

MEMORANDUM

DATE: September 19, 2014

TO: Jim Yakubowski, ATU Local 615

FROM: Koskie Minsky LLP

SUBJECT: General Superannuation Plan For City of Saskatoon Employees (the "Plan") - Review of Updated Plan Valuation dated December 31, 2014 Revised June 12, 2014 (the "Valuation Report")

You asked for our comments and analysis on the Valuation Report. We understand that the City of Saskatoon (the "City") has proposed to lock out the members of ATU Local 615 (the "Union") on the basis of the special payments required to be made to the Plan as a result of the filing of the Valuation Report. **Please note we are experts in pension law, but are not qualified actuaries, and the stakeholders to the Plan should confirm our comments and analysis below by requiring an updated valuation of the Plan by an independent actuarial firm.**

We note that the Valuation Report was initially composed as at December 31, 2012, but was revised as at June 12, 2014.

We note the following key elements of the Valuation Report:

- The revised Dec 31, 2012 valuation report shows a deficit of \$6.8 million, which requires special payments (in addition to the current service cost) from the City of \$90,100 monthly. We note that, on page 2, special payments are required in respect of both Union members and other members of the Plan.
- Included in the valuation is an explicit reserve or margin of conservatism of \$37.4 million (5.4% of liabilities); in addition to that reserve there is an implicit reserve margin of \$10.4 million, which is the excess of the market value of assets over the smoothed actuarial value of assets, which, combined, creates a total reserve or margin for conservatism of about \$47.8 million or 6.9% of liabilities. These reserves are (presumably) maintained against adverse experience in the Plan.
- The Valuation Report employs the asset values determined as at December 31 2012. If asset values reflected results as at December 31, 2013, which are very likely available and known by June 2014, the funded status of the Plan would differ. By estimating the rate of return on the Plan's fund during 2013 based on the fund's asset allocation, it would be possible that the funded status of the Plan be in surplus by \$3.2 million. If this is the case, it would negate the need for the \$90,000 monthly special payments from the City, and, in addition, there would be a substantial estimated total (explicit plus implicit) reserve margin for conservatism of \$80 million or over 10% of liabilities.

The financial picture presented by the City on the basis of the Valuation Report is misleading in that: (i) the current projected financial position at December 31, 2013 could very well be a surplus rather than a deficit; and (ii) the total actual reserve margin for conservatism (explicit and implicit) would be closer to the order of 10%.

Furthermore, although we do not know the investment experience of the plan to date in 2014, most Canadian pension plans have continued to enjoy very positive 2014 investment experience, and if the Plan also enjoyed this experience, it would cause the financial position of the plan to be improved even further. For example, see reports from Mercers and Aon Hewitt, both of whom reported positive financial gains for average pension plans in Canada as recently as June, 2014.¹ (Please note that gains may, in some cases, be offset to an extent by strengthening of the mortality assumption required as a result of the new Canadian Institute of Actuaries mortality tables.)

We believe there is a very strong basis for the Union to question the City claim that the special payments are necessary or that they are attributable solely to the Union. We also believe that there is no basis for the City to demand that a fundamental change be made to the nature of the defined benefit nature of the Plan or to impose a target benefit plan and a cap on City contributions. We believe that the Union or any stakeholder should require an updated valuation of the Plan that reflects the financial status of the Plan at present.

¹ See, for example: <http://www.theglobeandmail.com/report-on-business/pension-plans-to-see-strong-year-after-dream-turnaround-forecast/article16253199/> and http://www.aon.com/canada/attachments/human-capital-consulting/news_Q2Solvency063014.pdf.