SPECIAL EDITION NEWSLETTER FOCUSED ON

Sustainability

DECEMBER 2024

SERVING TEACHERS
PAST • PRESENT • FUTURE

The Teachers' Retirement Allowances Fund (TRAF) was established in 1925 and provides pension and other benefits to public school teachers and other eligible employees in Manitoba. TRAF is a defined benefit (DB) pension plan. A DB pension plan promises its members a pension for life, and, in some instances, for the life of a spouse or partner.

Since TRAF is a DB pension plan, the amount of pension is not directly based on member contributions or the investment returns earned on those contributions. Rather, it is based on a formula that considers years of service and average salary near retirement. As the pension is earned over an entire career and paid for the life of the member after retirement, the relationship between a member and TRAF can last for a significant period of time. For example, the last pension paid to a beneficiary of a founding member of TRAF (whose pension promise began in 1925) occurred during 2015, or 90 years later.

Nearly 100 years later, the world is significantly different today than it was in 1925 and will continue to be different as this century unfolds. For a variety of reasons, including uncertainties surrounding future investment returns and changes to life expectancy, there is continued focus across the globe on assessing the sustainability of the lifetime pension promise inherent in a DB pension plan.

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WHAT'S INSIDE:

Sustainability 2
Account structure 3
Plan funding 4
Source of funds 5
Assessing the financial outlook of the plan 6
Financial outlook – Account A (member account) 7
Financial outlook – Account B (Province account) 8
Aon report on Account B (Province account) 9
Comparison to other teachers' pension plans 10
Comparison to other public sector plans in Manitoba 11
A legal perspective 12
Funding beliefs 13
Monitoring the financial outlook of the plan 14
Our commitment 15

Sustainability

What is sustainability in the context of a pension plan? Although definitions of the term vary, our view is that sustainability requires an understanding of both the current and projected financial position of the plan, as well as an appreciation for the adjustments that can be made to address any concerning current or long-term trends.

To be sustainable means that the plan sponsor (the Province of Manitoba, in TRAF's case — see box, right) makes timely adjustments to the plan to avoid the deterioration of the plan's financial condition. If changes are not made in a timely fashion, the financial condition could worsen to a point where the changes required to reverse course may not be feasible for either plan members or the plan sponsor.

Although timely action is key, the sustainability of the fund is enhanced by balancing three separate but interrelated components: funding, benefit design and investment strategy. Through *The Teachers' Pensions Act* (TPA), the plan sponsor controls funding and benefit design, and TRAF, as the plan administrator, controls the investment strategy.

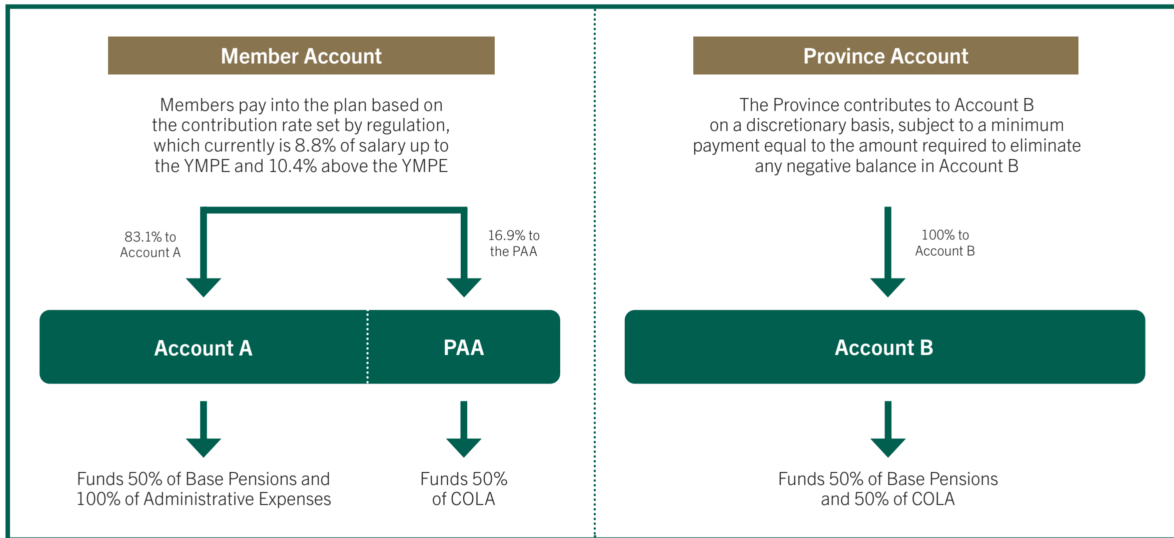
WHAT IS A PLAN SPONSOR, AND WHO SPONSORS THE TRAF PENSION PLAN?

