment Risk and Assumption Risk, with respect to the Discount Rate, asset-liability mismatch risk is defined as the risk that the necessary mismatch between the characteristics of the Plan's investments and its liabilities on the Going Concern Basis may lead to funding shortfalls. RISK TOLERANCE: HIGH
Cash Flow Mismatch Risk	• Defined as the risk that investments may have to be liquidated at depressed values to pay benefits thereby losing opportunity for such undervalued investments to recover to their normalized values. • This risk is highly dependent on the volatility in Plan's investments and the rate of benefit payments, although the risk is mitigated by contribution inflows. RISK TOLERANCE: HIGH
Demographic Risks	There are multiples risks that are considered demographic: • Active member profile risk is defined as the risk that the demographic characteristics of the active membership change (e.g., an increase in the average age) over time. • Inactive member profile risk is defined as the risk that the demographic characteristics of the inactive membership change (e.g., increased longevity) over time. • Demographic shift risk is defined as the risk of an unexpected large shift in demographic characteristics of the Plan as a whole (e.g., a high ratio of retired to active member liabilities) affecting the ratio of Plan liabilities to the pensionable earnings base from which contributions are generated. RISK TOLERANCE: MEDIUM

Refer to Section 4, Funding Controls, for a detailed description of the tools, processes, and strategies used to manage the above risks.

The primary implications that these risks could bring to bear are summarized in the following table.

Implications	Commentary
Contribution rate volatility	• Fluctuating Plan experience resulting from, for example, Investment Risk, may translate directly into fluctuating contribution rates. • Fluctuating contribution rates create budgeting pressures for both employers and employees.
Contribution rate increases	• Contribution rate increases that are necessary to fund higher current service costs, resulting from, for example, Active member profile risk, place increased pressure on employers and employees and can impact standard of living. • Contribution rate increases that are necessary to fund past service deficits result in a transfer of the cost of benefits from one generation to the next. • Similarly, should positive experience translate into a reduction in contribution rates below the current service cost, a previous generation could be viewed as subsidizing the cost of a future generation.
Contribution rates becoming unaffordable	• Material negative Plan experience could translate into contribution rates that are deemed to be unaffordable by the employers and the members.
Changes to benefits	• To the extent that negative Plan experience cannot be addressed through increased contribution rates, benefits may need to be scaled back in some fashion.

3. FUNDING PRINCIPLES

The Sponsor Board has adopted the following Funding Principles, in decreasing order of priority, to which the funding of the Plan should strive:

1. **Benefit security**
   The Plan's funding needs to be established so as to ensure that accrued benefits are secure and can be delivered to members and beneficiaries.

2. **Contribution rate stability**
   To the extent possible, the Plan's funding should be managed to ensure the financial sustainability of the Plan, including stabilization of contribution rates whenever possible and alignment of investment risk to acceptable levels of contribution rate variability. Ideally, the Plan should be fully funded at the Going Concern Target in order to minimize the likelihood of contributions being necessary to amortize funding shortfalls (which exacerbates contribution rate variability).

3. **Intergenerational equity**
   a. For each generation of active members, contribution rates to the Plan should remain affordable and stable with Provisions for Adverse Deviation allowed to vary to support this goal.

   b. For a given generation of active members, to the extent possible, contributions made in respect of active members should, when combined with investment returns, be sufficient to fully support the anticipated cost of the benefits for that generation.

   c. To the extent possible, the Plan's funding should be managed so as to ensure a reasonably consistent level of cost is experienced across different generations of contributors.

The Funding Controls as detailed in the following section provide specific guidance in relation to how these Funding Principles are managed.

4. FUNDING CONTROLS

In order to support the realization of the Plan's Funding Principles, the Plan has adopted specific Funding Controls. These tools, processes, and strategies are designed to guide and manage the accumulation of assets to fund future obligations. The Plan's Funding Controls are outlined in this section.

1. Actuarial Methods, Assumptions and Reporting

Intrinsic to each Actuarial Valuation is the selection of the Actuarial Cost Method, the Asset Valuation Method and the actuarial assumptions. These three inputs will be selected by PSPP Corporation in consultation with the actuary and guided by the following:

- The Actuarial Cost Method known as the Projected Accrued Benefit Actuarial Cost Method will be used to determine the Plan's liabilities and current service costs on the Going Concern Basis. This method determines the present value of benefits based on service accrued to a given valuation date and pensionable earnings projected to retirement.

