## APPENDIX "A" to the Sponsors Agreement

# FUNDING AGREEMENT

**THIS FUNDING AGREEMENT** is made the 24th day of November, 2017,

**BETWEEN:**

**UNIVERSITY OF PRINCE EDWARD ISLAND as represented by its Board of Governors**

(the "**Employer**")

**AND:**

**UNIVERSITY OF PRINCE EDWARD ISLAND FACULTY ASSOCIATION, BARGAINING UNIT #1 ("UPEIFA1"),**

**UNIVERSITY OF PRINCE EDWARD ISLAND FACULTY ASSOCIATION, BARGAINING UNIT #2 ("UPEIFA2"),**

**THE CANADIAN UNION OF PUBLIC EMPLOYEES, LOCAL 1870 ("CUPE 1870"),**

**THE CANADIAN UNION OF PUBLIC EMPLOYEES, LOCAL 501 SECURITY POLICE ("CUPE 501"),**

**THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, LOCAL 1928 ("IBEW"),**

(the "**Unions**")

### Section 1 - Interpretation

(1) In this Funding Agreement, unless the context requires another meaning, the following terms have the following meanings. Any capitalized term not defined herein shall have the meaning ascribed to such term in the Sponsors Agreement.

(a) "**Actuarial Valuation Report**" means a report for funding purposes on the actuarial funding status of the Pension Plan prepared by the Pension Plan's Actuary in accordance with generally accepted actuarial principles and in accordance with the actuarial methods and assumptions required by and determined in accordance with the Sponsors Agreement and, without limitation, Article 6.3(c) thereof;

(b) "**Assets**" means the sum of the market value of investments held by the Pension Plan for investment and any applicable asset adjustment as a result of applying an averaging method that stabilizes short-term fluctuations in the market value of the investments held by the Pension Plan;

(c) "**Available Surplus**" means 'A' times 'B', where

‘A’ means the difference, if positive, between the Funded Ratio minus the Maximum Surplus Target for the relevant year, and

‘B’ means the Liabilities used in determining the Funded Ratio for the relevant year;

(d) “**Benefits**” means any and all components of the Pension Plan relating to eligibility for, and calculation of, a pension benefit under the Pension Plan;

(e) “**Canada Revenue Agency**” and “**CRA**” means the body that administers tax laws for the Government of Canada and most of the provinces and territories;

(f) “**Contribution Rates**” means the Member Contribution Rate, Member Special Contribution Rate and the Employer Contribution Rate and “**Contribution Rate**” means any of them as the context requires;

(g) “**Contributions**” means the periodic contributions to the Fund required to be made by Active Members and the Employer under the Pension Plan;

(h) “**Current Service Cost**” means the present value of the benefits expected to be earned by all Active Members in the Pension Plan in the year subsequent to the valuation date, determined on the basis of a going concern actuarial valuation as reported in an Actuarial Valuation Report;

(i) “**Emerging Deficit**” means, if A is greater than B, A minus B, where

A equals the Liabilities of the Pension Plan as calculated by the Pension Plan’s Actuary and set out in an Actuarial Valuation Report as at a date after September 30, 2016, and

B equals the Assets of the Pension Plan, plus the Present Value of Member Special Contributions, plus the Present Value of Employer Contributions Towards Initial Deficit;

(j) “**Emerging Deficit Contributions**” means Member and Employer Contributions towards an Emerging Deficit.

(k) “**Employer Contribution Rate**” means the percentage of an Active Member’s pensionable salary, prescribed by the Pension Plan, used to determine periodic contribution obligations to the Fund by the Employer towards Current Service Cost, the Initial Deficit and/or any Emerging Deficits.

(l) “**Funded Ratio**” means the ratio of C to D, expressed as a percentage, where

C equals the Assets of the Pension Plan, plus the Present Value of Member Special Contributions, plus the Present Value of Employer Contributions Towards Initial Deficit, and

D equals the Liabilities of the Pension Plan;

(m) “**Initial Deficit**” means the Assets of the Pension Plan plus the Present Value of Member Special Contributions minus the Liabilities of the Pension Plan as calculated by the Pension Plan’s Actuary and set out in the Actuarial Valuation Report as at September 30, 2016;

(n) “**ITA**” means the *Income Tax Act* (Canada), including the Regulations thereunder and any administrative rules, policies, waivers, or rulings made by the CRA;

(o) “**Liabilities**” means the value of the benefits under the Pension Plan determined on the basis of the going concern actuarial valuation as reported in an Actuarial Valuation Report;

(p) “**Maximum Surplus Target**” means a Funded Ratio of 110%;

(q) “**Member Contribution Rate**” means the percentage of an Active Member’s salary, prescribed by the Pension Plan, used to determine periodic contribution obligations to the Fund by the Active Members towards Current Service Cost and any Emerging Deficits, plus the Member Special Contribution Rate, as applicable.