The plan sponsor is the entity responsible for determining the design of a pension plan, setting the benefit structure and establishing, amending and terminating the pension plan. The TRAF pension plan is a statutory plan created by *The Teachers' Pensions Act* (TPA), which sets out the terms of the pension plan, including benefits and funding. Any change to the TPA must be made by legislative amendment; therefore, the Province of Manitoba acts as plan sponsor.

TRAF's role is also to provide relevant and timely information to the plan sponsor, plan members and other stakeholders to assist them in understanding the ongoing financial condition and sustainability of the plan.

Account structure

The starting point to assess sustainability is understanding the current and projected financial position of the TRAF plan and its long-term financial outlook. First, we must understand the basics of the account structure.



TRAF's current account structure was established through an act of the Legislative Assembly of Manitoba in 1963 to recognize the fact that the funding methods for members and for the Province differed. Two main accounts were established at that time.

Account A, the "member account," is responsible for the members' 50% share of pension benefits and 100% of the administrative expenses to run the plan. Account A is credited with member contributions and investment earnings. Currently, 83.1% of member contributions is allocated towards basic benefits and 16.9% is allocated to a sub-account known as the Pension Adjustment Account (PAA) to support cost of living adjustments (COLA). The allocation will change, effective September 1, 2025, to 83.0% to Account A and 17.0% to the PAA. This is the last scheduled change under legislation. Account B, the "Province account," is responsible for the Province's 50% share of pension benefits and is credited with contributions made by the Province on a discretionary basis.

These provisions are embedded in *The Teachers' Pensions Act* (TPA), which governs the TRAF plan today.

Plan funding

Account A (member account)

TRAF members are required to contribute to the plan while working based on a fixed contribution rate set by legislation (see table, below). The contribution rate since January 1, 1966 (when the Canada Pension Plan, or CPP, came into effect) is "two-tiered," with a lower rate applicable to earnings up to the year's maximum pensionable earnings (YMPE) under the CPP. Account A is considered pre-funded (see box, below).

MEMBER CONTRIBUTION RATE HISTORY

Period	Contribution Rate[1]
July 1, 1925 – December 31, 1929	1% of salary
January 1, 1930 – August 31, 1939	2% of salary
September 1, 1939 – August 31, 1948	4% of salary
September 1, 1948 – August 31, 1963	5% of salary
September 1, 1963 – December 31, 1965	6% of salary
January 1, 1966[2] – August 31, 1977	4.4% of salary up to YMPE[3]; 6.0% of salary in excess of YMPE
September 1, 1977 – August 31, 1980	5.1% of salary up to YMPE; 7.0% of salary in excess of YMPE
September 1, 1980 – August 31, 2005	5.7% of salary up to YMPE; 7.3% of salary in excess of YMPE
September 1, 2005 – August 31, 2012	6.8% of salary up to YMPE; 8.4% of salary in excess of YMPE
September 1, 2012 – August 31, 2013	7.3% of salary up to YMPE; 8.9% of salary in excess of YMPE
September 1, 2013 – August 31, 2014	7.8% of salary up to YMPE; 9.4% of salary in excess of YMPE
September 1, 2014 – August 31, 2015	8.3% of salary up to YMPE; 9.9% of salary in excess of YMPE
September 1, 2015 – current	8.8% of salary up to YMPE; 10.4% of salary in excess of YMPE

[1] Contributions are not required on salary above the maximum salary for which a benefit can be accrued under the *Income Tax Act*. For 2025, this amount is $209,223. Members receiving disability benefits are also not required to contribute.

[2] The contribution rate was reduced effective January 1, 1966 concurrent with the commencement of the Canada Pension Plan.

[3] The year's maximum pensionable earnings (YMPE) is the maximum pensionable earnings under the Canada Pension Plan. For 2025, this amount is $71,300.

Account B (Province account)

The Province, on the other hand, is not required to make contributions for TRAF members during their employment years. Rather, the Province is only required to pay 50% of the pensions in retirement as they come due. Account B is considered to be funded on a pay-as-you-go basis over the long term (see box, right).

Although not legally required, in 2000, the Province followed the lead of other public sector plans in Canada and announced a plan to pre-fund Account B. The Province began by matching the contributions of members who joined the plan on or after April 1, 2000, while continuing to fund 50% of monthly pensions from general revenue. However, the global financial crisis that commenced in 2007 caused the government to change course. Specifically, in October 2007, the Province elected to match the contributions of all members, but concurrently began using Account B assets to fund its share of pension payments. The impact of this change was that the deficit in Account B started to increase again.

PRE-FUNDING VS. PAY-AS-YOU-GO FUNDING

Pre-funding a pension plan means setting aside assets in advance as members earn benefits during their working years, with the goal of having enough funds at retirement to pay for monthly retirement benefits. Pre-funding is consistent with industry best practices, including those adopted by virtually every other public sector pension plan in Canada. Account A (member account) is pre-funded.

