



Report for Action

TTC Pension Fund Society Administration

Date: March 20, 2018
To: TTC Board
From: Chief Executive Officer

Summary

The TTC Pension Fund Society ("PFS") has submitted a report and proposal to the TTC Board, which proposal is set out in Attachment 1 to this report. The PFS is proposing that the TTC's obligation to fund all PFS administrative expenses be capped at its current levels, subject only to increases based on CPI ("Contribution Cap"). In addition, all TTC current staff working for PFS plus all new or additional staff hired by PFS will become employees of PFS and TTC will have no future obligation related to any administrative costs relating to new or additional PFS employees.

TTC is recommending that the Board approve the PFS proposal, including the recommendations, subject to a review by TTC, PFS and ATU, Local 113, within 3 years to ensure that the changes continue to meet the goals and objectives of all of the Parties.

Recommendations

It is recommended that:

1. The Board approve the PFS Proposal and recommendations, as attached to this report as Attachment 1; and
2. On or before July 1, 2021, PFS, ATU, Local 113 and TTC shall review the Contribution Cap to ensure that it meets the goals and objectives of each of the Parties and report back to the Board with any recommended changes or amendments.

Implementation Points

The implementation points are set out in the PFS report (Attachment 1).

Financial Summary

If the PFS Proposal is accepted, all costs for salaries and benefits for existing and additional staff will be the responsibility of the PFS Board, with future TTC staffing cost

obligations being limited at current 2016 levels (approximately \$2.2 million), increasing to the TTC thereafter by CPI only. Payments to the PFS from the TTC for these costs would be made annually in the form of a pension contribution starting in calendar year 2019.

The following is a summary of the PFS administrative costs:

Pension Department Expenses (equal to 2016 budget)	Total Costs Payable by TTC (000)
Total Labour Expense (equal to 2016 budget)	\$1,457
* Benefits (equal to 2016 budget)	\$393
Non-Labour Expenses	\$185
**Office Lease Amount	\$215
Total TTC annual contribution payment to PFS in 2019	\$2,250

* includes employer pension contributions, CPP, employee health, accidental death, LTD., estimated to be 27% of labour cost.

** Represents the value of the current office lease at 1920 Yonge. If the lease is not assigned to PFS, TTC will pay this cost directly. Additional office space will be procured and paid by the PFS directly, subject to PFS Board approval.

TTC will continue to provide staff transit passes to PFS staff.

Other overhead costs, including IT services will continue to be provided until alternative arrangements can be made. The TTC, ATU, Local 113 and PFS, will work together over the next few years in an attempt to transition remaining support functions where practical. It is not anticipated that the transition of any of these support functions will result in cost savings to the TTC.

Equity/Accessibility Matters

TTC's Respect and Dignity, Workplace Violence, Diversity and Inclusion and Code of Conduct Policies will continue to apply to the PFS employees in a similar fashion as TTC contractors. TTC is committed to ensuring a smooth transition for all employees, and will provide, as appropriate, and subject to there being no conflict of interest, support services as required during the short transition period.

Decision History

On May 27, 2011, the ATU, Local 113, and Toronto Transit Commission entered into an agreement relating to a jointly-sponsored pension plan, which agreement was amended on April 11, 2016.

In 2016 an independent CEO was hired as an employee of the TTC Pension Fund Society (PFS). All other staff at the PFS are employees of the TTC. The PFS bylaws and sponsorship agreement require the TTC to cover all PFS administration costs except CEO compensation.

Issue Background

The PFS is a defined benefit, multi-employer pension plan. It covers substantially all employees of the TTC and ATU (the employers) who have completed six months of continuous service. Contributions are made into the plan by members and matched dollar for dollar by their employer. The plan is registered with the Financial Services Commission of Ontario and is subject to regulation under the Ontario Pension Benefits Act and the Income Tax Act.

Effective January 1, 2011 pursuant to the Memorandum of Agreement between the TTC and the ATU Local 113, the PFS was established as a Jointly Sponsored Pension Plan (JSPP), as defined by the Ontario Pension Benefits Act. Other Ontario JSPPs include Ontario Teachers' Pension Plan, Ontario Municipal Employees Retirement System, Healthcare of Ontario Pension Plan, Ontario Public Service Employees' Union Pension Plan (OP Trust) and Colleges of Applied Arts and Technology Pension Plan.

At December 31, 2016, the PFS had approximately 14,000 active members and 8,000 pensioners and net assets of \$6.1 billion. The PFS plan design supports equal cost and risk sharing between employees and employers.

The Board of Directors for PFS currently consists of 50% representation by ATU, Local 113 and 50% representation by TTC management, as appointed by the TTC Board. The Directors must be "Regular Members" of the Plan as described in the PFS By-laws (i.e. active employees).

Comments

The current January 2011 Memorandum of Agreement requires the TTC to pay for all administrative costs relating to PFS, save and except for the salary and benefits of the PFS CEO. The right of the PFS to hire additional employees is currently limited and requires approval of the TTC.

In an effort to provide the PFS with greater flexibility in hiring its own staff (without TTC approval), the PFS Board of Directors has proposed limiting the TTC's future liability relating to administrative costs based on the current costs, plus CPI, in return for the transfer of current employees to PFS and the further ability to retain additional PFS staff

(at the sole cost of PFS) without further TTC approval. Currently, all staff working for the PFS, save and except for the PFS CEO, are hired by TTC and are TTC employees (wages and benefits paid by TTC). PFS is not able to directly hire additional staff.

