GS2010 Report 16

THE PENSION COMMITTEE

To the Members of the General Synod:

The Pension Committee is responsible for the following pension and benefit plans:

1. *The General Synod Pension Plan (Canon VIII)*
2. *The Lay Retirement Plan (Canon IX)*
3. *The Long Term Disability Plan (Canon VIII)*
4. *The Long Term Disability Plan Pre-2005 (Canon VIII)*
5. *The Pension Endowment Funds (Canon VIII)*
6. *The Group Employee Benefits Program*
7. *The-Self Insured Death Benefit Plan*
8. *The Continuing Education Plan (Canon XII)*

The following is a summary of the work of the Pension Committee during the period June 2007 to March 2010.

1. THE GENERAL SYNOD PENSION PLAN (GSPP)

The General Synod Pension Plan (GSPP) is a defined benefit multi-employer plan and is registered with CRA (Canada Revenue Agency) as a SMEP (Specified Multi Employer Plan).

The Plan membership is currently composed of 63% pensioners and deferred pensioners and 37% active contributing members. The average age of the active members continues to increase. The current average age is 51.9 years.

<u>**Actuarial Valuations**</u>

- December 31, 2006

The Actuary, Eckler Ltd., conducted an actuarial valuation of the GSPP as at December 31, 2006. The Plan was fully funded on the going concern basis, with excess assets of $20,777,000 for total service ($29,483,000 in respect of past service). The Plan did not have a solvency deficiency. If the Plan had been terminated at December 31, 2006, it was estimated that the wind-up assets would have exceeded the wind-up liabilities by $22,113,000 compared to a surplus of $5,347,000 based on the December 31, 2004 actuarial valuation.

The Plan had generated a healthy surplus especially in light of the fact that benefit improvements were granted in July 2007 and some changes in actuarial assumptions were incorporated. The remaining surplus was held in the Plan, in light of volatility in the markets.

On the recommendation the Pension Committee, the Council of General Synod (CoGs) approved increasing the benefit accrual rate to 2.0% in respect of 2009, 2010 and 2011.

- August 31, 2008

The Actuary conducted an actuarial valuation of the GSPP as of August 31, 2008. The balance sheet showed an excess of $30,000 on the going concern basis and a shortfall of $76,000 on the solvency basis. Since the previous valuation, the average age of the active members had gone up by 6 months.

The Trustees authorized the Actuary to file the actuarial valuation as of August 31, 2008 with the pension regulator, thus extending the period until the next required filing to August 31, 2011. They also asked the Actuary to update the financial position of the GSPP to December 31, 2008 to reflect the market meltdown. The Trustees sent a letter to the Ontario Minister of Finance, to request that the GSPP be designated as a SOMEPP (Specified Ontario Multi-Employer Pension Plan). If the GSPP is so designated, a solvency deficiency would not require ongoing funding payments.

- Projected Financial Position at December 31, 2008

Financial position of the GSPP as of December 31, 2008 was estimated based on a roll forward of the liabilities from the August 31, 2008 valuation and the actual assets as of December 31, 2008 provided in the audited GSPP financial statements. The Plan was fully funded on the going concern basis, with excess assets of $4.1 million, for total service ($29,483,000 in respect of past service). The Plan had a solvency shortfall of $29 million.

The Actuary identified the following two key issues: significant 2008 pension fund investment losses; and continual ageing of the active membership. As a result of the asset smoothing method, the going concern funded position will decrease by $97.8 million to absorb the total 2008 investment losses over the next 3 years. This will be offset (or increased) by the actual pension fund investment experience after 2008.