Pay-as-you-go funding means paying for monthly pensions when they are paid from the plan after a member retires. No funds are set aside prior to retirement. Pay-as-you-go-funding is now extremely rare in Canada. Account B (Province account) currently has assets, but is structured as pay-as-you-go over the long term.

The following statements were included in the 2009 budget:

> "The Manitoba Government is committed to retiring debt with the ultimate goal of eliminating the general purpose debt and the remaining unfunded pension liabilities. In light of the need to protect vital services, amendments will be introduced to temporarily provide the government more flexibility in making the debt payment required by balanced budget legislation. The decision to modify the payments to the debt retirement account reflects the fiscal and economic reality."

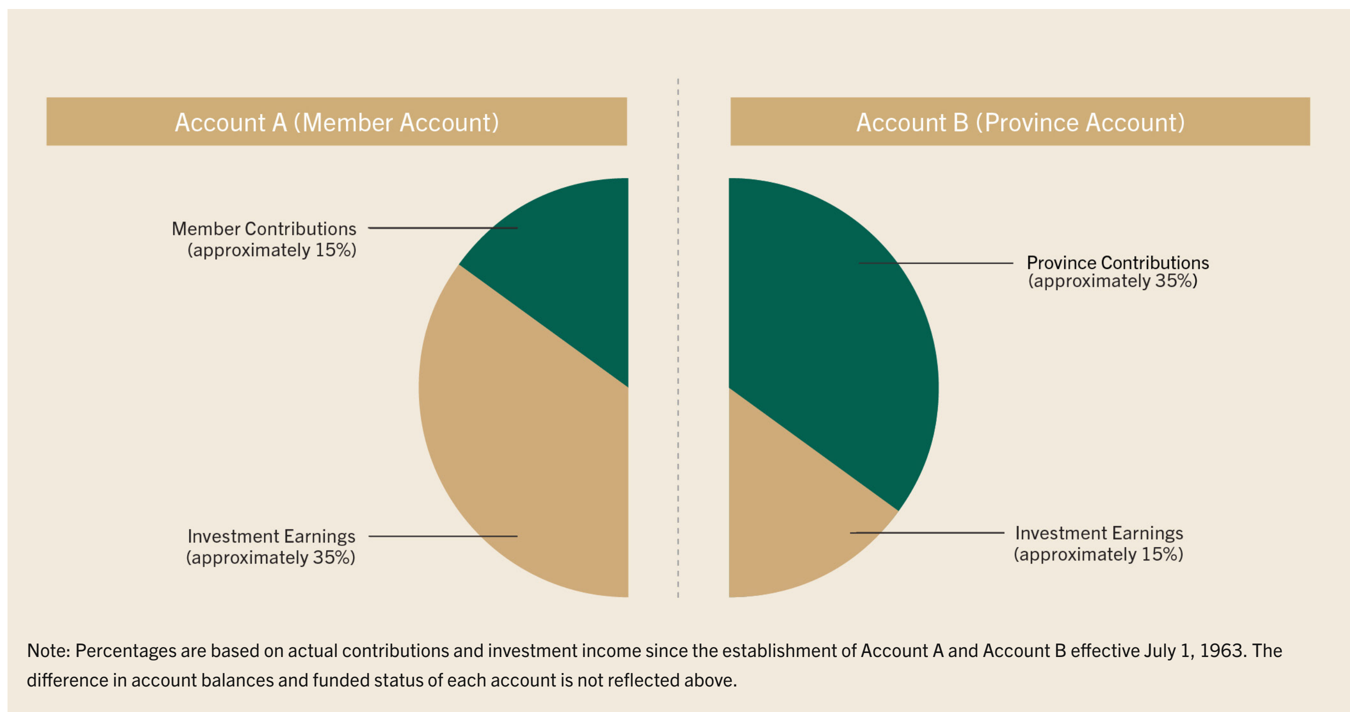
This position was understandable given the challenges of the time. However, the "temporary" pause in the funding plan adopted in 2007 remains in place today (other than two lump sum payments, one of $100 million in 2015 and one of $50 million in 2023). As regularly communicated to government, should the current funding model continue, Account B is projected to have no assets and an unfunded liability of $11.7 billion in 2056. All of the prior positive action will be entirely reversed.

Therefore, even though there are currently assets in the account, Account B is essentially structured to be funded on a pay-as-you-go basis when viewed over the long term.

Source of funds

A significant advantage of a defined benefit (DB) pension plan is the long-term compounding of investment returns on contributions. The contributions that are automatically deducted from active members' pay cheques are deposited to Account A (member account), where they are systematically invested in a globally diversified portfolio on a cost-effective basis. Over time, this provides meaningful benefits.

