Quadrennial Benefits Conference

Navigating the Path 2016

Defined Benefit Topics

Wespath

BENEFITS | INVESTMENTS

Agenda

- Amortization
- Asset Smoothing
- Glide Path (only Pre-82)
- Corridor Funding
- January 1, 2016 Valuation Results
- CPP Holiday


Amortization

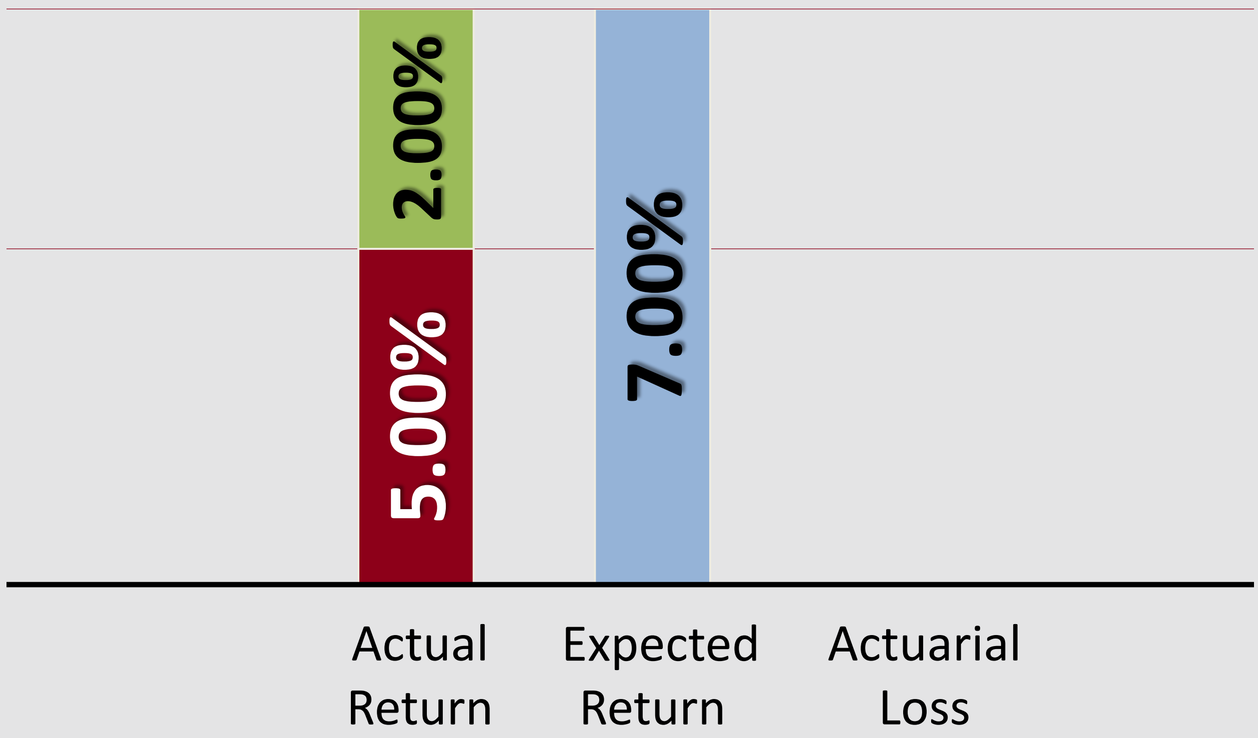
Amortization of Unfunded Gain/Loss

Unfunded liability: the cumulative result of past gains/losses

Gain or loss occurs because:

- Actual **economic** experience differs from expected
- Actual **demographic** changes differ from expected

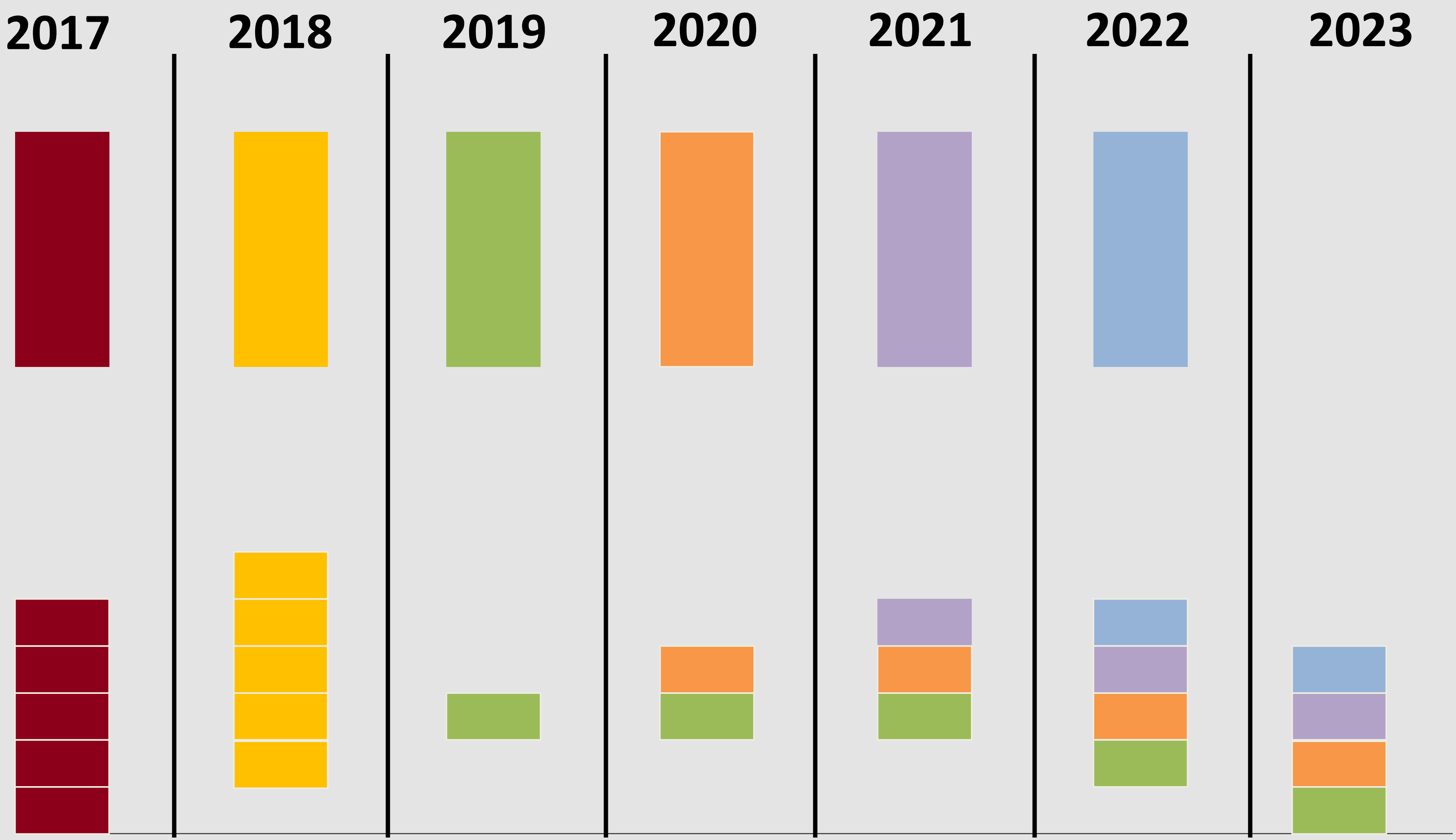
Asset Gains and Losses



Amortization of Unfunded

- Each year, gains and losses are spread over 5 years
- Bases (layers) are created
- Reduces the potential for contribution spikes
- If funded ratio is over 100%, the bases are eliminated