On the recommendation of the Pension Committee, the CoGs approved that the total pension contributions for the GSPP be increased by 2.4% of pensionable earnings on a phased-in basis: from 14.4% to 15.6% on January 1, 2010, and from 15.6% to 16.8% on January 1, 2011, the above increase to be borne by the participating employers. The CoGs also approved that the pension accrual rate for active members be reduced from the current 2% to 1.8% effective January 1, 2010. These 2 changes address $40 million of the estimated potential $94 million shortfall. The rationale for allocating the contribution increase only to the employers was that the employees are sharing in the cost of restoring the plan to financial stability by the reduction in their pension accrual.

- Projected Financial Position at December 31, 2009

The Actuary estimated the financial position of the GSPP as of December 31, 2009 based on unaudited financial statements and extrapolation of liabilities from the prior valuation. It assumed no change in demographic experience.

The Actuary reported that the Plan had a going concern shortfall of $44.5 million and a solvency shortfall of $77.6 million reflecting the improved financial markets of 2009. Cost of benefits reduced to 13.0% of salary which reflected the lower accrual rate. Combination of lower pension accrual and higher employer contributions will eliminate about $40 million of the going concern shortfall. If solvency funding is still applicable, additional plan changes may be required in the future.

Investment Management of the Fund

The Asset Consultant, Mercer (Canada) Ltd., reported that 2008 was extremely difficult for pension plans in Canada. Record losses in the stock market, a global economic meltdown, and rock-bottom interest rates had challenged even the best-run plans. In fact, 2008 was the worst year on record for Canadian pension plans. Like all pension plans, we saw the value of the GSPP drop in 2008. While most of the world's stock markets fell by 30% or more in 2008, the GSPP finished the year with an investment return of -19%.

2009 was a year of substantial recovery for financial markets around the world. It continues to be a challenge for pension plans when the strong Canadian dollar offsets returns in foreign currency and there is a lot of volatility in the markets. The market value of the Fund as at December 31, 2009 was $543.9 million. For the year ending December 31, 2009, the total Fund generated a return of 15.7%. For the four year period ending December 31, 2009, the total Fund generated a return of 2.5% per year.

Investment Fund Managers as of March 2010

	Target % of the Fund
• AllianceBernstein (Global Equity)	22%
• Bentall Capital (Canadian Real Estate)	5%
• BlackRock (BGI) (Passive Fixed Income)	25%
• Canso Investment (Fixed Income)	10%
• CGOV (North American Equity)	6%
• Fortis (ABN AMRO) (Global Real Estate)	5%
• Letko Brosseau (Canadian & Global Equity)	27%

Asset Mix Policy as of March 2010

The target asset mix is: Equities: 55%, Fixed Income: 35% and Real Estate: 10%.

Administration Cost

The total administration cost, including investment management fees as a percentage of the total Fund in 2008 was 0.65%. The Trustees were pleased with these excellent costs.

Membership in the GSPP

The total membership of the GSPP for the past three years has been as follows:

Non-Retired Members	**2007**	**2008**	**2009**
❖ *Active*	1,936	1,854	1,813
❖ *Inactive*	698	728	723
Total	2,634	2,582	2,536
Pensioners			
❖ *Members*	1,818	1,867	1,914
❖ *Surviving Spouses*	638	630	637
Total	2,456	2,497	2,551

The Pension Committee is concerned that the active membership continues to decrease while the number of pensioners/survivors continues to increase.

Additional Voluntary Contributions

Effective January 1, 2003, the GSPP discontinued accepting Additional Voluntary Contributions (AVC) out of concern that to continue to do so could jeopardize the registration of the GSPP. As a result, effective August 1, 2003, a Group RRSP was established with Canada Life/GRS (Group Retirement Services) to provide an alternative pre-tax savings opportunity. The members who had contributions in the AVC fund are also provided with additional investment options by GRS.

We have been encouraging the members to transfer their AVC funds from the GSPP and as a result, at the end of February 2010, there is only $146,000 left in the AVC Fund. It is invested in the GRS Money Market Fund to facilitate cash flow as redemptions are requested.

