Halifax Regional Municipality Pension Plan (the "Plan") Funding Policy

Statement of Purpose

The Pension Committee ("Committee") of the Plan has developed this Policy in order to:

1. Articulate and prioritize the Committee's funding goals;
2. Establish a framework to guide funding practices and decisions; and
3. Guide equitable and sound financial management practices

The Committee believes that, due to the long-term outlook of the Plan, and its status as a solvency exempt plan, its financial health is best measured on a going-concern basis. It is therefore on a going-concern basis that the Committee feels funding decisions will be guided. All funding decisions will respect the requirements of the Nova Scotia Pension Benefits Act and Regulations ("Act" and "Regulations") as well as the Income Tax Act of Canada.

Approval and Amendments to this Policy

This policy has been approved by the Committee and forms part of the Plan's Governance documents. The policy should be read in conjunction with the Plan Text, the Act and Regulations, the Plan's other Governance documents, the Statement of Investment Policies and Procedures, and the Responsible Investment Policy. If there is a conflict between this document, and the Plan Text or the Act and Regulations, the Plan Text or Act and Regulations will take precedence. Adherence to this policy is the responsibility of the Committee.

This policy should be reviewed by the Committee on an annual basis. This policy can be amended by the Committee as and when it sees fit.

Plan Overview

The following is a description of the current provisions of the Halifax Regional Municipality Pension Plan and is a summary only. For more complete information, reference should be made to the Plan Text.

The Plan is a defined benefit pension plan which became effective April 1, 1998 as a result of the merger of several other pension plans sponsored by the Halifax Regional Municipality. In addition, there is a defined contribution component of the Plan which members may elect to contribute to in certain instances. Membership to the defined benefit component of the Plan is compulsory for full-time employees immediately upon commencement of full-time employment. There are special eligibility rules for part-time employees. Contributions to fund the cost of the Plan are split equally between employees and employers.

Upon retirement, members will be entitled to a pension equal to 2% of the member's average annual pensionable earnings in the highest 3 consecutive years under the defined benefit provision multiplied by the number of years of credited service in the Plan. The normal form of pension upon retirement for married members is a lifetime pension with 66.67% of the entitlement continuing to the spouse upon death of the member. Single members are entitled to a lifetime pension with the first 10 years of pension payments being guaranteed.

If a member with a spouse dies before retirement the member's spouse is entitled to a lump sum payment equal to the commuted value of the member's pension or may elect an immediate or deferred

pension. If a member without a spouse dies before retirement the member's beneficiary is entitled to a lump sum payment equal to the commuted value of the member's pension.

If a member's employment terminates and the member has met retirement eligibility criteria, they are entitled to an immediate (and in some instances reduced) pension or an unreduced deferred pension payable at their Normal Retirement age (age 60 for Public Safety Occupation employees and age 65 for Non-Public Safety Occupation employees). If the member terminates and has not met retirement eligibility criteria, the member has an option to commute the value of their deferred pension entitlement or elect a deferred pension.

Funding Objectives

The Committee's fiduciary responsibility as Administrator of the Plan is guided by the Plan's Ends Statement; 'to ensure current and future members will receive benefits as detailed in the Plan text.'

Guided by that statement, the Plan's funding objectives are:

1. Primary Objective: To protect the current promised benefits for current and future members. A focus on the Plan's financial health and long-term viability is required to obtain this objective. The Committee feels this is best achieved by ensuring the Plan is fully funded on a going-concern basis.
2. Secondary Objective: To protect the Plan's funded position against market and other risks the Plan takes in line with its Risk Appetite statement. The Committee recognizes that the establishment of a going-concern funding margin and the protection/conservation of surplus, if and when it exists, is paramount to obtaining this objective.
3. Tertiary Objective: Achieve contribution rates that are reasonable and manageable by all parties and not overly volatile. Contribution levels should balance obtaining the primary and secondary objectives listed above, with being affordable to members and sponsors and providing alignment with the value of benefits being provided to those members making the contributions.