Amortization of Unfunded

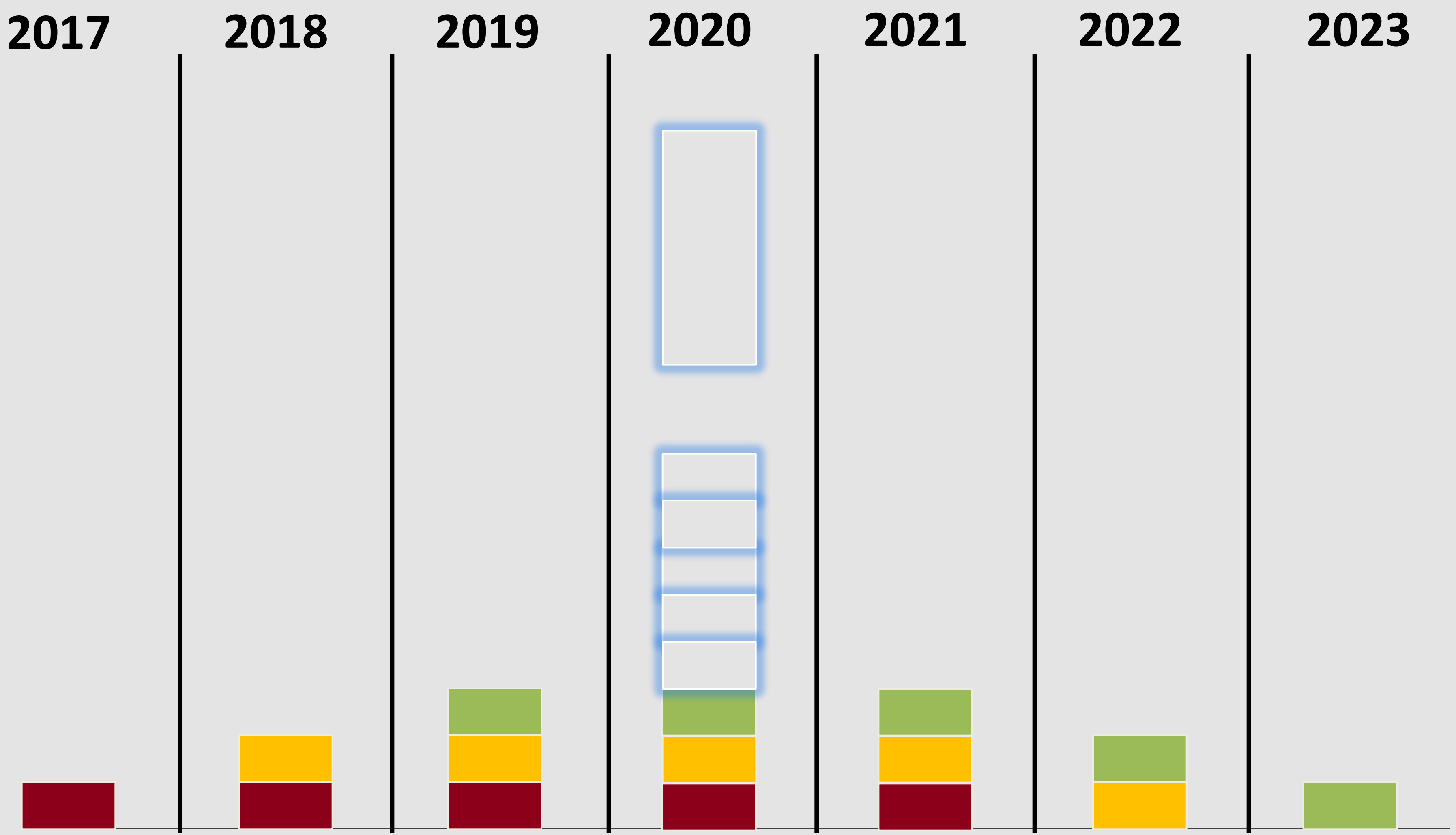


Amortization of Gains

A Note About Gains

- Everyone loves gains, but they **must** be handled just like losses
- Gains must also be spread over 5 years
- Although the full impact is not felt immediately, it does decrease **future** contributions