2. THE LAY RETIREMENT PLAN (LRP)

The Lay Retirement Plan is a money purchase plan and is available to all lay employees of the Church and related organizations who are not members of the GSPP. As of December 31, 2009, there are 990 active members and 189 inactive members compared to 919 active members and 99 inactive members in 2006.

Previously, members in this Plan did not have the option to select the investments of the funds being held on their behalf. The legislation requires the plan administrators to provide the LRP members with a diversified range of investment options with different risk and return characteristics and to ensure that plan members are provided with the initial and continuous disclosure and appropriate education tools to assist with investment decisions. As it would not be possible to provide these services in-house, the record-keeping of LRP/Group RRSP was outsourced to Canada Life/GRS on August 1, 2003.

<u>Investment Management of the Fund</u>

The Asset Consultant, Mercer (Canada) Ltd., conducted a performance review of the Lay Retirement Plan/Group RRSP as of December 31, 2009. The total amount invested at December 31, 2009 was $34,494,300 (the LRP holds $29,754,640 and the Group RRSP holds $4,739,660). 65% of the funds are invested in UBS Diversified Fund. The 2009 return of the UBS Fund was 19.1%. The rest of the funds are invested in different continuum and balanced funds and their returns were also positive.

3. THE LONG TERM DISABILITY PLAN (LTD) (Members who are disabled Jan. 1, 2005 or later)

The Pension Committee and the Trustees were concerned that the financial experience under the Long Term Disability Plan Pre-2005 was deteriorating. Since its inception, the contributions to this prior Plan had regular increases. In spite of this, the Plan at July 31, 2004 showed a paper deficit of approximately $3.9 million.

On the recommendation of the Pension Committee, the CoGs approved a new LTD Plan effective January 1, 2005 with respect to disabilities commencing on or after January 1, 2005. The goals for establishing this plan were to limit financial risk, improve tax effectiveness of the cost of the Plan and continue to provide competent and compassionate administration for disabled employees. The plan was changed from employee-paid to employer-paid. In order to ensure that the taxability of the benefit to disabled employees did not negatively impact their net income, the benefit formula was adjusted to 60% of earnings.

The Pension Committee took the initiative of forming a 3 way partnership for administering and insuring the new LTD Plan. The Pension Office continues to work with Managed Disability Resources (MDR) to administer the plans (both old and new) with sensitivity and compassion, while working actively to rehabilitate claimants where possible. In the LTD Plan Pre-2005, the benefits were 100% self-insured. In the new plan, however, we are partnering with Standard Life, who fully administers and insures all claimants after 22 months of disability (119 day waiting period plus 18 months of claim payments). In this way, we are provided some level of financial protection from adverse plan experience.

Financial Status

The financial position of the LTD Plan as at June 30, 2009 showed that there was a surplus of $1.07M. The major losses were as a result of losses on investment income of $149,900 or 0.14% of covered payroll and losses on expenses of $161,400 (0.15%) of covered payroll. The expenses are consistently higher than expected due to the up front cost of new claims; therefore, an additional margin of 0.10% was built into the rate to provide for the expenses expected to be incurred. The total contributions are 2.2% of active employees' payroll.

All 30 dioceses plus the National Office and other Church organizations participate in the Plan. The Lay Retirement Plan members also participate in this Plan.

Stats

The number of claims paid internally at December 31, 2009 was 22. 36.4% of the claims are of a psychological nature. The total number of claims paid by Standard Life is 22. The experience of this plan is different from the LTD Plan Pre-2005. The market value of the LTD Plan assets as of December 31, 2009 was $1.5 million. As of December 31, 2009, the year-to-date returns were 15.5%. The funds are invested in the Letko Brosseau Pooled Fund.

