

Funding Policy

British Columbia Construction Association Employee Benefit Trust

Approved on this ____ day of November, 2019

Background

The British Columbia Construction Association Employee Benefit Trust (EBT) exists to allow members to purchase group benefits and insurance protection for their employees and their families.

Additionally, the EBT acts as an Administrator providing administrative services (i.e., contribution collection, membership services, etc.) to participating members.

To allow the Trustees fulfill their duties and to protect the EBT and participating members from certain risks, various reserves are required by the EBT.

Objective

The objective of this Funding Policy (“Policy”) is to guide the EBT with respect to with respect to the following:

- The identification of risks that affect the viability and the operation of the EBT;
- The methodology and amount of Actuarial Reserves and Contingency Reserves (collectively Reserves) to be held by the EBT; and
- The strategy for funding the Reserves.

Notwithstanding the above, as this Policy is designed to guide, the “Methodology and Amount of Actuarial Reserves and Contingency Reserves” is addressed separately from this Policy.

Additionally, this Policy will be reviewed every two years in conjunction with the actuarial valuation of the EBT. This Policy may be amended where necessary in the interim period between actuarial valuations. Reasons for such amendment may include but are not limited to a material change in operational or structure of the EBT, changes in underwriting arrangements of the benefits under the EBT, and changes to actuarial standards. A current version of this Policy will be kept on file with the EBT and its actuary.

Risks that Require Actuarial Reserves

Amongst the benefits offered by the EBT, Extended Health Care (EHC), Dental, Vision and Short Term Disability (STD) benefits are underwritten on an Administrative Services Only (ASO) basis. Under this arrangement, the EBT is financially responsible for these benefits. The claims adjudication, payment and record keeping functions are outsourced to the insurance companies. The insurance companies levy charges in exchange for these services.

The EBT's Actuarial Reserves are determined to ensure the EBT's future financial obligations with respect to the benefits underwritten on an ASO basis may be met. The Actuarial Reserves include:

- An amount for EHC, Dental, Vision and STD claims that are incurred in one period but reported and paid in a later period (IBNR); and
- An amount for the Hour Bank liability for employees participating in the Hour Bank benefit program.

The EBT's actuary will conduct an actuarial valuation of the IBNR claims and Hour Bank liabilities every two years.

Risks that Require Contingency Reserves

The EBT is required to maintain sufficient assets to ensure a continuous operation and financial stability of the benefits available to participating members and their respective employees. In addition to the Actuarial Reserves described above, the purpose of the Contingency Reserves is to provide additional financial protection against adverse events experienced by the EBT.

The funds allocated to the Contingency Reserves may be deployed when the EBT experiences the following:

- Material adverse claims experience;
- Investment returns lower than expected;
- Significant lapse in membership; and
- Other events such as operational challenges.

In addition to the specific scenarios listed above, the Contingency Reserves held by the EBT will act as protection against insufficient actuarial liabilities, other adverse events and the need for safety net.

More importantly, the Contingency Reserves may be deployed to mitigate unfavourable renewals and maintain reasonable contribution rates charged to participating members.

Every two years, in conjunction with the actuarial valuation, the EBT's actuary will calculate and recommend the amount of Contingency Reserves for the EBT.

Funding Strategy

The objective of this funding strategy is to provide guidance for Trustees to make financial decisions relating to the maintenance of the Reserves (i.e., sum of Actuarial Reserves and Contingency Reserves) and determine the contribution rates. The principles that form this funding strategy are as follows:

- Contribution rates to remain stable over the long term.
- The EBT remains competitive and continues to offer valuable benefits to members.

- Provide security that benefits will be provided as promised.
- Ensure a smooth operation.

Considering the above principles, the following summarizes the funding strategy:

- A margin to fund the Reserves will be included in the contribution rate set by the EBT when the actual Reserves are below 80% of the approved Reserves. This additional amount will be calculated such that:
 - The actual Reserves are projected to reach 100% of the approved Reserves within three years.
- A subsidy to reduce the actual Reserves will be included in the contribution rate set by the EBT when the actual Reserves are above 120% of the approved Reserves. This subsidy will be calculated such that:
 - The actual Reserves are projected to reach 100% of the approved Reserves within three years.

When either a margin or subsidy is deployed, the funded position of the EBT will be reviewed each year to ensure the actual Reserves will meet the approved Reserves in the specified time. If the actual Reserves are expected to not to meet the approved Reserves in that specified time, the margin or subsidy must be adjusted accordingly.

Approval

This Policy is approved on this _____ day of November, 2019.

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