Amortization of Gains

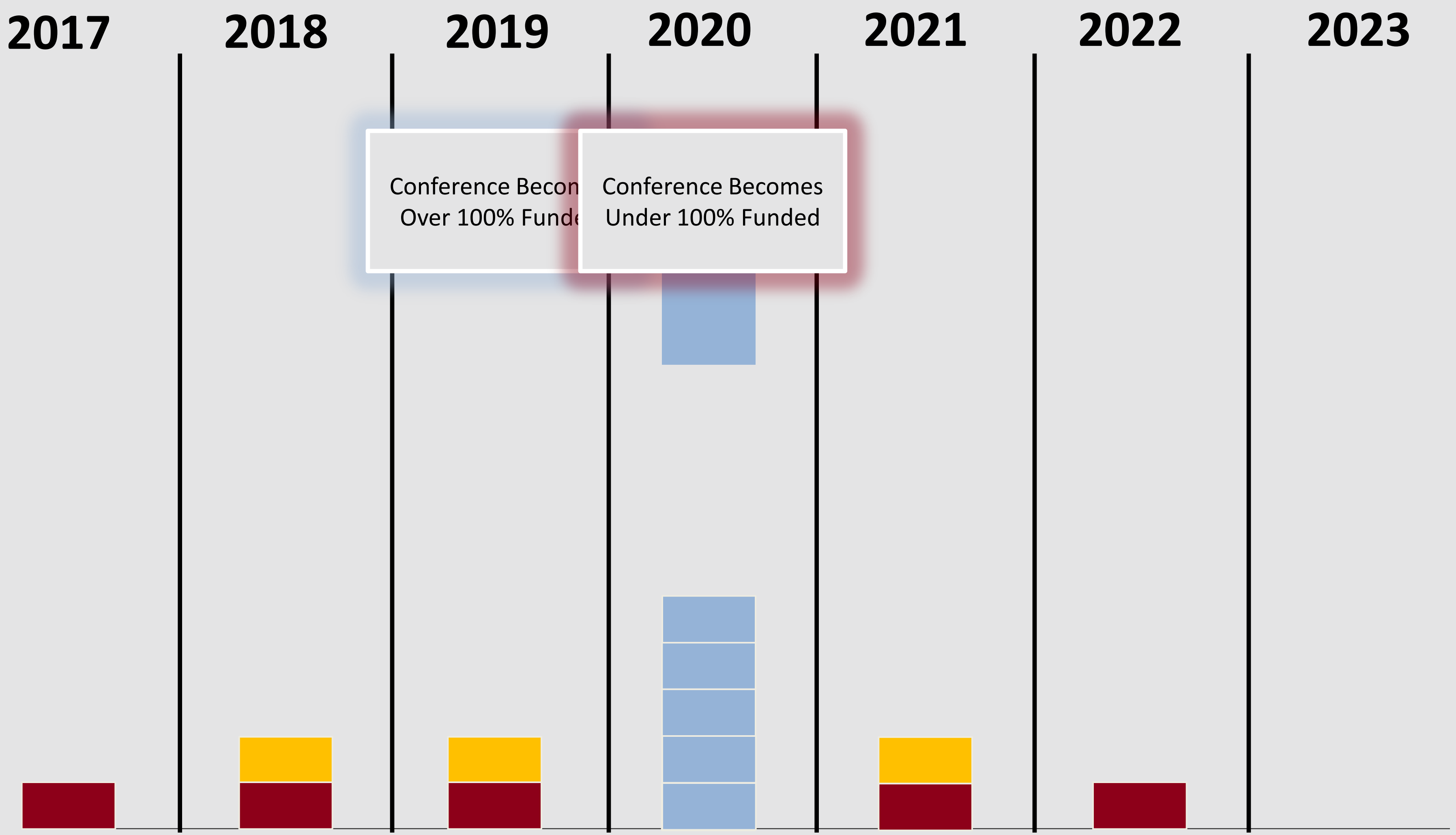


More Than 100% Funded

What happens if plan is funded more than 100% in any year?

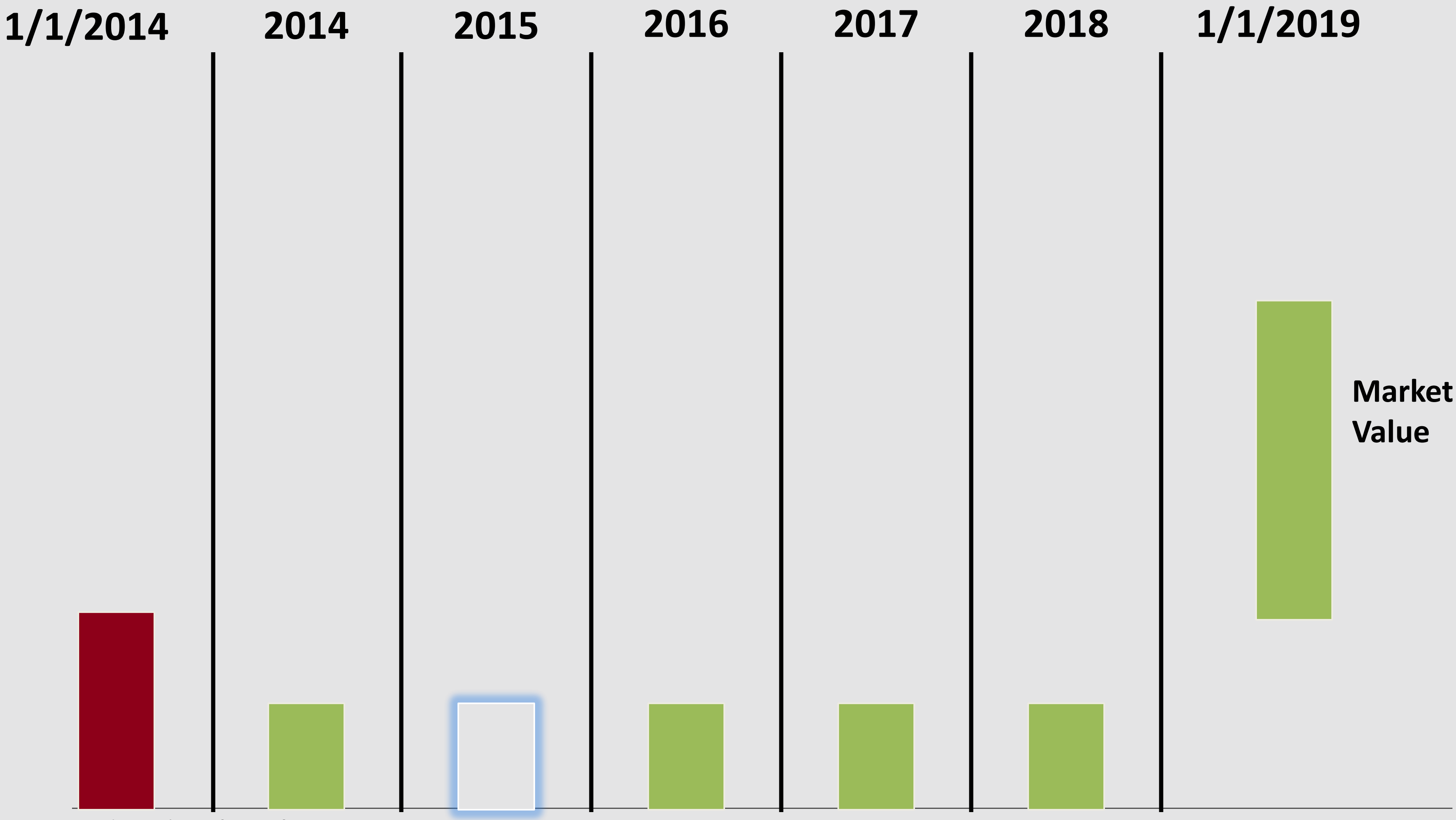
- All remaining bases (layers) get eliminated
- Process for gains/losses starts anew the next year

More Than 100% Funded



Asset Smoothing

No Asset Smoothing



Asset Smoothing—Introduction

- Market value of assets can be quite volatile
- Asset smoothing is a method of reducing that volatility
- Asset smoothing typically involves deferring the recognition of asset gains and losses
  - The full impact of asset swings would not be felt immediately
- This means the full impact of both losses **and** gains will be delayed