As illustrated in the diagram below, approximately 70% of the increase in Account A assets is attributable to investment income. The other 30% comes from member contributions. This is in direct contrast to Account B, where 70% is attributable to contributions from the Province and only 30% is from investment income (i.e., the exact opposite proportions). The reason that the investment income makes up a larger portion for Account A, when compared to Account B, is Account A has been benefiting from investment income since 1963 given its pre-funded structure, while Account B has only benefited from investment returns since 2001 when the account started to be partially funded. In addition, Account A is more adequately funded than Account B.



Note: Percentages are based on actual contributions and investment income since the establishment of Account A and Account B effective July 1, 1963. The difference in account balances and funded status of each account is not reflected above.

Assessing the financial outlook of the plan

The financial outlook of the plan is determined through actuarial valuations and long-term projections that assess how the plan is expected to unfold over a horizon of up to 40 years. A key measure of the plan's financial health is the "funded status." The funded status compares the value of the assets of the plan to the expected cost of future benefits for current members, including those who are already receiving a pension (the "liabilities"). The funded status is calculated based on assumptions concerning future events and economic and demographic conditions that are very difficult to accurately predict.

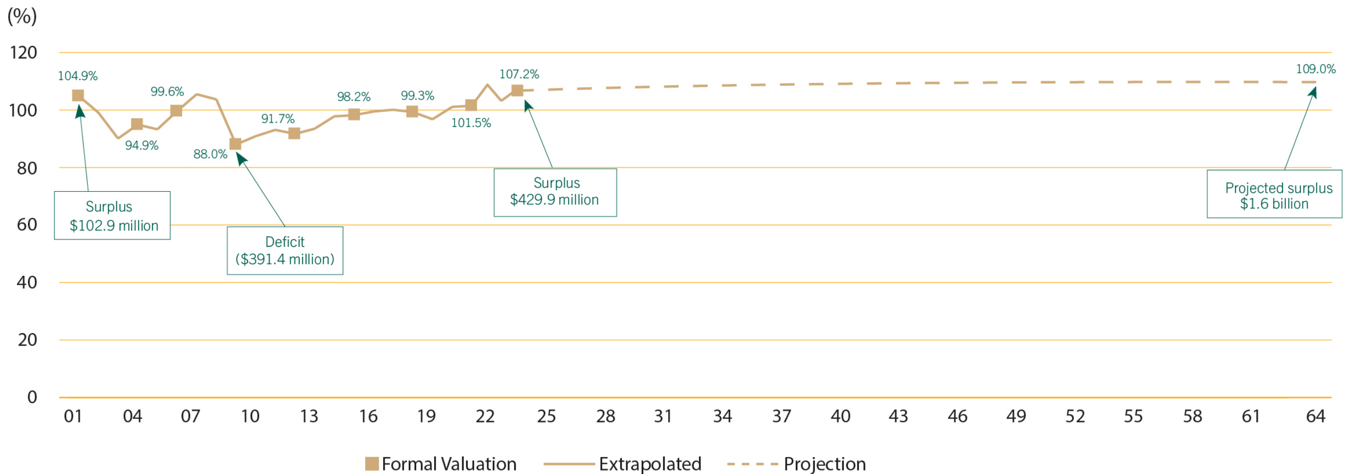
The funded status can be expressed in dollar terms (a "surplus" or "deficit") or by comparing the assets as a percentage of the liabilities (a "funded ratio"). If the value of the plan assets exceeds the value of the liabilities at any point in time, the funded ratio will be greater than 100% and the plan is considered to be in a "surplus" position. If the value of the liabilities exceeds the value of the plan assets, the funded ratio will be less than 100% and the plan is considered to be in a "deficit" position.

Given the different funding practices for Account A and Account B, the funded status and its assessment are performed independently for each account.

Financial outlook — Account A (member account)

The following chart sets out the funded status of Account A since 2001 and includes a projection to 2064.

ACCOUNT A STATUS – HISTORICAL & PROJECTED[1]



[1] Includes accrued and future assets and liabilities, but excludes the Pension Adjustment Account.

As illustrated by the chart, the funded ratio of Account A was 107.2% as at January 1, 2024. This means that, based on the various assumptions adopted, the member account is expected to have sufficient assets to fund its 50% share of the pension obligations for all members in the plan as of that date. In dollar terms, the Account A surplus as at January 1, 2024 was $429.9 million.

Account A had a surplus of $429.9 million as at January 1, 2024. The surplus is projected to increase to $1.6 billion by 2064, resulting in a projected funded ratio of 109.0% as of January 1, 2064.

Account A's funded ratio is projected to remain relatively stable over the next 40 years, increasing by 1.8% to 109.0% by January 1, 2064. As a result, the plan actuary has advised that it is reasonable to assume that, for Account A, the current funding levels are sufficient to provide for the current level of benefits and has not recommended a change to the member contribution rate before the next scheduled actuarial valuation to be completed in 2027.

However, these projections are based on many assumptions regarding future economic and demographic conditions, which may or may not come to fruition. Similarly, the results of the projection are sensitive to the start date of the projection.