(r) “**Member Special Contribution Rate**” means 0.88% of an Active Member’s salary.

(s) “**Pension Plan’s Actuary**” means a Fellow of the Canadian Institute of Actuaries, or a firm of which such person is a member, appointed by the Trustees;

(t) “**Pensioner**” shall have the meaning ascribed in the Pension Plan;

(u) “**Present Value of Employer Contributions Towards Initial Deficit**” means the present value determined over the remaining amortization period to September 30, 2031, as calculated by the Pension Plan’s Actuary, of future Contributions to be made by the Employer to amortize the Initial Deficit;

(v) “**Present Value of Member Special Contributions**” means the present value determined over the remaining period to June 30, 2025, as calculated by the Pension Plan’s Actuary, of future Contributions to be made by the Active Members at the Member Special Contribution Rate; and

(w) “**Present Value of Previously Established Emerging Deficit Contributions**” means the present value, determined over the remaining amortization period, as calculated by the Pension Plan’s Actuary, of Emerging Deficit Contributions set out in the previous Actuarial Valuation Report.

**Section 2 - General Principles**

(1) Subject to the terms of this Funding Agreement, the Employer and the Unions agree that Contribution requirements to fund the Current Service Cost are to be shared equally by the Employer and the Active Members, commencing on the Effective Date.

(2) The Employer and the Unions agree that the Initial Deficit is to be funded by the Employer over a 15-year amortization period (i.e., between October 1, 2016 and September 30, 2031).

(3) The Employer and the Unions agree that the Active Members will continue to pay the Member Special Contribution Rate as established towards deficits effective July 1, 2010 until June 30, 2025.

(4) The Employer and the Unions agree that Contribution Rate increases required to address any Emerging Deficit shall be determined in accordance with Section 4(5).

(5) The Employer and the Unions agree that where an Actuarial Valuation Report subsequent to September 30, 2016 discloses an Available Surplus, it shall first be used to restore any prior adverse adjustments to Benefits.

(6) The Employer and the Unions agree that after all adverse adjustments to Benefits have been restored, any remaining Available Surplus shall be used to: a) improve Benefits and/or; b) reduce Plan risk by conservatizing actuarial assumptions; and/or c) reduce Emerging Deficit Contributions.

**Section 3 - Actuarial Valuation Reports**

(1) The Trustees shall require the Pension Plan's Actuary to prepare all Actuarial Valuation Reports for the Pension Plan, including preliminary Actuarial Valuation Reports, using the actuarial methods and assumptions determined in accordance with Article 6.3(c) of the Sponsors Agreement, and to submit such reports to the Trustees and to the Sponsor Board.

(2) The first Actuarial Valuation Report shall be prepared with a valuation date as at September 30, 2016. The next subsequent Actuarial Valuation Report shall be prepared with a valuation date as at April 30, 2019. Subsequent Actuarial Valuation Reports will be prepared as at April 30 on regular intervals as determined by the Sponsor Board, but in any event such interval period shall be no longer than three years.

(3) A draft preliminary Actuarial Valuation Report shall be prepared and submitted to the Sponsor Board and the Trustees within four months of each valuation date for their review and comment.

(4) Within nine months of each valuation date, a final Actuarial Valuation Report shall be prepared and submitted to the Trustees and to the Sponsor Board for the Sponsor Board's approval.

**Section 4 - Adjustments where there is an Emerging Deficit**

(1) Where an Actuarial Valuation Report reveals a Funded Ratio greater than 100%, the Sponsor Board may, at its sole discretion, maintain or reduce Emerging Deficit Contributions.