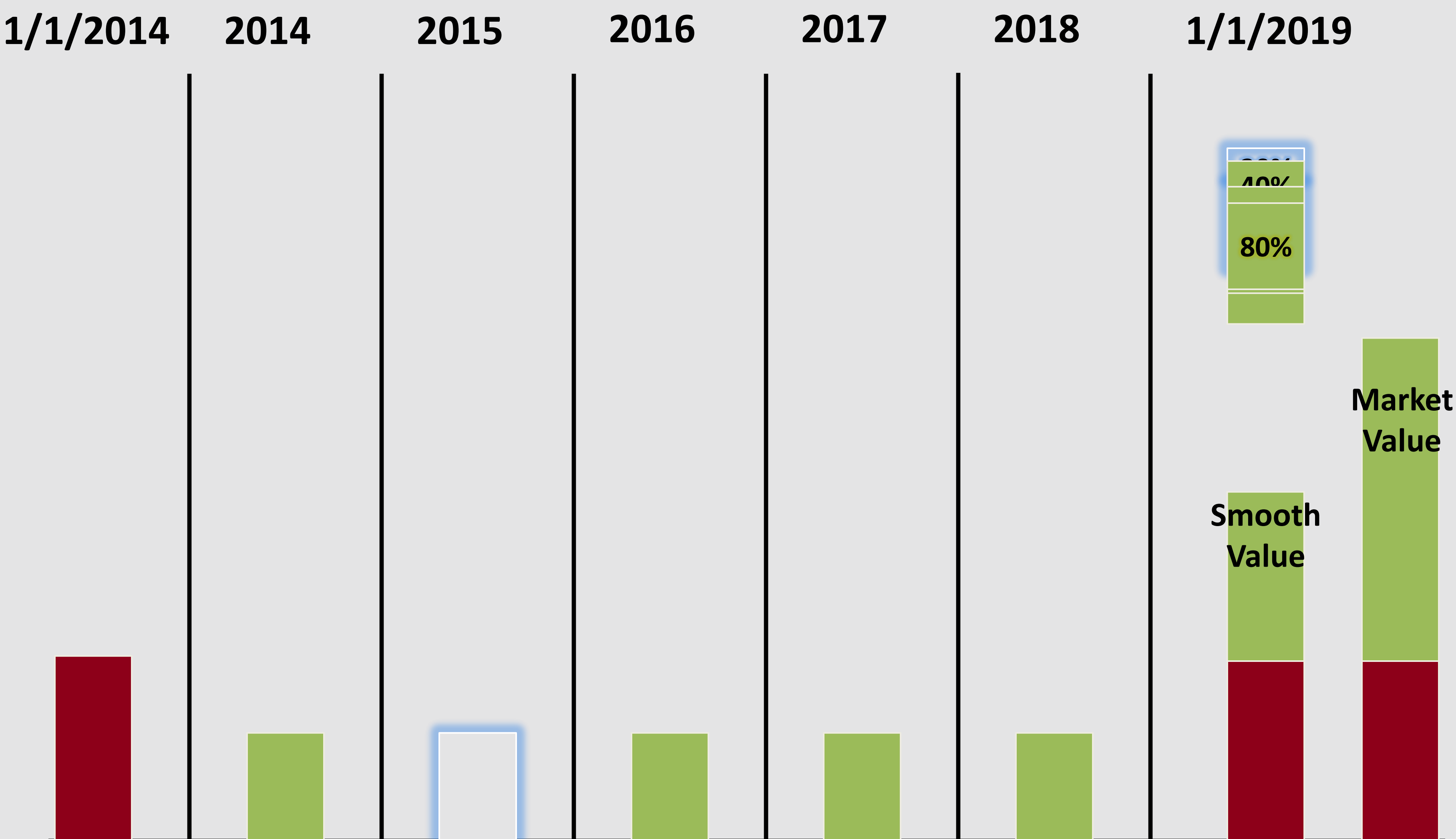
Asset Smoothing—Details

- Asset gains and losses will be smoothed over 5 years
- Smoothed assets will not be allowed to differ from market value of assets by more than 20%
  - This is known as the “boundary”

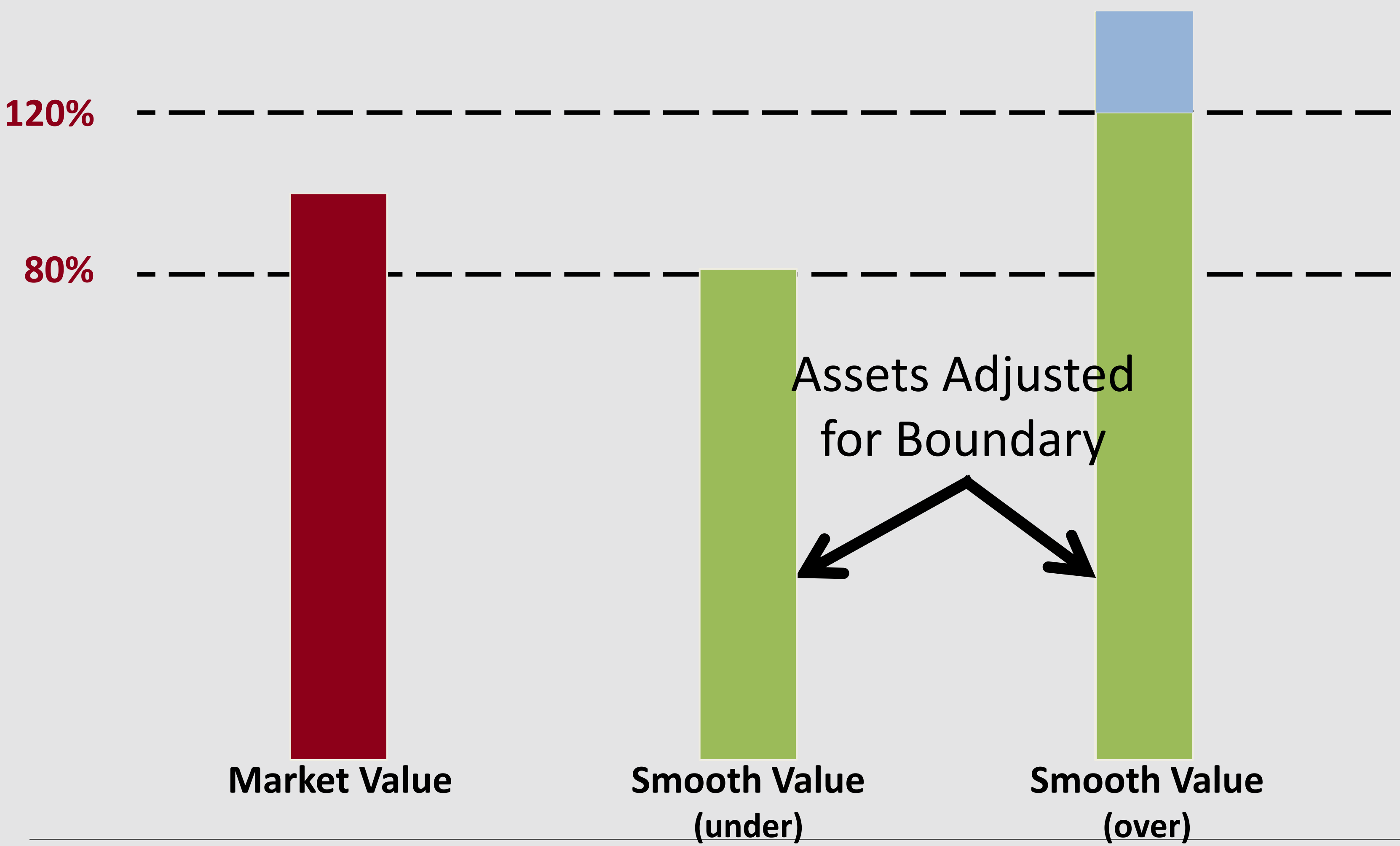
Asset Smoothing—How it Works
A Single Gain or Loss

