Understanding Inflation Protection

How the CAAT Plan adds value to your pension

caat PENSION PLAN

Protecting the value of your pension

Over the years, you can expect the price of goods and services to rise – think the cost of groceries, a restaurant meal, and a litre of gasoline. Your pension plan helps offset the rising cost of living by providing inflation protection. This means you will receive valuable annual increases to your pension payments.

Is this booklet for you?

The amount of inflation protection you receive is based on when your service was earned in the Plan. Read on to learn how the Plan's inflation protection provisions help protect the buying power of your pension.

A pension with added value

With the CAAT Pension Plan you'll receive valuable lifetime pension benefits – based on your earnings and service. You'll also enjoy early retirement options, the peace of mind knowing your spouse or partner will receive a survivor pension, and a pension paid for life.

In addition, the CAAT Plan offers a valuable ancillary benefit called **inflation protection**. These annual increases help retain the purchasing power of your pension. Inflation protection is granted based on when your service in the Plan was earned.

Before the beginning of each new year, we will inform you of the inflation protection increase and the amount of the adjustment to your pension for the coming year. The increase will automatically be applied to your pension payments starting in January.

Inflation protection increases are permanent

Over time, inflation protection payments result in valuable, **cumulative** growth to your pension. This means the inflation protection increases added to your pension payments form a permanent part of your lifetime pension.

A pension of $26,700 that started in 1998 increased to: $33,575 in January 2013, an increase of over 25%.

Inflation protection relates to your years of service

Inflation protection payments relate to the calendar years your pension was earned. Funding for inflation protection was treated differently during specific time periods in the Plan's history. This treatment impacts how inflation protection is granted. In 2006, the Plan's Sponsors instituted a Funding Policy to help articulate the Plan's goals and funding priorities, including the treatment of inflation protection. As a result of this policy, there are three periods of service with different treatment for inflation protection. The three periods are explained below.

1. Ad hoc inflation protection (pre-1992 service)

Increases have been granted until January 1, 2014.

When the Plan started in 1967, inflation protection was not funded by contributions made to the Plan, but was granted on an ad hoc basis – the Plan's Sponsors regularly evaluated the financial situation of the Plan and authorized an inflation protection increase if the Plan could afford to do so. Ad hoc inflation protection has been granted in every year but one, and will be granted up to and including 2014. Future increases could be granted at funding level 6.

2. Guaranteed inflation protection (service from 1992 to 2007)

Increases are funded and guaranteed indefinitely.

In 1992, inflation protection on the pension in respect of service earned between 1992 and 2007 became a guaranteed feature of the Plan and was specifically funded through an increase to contribution rates of 1.6%.

3. Conditional inflation protection (post-2007 service)

Increases have been granted until January 1, 2017.

In 2006, as part of the Funding Policy and in keeping with the funding challenges of the day, the Plan introduced a third service period of inflation protection coverage. The granting of inflation protection increases on service earned after 2007 became conditional on affordability, based on the funding status of the Plan (level 2 and above). Conditional inflation protection is currently guaranteed until January 1, 2017 for pensions in payment.

Inflation protection at a glance (2013-2018)

Pensions in payment in:	Ad Hoc (<1992)	Guaranteed (1992 - 2007)	Conditional (>2007)
2013	✓	✓	✓
2014	✓	✓	✓
2015	X	✓	✓
2016	X	✓	✓
2017	X	✓	✓
2018	X	✓	TBD

***Future increases will depend on the funding status of the Plan.**

How does it apply to my pension?

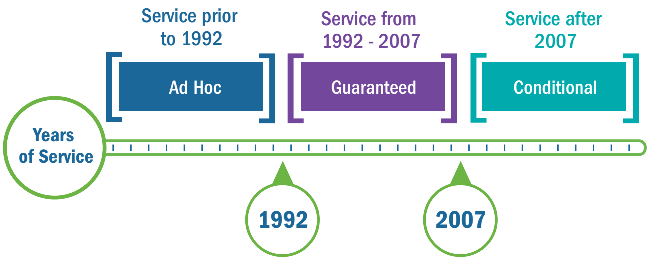
Your Retired Member Annual Statement will show how your pension is impacted by each year's inflation adjustment.

Example

Cynthia had 28 years of service in the Plan from January 1, 1984 to December 31, 2011.

- The first 8 years of her membership were before 1992, meaning that 8/28 or 29% of her pension will receive ad hoc inflation protection.
- She has 16 years of service between 1992 and 2007, so 16/28 or 57% of her pension will receive guaranteed inflation protection.
- Her final 4 years of service occurred after 2007, meaning 4/28 or approximately 14% of her pension will receive conditional inflation protection.

Understanding service periods for inflation protection



Now let's apply the inflation protection increase to Cynthia's monthly pension:

Cynthia's pension

	Pension in 2012	Inflation Adjustment	Pension in 2013
Pre-1992 Pension	$744.96	plus 1.45%	= $755.76
1992-2007 Pension	$1,489.92	plus 1.45%	= $1,511.52
Post 2007 Pension	$372.48	plus 1.45%	= $377.88

Remember, since inflation protection is cumulative, once an increase is added to a pension, any subsequent inflation protection increases are added to the total pension, which includes increases from previous years.

How do we calculate inflation protection?

The CAAT Plan calculates inflation protection at a rate of 75% of the average annual increase in the Consumer Price Index (CPI).

To calculate the amount of inflation protection each year, the Plan compares the average CPI for the 12-month period ending in September of the current year to the average CPI for the 12-month period ending in September of the previous year and calculates 75% of the increase.

This means that if the average CPI increased by 2% the previous year, the inflation protection increase is 1.5%.

When granted, inflation protection is paid on pensions and bridge benefits in payment, and on deferred pensions.

The Funding Policy provides direction

Each actuarial valuation determines the Plan's funded status, and identifies the corresponding level in the 6-level Funding Policy. The Funding Policy guides decisions about granting inflation protection increases on conditional (post-2007) service, and, if applicable, on ad hoc (pre 1992) service.

In 2013, the Plan's actuarial valuation showed the Plan was 103% funded, which put it at funding level 3 in the Funding Policy. This allowed Plan governors to extend conditional inflation protection on pensions in payment for service earned after 2007 for an additional 2 years to January 1, 2017.

When the Board makes the decisions to pay inflation protection on post-2007 service, the increase applies to pensions in payment at the time of each increase, not to service being earned by active members.

For example, based on the results of the January 1, 2013, actuarial valuation, retirees with post-2007 service will receive inflation protection increases on that service each year up to January 1, 2017. The decision to grant inflation protection increases on post-2007 service for retirees after 2017 will be made based on the funding position of the Plan in the next actuarial valuation which is scheduled to be filed no later than September 1, 2017.

Our commitment to intergenerational equity

The Plan has worked to provide an inflation protection structure which is fair to the active members who today are paying higher contributions than in the past, while bearing the risk that conditional inflation protection increases may not be made. The higher priority placed on post-2007 service reflects these principles. This is how the Plan works to ensure that what members have paid for is linked to what they receive.

Conditional inflation protection

Paying conditional inflation protection is the first use of any available surplus, because post-2007 contribution rates are higher than the rates in earlier periods.

If conditional inflation protection is missed in any year, the Funding Policy prioritizes the use of any surplus to go toward future adjustments for any missed inflation protection increases on service earned after 2007.

Any inflation protection is valuable

Inflation protection increases become a permanent part of your lifetime pension, helping to protect your purchasing power.

Visit our website to learn more.

We suggest you seek independent financial and legal advice as part of your overall estate planning process.

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