Directors Guild of Canada Health & Welfare Plan Trust
Funding Policy
Adopted April 30, 2017

1) Purpose

The primary purpose of this Funding Policy is to guide the decision-making of the Trustees (as defined below) in their administration of the funding of the Trust (as defined below), and in particular, to assist the Trustees in ensuring that the contributions and assets of the **Directors Guild of Canada Health & Welfare Plan Trust** (the "Trust") are sufficient to meet the obligations of the Trust as they fall due and to provide the best possible coverage to members within the Trust's constraints. The following objectives are expected to assist achieving this goal:

a) Stability and sufficiency of required contributions by the participating employers.

b) Security of benefits in the event of:
   - i) high levels of unemployment;
   - ii) participating group termination; and
   - iii) Trust termination.

c) Utilization of reserves in a manner which does not place uncontrolled financial risk on the Trust.

The policy principles described herein are intended to be used as general guidelines for establishing funding requirements and ensuring contribution sufficiency.

Notwithstanding anything to the contrary in this Funding Policy, the Trust will comply with all applicable legislation and regulation.

2) Nature of the Trust

The Trust is a multi-employer health and welfare plan established pursuant to an Agreement and Declaration of Trust dated January 1, 2004 (the "Trust Agreement") by the original trustees of the Trust. It covers eligible members as defined in the Trust Agreement.

The Directors Guild of Canada ("DGC") is a national labour organization that represents over 3,800 key creative and logistical personnel in the screen-based industry covering all areas of direction, design, production and editing. The DGC negotiates and administers collective agreements and lobbies extensively on issues of concern for its members including Canadian content conditions, CRTC regulations and ensuring that funding is maintained for Canadian film and television programming. The DGC has affiliates across Canada. Its head offices are in Toronto.

The Trust and Plan are administered by an 11-member Board of Trustees (the "Trustees"). Trustees include the chairs from each of the DGC's District Councils, representatives from the DGC National Executive Board, and the DGC's Executive Director. The Trustees have overall responsibility for the management of the Trust, in accordance with paragraph 4.07 of the Trust Agreement.

With respect to the financial management of the Trust, and in addition to those responsibilities described in any other Trustee policy, the specific responsibilities of the Trustees as they relate to funding of the Trust are:

a) To ensure proper funding such that assets and expected contributions are sufficient to meet obligations as they fall due;

b) To have projections prepared to assist funding policy decisions; and

c) To make and implement decisions regarding the setting of Trust benefit provisions, including any enhancements or reductions to benefits.

The Trust is financed by member contributions, in some cases, and employer contributions made at fixed percentages of wages in accordance with applicable collective agreements and are subject to change based on ratification by the union membership. Refer to the most recent contribution rate schedule in the Collective Agreement for the contribution amount(s).

The Plan is considered by the District Councils a valuable tool with which to encourage and build DGC membership.

The Trust provides specified benefits, subject to a provision that benefits may be reduced in the event that the revenues from negotiated contributions and investment income are ever insufficient to satisfy the funding requirements of the Trust. Benefits may be increased in the event that such increases may be made without impairing the funding requirements of the Trust.

To help carry out its duties, the Trustees delegate certain tasks and draw on the expertise of various professionals. The DGC's National Office and District Councils provide the Trustees with administrative support and oversee day-to-day operations of the Trust.

The assets are invested based on a Statement of Investment Policy, Objectives and Guidelines developed by the Trustees in consultation with the Trust's investment consultant.

Benefits provided in the Plan are:

- Member and dependant life insurance
- Critical Illness insurance
- Short term disability benefits
- Health benefits (drugs, paramedical services, vision, hospital, supplies and services)
- Dental benefits (basic, major restorative and orthodontic)
- Healthcare Spending Account
- Emergency travel insurance and assistance
- Member Assistance Plan
- Best Doctors

Financing vehicles include:

- Insured, refund accounting for health and dental coverage.
- Administrative Services Only (ASO) for the Short-term disability and Healthcare Spending Account (HSA).
- High amount pooling for health coverage.
- Fully pooled non-refund insurance arrangements for life insurance, Critical Illness, Member Assistance Plan, Travel insurance and Best Doctors.

3) Principles

This Funding Policy is developed with the guidance of four principles.

Principle #1 – The annual cost of each automatic coverage level (i.e. Bronze through Platinum) should be borne, to the extent possible by the contributions of participating members in those coverage levels, recognizing that the required contributions from some members in some years will not fully cover the cost of their automatic benefit level. Despite this Principle, the Trust maintains reserves, as documented in this Policy, which provide financial support to participating groups. To fulfill this Principle, the Trust will annually assess plan experience from each participating group and determine benefit coverage and/or eligibility levels based on each group's own circumstances.

Principle #2 – The Trustees will act impartially among classes of members. In particular, any adjustments to benefits (or benefit levels) will apply in an even-handed manner across all individuals entitled to benefits with respect to the participating group.

Principle #3 – There will continue to be significant unionized film and television productions (and related work) employing DGC members across Canada for the foreseeable future. As a result, the risk of Plan termination is very small. Therefore, the primary focus for the Funding Policy is on the long-term management of the ongoing Trust.

Principle #4 – Yields on long-term government bonds are the best unbiased measure of future investment performance for a lowest risk investment portfolio. Incremental investment returns above the lowest-risk portfolio should be considered in the long-term financial management of the Trust, however the Trust must take on incremental risk to achieve higher returns. Therefore, to the extent that the Trust's investment portfolio incorporates investment class allocations which have more risk than the lowest risk investment portfolio, it is expected that higher levels of benefits can be paid over the long term, but there is also a risk that the targeted level of benefits may not be able to be paid.