4. THE LONG TERM DISABILITY PLAN PRE-2005 (LTD Plan Pre-2005)

The Legal Counsel sought a technical interpretation from Canada Revenue Agency (CRA) as to whether the LTD fund will continue to be classified as a Fraternal Benefits Society after January 1, 2005, as a result of the changes to the plan. CRA's response indicated that provided that the only change to an employee-pay-all long-term disability plan is that there will be no new beneficiaries thereunder after a new plan is put in place, it is their view that such a change, in and of itself, would not result in a fraternal benefit society losing its status as a tax-exempt entity under paragraph 149(1)(k) of the Act. It was agreed that as of January 1, 2005, all employees covered under the new LTD Plan will be required to pay towards the deficit recovery, even if they were not members of the prior plan.

Financial Status

The financial status of the LTD Plan Pre-2005 showed that the deficit as of June 30, 2008 was down to $1,790,000 from $4,696,000 as of June 30, 2006. Assuming no change in the level of earnings for the active population ($109,800,000 estimated for the period July 1, 2008 to June 30, 2009) and using the contribution rate that is currently being charged to the active population of 0.4% of earnings, the Actuary estimated that the funding deficiency of $1,790,000 would be fully recovered over a period of 4.667 years, which is 6 years earlier than originally anticipated. All expenses such as Pension Office overhead expenses, actuarial expenses, rehab costs, disability management expenses etc. have been paid outside the plan. In addition, that portion of the 2007/8/9 group insurance surplus generated by employee contributions, have been transferred to this Plan to fund the deficit.

Investment Management

The market value of the LTD Plan Pre-2005 assets as of December 31, 2009 was $4.8 million. As of December 31, 2009, the year-to-date returns were 11%. The funds are invested in the Letko Brosseau Pooled Fund.

Stats

As of December 31, 2009, there were 47 claims remaining.

5. THE PENSION ENDOWMENT FUNDS

Over the past number of years, various bequests and gifts have been made to the Endowment Committee of the Pension Committee with the request that they be used to supplement the pensions of retired members and the spouses of retired members. As of December 31, 2009, the market value of the Endowment Funds totalled $4,182,902. As of December 31, 2009, the year-to-date returns were 15%. As of March 1, 2007, the assets of the Endowment Funds are invested with Letko Brosseau Pooled Funds.

The distribution of the income of these funds in 2009 was $96,745. Many cards and letters are received from the pensioners expressing their appreciation for the thoughtfulness of the donors and to the Pension Committee for their stewardship in managing these funds.

In addition to making cash donations to the Endowment Funds, it is now possible to give stocks and bonds with advantageous tax consequences to the donor/estate. An account has been set up to facilitate the sale of any such securities which are given to the Endowment Funds.

6. THE GROUP EMPLOYEE BENEFITS PROGRAM

The following insured benefits are provided under the Group Policy which is underwritten by Manulife Financial:

	No. of participating Dioceses/organizations
Life Insurance	36
Optional Life Insurance (for member & spouse)	36
Accidental Death & Dismemberment	29

Short Term Disability	10
Extended Health Care	27
Dental Care	29
Vision Care	23

There are currently 18 dioceses providing Health Care coverage for their retirees, 18 dioceses are providing dental coverage for their retirees and 15 are providing vision care coverage.

Members of the Lay Retirement Plan are also eligible to participate in the Group Employee Benefits Program. As of December 31, 2009, 292 members have Life insurance coverage, 228 have Health Care coverage and 343 participate in the LTD Plan. The annual premiums for the Employee Benefits Program under Manulife Financial at December 31, 2009 are approximately $6,696,800.

7. THE SELF-INSURED DEATH BENEFIT PLAN (SIDB)

The Self-Insured Death Benefit Plan provides $10,000.00 on the death of an active member, $4,000.00 on the death of a retired member and $1,500 on the death of a spouse of a retired member providing the member had participated in the Plan for at least five years at retirement. These benefits are non-taxable. 36 dioceses/organizations participate in this Plan.