- So imagine there was a gain in 2014, as of:
  - **January 1, 2015**: 80% of that 2014 gain is deferred (not recognized) in the smoothed assets
  - **January 1, 2016**: 60% of that 2014 gain is deferred (not recognized) in the smoothed assets
  - **January 1, 2019**: The 2014 gain will be fully recognized in the smoothed assets
- But, by **January 1, 2019**, there will be 4 additional years of gains and losses

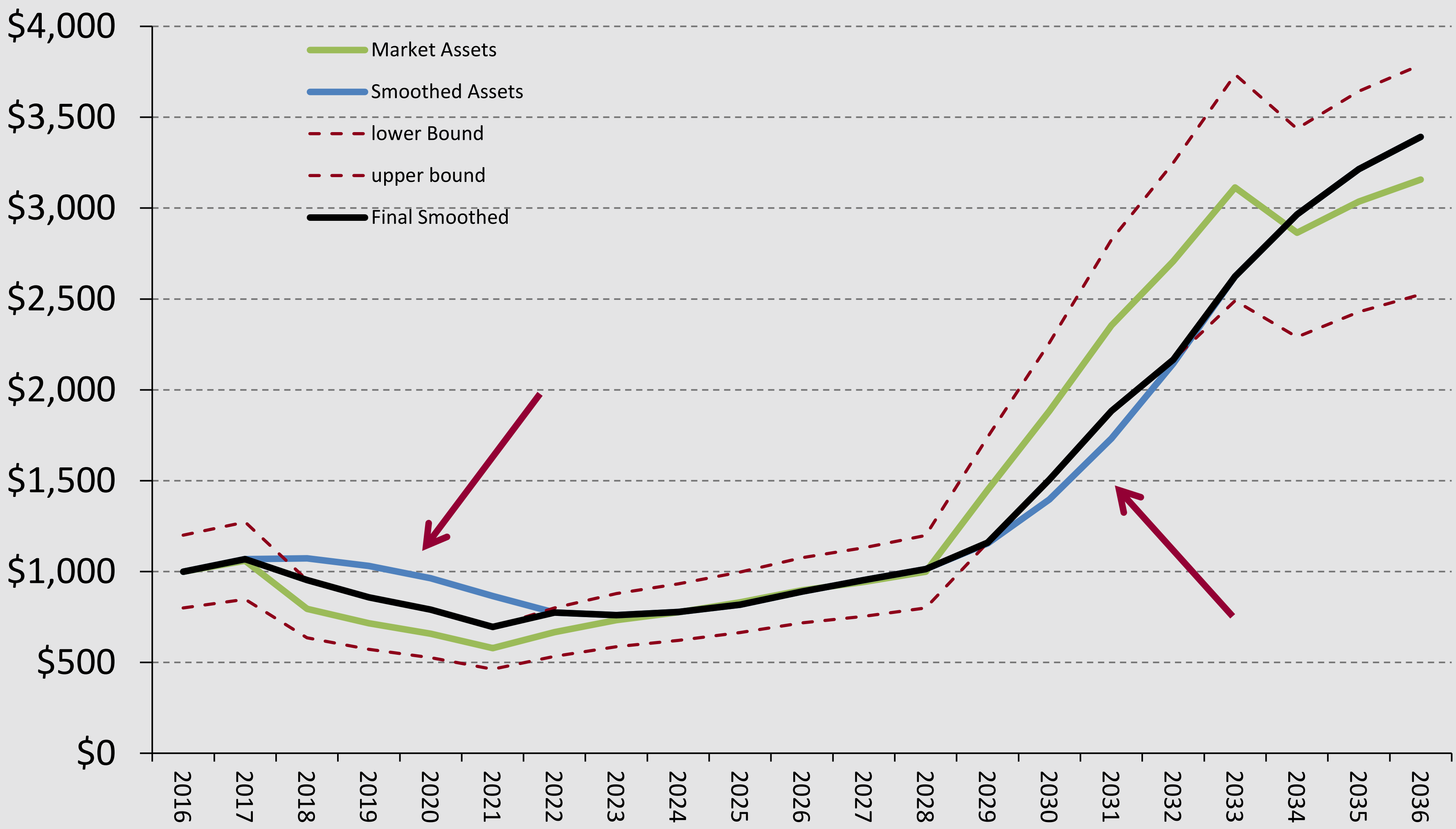
Asset Smoothing—Five-Year Smoothing



Asset Smoothing—Boundary



Asset Smoothing Mechanics



Pre-82 Glidepath

What Is a Glidepath?

A plan for reducing **RISK** and increasing **CONFIDENCE** in fulfilling obligations

