THE TELECOMMUNICATION WORKERS PENSION PLAN

FUNDING POLICY

This policy was approved by the Board of Trustees on September 10, 2013.

Subsequent to the restatement, this policy has been reviewed, amended and approved by the Board of Trustees effective:

- September 1, 2015
- September 11, 2018
- December 2, 2021
- September 11, 2024

Certified by the Chair on behalf of the Board of Trustees:

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Andras Vagvolgyi – Chair
Signed September 11, 2024

Purpose

The purpose of this policy is to outline the principles that will guide the Board of Trustees (the "Trustees") of the Telecommunication Workers Pension Plan (the "Plan") and its service providers in making funding decisions about the Plan in order to accumulate the funds needed to fulfill the Plan's obligations to the members and beneficiaries, whether the Plan continues or is wound-up.

The policy does not expand or otherwise change the existing rights and obligations of the members and the Employers.

This policy shall serve the Trustees as a guideline only. It shall not prevent the Trustees from making decisions that differ from this policy when the Trustees consider this appropriate.

Background

The Plan is a jointly trusteed defined benefit pension plan with collectively bargained contributions. The Plan covers members of the Telecommunications Workers Union, United Steelworkers National Local 1944, working at TELUS in British Columbia, and certain employees of the Union and the Trustees. The Plan is funded through contributions by the Members and the Employers as approved through collective agreements and participation agreements. As of January 1, 2009, Employers contribute 10.0% of gross earnings and members contribute on the following basis depending on age:

Under age 30	3.0% of gross earnings
Age 30 or older but under 40	4.0% of gross earnings
Age 40 or older but under 50	5.0% of gross earnings
Age 50 or older	6.0% of gross earnings

The Plan is registered with the Office of the Superintendent of Financial Institutions ("OSFI") (registration number 55745) and the Canada Revenue Agency (registration number 0397935). Given the nature of a defined benefit pension plan with collectively bargained contributions, should the expected contributions not be sufficient to meet funding requirements, the actuary must provide the Trustees with options to remedy the situation.

Pensions from the Plan are payable at age 65 on an unreduced basis. With Trustees' consent, members can retire at age 60 with any amount of service or age 55 with 25 years of service, with an unreduced pension. With Trustees' consent, members can also retire as early as age 50 with 30 years of service, with a pension reduced from age 55. Members can retire prior to their unreduced age, noted above, with an actuarially reduced benefit, calculated on the basis that the pension is due to commence on the first day of the month following the member's attainment of the unreduced age noted above. If the financial position of the Plan deteriorated significantly, the Trustees may deny consent for Members to retire with subsidized early retirement reductions. (Members would be allowed to retire prior to their normal retirement age with an actuarially reduced benefit.)

Pensions are calculated as 1.75% multiplied by the sum of total earnings while a participant of the Plan. The Trustees have approved earnings update improvements from time to time based on the funding levels of the Plan. As of the writing of this Policy, the last approved improvement was based on an earnings base of the average of the last 3 years of earnings as at December 31, 2023. Thus the benefit is 1.75% of the member's average earnings multiplied by pensionable service, subject to a minimum benefit. Benefit improvements for members collecting monthly pension benefits have been provided in the past, however future improvements are not provided under the terms of the Plan. Full details of the Plan benefits can be found in the Plan document.

This Plan is a mature pension plan. Active membership has been decreasing over the last five years, while the number of retirees has been increasing steadily from year to year. Contributions made into the Plan are less than 15% of the benefit payments being made to beneficiaries.

The Plan's investment policy is documented in a Statement of Investment Policies and Procedures ("SIPP"). The asset mix adopted by the Trustees relies heavily on fixed income, interest rate sensitive, assets (bonds, mortgages and infrastructure debt) while the rest of the portfolio is invested in real estate, a bond overlay structure which is also interest rate sensitive, public and private equity, infrastructure equity and cash.

Currently, the contributions into the Plan are not sufficient to cover the cost of benefits accruing each year. This shortfall is funded through the use of the Plan's surplus assets on hand.

Concept of Basic Benefits, Target Benefits and Ad Hoc Increases

For purposes of this Policy, a distinction is required between the various benefits and benefit targets that members may receive from the Plan.

Basic Benefits refer to the benefits earned by a member to date and those to be earned in the future based on the member's earnings each year. For an active member, these include a career average earnings benefit plus all earnings updates approved by the Trustees to date. Basic Benefits include the favourable early retirement factors approved with Trustee consent. It is understood that, should the financial position of the Plan deteriorate significantly, the Trustees may deny consent for Members to retire with subsidized early retirement reductions. (Members would be allowed to retire prior to their normal retirement age with an actuarially reduced benefit.)

For terminated vested members, Basic Benefits refer to the current accrued benefit and do not contemplate any future increase in this benefit.

For retired members, Basic Benefits refer to the current monthly benefit they are receiving and do not contemplate any future increase in this benefit.