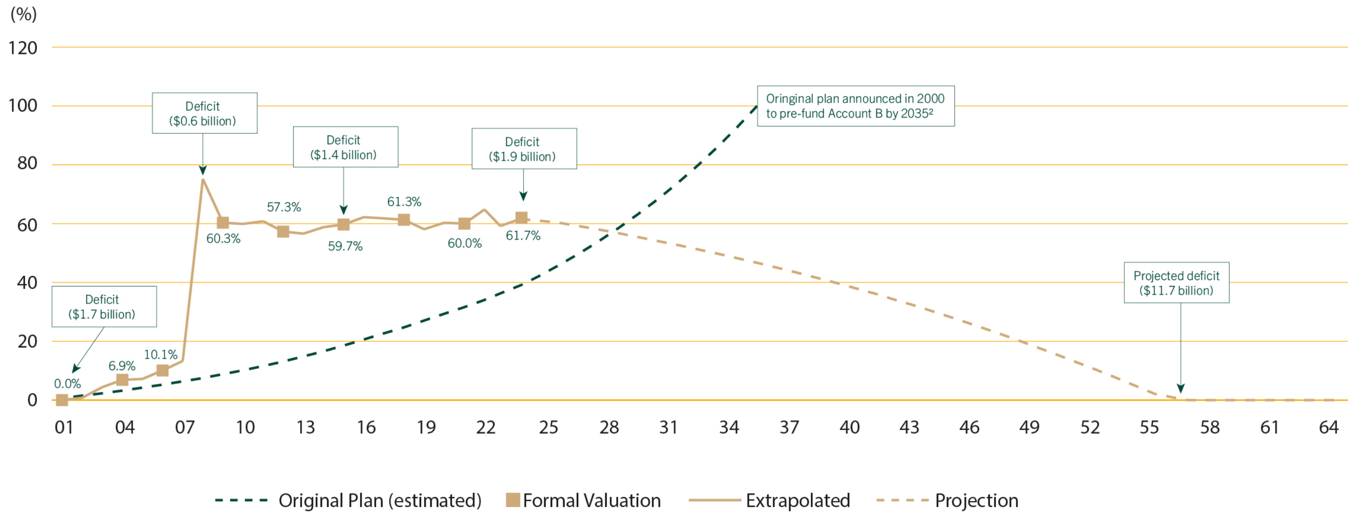
The projected outlook for Account A has materially improved from the January 1, 2021 projection valuation, where the funded ratio was projected to decline to 90.1% with a deficit of $1.7 billion by January 1, 2061. The improvement in the projected financial position is primarily due to strong investment returns for the years 2021 to 2023 and the change in expectations for future returns (and the discount rate) from 5.50% per year to 5.75% per year.

While this is a positive result that suggests that no modifications to the member contribution rate are required, the change in projected outlook over the three-year intervaluation period highlights the importance of regularly monitoring and evaluating the long-term sustainability and risks faced by the pension plan. TRAF has a robust governance structure in place to evaluate and monitor all risks, including those related to our investments. While we ensure that we do not take undue risk, this does not make us immune to a potential decline in investment returns in the future.

Financial outlook — Account B (Province account)

The following chart sets out the funded status of Account B since 2001 and includes a projection to 2064.

ACCOUNT B STATUS – HISTORICAL & PROJECTED[1]



[1] Includes only accrued assets and liabilities for both base pensions and cost of living adjustments. Assumes that the Province of Manitoba will continue to make contributions to Account B in an amount equal to the aggregate member contributions to Account A. Currently, contributions to Account B are made at the discretion of the Province of Manitoba. This funding arrangement will revert to pay-as-you-go when Account B is depleted, which is projected to occur in 2056.

[2] The original plan trajectory and related figures are internal estimates only and are based on various assumptions and approximations that contemplate the plan being fully pre-funded by 2035 as stated by the Province of Manitoba in 2000.

As illustrated by the chart, Account B was 61.7% funded on an accrued basis as at January 1, 2024. This means that, based on the various assumptions adopted, Account B is expected to have assets that are sufficient to fund only 61.7% of its 50% share of the accrued pension obligations for all members in the plan as of that date. In dollar terms, the Account B deficit as at January 1, 2024 was approximately $1.9 billion.

> The Account B assets backing the Province's pension obligations are projected to be fully depleted by 2056.

Unlike Account A, the funded ratio of Account B is projected to decline over the long term, and, if there is no change to the funding practices of the Province, Account B will run out of money in 2056. At the time, the funded ratio would be 0% and the deficit is projected to be approximately $11.7 billion. The funded ratio is expected to decline as the investment income will not be sufficient to offset the negative cash flow resulting from benefit payments exceeding contributions.