The Actuary carried out a reconciliation of the estimated funded status of the SIDB Plan and reported that the estimated cumulative surplus for the period July 1, 2007 to June 30, 2008 was $82,417. Eckler recommended that the current surplus be maintained as a cushion for future adverse experience.

Investment Management

The market value of the SIDB Plan as of December 31, 2009 was $1.9 million. As of December 31, 2009, the year-to-date returns were 15%. The funds are invested in the Letko Brosseau Pooled Fund.

8. THE CONTINUING EDUCATION PLAN (CEP)

The Pension Office is responsible for the day-to-day administration of the Plan. Policy decisions, educational support to members, and the authorization of sabbatical and special grants are the responsibility of the Continuing Education Administrative Unit. The Unit includes the Administrator of the Plan and five members appointed by the Pension Committee and meets twice a year. The Administrative Unit reports to the Pension Committee twice a year.

All 30 dioceses, the National Office, Church Army, Wycliffe College and Canadian Churches Forum for Global Ministries participate in the Continuing Education Plan

(CEP). As of December 31, 2009, 2033 members participate in the Plan compared to 2030 in 2006.

Tax status of the Plan

Since 2001, Cassels Brock, the Legal Counsel of General Synod, has been dealing with CRA (Canada Revenue Agency) on our behalf to get clarification of the tax status of the CEP. In January 2007, CRA advised that they were unable to provide a ruling and that they had sent the entire submission to the Department of Justice.

In the fall of 2007, Cassels Brock advised that the request was reviewed by the Federal Department of Justice for an opinion as to certain matters that were of concern to the CRA, namely (a) the legal status of the Fund; (b) whether the Fund constituted a tax-deferral arrangement intended to provide advantages to employees of the Church; and (c) whether grants received for training by employee/members were "benefits" which are not permissible under the tax exemption provided to not-for-profit organizations under paragraph 149(1)(l) of the Income Tax Act Canada ("the Tax Act").

The CRA suggested that the Church consider (a) terminating the employees' obligation to contribute to the Fund, and (b) removing them from being members of the Plan. Instead, only employers would contribute to, and be members of, the Plan. Once an employee would choose to take a certain training course, then funding would come from two sources. Firstly, a larger portion would come from the Fund; and secondly, a smaller portion would come directly from the employee to cover the balance. The CRA recognizes that the Church would wish an employee to demonstrate his/her personal commitment to the training by having to make some financial contribution, but suggests that such a contribution need not be made up-front but can be done at the time the course is chosen.

Thus, if the Church complied with the CRA's suggestion, Cassels Brock was of the view that the Church can still meet its objectives, namely, that the employer will provide most of the funding; that the income thereon can accumulate tax-free in a controlled entity; that the types of training courses that are given can be determined and controlled by the participating employers as well as those who qualify for such courses; and that the employee will be required to pay some portion of the cost of that person's training. Cassels Brock also recommended that this change be made as soon as possible in order to show our eagerness to comply with CRA's requirements.

In May 2008, on the recommendation of the Pension Committee, the CoGs approved the revised Canon XII and the Regulations effective January 1, 2008.

In January 2010, the lawyer at Cassels Brock advised that he had a conversation with an officer of the Charities Directorate who has reviewed all the documentation. He indicated that we can confidently expect a favourable ruling. He has passed this recommendation to his supervisor. We continue to wait.

Utilization

	2009		2007	
	Number	**Amount**	**Number**	**Amount**
Computers	230	$162,475	377	$ 418,510
Books	135	25,923	213	45,238
Educational Trips	10	13,303	41	74,385
Courses/Seminars	512	235,039	893	509,248
Total	1,487	$436,740	1,524	$1,047,380
Sabbatical Grants	20	$ 59,320	23	$ 62,567.62
Salary Source Grants		$ 55,630		$ 92,722.15

CEP Website

On March 1, 2004, a new website CEP Online was launched with access through a portal on the Anglican Church of Canada website: http://www.anglican.ca. Lynn Ross, the Web Editor, reported that theological education was the subject of a national Anglican Church of Canada conference in Montreal in January 2010. CEP Online creatively promotes, and will continue to play an important role in, lifelong theological education and professional development. The three main sections of CEP Online are Institutions, Courses and E-Community. As of January 2010, there were 553 Institutions and 501 courses which listed all continuing education opportunities. The listing of educational opportunities is always current as the website has an automatic delete built into its design when the educational opportunity expires.