Target Benefits refer to the Basic Benefits defined above with the exception that active Members' benefits will be based on a formula that utilizes the average of the last 3 years of earnings upon retirement, subject to Plan minimums. These Target Benefits are approved by the Trustees, as financial conditions warrant, on an annual basis by improving the earnings base that Active Members' benefits are based upon. Once an earnings update is approved, the benefit improvement becomes a Basic Benefit.

<u>Ad Hoc Increases</u> refer to benefit improvements approved for Terminated Vested Members and Retired Members in receipt of monthly benefits. Once an Ad Hoc increase is approved, the new benefit becomes the Basic Benefit for Terminated Vested Members and Retired Members.

Principles Underlying Funding Policy

Given the risk profile of the Plan described above, the Trustees have developed this policy, building on the following principles (in order of importance):

1. The most important consideration in all funding decisions is the protection of the members' Basic Benefits accrued to date;
2. Funding should aim at building and maintaining a cushion against future adverse deviations to protect members' Basic Benefits;
3. A secondary objective is to improve benefits by updating the earnings base for active participants to the average of their final three years of earnings, subject to Plan minimums (referred to as Target Benefits); and
4. A tertiary objective is to provide benefit increases for pensions in payment (referred to as Ad Hoc Increases).

All Plan funding decisions should be made bearing these principles in mind.

Compliance with Legislation

The Trustees will comply with all applicable laws and regulatory requirements. An actuarial valuation for funding purposes must be filed with the regulatory authorities at least triennially. Annual filings will be required if the solvency ratio is below 120%.

All employer and member contributions to the Plan are based on the collective agreements or participation agreements and must conform to regulatory requirements and contribution limits specified in the *Income Tax Act (Canada).*

The contributions will be paid on a monthly basis and will be remitted no more than 30 days after the end of the month to which the contributions pertain.

Actuarial valuation basis – Going Concern Basis

In performing the actuarial valuation of the going-concern position of the Plan, the Actuary shall use assumptions that are mutually acceptable to the Actuary and the Trustees. The assumptions should be the Actuary's best estimate of the contingencies which may impact the financial position of the Plan, adjusted for an appropriate margin for adverse deviations. Such margin shall meet the requirements of the regulator and the Trustees' funding policy, as described below.

In order to provide the desired level of benefit security while allowing for some flexibility, the margin to be included in the discount rate should be within the range of 0.25% - 1.75%. The actual selected margin will depend on the Trustees' input based on factors such as asset mix and the Plan's solvency position.

The margin described above assumes that all other valuation assumptions are best estimates based on economic and demographic factors, and Plan experience. To the extent possible, the margin for adverse deviations is to be included in the discount rate only. However, the Board reserves the right to include a margin for adverse deviations in other non-discount rate assumptions as appropriate.

Assets shall be valued at their market value on the valuation date. No smoothing will be utilized.

The unit credit actuarial cost method shall be the going-concern actuarial cost method. The actuarial liability for benefits accrued for service up the valuation date is computed from this method. For purposes of determining minimum funding requirements, the unit credit cost method is also utilized to calculate the service cost (value of the benefits accruing in the year following the valuation). The aggregate actuarial cost method is further used as a guide for the Trustees to understand the future obligations of the Plan and to help determine the appropriateness of future benefit increases.

Actuarial valuation basis – Solvency Basis

For purposes of the solvency valuation, the Trustees are assumed to withhold consent with respect to the subsidized early retirement provisions of the Basic Benefits of the Plan.

Funding Target

The overall funding target for the Plan is to have a funded ratio of at least 105% on both a going concern and solvency basis for Basic Benefits. For purposes of the going concern target, the aggregate actuarial cost method is employed. This method looks at both accrued and future benefits to be accrued compared with current assets and the present value of future contributions net of future expected expenses. More specifically:

1. The Plan is considered to be in a surplus position when two conditions are met. First, the sum of the assets on hand plus the present value of future expected contributions net of expenses must exceed 105% of the sum of accrued Basic Benefit liabilities plus future expected Basic Benefit liabilities. A margin of 5% of the plan's going concern liabilities must be kept as a provision against future contingencies.
2. Secondly, for the Plan to be considered in surplus position, the solvency ratio must be greater than 105%.
3. Once a benefit improvement is approved, the benefits are deemed to be Basic Benefits.
4. For purposes of aggregate liabilities, new entrants are projected for 10 years after the date of the valuation to maintain a level active membership. After this period, the active membership will naturally decrease through decrementation without replacement.

Benefit Improvements

Benefit improvements may be approved at the discretion of the Trustees, if this does not cause the funded position on both a solvency and going concern basis (aggregate actuarial cost method using Basic Benefits) to drop below 105%.

The primary focus of benefit improvements is to enhance the earnings base that active members' benefits are based upon (final average 3 years of earnings prior to retirement subject to Plan minimums). As noted above, these improvements are to increase Basic Benefits to Target Benefits.

A secondary focus for benefit improvements is to provide Ad Hoc Increases to pensions in payment and the benefits of terminated vested members. Increases will be provided at the Trustees sole discretion. In practice, for an increase to be approved, the funded position on an aggregate basis after providing for Target Benefits should be greater than 105% after any pensioner increase is approved.