The projected depletion of the account in 2056 will have a significant impact on the cash flow requirements of the Province. As previously mentioned, the Province currently contributes to Account B an amount equal to total member required contributions. The difference between member required contributions and the Province's share of benefit payments is funded by assets held in Account B. After Account B is depleted in 2056, the Province will no longer be able to rely on the Account B assets to fund a portion of its obligations. As a result, the Province's contributions are expected to more than double from $299 million in 2055 to $684 million in 2057.

Year	Total Projected Province Contributions
2055	$299 million
2056	$401 million
2057	$684 million
2058	$701 million
2059	$717 million

$385 million increase (129%) (2055 to 2057)

Regardless of the level of assets in the account, it is important to remember that the Province has a statutory obligation to pay for its portion of the benefit payments as they become due. Therefore, the benefits under TRAF will continue to be funded under current law, regardless of the level of Account B assets.

Aon report on Account B (Province account)

TRAF has been providing information on the plan's funded status for years. Annually, TRAF meets with representatives from the Province of Manitoba, including the Minister of Education, and The Manitoba Teachers' Society (MTS), as well as with representatives from the Retired Teachers' Association of Manitoba (RTAM) to discuss the current and projected funded status of the plan. In 2022, the Board engaged Aon to conduct an analysis on the funding of Account B by the Province of Manitoba. The purpose of the analysis was to examine, among other items, the Province's current funding practices and the implications for its projected future cash outlays and the funded status of Account B. The Aon report is available on TRAF's website. We encourage you to read it.

Aon revisited the 2022 report conclusion following completion of the January 1, 2024 actuarial valuation and projections, and has confirmed that there remains a clear impetus for the Province to exhibit financial responsibility by pre-funding its pension liabilities now to avoid drastic funding increases in the future and to enhance the benefit security of plan members. Aon's letter confirming this conclusion is also available on TRAF's website.

Funding options

To see material improvement in Account B, the Province must increase its contributions. Below are a few options illustrated in the 2022 Aon report that the Province could consider to address the deficit in Account B. Financial figures have been updated for the results of the January 1, 2024 actuarial valuation and projections and supplemented by internal analysis.

Fully fund immediately

To fully fund Account B, the Province would have had to deposit a lump sum contribution of approximately $1.9 billion as of January 1, 2024. One approach would be for the Province to issue debt in an amount equal to the deficit and contribute the proceeds to Account B. This would eliminate the Province's unfunded pension liability, but would add to the debt of the Province and increase its debt servicing costs. This strategy would be successful over the long term if the cost of the debt is less than the actual returns earned by Account B in the future. This "borrow and fund" strategy was successfully employed by the Province in 2007 when debt was issued to support a $1.5 billion contribution to TRAF (see box, right).

Amortize the deficit over a period of time

Instead of a one-time lump sum payment, the Province could increase contributions over a pre-defined period of time in order to pay off the deficit. For example, additional contributions of $185.0 million per year over 15 years or $117.5 million per year over 40 years from January 1, 2024, would be required to bring the plan to full funding. This is a common strategy that has been employed by other comparable pension plans to address similar funding issues.

In 2007, the Province issued debt and used the proceeds to contribute $1.5 billion to Account B, bringing the account's funded ratio to approximately 75%. Prior to the contribution, the funded ratio was approximately 13%.

This action strengthened the plan and has resulted in meaningful cost savings for the Province. By borrowing at a lower rate than the investment earnings on the funds contributed to TRAF, we estimate that this decision generated approximately $516 million in value to the Province by the end of 2023.

Unless the funded status of Account B is improved, new graduates entering the teaching profession in Manitoba, as well as current younger teachers in Manitoba, are projected to retire with lower pension security than their predecessors.

Comparison to other teachers' pension plans

The Aon report also provided an analysis of the funding levels for Account B compared to other teachers' pension plans in Canada. The report concluded that the funded ratio for Account B was lower than the funding levels of government obligations for current teachers' pensions in every other province. The table below includes a summary of information for the various plans, updated from the Aon report based on publicly available information.

In addition to commentary on the relative funded status of the account, the report also noted that the Province's approach to funding TRAF is different than most other teachers' pension plans in Canada. While most government-sponsored plans that provide pensions to teachers in Canada are required to pre-fund by law, there is no requirement for the Province to pre-fund its share of the pension obligation in Account B. Over the long term, Account B is funded on a pay-as-you-go basis.

Only Quebec is similar to Manitoba in that it was also historically funded on a pay-as-you-go basis. However, over the past three decades, the government in Quebec has set aside funds to meet almost 90% of its pension obligations.

Nova Scotia also recognized that it must address the plan deficit. In October 2020, plan sponsors agreed to appoint a panel of experts to review the plan's funding challenges and make recommendations to fully fund the plan. While we are monitoring the situation in Nova Scotia, the recommendations of the expert panel have not yet been made public nor have any funding initiatives been activated to our knowledge.