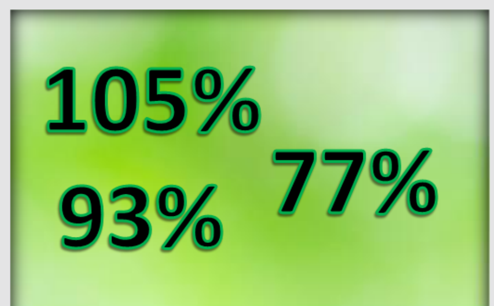
Factors Influencing Glide Path


Assets


Liabilities


Risk


Discount Rates



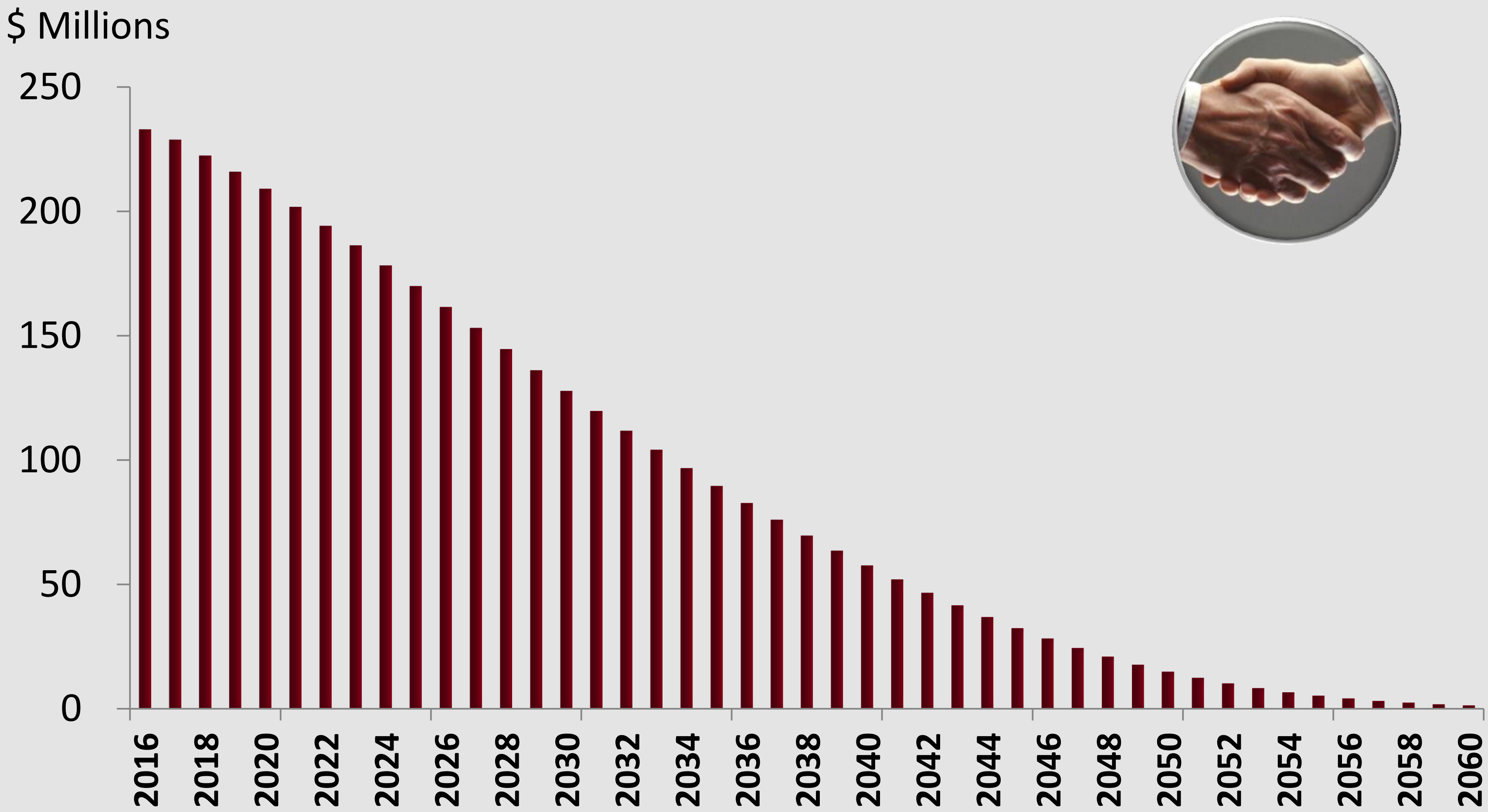
Funded Ratios

Two Methods for Determining Assets

1.

2.

Liabilities —Forecasted Benefit Payments



Two Types of Discount Rates

Funding Discount rate

6.625%

CURRENT

Market Discount rate

3.69%

CURRENT

Funded Ratios

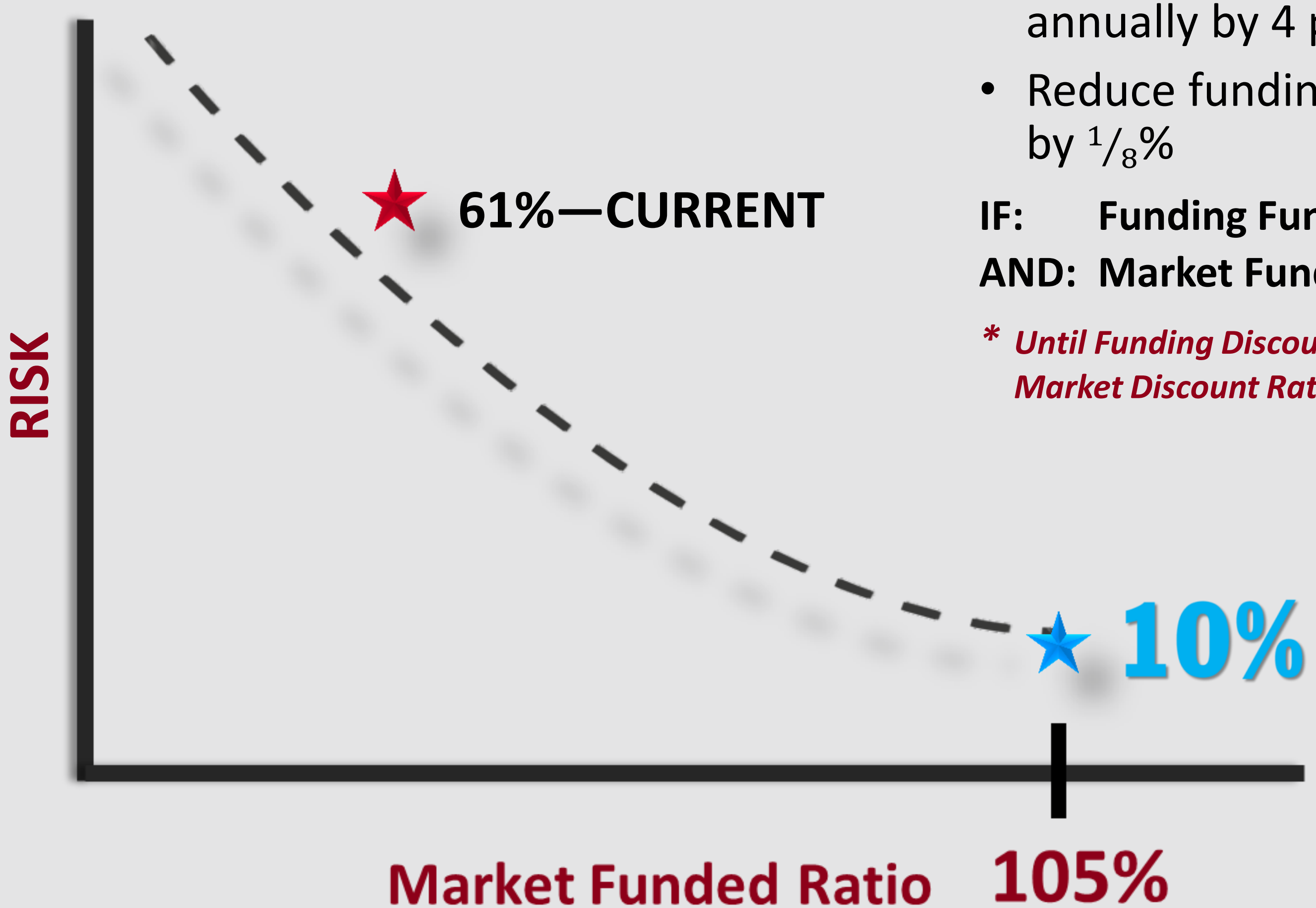
$$\text{Funding Funded Ratio} = \frac{\text{Smoothed Assets}}{\text{Liabilities Discounted with Funding Discount Rate}} = \textbf{105\%}$$