- The Asset Valuation Method may include appropriate smoothing of current asset values by averaging actual investment returns that are above and below the Discount Rate over a period of not more than five years and subject to the resulting smoothed value falling within 90% to 110% of the market value of assets.

- The actuarial assumptions under the Going Concern Basis will be established by selecting assumptions that are individually determined to be Best Estimate; no Margins for Adverse Deviation will be incorporated into the assumptions.

    - The Best Estimate Discount Rate assumption should align with the long-term expected rate of return inherent with the current investment policy on the premise that this policy continues indefinitely into the future;

    - The salary increase assumption should be based on known collective bargaining agreements for short-term periods and on general financial economic expectations for long-term periods;

    - Other economic assumptions will be developed from long-term forward-looking market indicators;

- Demographic assumptions shall be based on Plan experience whenever practical, or general Canadian pension plan experience when actual plan experience is not sufficiently credible.
- At the discretion of PSPP Corporation or as directed by the Sponsor Board, in consultation with the actuary, the following will be conducted periodically:
  - studies of the Plan's historical experience on actuarial assumptions, and
  - stress testing of key actuarial assumption inputs in order to understand the potential impact of adverse experience on the Plan's financial condition.

- The target amount of Provision for Adverse Deviation added to the liabilities and the current service costs will be 15%, referred to herein as the "Going Concern Target".
- The Plan is exempt from the EPPA solvency requirements and therefore the solvency position will not be considered when setting contribution rates.

2. Asset-Liability Study

At the direction of PSPP Corporation, at least every 5 years, a major review of the Plan's liabilities, cash flows and investment policy will be conducted. Included in this review is scenario testing and modelling to assess the risks to the sustainability of the Plan and testing alternative funding and margin strategies as well as alternative investment strategies (i.e., asset-liability study).

3. Frequency of Actuarial Valuations

An Actuarial Valuation of the Plan will be conducted every year. Annual valuations allow the Sponsor Board and PSPP Corporation to:

- monitor the financial health of the Plan,
- when needed, make adjustments,
- communicate with stakeholders in a timely fashion, and
- smooth contribution rates (to a greater degree than triennial Actuarial Valuations).

By regulation, an Actuarial Valuation report is only required to be filed with the appropriate regulators every three years. The Sponsor Board will determine if a report documenting the Actuarial Valuation's results will be filed with the appropriate regulators; it will also ensure that a report is filed at least every three years.

4. Funding Framework

The Plan's financial condition will be monitored by the Sponsor Board and PSPP Corporation through the performance of Actuarial Valuations that are conducted on the Going Concern Basis whereby the Plan is assumed to continue to exist for the long term. As part of each Actuarial Valuation, the Sponsor Board in consultation with PSPP Corporation and the actuary will:

- compare the Plan's actual financial experience since the time of the previous Actuarial Valuation to what was expected in order to understand the root cause of results that deviate from expectations;

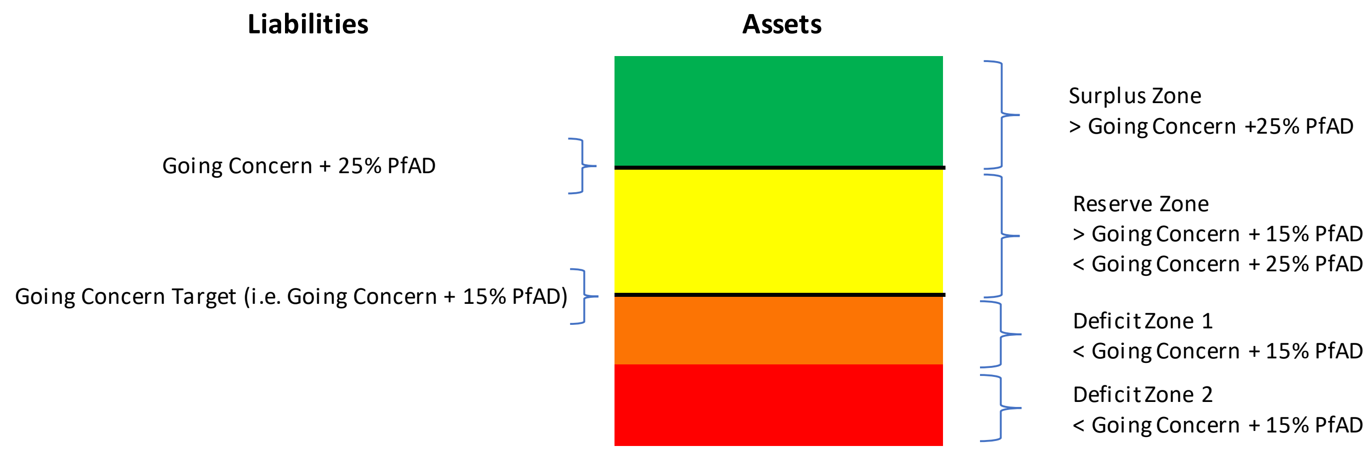
- review changes to the risk factors that influence the Plan's funding in order to understand how such changes should be incorporated into the Actuarial Valuation;

