# APEX Update

## The Change

A Commuted Value (CV) is the present value of a future pension payable to a pension plan member. The prescribed method for calculating CV's was based on a formula set by the Institute of Actuaries over 20 years ago and used a prescribed long bond rate.

On December 8, 2021 an Order in Council was passed by the Province of Alberta that permits a publicly funded pension plan, which is supplemental to a base public sector plan, to align their calculation of a CV with the methodology that applied under their base public sector plan. The supplemental plan is also required to change their calculation of member excess contribution calculations to the same rules that are being applied to their base public sector plan. APEX Pension Plan is a supplemental plan to the Local Authorities Pension Plan (LAPP), which moved to the funding basis for CV calculations on April 1, 2020.

Effective July 1, 2022 the interest rate used to calculate the commuted value will be changed to the same interest rate and assumptions used to fund the Plan and calculate the required contribution rate for the pension plan. This will ensure that a monthly pension from the plan, and the withdrawal of the CV amount will have the same value under the Plan. APEX CV calculations will also use the same excess contribution test used by LAPP. If the member CV amount is less than their contributions with interest, the excess employee contributions will be returned to them.

The interest rate applied to plan member contributions will be the same interest rate used in the pension plan valuation, which is higher than the current long bond interest rate applied to plan member contributions.

## The Reasons

As APEX is a wrap around plan to LAPP, it makes sense to align with the LAPP methodology. When LAPP made their change in 2020, this option was not available to supplementary plans. As a result of the recent legislation change APEX is now able to align the CV calculation with the same methodology used by LAPP.

APEX is unusual in that it allows plan members to choose between a monthly pension or the CV withdrawal amount, regardless of your age when you terminate. Using the Plan funding interest rate not only aligns the CV benefit with the monthly pension benefit and cost, it aligns the CV withdrawals to the cost of providing the pension benefit for current and future plan members and their employers.

## The Oversight

The change was approved by the Alberta Municipalities Board on May 18. We have submitted the change to Alberta Superintendent of Pensions who ensures all pension plans comply with the Employment Pension Plans Act.

## The Difference

It is likely that lump sum CV payouts will be lower than in the past. However, it is not possible to determine how much of a difference there will be. In the current method of calculating CV amounts interest rates used in the calculation change monthly based on the long bond rates, and other factors used in the calculation vary by each person's situation. Therefore no one can accurately predict what the difference would be. Monthly pensions are not affected by the change.