CURRENT

$$\text{Market Funded Ratio} = \frac{\text{Market Assets}}{\text{Liabilities Discounted with Market Discount Rate}} = \textbf{80\%}$$

CURRENT

Pre-82 Plan Glidepath



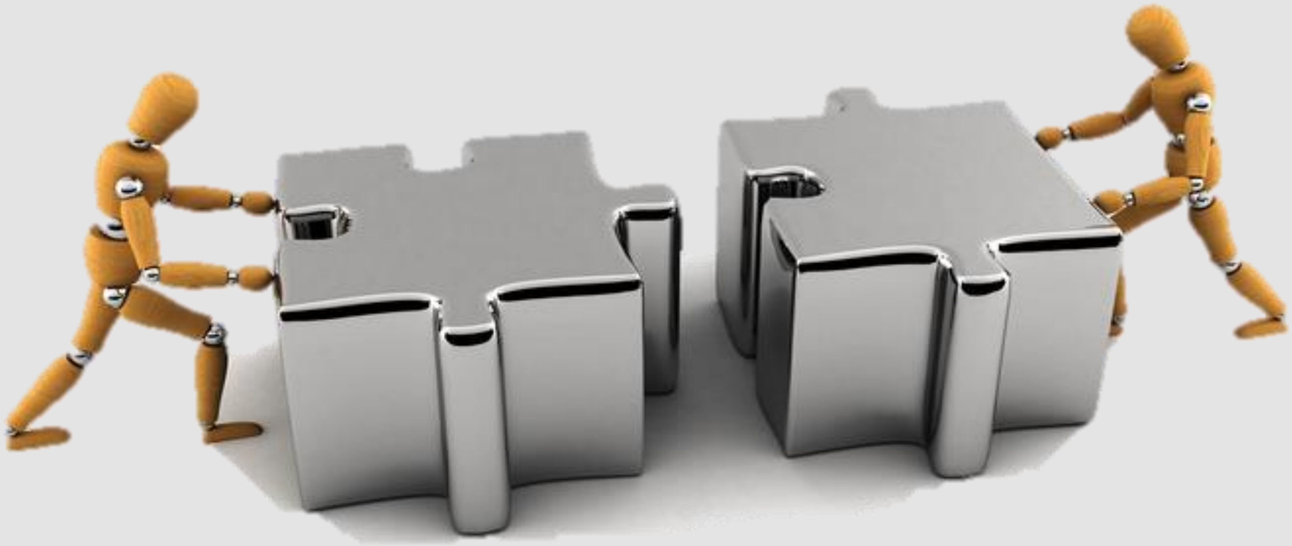
- Reduce equity risk exposure annually by 4 percentage points
- Reduce funding discount rate* by $^{1}/_{8}$%

IF: Funding Funded Ratio > 90%

AND: Market Funded Ratio > 80%

** Until Funding Discount Rate equals Market Discount Rate*

Corridor Funding



Corridor Funding Guidelines

Market Basis Funded Ratio	Funding Basis Contribution Method	MPP Annuities Equities
120% +	**None**	**10%**
115-119.9%	**Reduced**	**20%**
105 - 114.9%	**Normal Cost[1]**	**30%-40%**
100 – 104.9%	**Normal Cost[1]**	**40%**
Under 100%	**Normal Cost[1] Plus Payment on Unfunded Liability**	**40%**

[1] **Normal cost reflects the cost of current benefit accruals and applies only to CRSP DB.**

Corridor Funding—Summary

- Determining corridor on market basis ensures true current funded status is understood
- Determining amortization of unfunded liability on funding basis recognizes the need to reduce contribution volatility
- Reducing equity exposure as funded status improves increases the probability of maintaining surplus

Valuation Results

Valuation Results—Asset Returns

	2014 Returns		2015 Returns	
	Actual	Expected	Actual	Expected
CRSP DB	4.100%	7.000%	-2.560%	7.000%
MPP Annuities	4.640%	6.250%	-0.800%	6.250%
Pre-82	4.100%	6.750%	-2.500%	6.625%

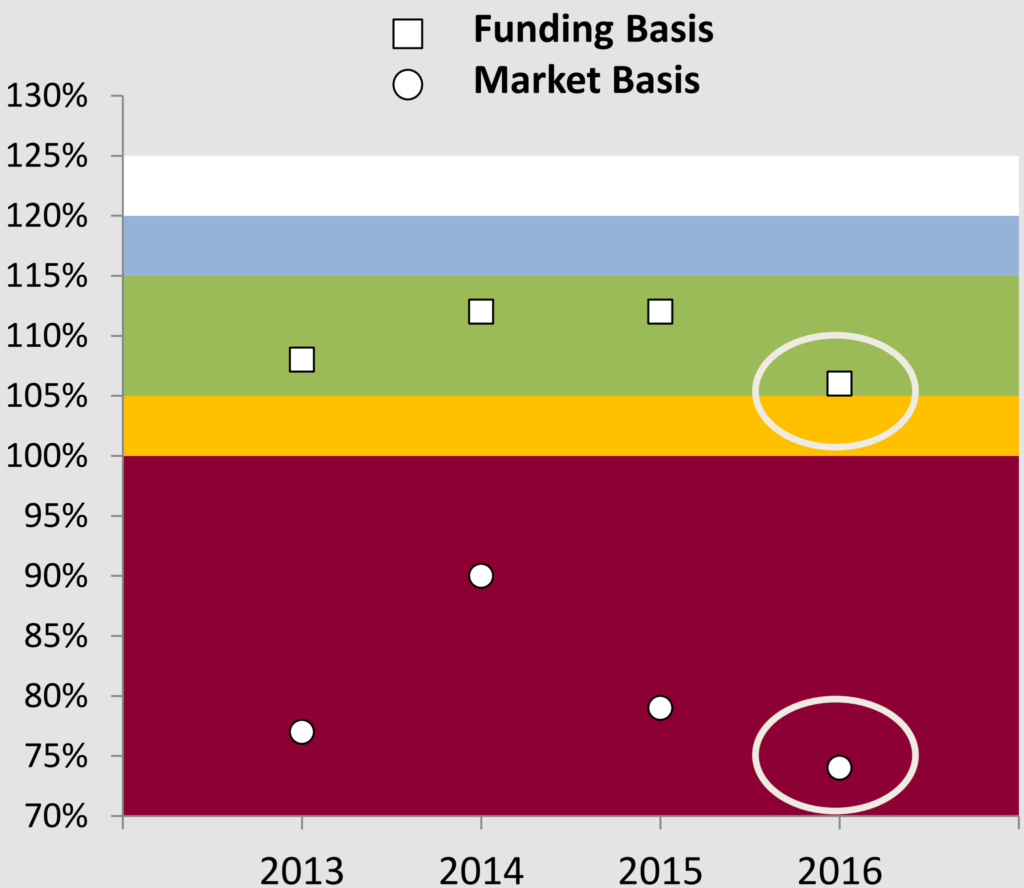
Valuation Results

Asset Smoothing Impact on January 1, 2016

In $ millions	Market Assets	Smoothed Assets	Impact
CRSP DB	1,452	1,530	78
MPP Annuities	3,374	3,600	226
Pre-82	2,199	2,275	76

At January 1, 2016, asset smoothing resulted in higher assets for all plans. However, there is potential for smoothing to result in lower or higher assets in future years.

