Policy on Financial Responsibilities of Withdrawing Congregations

Purpose: To determine a withdrawing congregation's share of an unfunded liability, solvency deficiency and post-retirement benefit obligation when the employer withdraws or has deemed to have withdrawal from the pension plan and post-retirement benefits. Employers who withdraw from the plan are required to make additional employer contributions in respect of any unfunded liability or solvency deficiency (whichever is greater) and benefit obligation attributable to their members or former members in order to ensure those that have served them receive the pension and post-retirement benefits that they have earned and to ensure such withdrawal does not harm the remaining participating employers in the plan (if a congregation refuses to pay its share of the deficit or obligation, it essentially passes its share to the remaining participating employers). Legislation requires that participating employers in multi-employer plans pay for their portion of any unfunded liabilities or solvency deficits. The deficit or obligation is calculated as of the effective date of withdrawal.

Methodology: The basis for determining the withdrawing employer's proportional share of the unfunded liability, solvency deficiency or benefit obligation will be the latest Actuarial Valuation of the Plan and the Post-Retirement Benefits.

Pension: The unfunded liability or solvency deficiency (whichever is greater – normally solvency is greater) is determined by calculating the commuted value of the pension benefit for each member based on their personal data such as age, service etc. and then applying the plan's going-concern or solvency ratio to arrive at the total solvency deficiency. The total solvency deficiency amount owing for each member is then prorated based on service at the withdrawing organization divided by each member's total service. This amount is due no later than 90 days after the withdrawal date. Withdrawing

employers have the option of paying their portion of the solvency deficiency over five years. The amortized payment amounts include interest based on the interest rate used in determining the commuted value.

Formula for Calculating the Solvency Deficiency for a Withdrawing Organization

- **Commuted Value of Pension x (1- Plan's solvency ratio) = Total Solvency Deficiency**
- **Total Solvency Deficiency x (Service at withdrawing employer/Total Service) = Solvency Deficiency accrued at withdrawing employer**
- **Annual Payment = Solvency Deficiency amortized over five years**

.

Example (For Illustrative Purposes):

Solvency Liability/Commuted Value: $100,000
Solvency Ratio: 70%
Total Service:10 years
Service at Withdrawing Organization:5

Calculations:

$100,000 x (1 – 70%) = $30,000 (Solvency Deficiency)
$30,000 x (5/10) = $15,000 (Solvency Deficiency accrued at withdrawing organization)

Payments will be further adjusted to reflect:

a) Interest on late payments to the Administrator
b) Any additional contributions remitted by the withdrawing employer in advance of their due date

Post-Retirement Benefits: The Post-Retirements benefits obligation is calculated as the total obligation for the plan divided by the covered members to determine the obligation for each member. Each member's obligation is then prorated

based on service at the withdrawing organization divided by each member's total service. This amount is due no later than 90 days after the withdrawal date. Withdrawing employers have the option of paying their portion of the obligation over five years. The amortized payment amounts include interest based on the same interest that is used in determining the amortized pension payment.

Process:

- Employers who are contemplating withdrawing from the Worker Benefit Plans should contact the Executive Director, Worker Benefit Plans - Dwayne Cleave (1-800-588-4226 ext. 2219) to discuss their obligations and options.
- The Executive director will provide the employer with an estimate of their obligations including the amount of any amortization payments for the pension plan and post-retirement benefits.
- Should the employer decide to proceed with withdrawing from the Worker Benefit Plans the Executive Director will have the Plan's actuary provide a finalized calculation. This is not expected to be materially different from the estimate that was previously provided to the withdrawing employer.
- The Executive Director will provide a withdrawal agreement on the agreed upon approach (lump sum or annual payments) to the withdrawing employer for signing.
- The Executive Director will arrange for the employer to be invoiced for the amounts owning and for payments to be recorded and deposited into the pension fund.
- Once the employer has completed the required payments the Executive Director will ensure a record is kept in the affected member's pension file to document the fast that the employer has paid the solvency deficiency. This would be used in the future if the member does not or is not able to take their commuted value at the time of withdrawal and the plan is wound up with a solvency deficiency in the plan.

Questions: Questions on this policy may be directed to:

- Dwayne Cleave, Executive Director, Worker Benefit Plans at treasurer@lutheranchurch.ca or 1-1800-588-4226,ext.2219

- Nancy Swerhun, Pension and Benefits Manager, Lutheran Church – Canada at nswerhun@telus.net or 403-278-7506.

Reviewed and approved by the Board of Managers:

Dated: January 1, 2016