- review and update as appropriate the inputs relating to the Going Concern Basis, including but not limited to the Actuarial Cost Method, Asset Valuation Method and actuarial assumptions;

- review the adequacy of the current contribution rates. There are four funding strategy zones defined by the Plan's funded status. Each zone has a unique funding objective and a unique set of actions which are meant to achieve that goal. The funding strategy zones are defined as follows:

Funding Strategy Zones

The following table highlights the action(s) the Sponsor Board is expected to contemplate for various funded position and current contribution rate scenarios.



Deficit Zone 1 : < fully funded at Going Concern Target (i.e., Going Concern + 15% PfAD). Current contribution rate level SUFFICIENT to eliminate deficit over no more than 15 years.

Deficit Zone 2 : < fully funded at Going Concern Target (i.e., Going Concern + 15% PfAD). Current contribution rate level INSUFFICIENT to eliminate deficit over 15 years.

Funding Strategy Zones	Current Contribution Rate Level	Action Expected to be Contemplated
Deficit Zone 2	• Sufficient to fund Going Concern Target current service costs; and • Insufficient to fund Going Concern Target deficit over 15 years	• Reduce PfAD from Going Concern Target of 15% but not to less than 5%, with respect to either the liabilities or current service costs; and/or • Increase contribution rates to fund Going Concern Target deficit over no more than 15 years *and* pass Long-Term Funding Test

Deficit Zone 1	• Sufficient to fund Going Concern Target current service costs; and
	• Sufficient to fund Going Concern Target deficit over no more than 15 years
		• If Long-Term Funding Test passed, either:
		  o no change on contribution rates, or
		  o reduce contribution rates but not below rates necessary to fund Going Concern Target current service costs and deficit over 15 years and pass Long-Term Funding Test; or
		• Consider increase in contribution rates to pass Long-Term Funding Test

Funding Strategy Zones	Current Contribution Rate Level	Action Expected to be Contemplated
Reserve Zone	• Sufficient to fund Going Concern Target current service costs	• Establish a Contingency Reserve out of surplus assets up to Going Concern plus 25% PfAD; or • Reduce contribution rates but not below Going Concern Target current service costs and contribution rates necessary to pass Long-Term Funding Test
Surplus Zone	• Sufficient to fund Going Concern Target current service costs	• Establish a Contingency Reserve out of surplus assets up to Going Concern plus 25% PfAD; and • Reduce contribution rates but not below Going Concern Target current service costs and contribution rates necessary to pass Long-Term Funding Test • If above two steps satisfied, consider benefit improvements, with priority focus on Cost-of-Living Increases greater that those provided under Plan text

Income Tax Act Limits

When considering any action under various Funding Strategy Zones described above, the Sponsor Board will consider any applicable limits on surplus or contribution rates imposed under the *Income Tax Act* and *Regulations*.

5. Long-Term Funding Test

The purpose of the Long-Term Funding Test is to assess the long-term sustainability of the Plan by comparing accumulated assets and expected future contributions, against expected benefits accrued to date and in the future. The test takes a long-term view of the benefits that can be provided, with no undue weight to short-term market movements. It also ensures benefits and contributions that are consistent across the whole membership. The Long-Term Funding Test is adopted to reflect the nature of the Plan and ensure long-term planning is incorporated into the contribution rates setting process.

