



Canadian Forces Non-Public Fund Employees Pension Plan

Members Report

2014



The Plan in Brief

Membership:

As at 31 December 2014, the Pension Plan had a total of 3454 members, including 2022 active and disabled members, 905 pensioners and beneficiaries, and 527 members with deferred benefits.

Contributions to the Fund:

During 2014, active members and the Employer contributed a total of \$20.6 million to the Fund including \$8.1 million in special payments made by the Employer.

Pension benefits paid:

In 2014, a total of \$6.6 million was paid out to retirees and other beneficiaries. A further \$4 million was paid out in lump sum refunds on behalf of terminated and deceased members.

Return on investments:

For 2014, the Fund's total rate of return was 9.9%. The four-year targeted annualized real rate of return (i.e. the rate of return after adjusting for inflation) was 5.4% and the Fund achieved a four-year return of 7.4%.

Net assets available for benefits:

As at 31 December 2014, the market value of net assets available for benefits was \$268.8 million.

Going concern actuarial valuation:

The most recent actuarial valuation of the Pension Plan filed with regulators, as at 31 December 2014, reported a surplus on a going concern basis of \$47.4 million and a funded ratio of 122.7%. This is a valuation that assumes the Pension Plan will continue indefinitely.

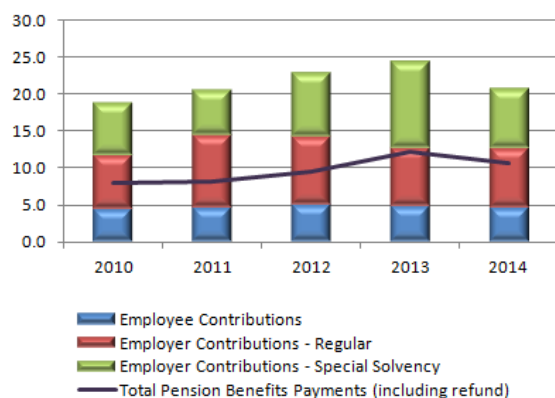
Solvency actuarial valuation:

The most recent actuarial valuation of the Pension Plan filed with regulators, as at 31 December 2014, reported a deficit on a solvency basis of \$42.1 million and a funded ratio of 86.3%. This is a valuation that assumes the Pension Plan will terminate on the date of valuation.

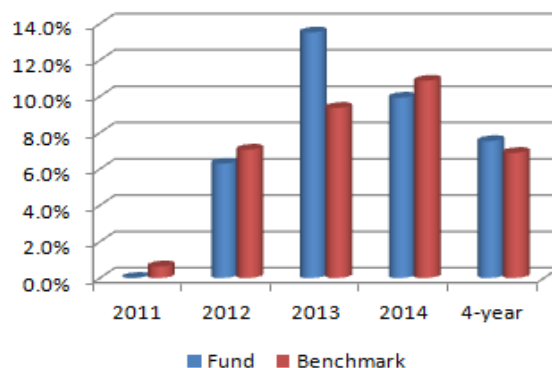
Special payments:

As at 31 December 2014, the three-year average solvency ratio was 87.8% resulting in special payments of \$7.5 million in 2015.

Contributions vs. Pension Payments (millions)



Fund Returns vs Benchmark



INTRODUCTION

The Canadian Forces Non-Public Fund Employees Pension Fund achieved a positive investment return of 9.9% in 2014, and the market value of investments increased from \$231.5 million to \$264.5 million.

The Canadian Forces Non-Public Fund Employees Pension Fund (the “Fund” or the “Plan”) performed well in 2014, with an increase of \$32.7 million in assets. Positive investment returns and Employer-paid special payments have ensured that the Plan is fully funded on a going concern basis. However, while assets grew, so did liabilities, resulting in a continued deficit on a solvency funding basis. This 2014 edition of the Members Report shares the highlights of the Fund’s performance in 2014 and an overview of the governance activities undertaken during the year to ensure the Plan’s long-term sustainability.

2014 Highlights		
2014		2013
\$16.1 million	Total employer contributions	\$19.7 million
\$4.6 million	Total employee contributions	\$4.7 million
\$268.8 million	Total Plan assets	\$234.3 million
\$32.7 million	Increase in Plan assets	\$34.9 million
9.9%	Investment Return	13.5%

Did You Know?

44.5 years

Average age of active members

7.2 years

Average years of service

72.1 years

Average pensioner age

17

Number of pensioners over age 90

\$7,287

Average annual lifetime benefit paid to pensioners

\$325,291

Total bridge benefits paid to pensioners annually

A YEAR IN REVIEW

The Fund delivered solid investment results in 2014. However, while Fund assets increased, Fund liabilities increased more. This means that, despite good investment returns and full funding on a going concern basis, the Plan remains in a solvency deficit position and special payments are being made by the Employer to return it to a fully funded status.