Corridor Funding Results



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[1] Normal cost reflects the cost of current benefit accruals and applies only to CRSP DB.

Valuation Results
CRSP DB and MPP Annuities

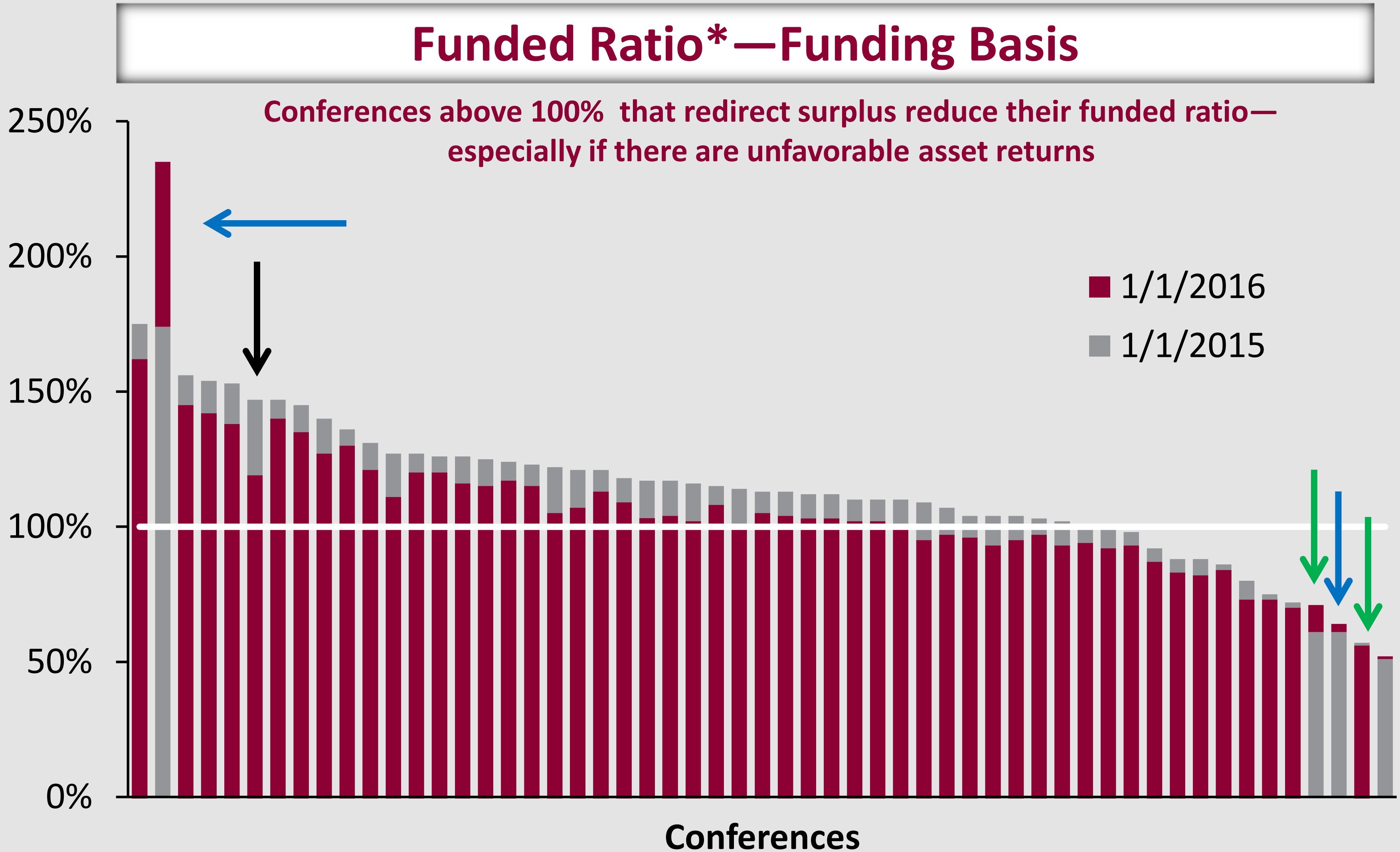
Funded Ratio—Funding Basis

	January 1, 2015	January 1, 2016*
CRSP DB	111%	108% / 102%
MPP Annuities	112%	105% / 99%
Combined	112%	106% / 100%

Note: 2016 reflects new mortality assumptions and asset smoothing

Using smoothed assets / Using market assets

Valuation Results—Pre-82 Plan



*Assuming no change in Past Service Rate (PSR)

Valuation Results

Pre-82 Funded Ratio History—Funding Basis

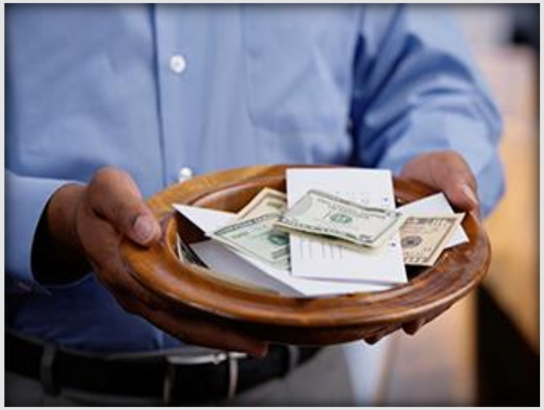
Valuation Year	Contribution Year	Funded Ratio Using All Assets	Funded Ratio Excluding "Funding Surplus"
2010	2012	108%	92%
2011	2013	113%	93%
2012	2014	106%	93%
2013	2015	105%	93%
2014	2016	112%	95%
2015	2017	114%	96%
2016	2018	105%*	95%*

***Assumes no change in Past Service Rate (PSR)**


CPP Holiday

Comprehensive Protection Plan (CPP) Holiday

CPP holiday granted 2018 and 2019



Still collect from local churches

Use to pay higher DB contribution or save for a rainy day

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