Investment Management

The market value of the Continuing Education Fund as of December 31, 2009 was $3,763,230. As of December 31, 2009, the year-to-date returns of the Fund were 16.2%. As of March 1, 2007, the assets of the CEP are invested in Letko Brosseau Pooled Funds.

9. 2009 AUDITED FINANCIAL STATEMENTS

The firm of BDO Dunwoody LLP was appointed in 2005 to conduct an audit of pension and other non-pension plans. BDO's specialty is multi-employer pension plan audits and our size fits their target market. The Pension Committee also appointed an Audit Committee comprised of the Rev. Ellie Clitheroe, Dan Waterston (General Synod liaison), Michele George (General Synod Treasurer) and Judy Robinson. The 2009 audited Financial Statements for the General Synod Pension Plan, the Lay Retirement Plan, the Long Term Disability Plan Pre-2005, the Long Term Disability Plan and the 2009 Unaudited Continuing Education Plan will be available in the Pension Office at the General Synod. Audited statements for the Continuing Education Plan will be prepared once the tax status of the plan is determined by CRA.

10. OTHER

Seminar & Conferences

During the triennium, the Director visited 10 dioceses to participate in pre-retirement seminars. There is no cost to a diocese/organization for the Director's attendance at these seminars, workshops and meetings.

Finance Officers conferences are held on a regular basis. There was a conference in June 2008 and most of the 30 dioceses sent representatives. Travel costs are pooled by the dioceses and the accommodation and conference costs are shared by the Financial Management and Development Committee and the Pension Committee.

Pension Office Relocation

On January 1, 2009, the Pension Office moved from 80 Hayden Street to 625 Church Street which is at the intersection of Hayden and Church and is very close to Church House. The Pension Office staff is still part of the Church House community and Judy continues to be part of the Leadership Team.

Acknowledgments

Bishop Philip Poole thanked all the members of the Pension Committee for their contribution to the work of the Committee as they complete their 3-year term on the Committee in June 2010. Bishop Poole also expressed appreciation to the members of the Board of Trustees, the Asset Mix Sub-Committee, the Central Advisory Group, Administrative Unit of the Continuing Education Plan, Audit Committee, Judy Robinson and the Pension Office staff for their expertise, enormous work that they do and for their continuous support.

Those members, who would not be returning to the Committee following the General Synod, expressed their appreciation for having had the opportunity to serve on the Pension Committee and for the care and compassion with which the Pension Committee and the Pension Office staff carry out their responsibilities.

If you have any questions about any aspect of the Pension or Employee Benefit programs, we will again have a Pension Office at the General Synod where staff will be available to provide information on pension policies and answer questions.

For Action

Be it resolved that this General Synod approve the amendments to Canon VIII. Resolution No. A052

Be it resolved that this General Synod approve the amendments to the Regulations of Canon VIII as approved by the Council of General Synod. Resolution No. A191

Be it resolved that this General Synod approve the amendments to the Regulations of Canon IX as approved by the Council of General Synod. Resolution No. A192

Be it resolved that this General Synod approve the amendments to Canon XII and the Regulations as approved by the Council of General Synod. Resolution No. A057

Be it resolved that this General Synod approve the amendments to the Long Term Disability Plan Pre-2005 Document as approved by the Council of General Synod. Resolution No. A193

Respectively Submitted by,

The Rt. Rev. Philip Poole
Chair, Pension Committee

Ms. Judy Robinson
Director of Pensions