Plan	Funded ratio	Effective date
Prince Edward Island Teachers' Pension Plan	**120.3%**	April 1, 2023
Newfoundland and Labrador Teachers' Pension Plan	**118.1%**	December 31, 2023
New Brunswick Teachers' Pension Plan	**113.0%**	August 31, 2023
Ontario Teachers' Pension Plan	**107.0%**	January 1, 2024
British Columbia Teachers' Pension Plan	**105.3%**	December 31, 2020
Alberta Teachers' Retirement Fund	**101.0%**	August 31, 2023
Saskatchewan Teachers' Retirement Plan	**100.0%**	June 30, 2023
Quebec Teachers - Government and Public Employees Retirement Plan (RREGOP)	109.3% (member portion) **89.0%** (Province portion, including net assets in sinking fund)	December 31, 2020 (member portion) March 31, 2021 (Province portion)
Nova Scotia Teachers' Pension Plan	**78.1%**	December 31, 2023
Teachers' Retirement Allowances Fund	107.2% (member account) **61.7%** (Province account)	January 1, 2024

Comparison to other public sector plans in Manitoba

The funded ratios for the three largest Provincial civil servant pension plans in Manitoba are shown in the following table (as well as the Winnipeg Civic Employees' Pension Plan for comparison):

Plan	Funded ratio	Effective date
Healthcare Employees' Pension Plan	**114.6%**	December 31, 2023
Winnipeg Civic Employees' Pension Plan	**102.7%**	December 31, 2020
Teachers' Retirement Allowances Fund	107.2% (member account) **61.7%** (Province account)	January 1, 2024
Civil Service Superannuation Fund	82.6% (member account) **Not public** (Province account)	December 31, 2023

As you can see, the funded ratio for Account B is lower than that of the Manitoba pension plan for health care workers (as they have a fully funded pension plan). While the details are not publicly available, our understanding is that funding issues similar to TRAF exist with the Manitoba Civil Service Superannuation Fund (CSSF), and the working group established by the Province in 2023 is developing a strategy regarding funding to concurrently address both TRAF and CSSF.

A legal perspective

KAELY ZETTEL
Legal & Corporate Secretary

What funding rules apply to TRAF?

On July 1, 1976, *The Pension Benefits Act* (PBA) enacted rules, which are still in effect today, requiring pension plans in Manitoba to be pre-funded. Essentially, the rules required benefits for service while employed to be funded as the service is earned, and for deficits to be funded over a defined period (generally 10 years, assuming the plan continues indefinitely). Alternatively, certain pension plans could (or are required to) adjust benefits if funding becomes inadequate.

TRAF is specifically exempt from these rules; therefore, there is no automatic requirement to address any deficit. Both benefits and contributions are fixed by legislation, with the exception that the Province may remit a discretionary amount to the plan if they choose to do so. What this means is that, unlike some other pension plans, any deficit in the TRAF pension plan is not automatically addressed, and action from the plan sponsor is required to make any necessary adjustments to benefits or contributions to remedy a deficit.

How can funding issues be addressed?

A balance between funding, benefit design and investment strategy contributes to the sustainability of the pension plan. Adjustments to one or more of these items can be made if an imbalance arises. Funding refers to the amount, allocation and timing of both member and employer contributions to the pension plan. Funding can be modified to re-establish sustainability. An increase in member contributions requires action by the plan sponsor, whereas the plan sponsor may increase the amount of employer funding at its discretion.

Benefit design can also be adjusted by the plan sponsor to address sustainability. There are numerous benefits that could be altered to restore any imbalance, and, in the case of TRAF, adjustments may be made to both accrued and future benefits.

Investment strategy refers to the decisions made by TRAF regarding the investment of the assets of the plan, which impacts the contributions required to support a given benefit design. Judgment is used to adopt a prudent investment strategy that strikes an appropriate balance between expected returns and investment risks. TRAF assumes that any imbalance between contributions and benefits will be resolved through a change in funding and/or benefit design. This ensures that undue investment risk is not taken in an effort to address sustainability concerns.

Funding beliefs

TRAF has two funding beliefs, which are based on best practices and, if fulfilled, will lead to an increased likelihood that the plan will remain sustainable in the long term. Those beliefs are:

1. Benefits should be pre-funded (including Account B). In other words, funds should be set aside in advance to cover the pension obligations of the plan.
2. Funding concerns should be addressed on a timely basis.

If neither of those beliefs is fulfilled, there is a higher risk that the plan's assets will not be sufficient to fund accrued and future benefits. If the difference becomes large, there is an increased chance that benefits could be reduced, including accrued benefits. In other words, the funding beliefs are consistent with providing benefit security to plan members.

Another undesired byproduct of insufficient assets might include shifting the cost to rectify any funding issue from one generation to the next, which results in intergenerational inequity. In other words, the funding beliefs are also consistent with the objective of equity amongst generations.

Pre-funding is an industry best practice adopted by virtually every other public sector pension plan in Canada. Pension plans are also generally subject to funding rules that require pre-funding and require pension plans to address funding concerns on a timely basis. Therefore, our funding beliefs are consistent with the funding mechanisms of most other pension plans in Canada.