If the Plan is terminated and there is a surplus in the windup valuation, the Trustees will increase benefits accrued by all members in a proportionate manner.

If the Plan terminated and the Trustees decide to continue to manage the delivery of pension benefits for current retirees and participants immediately eligible to retire, at a level deemed appropriate by the Trustees, surplus will be retained within the Plan in order to protect promised benefits while the remaining surplus will be used to increase benefits of those members transferring their entitlements out of the Plan.

Funding Shortfall

Annual contributions are required to fund the following:

1. Benefits accruing in the year (also known as the service cost or normal actuarial cost); plus
2. Expenses not assumed to be covered by investment earnings; plus
3. Solvency or going concern deficits that are required to be funded over prescribed periods of time.

These three components are known as the minimum funding requirements.

To the degree that contributions do not cover the minimum funding requirements, the surplus of the Plan can be utilized to cover this shortfall, subject to regulatory limitation.

If the minimum funding requirements cannot be met through the use of Plan surplus, then the actuary must provide the Trustees with options to satisfy this requirement.

While the Plan is ongoing, the Trustees will look at changes to the Plan benefits and contributions that will take one or a combination of the following into account:

1. Reduce or eliminate the subsidy in the early retirement factors for Active Members retiring from the Plan; and/or
2. Increase Employer and/or Member contributions through the collective agreement; and/or
3. Decrease the accrual rate for future service of Active Members from 1.75% to a rate that satisfies the minimum funding requirement; and/or
4. All other available options permitted by the regulator to decrease the deficit of the Plan including an adjustment to accrued benefits. Such options may require approval by the regulator.

If the Plan is terminated and there is a deficit in the windup valuation, the Trustees will consider various methods to balance the benefits accrued with the assets in the Plan available to settle the obligations.

Plan Risks

Pension plans face several risks that may affect the ability to deliver the benefits earned by the members of the Plan. The key risks faced by the Plan include the following:

Asset Liability Mismatch

The single largest risk facing the Plan is the mismatch between the growth of the Plan's assets and liabilities. Given the Plan's current asset mix, as interest rates increase or decrease, the price sensitivity (also known as duration) of the Plan accrued liabilities is slightly smaller than the price sensitivity of the Plan assets.

All else equal, in an increasing interest rate environment, the Plan's assets are expected to underperform (or shrink faster) than the Plan's accrued liabilities. In a decreasing interest rate environment, the opposite is true; the Plan's assets will grow faster than the Plan's liabilities.

Management of Risk: To mitigate this risk, the Trustees have employed a liability driven investment strategy.

Low Valuation Interest Rates

As interest rates and bond yields decrease, and the expected rates of return on Plan assets decrease, the cost of funding future Plan benefits increases. Funding requirements are expected to increase in this environment.

Management of Risk: To mitigate this risk, the Trustees have employed a Basic Benefits, Target Benefits, Ad Hoc Increases framework. The Trustees will also explore changes to the future Basic Benefit structure of the Plan when contribution levels plus the Plan's available surplus are not able to meet minimum funding requirements.

Employer Contributions

As employer contribution rates are based in accordance with negotiated collective agreements, the Plan has a limited ability to increase the level of contributions.

Management of Risk: Should the level of negotiated future contributions be insufficient to fund the future level of pension benefits, the Plan may have to reduce the future level of Basic Benefits.

Increased Benefit Payments

All else equal, if members retire earlier from the Plan or live longer, more benefits are paid to the member from the Plan. In this situation, the overall cost of benefits in the Plan increases.

Management of Risk: Mortality and retirement assumptions must be as close to actual experience as possible or inclusive of a margin to minimize the impact of "unexpected" higher liabilities.

Cost of Non-Retiree Benefits

All else equal, if the average age of non-retirees increases, the cost of benefits also increases. This occurs since there is less time to invest contributions and assets before benefits need to be paid.

Management of Risk: Similar to a low interest rate environment, to mitigate this risk, the Trustees have employed the Basic Benefits, Target Benefits, Ad Hoc Increases framework. The Trustees will also explore changes to the future Basic Benefits structure of the Plan when contribution levels plus the Plan's available surplus are not able to meet minimum funding requirements.

Proportion of Liabilities

As inactive liabilities increase as a percentage of total liabilities, the cost to fund any deficits increases as a percentage of contributions.

Management of Risk: As the proportion of inactive liabilities increase, the goal of protecting Basic Benefits becomes paramount. The Basic Benefits, Target Benefits, Ad Hoc Increases framework helps address and protect from this risk.

Annual Review

The financial position of the Plan shall be estimated annually for purposes of review by the Trustees. As noted above, the valuations may need to be filed annually with OSFI when the solvency ratio of the Plan is below 120% in a filed valuation.

Any changes to the contributions of the Employers or Members will be reflected as soon as the Actuary is notified of any new collective agreements or participation agreements.

Policy Amendment

This policy shall be periodically reviewed by the Trustees. It may be amended from time to time as circumstances change and the Trustees deem it appropriate.