Good performance in the equity markets in 2014 was broken by periods of significant volatility and geopolitical unrest. As an example, strong Canadian equity markets in the first half of the year gave way to rapidly declining oil prices in the latter half. Meanwhile, interest rates continue to be a challenge to Plan funding and, despite a general belief that interest rates would begin to rise in 2014, a late year decrease in rates contributed to a sustained deficit in solvency funding.

Fund assets should be balanced and managed in accordance with market conditions, the Plan's pension liabilities, and the Fund's risk tolerance.

A Busy Year

It was a busy year for the Plan. Significant strides were taken in 2014 with respect to the Plan's governance and the Fund's investment, the most prominent being the updating of the governance plan, the implementation of a new investment management framework, and the completion of an asset liability study.

Governance Plan Update

A major review of the Plan's governance was concluded in 2014 with the implementation of an updated pension governance framework to define the duties, responsibilities and accountabilities for all parties involved in the governance process. Effective

application of this framework will ensure that consistent oversight, management and administration of the Plan are conducted in the best interests of Plan members, pensioners, and beneficiaries.

Investment Management Framework

The assets of the Fund continue to be managed using a balanced and long-term approach. In 2014, a major review of the investment strategy resulted in changes to the benchmark portfolio and investment policy, intended to better position the Fund for managing the risks of market volatility. These changes included an increase in the active management of investments and

rebalancing of the Fund's asset mix, such as, added exposure to foreign investments and emerging markets, as well as an increased real estate asset allocation.

Changes to the investment policy necessitated a different investment management structure, and, following competitive processes, Russell Investments Inc. was hired in June 2014 to manage the Fund's investments and Bentall Kennedy was hired as real estate manager in November 2014.

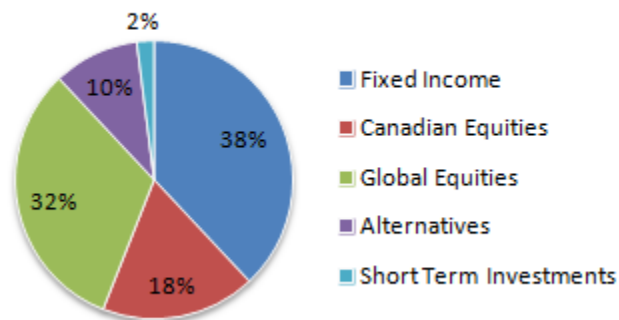
Looking Forward in 2015

Fund assets should be balanced and managed in accordance with market conditions, the Plan's pension liabilities, and the Fund's risk tolerance. In 2015, work will continue on exploring appropriate funding options, an optimal portfolio, and risk management strategies to ensure long-term sustainability of the Plan and protection of the members' promised benefits. This will include an asset liability modelling study.

Asset Liability Modelling Study

Asset liability modelling projects how a plan's assets and liabilities are impacted in various economic and investment conditions, based on the Plan's investment strategy, funding, and design. By projecting how assets and liabilities will act in various scenarios, it is possible to assess how the Fund will evolve over time and evaluate how different investment strategies can affect the Plan's funding position and solvency. Results of the study will assist in determining the best approach to pension funding, while ensuring that sufficient assets are accumulated to deliver the promised benefits to plan members.

Current Asset Allocation



WHAT'S NEW?

THE MEMBERS' REPORT! IT'S AN IMPORTANT TOOL FOR KEEPING MEMBERS WELL INFORMED ON THE FUND AND ITS ASSETS – AND IS A KEY FORUM FOR SHARING PLAN RELATED ACTIVITIES AND INFORMATION.



How well do you know your pension plan?

Pension awareness initiatives increase members' understanding of pension provisions, provide transparency on the financial stewardship of the Plan, and ensure members have sufficient information at-hand to make informed decisions. The Members Report, introduced in 2014, is just one initiative. In addition, other pension tools and information were posted on the Human Resources website in 2014, including an explanation of retirement options, information on pension governance, and a member escalation process.

In 2015, the pension website will undergo a major re-design, introducing new information and tools, as well as links to crucial government websites.

Keeping track of plan members.....

One of the pension administrator's most difficult tasks is keeping track of members once they leave active employment. For example, in 2014, over 20% of the Plan's deferred members could not be mailed their annual pension statements as they have no valid address on file. It is equally difficult to maintain current addresses on file after plan members retire which prompted an audit of retirees and survivors in 2014 to confirm mailing addresses and ensure that pension benefits issued via "direct deposit" are being paid to the appropriate person.

You can do your part by ensuring that your home address is kept up to date at all times.

If you would like more information about your defined benefit pension plan, there are several options available to you:

- Contact Coughlin and Associates by email at nfpension@coughlin.ca or call toll-free at **1-888-613-1234**.
- Visit the HR Website at <https://www.cfmws.com/en/EmployeeZone/Pages/default.aspx>
- Contact your local Human Resources professional.