Pre-funding Account B would improve benefit security for pension plan members, be consistent with industry best practices and allow the Province to fully participate in the benefits of a low-cost and globally diversified investment portfolio that, over the long term, is expected to perform to a level that would stay current with the Province's pension obligations in respect to TRAF. In short, pre-funding is beneficial to both the Province and the members.

Monitoring the financial outlook of the plan

Assessing the long-term sustainability of a pension plan requires understanding the plan's long-term financial outlook. We review the funded status of the plan on a quarterly basis and, in conjunction with a formal actuarial valuation prepared every three years, request a recommendation from our plan actuary regarding whether current contribution levels are adequate to provide for the current level of benefits.

Account A (member account)

The plan actuary determined that the funded ratio of Account A was 107.2% at January 1, 2024, and is projected to remain relatively stable over the next 40 years, increasing by 1.8% to 109.0% by January 1, 2064.

The plan actuary concluded that the current member contribution rate is adequate to provide for Account A's portion of plan benefits and that no change to the member contribution rate is required prior to the next actuarial valuation scheduled to be prepared in 2027.

TRAF'S FUNDING BELIEFS AND ACCOUNT A

Contributions to Account A are made by members during their working years to fund benefits paid after retirement. The account is currently over 100% funded. The funding of Account A is consistent with TRAF's belief that benefits should be pre-funded. No change to the member contribution rate is required, but the situation will be reassessed in 2027 in conjunction with the next scheduled actuarial valuation.

Account B (Province account)

The plan actuary determined that the funded ratio of Account B was 61.7% at January 1, 2024, and is expected to decline to 0% in 2056 if all actuarial assumptions are realized and the current funding practices of the Province continue. Unlike Account A, the reversal of this downward trend will not occur through investment returns alone.

Recommendations

The 2022 Aon report concluded that there is a clear impetus for the Province to pre-fund Account B now to avoid large funding increases in the future. Pre-funding Account B will also bring TRAF in line with the funding best practices of pension plans across Canada. The plan actuary has confirmed that these conclusions remain the same after completion of the January 1, 2024 actuarial valuation.

While the authority to make adjustments to the plan rests with the Province as plan sponsor, the TRAF Board has spent considerable time and effort to analyze the situation and communicate the current and projected funded status to the Province. Consistent with the Board's funding beliefs and Aon's analysis, it is recommended that:

1. The Province should develop and communicate a plan to fund the current deficit in the account designated as Account B under the TPA.
2. To the extent that the funding plan provides for special contributions over time, the contribution schedule should be formalized through a promissory note or legislation.

A delay in action could result in required funding at a later date that is too large, increasing the chance that benefits, including accrued benefits, could be reduced in the future.

TRAF'S FUNDING BELIEFS AND ACCOUNT B

Even though there are currently assets in the account, Account B is essentially structured to be funded on a pay-as-you-go basis when viewed over the long term. Pay-as-you-go funding is contrary to TRAF's belief that benefits should be pre-funded. Additional funding on a timely basis to reverse the projected decline in the funded ratio of Account B, or ideally move towards full funding, would be consistent with our funding beliefs and would result in enhanced benefit security, reduced intergenerational inequity and consistency with best practices in Canada.

Response from the Province

TRAF was encouraged by correspondence from the Minister of Education on March 28, 2023, confirming that a working group has been established to review issues associated with provincially funded pension plans, including TRAF. The Minister noted that the working group will be engaging an actuary to provide government-specific recommendations regarding the funding of public sector pension plans, including TRAF. We understand that the government has reviewed the actuarial report that it commissioned and is in the process of developing a strategy regarding the funding of the Account B liabilities.

THE PROVINCE'S ROLE IN PLAN SUSTAINABILITY

Changes can generally only be made by the Province as plan sponsor. Neither the TRAF Board nor The Manitoba Teachers' Society (MTS) has the ability to make changes without the support and cooperation of the Province.

Our commitment

TRAF regularly communicates financial information on the plan to the Province, MTS and RTAM. **Consistent with our mission statement, we are committed to ensuring all stakeholders have accurate and timely information on the plan's funded status so they can make informed decisions regarding funding and benefit design.**

We will continue to monitor the future financial outlook and sustainability of the plan and share regular updates with you on the funded status of the plan.

Further information

Further information, such as funding valuation and projection valuation reports, sensitivity analyses, plan actuary recommendations and presentations to plan stakeholders, including the annual briefing session presentation, are available through **Online Services**. The full 2022 Aon report, dated August 8, 2022, and titled "Account B Funding Analysis," is available on our website, as is the letter from the plan actuary dated September 23, 2024 confirming the conclusions reached in the report remain the same today.

If you have any questions, please contact us.

TEACHERS' RETIREMENT ALLOWANCES FUND

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