When the above-noted objectives are met, and the contribution level is at a sustainable level compared to benefits with an acceptable and manageable level of risk, the Committee may choose to consider enhancements to Plan benefits.

Key Risks Faced by the Plan

The Plan faces a number of risks that are inherent in managing the Plan towards achieving its funding objectives. These include strategic risks, funding risks, legal/regulatory risks, investment risks, and operational risks. These risks are defined in our Enterprise Risk Framework (add link) and are managed in accordance with the Framework and each risk's supporting analysis. The Plan's tolerance to these risks is outlined in our Risk Appetite Statement (add link) and influence the Funding Strategies the Committee utilizes to achieve the funding objectives listed above.

It should be noted that the Committee views the risk of an involuntary wind-up of the Plan as highly unlikely given the nature of the sponsoring employers as public institutions. As a result, the Committee does not view deficits on a solvency or wind-up basis as significant risks to the Plan.

Funding Strategies to Obtain Objectives and Risk Mitigation

The Committee recognizes that a proactive framework of funding and risk mitigation strategies will improve the likelihood of the Plan meeting its funding objectives. As such, the Committee has established the following strategies:

- Actuarial Analysis: Understanding potential funding outcomes by performing:
  - Annual Going-Concern Actuarial Valuations
  - Annual Going-Concern funded position projections informing the Committee on the likelihood of achieving or maintaining a 100% funded status over the short, medium and long term as well as achieving/maintaining the desired margin over a period of time specified by the Committee assuming current contribution rates
  - The use of smoothed assets to reduce the volatility of contributions and the Going-Concern funded position
  - Stress testing various assumptions every year to assess the impact various assumptions and deviations from those assumptions has on the Plan’s funded position
  - Asset Liability studies to be completed every 3 to 7 years
- Legislative Requirements for Benefit Security: The Act and Regulations establish a minimum threshold of contribution to a pension plan to provide for accruing benefits and any unfunded liability. These contributions will be the minimum contribution level established for the Plan and used to support the Plan’s primary funding objective. Contribution levels are also constrained by the Plan’s ability to obtain a waiver to Regulation 8503(4)(a) of the Income Tax Act.
- Benefit Security Margin: The Committee recognizes that a level of margin in the actuarial liabilities and current service cost of the Plan provides protection against adverse Plan experience. Therefore, the Committee has committed to build up a 10% Benefit Security Margin on the Plan’s Going-Concern funded position and current service cost by December 31, 2027 and maintain that margin on a go forward basis. As such, the Committee will:
  - Not reduce contribution levels until the margin is met even if it is projected to be met before December 31, 2027
  - If, after the Benefit Security Margin is originally obtained, the margin drops below the desired 10%, ensure contribution levels are adequate to return to having the 10% margin over a reasonable time-period determined by the Committee and taking contribution stability into account.
  - Ensure future contribution levels cover a 10% margin on the normal cost of the Plan (i.e. contributions always cover at minimum the cost of benefits accruing in the year plus 10%)

  For clarity, the 10% margin is in lieu of the legislated margin as indicated in the Nova Scotia Pension Benefits Act so long as it is higher than the mandated margin.
- Contribution Stability: The Committee sees steady contribution rates as desirable for both Members and Plan Sponsors. As such, in order to maintain contribution stability to the extent possible, the Committee will:
  - Annually, attempt to make an active decision to increase, decrease or hold contribution levels constant

  - Not reduce contribution levels unless the Committee is satisfied that the reduced contribution rate will be sustainable over a medium to long-period of time (minimum 5 years). Any decision should be supported by actuarial analysis
  - Make every attempt to limit both employee and employer contribution increases to no more than 0.5% a year for each party.
- Surplus Utilization: The Committee believes that Plan surplus below the Benefit Security Margin of 10% should not be used to support contribution reductions or benefit improvements including post-retirement indexing.

Reviewed & Approved on: March 30, 2023