An Actuarial Valuation and a Long-Term Funding Test will be performed simultaneously every year. For the purpose of the Long-Term Funding Test, the funds available and the funds required will be determined based on the Going Concern Basis, except for the inclusion of a new entrants assumption.

The projection of future contributions and current service costs will be conducted over a period of 25 years from the Actuarial Valuation date. The new entrants assumption may not result in growth in the number of members who are contributing towards accruing benefits (i.e., no growth in the active membership of the Plan may be included in the Long-Term Funding Test).

If the ratio of the funds available to the funds required is greater or equal to 105%, the Plan passes the Long-Term Funding Test.

6. Investment-Related Controls

In addition to other Funding Controls, the Funding Principles, Plan risks and their implications are monitored and addressed by PSPP Corporation through:

a. The annual review of investment performance and the Statement of Investment Policies & Procedures (SIPP).

b. Ongoing review of the Plan's investment performance and asset class returns.

c. Oversight of AIMCo's responsible investment activities as outlined in PSPP Corporation's Responsible Investment policy.

5. GOVERNANCE

The Sponsor Board has established this Funding Policy Statement and is responsible for:

- monitoring the extent to which the Plan's Funding Principles are met;
- ensuring that decisions in relation to the Plan's contribution rates align with the guidance provided by this Funding Policy Statement;
- making the appropriate interpretations of this policy statement; and
- annually reviewing and making appropriate changes to this policy statement.

6. COMMUNICATION POLICY

The Funding Policy shall be made publicly available on the PSPP website.

If the Sponsor Board determines that an Actuarial Valuation report will be filed with the regulators, the Actuarial Valuation report shall be made publicly available on the PSPP website.

Any changes to contribution rates shall be communicated by PSPP Corporation to participating employers and Plan members and shall be made publicly available on the PSPP website.

The Sponsor Board believes that effective collaboration and transparent communications between the Sponsor Board and PSPP Corporation are essential to the proper governance of the Plan and to maintain alignment of the Plan's Funding Policy and the SIPP. Joint meetings of the Sponsor Board and the PSPP Corporation Board of Directors should be scheduled on an annual basis.

7. GLOSSARY

Actuarial Cost Method means the methodology used to determine the present value of a pension plan's benefit obligations and how such a present value is allocated across the working lifetime of a member.

Actuarial Valuation means the process by which a pension plan's financial condition is assessed.

Asset Valuation Method means the methodology used to assign a value to a pension plan's assets.

Best Estimate in relation to an actuarial assumption means that the assumption represents the mean or average expectation of the future and is neither conservatively nor aggressively biased.

Contingency Reserve means a reserve established from surplus assets to protect against future adverse experience.

Discount Rate is an assumption used in the valuation process. It is a rate of interest which reflects the future rate of return expected to be earned by the Plan assets, including other necessary adjustments (e.g., investment expenses). The interest rate “discounts” payments from the future to the present for valuation purposes.

Funding Principles means the principles that a pension plan's particular funding strategy is expected to achieve in terms of both an end result and the means to a particular end result.

Funding Controls means the specific processes and targets established by a pension plan that guide and manage the plan's funding so as to help ensure the realization of the Funding Principles.

Going Concern Basis means the going concern Actuarial Cost Method, Asset Valuation Method, and the Best Estimate actuarial assumptions, as established by the Funding Controls.

Going Concern Target means the liabilities and the current service costs determined on the Going Concern Basis plus the target Provision for Adverse Deviation, as established by the Funding Controls.

Long-Term Funding Test is the process to determine the ratio of funds available to funds required. The funds available to the funds required as follows:

Funds Available:

A. Actuarial value of assets

B. Present value of contributions (over the next 25 years)

Funds Required:

C. Going concern liabilities

D. Present value of current service costs (over the next 25 years)

E. Present value of non-investment expenses (over the next 25 years)

Long-Term Funding Ratio = (A + B)/(C+D+E)

Margin for Adverse Deviation means the amount of conservative bias contained in an actuarial assumption.

Provision for Adverse Deviation (or "PfAD") means the amount of conservative bias added to either the liabilities or current service costs determined on the Going Concern Basis.

Trustee means the person or persons designated as having responsibility for holding and investing plan contributions and also having responsibility for other financial aspects of a pension plan. Under the Act, PSPP Corporation is the trustee of the Public Service Pension Plan Fund and is responsible for carrying out and performing all of the duties, powers and functions as trustee.