(2) Where an Actuarial Valuation Report reveals a Funded Ratio less than 100%, and the Present Value of Previously Established Emerging Deficit Contributions exceeds the Emerging Deficit, Emerging Deficit Contributions set out in the prior Actuarial Valuation Report can be reduced (while maintaining their remaining amortization period), such that the Emerging Deficit will be eliminated over the remaining time in the same amortization period for which those contributions were required.

(3) Where the draft preliminary Actuarial Valuation Report reveals a Funded Ratio less than 100%, and the Present Value of Previously Established Emerging Deficit Contributions is less than the Emerging Deficit:

(a) the Trustees shall provide to the Sponsor Board any information relating to the draft preliminary Actuarial Valuation Report, or relating to any options identified by the Trustees or the Sponsor Board pursuant to the Sponsors Agreement, that is required for its consideration of how it will address the Emerging Deficit;

(b) the Representatives, or any one of them, may provide supplementary information or options for the Sponsor Board's consideration in its efforts to address the Emerging Deficit; and

(c) prior to its final approval of the Actuarial Valuation Report, the Sponsor Board may, at its discretion, choose to modify the actuarial methods and/or assumptions used in the valuation to address the Emerging Deficit.

(4) The Trustees shall implement the directions of the Sponsor Board, if any, in order to finalize the Actuarial Valuation Report, and shall finalize the Actuarial Valuation Report.

(5) Not more than 90 days after receiving and approving the final Actuarial Valuation Report, the Sponsor Board shall decide how it will address any Emerging Deficit. At this point, the Board may or may not agree to temporary future benefit reductions as one option to address any, or all, of the Emerging Deficit. In any event, after consideration of all options and the application of any temporary future benefit reductions, if any, the balance of any Emerging Deficit shall be addressed through Emerging Deficit Contributions shared on a 50/50 basis between the Employer and the Active Members and shall be amortized over a 15 year period.

(6) Limitations on Amendment

Notwithstanding any provision of this Funding Agreement, the Trust Agreement, the Sponsors Agreement or the Pension Plan, the Sponsor Board shall not make any amendment to the Pension Plan or Benefits that has the effect of reducing an Accrued Benefit.

**Section 5 - Restoration of Adverse Adjustments**

If an Actuarial Valuation Report discloses an Available Surplus and if there have been any adverse adjustments to Benefits subsequent to January 1, 2017, then any Available Surplus shall first be used to restore those adverse adjustments to the extent possible, as determined by the Sponsor Board, and such that the Funded Ratio is not reduced below the Maximum Surplus Target.

**Section 6 - Available Surplus**

(1) Subject to Section 5 and where the draft preliminary Actuarial Valuation Report reveals an Available Surplus in excess of any amounts applied pursuant to Section 5:

(a) the Trustees shall provide to the Sponsor Board any information relating to the draft preliminary Actuarial Valuation Report, or relating to any options identified by the Sponsor Board pursuant to the Sponsors Agreement, that is required for its consideration of how it will address such excess Available Surplus;

(b) the Representatives, or any one of them, may provide supplementary information or options for the Sponsor Board's consideration in its efforts to address such excess Available Surplus; and

(c) prior to its final approval of the Actuarial Valuation Report, the Sponsor Board may, at its discretion, choose to modify the actuarial methods and/or assumptions used in the valuation to address such excess Available Surplus.

(2) The Trustees shall implement the directions of the Sponsor Board, if any, in order to finalize the Actuarial Valuation Report, and shall finalize the Actuarial Valuation Report.

(3) Not more than 90 days after receiving and approving the final Actuarial Valuation Report, the Sponsor Board shall decide how it will address any Available Surplus in excess of any amounts applied pursuant to Section 5. At this point, the options

available to the Sponsor Board to address remaining excess Available Surplus shall only include:

(a) improving Plan benefits;

(b) reducing Plan risk by conservatizing actuarial assumptions; and/or

(c) reducing Emerging Deficit Contributions.

**Section 7 - Termination of Pension Plan**

If the Pension Plan is terminated and wound up in accordance with the Sponsors Agreement, the Employer shall pay into the Fund, amortized over a 5 year period:

(a) all amounts required to fully fund Benefits accrued to the date of the termination of the Pension Plan; and

(b) all amounts required to pay costs, fees or expenses arising from or related to the administration, termination and wind-up of the Pension Plan.