4) <u>Funding Goals</u>

Funding will be in accordance with sound actuarial and risk management principles with the following goals:

a) Collect sufficient contributions to pay expected premiums, claims, changes in any reserves and Trust operating expenses.

b) Retain sufficient assets to establish proper actuarial reserves, to fully fund member Dollar Banks and Healthcare Spending Accounts and to fund all approved and documented subsidized coverage.

c) Minimize substantial fluctuations in the required contribution rate, the benefits offered, and member eligibility for such benefits.

d) Apply risk management techniques as appropriate for each benefit.

5) <u>Key Risks to the Trust</u>

The Trust faces a number of key risks similar to other multi-employer plans. These risks should be considered in the context of the Principles and objectives articulated in section 3 above.

Risks include:

- Participant industry challenges (e.g. variable or low employment, loss of government industry incentives, etc.).
- Benefit plan inflation.
- Regulatory changes.
- Demographic changes.
- Investment risk.

Some of the risks outlined above are beyond the control of the Trustees whereas others are choices the Trustees have actively made. For example, regulatory risks are not within the control of the Trustees but claiming cost risk can be controlled through the establishment of lower benefit levels and other plan management approaches. This Policy is intended to provide a framework for the Trustees to prudently manage and monitor risk, where possible and practical. In managing and mitigating these risks, the Trustees shall consider:

- An appropriate mix of insurance and self-insurance.

- Monitoring claiming patterns and beneficiary demographics.
- Projection studies
- Regular monitoring of the Trust's investment strategies.
- Monitoring legislative changes.
- Ongoing review of the Trust's benefit design, funding and financial position.

6) <u>Sufficient Assets</u>

In order to achieve adequate and stable funding, and maintain sufficient assets, the Trustees will conduct:

- Annual assessments of plan costs, including any approved benefit improvements.
- Estimates of expected annual contributions for the coming year.
- Annual short-term projections (3 to 5 years) showing estimated contributions and projected plan costs.

The Trustees will strive to meet the following objectives insofar as possible given the circumstances of the Trust:

- Annual contributions for the upcoming benefit year at least equal to the expected annual plan costs. Annual plan costs are defined as:
  a) Claims and administration costs, including any approved benefit plan improvements; plus
  b) Premiums due, including the insurer required incurred but not reported claim reserve (IBNR) and claim fluctuation reserve (CFR) ; plus
  c) Change in Dollar Bank reserve; plus
  d) Change in Healthcare Spending Account reserve; plus
  e) The expected amount to provide any approved subsidy costs.

The incurred but not reported claim reserves (IBNR) and claim fluctuation reserve (CFR), will be maintained by the Insurer in accordance with the Financial Letter of Agreement between the Insurer and the Trust as follows:

Reserve type	% of premium
IBNRs	
Healthcare	17.3%
Dental	7.4%
Visioncare	12.0%
Pay-direct drugs	2.7%
CFR	15% of health & dental

- Full funding of Dollar Bank accounts. This will be the full amount allocated to individual plan members.
- Full funding of Healthcare Spending Account. This will be the full unspent amount allocated by members for the current and prior plan year.

7) Adjustment to Benefits

The Trust's benefits may be adjusted from time to time based on the Trust's experience. This could result in benefit increases or reductions.

The Trustees will ensure that any benefit improvements or, if necessary, benefit reductions, are made in accordance with their duty to act impartially as between classes of members and former members after taking into account all proper considerations.

If at any time, based on the advice of the Advisor, the Trust has insufficient or excess funds, the Trustees will determine the appropriate course of action.

8) Elimination of Funding Shortfall

If, at any annual review, it is determined that the annual contributions will not be sufficient, then any or all of the following various actions may be taken by the Trustees, in accordance with paragraph 4.07 of the Trust Agreement:

- The use of the Trust's Unallocated Funds to cover the expected shortfall.
- Certain member financial supports may be reduced or withdrawn.
- The number of members eligible for higher benefit levels may be reduced by increasing the minimum contribution level required for any or all levels.
- Upgrade premiums may be increased.
- Benefit levels in any or all of the benefit levels may be reduced.

9) Disposition of Unallocated Funds

The unallocated funds held by the Trust are not intended to be a permanent feature of the Trust. Accordingly, if, at any annual review, it is determined that the Trust's assets exceed the amount to fully fund all benefits and reserves as outlined in paragraph 6 of this Policy, unallocated funds will be utilized, at the discretion of the Trustees in a manner which precludes individual selection to:

a) Maintain sufficient funds to cover projected shortfalls, if any, between expected and actual costs, during a term of the collective bargaining agreement.

b) Broaden coverage eligibility or increase benefits within any or all coverage levels.

c) Introduce new benefits.

d) Fund any potential new actuarial reserve.

The Trustees may use any such excess funds for uses other than those indicated above, provided that the provisions of this Policy are adhered to.

10) Reporting

The Trustees will prepare an annual report summarizing the Trust's financial results, funding levels of reserves, funding options for the upcoming year, required contribution levels, and an assessment of Trust's funding goals and benchmarks.

11) Communications

The Trustees will annually provide a report to the Trust's beneficiaries on the financial position of the Plan.

The Trustees will provide access to this Funding Policy to Plan members upon request.

It is the intention of the Trustees to review this Funding Policy periodically.

Adopted this _30th__ day of April, 2017.

Trustees of the Directors Guild of Canada
Health and Welfare Plan Trust

Trustee	Trustee

J:\Directors Guild of Canada\Group\Documents\policies\Funding Policy.revised.Apr.30.2017_Final.docx