Based on the proposal, TTC would no longer be able to approve the hiring of additional PFS staff, but those additional costs (beyond the Contribution Cap) would be the responsibility of the PFS. All new hires, together with existing staff working for PFS would become PFS employees. PFS would become responsible for wages, benefits and all employment related matters. The TTC Board's right to appoint (or remove) 50% of the PFS Board members will remain in place. Changes to the current PFS By-laws would also be required in order to allow PFS to directly employ individuals.

If the Proposal is accepted, as recommended, PFS would be able to increase staff in the near term without additional cost risk to the TTC. The cost to TTC of PFS staffing will be capped at the Contribution Cap and any additional staffing, as well as any other increased costs, will be at the sole cost of PFS.

Contact

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Signature

Richard J. Leary
Chief Executive Officer (Acting)

Attachments

Attachment 1 - TTC Pension Fund Society Report and Proposal
Attachment 2 - Proposed Amendments to TTC PFS By-laws

TTC Pension Fund Administration



Date: March 20, 2018
To: TTC Board
From: TTC Pension Fund Society Board

Summary

The TTC and ATU Local 113 are joint sponsors of the TTC pension plan. In May 2011, the TTC and ATU Local 113 entered into a Memorandum of Agreement for the TTC Pension Fund Society as a Jointly-Sponsored Pension Plan, which was further amended in April 2016 (collectively the “MOA”). The MOA provides, in part, that the TTC is responsible for all administrative expenses of the TTC Pension Fund Society Board and Plan except as otherwise agreed to by ATU Local 113 and the TTC. Currently, the only administrative expense not funded by the TTC is the Chief Executive Officer position of the Pension Fund Society (PFS), which is funded directly by the PFS.

The PFS is proposing that the TTC's obligation to fund all PFS administrative expenses be capped at 2016 levels, subject only to increases based on CPI. In addition, all current TTC staff working for the PFS plus all new or additional staff hired by the PFS will become employees of the PFS. The TTC will have no future obligation related to any administrative costs as a result of the hiring of new or additional PFS employees. The PFS Board will assume responsibility for PFS staffing, including headcount, budgets, and compensation. The TTC oversight of the PFS will continue to be exercised via the TTC's appointees to the PFS Board.

Subject to agreement between the TTC and ATU Local 113, payment to the PFS from the TTC for administrative costs would be made in January, on an annual basis starting in calendar year 2019.

Recommendations

1. That the Chief Executive Officer, TTC be authorized to enter into an agreement with ATU Local 113, consistent with the Pension Fund Society (PFS) Proposal, based on the following:
 - a) Commencing in January 2019 capping the TTC's contributions to the PFS expenses (which expenses include salaries and benefits of PFS staff and office space) to 2016 budgeted amounts, subject only to a yearly adjustment based on CPI;

- b) transitioning all current TTC staff that currently work for the PFS (includes 13 – 15 full time positions, 1 part-time position and 2 summer positions) to the PFS effective January 1, 2019 so that the individuals become employees of the PFS;
2. That the TTC Board approve the necessary changes to the PFS Bylaws to give effect to recommendations 1a), and b), which is included in this report package. These Bylaws were approved by the PFS Board of Directors on February 9, 2018, and are subject to TTC Board approval on March 20, 2018.
3. The Chief Executive Officer, TTC be authorized to assign to the PFS (subject to the Landlord's approval) a portion of the current TTC lease at 1920 Yonge Street relating to the office space used and occupied by the PFS so that the PFS becomes directly responsible for all lease costs and any future increases relating to the leased space, subject to PFS agreeing not to lease additional space at 1920 Yonge Street without the TTC's prior written consent.

Implementation Points

Upon Board approval of the above recommendations, the TTC will execute an agreement with ATU Local 113 based on the changes described in this report. Additionally, the PFS will enter into an agreement with the TTC, subject to the Landlord's approval, whereby the TTC will assign the portion of the lease currently occupied by the PFS to the PFS, including all costs associated with that portion of the lease. Should the Landlord not consent, the TTC will continue to lease the office space at 1920 Yonge Street currently occupied by the PFS until the expiration of the lease and those costs shall be reimbursed by the PFS to the TTC subject to any TTC cost contribution as set in recommendation 1a) above.

Amendments to the TTC Pension Fund Society Bylaws as set out in this report package will enable the PFS to hire additional staff directly, without further personnel costs being borne by the TTC. The proposed amendments were approved by the PFS Board of Directors on February 9, 2018 and are subject to TTC Board approval on March 20, 2018.

Financial Summary

Under this reorganization, all administrative costs will be the responsibility of the PFS Board, with future TTC obligations being limited to 2016 levels (approximately \$2.2 million), with CPI increases. Payments to the PFS from the TTC for these costs would be made annually in January beginning in calendar year 2019.

All current PFS staff members will become PFS employees, reporting to the PFS Board through the PFS CEO. A fundamental tenet of the anticipated TTC employee transition is to treat existing pension staff fairly. No reduction in pay or

benefits, including pension membership, will be permitted through the transition from TTC employment to PFS employment. The anticipated transition date for TTC pension staff to PFS staff is January 1, 2019.

The following is a summary of the PFS administrative costs:

Pension Department Expenses (equal to 2016 budget)	Total Costs Payable by TTC (000)
Total Labour Expense	\$1,457
Benefits ¹	\$393
Non-Labour Expenses	\$185
Office Lease Amount ²	\$215
Total TTC payment to PFS in 2019	\$2,250

The TTC will provide staff transit passes to PFS staff.

Other overhead costs, including IT services will continue to be provided by the TTC until alternative arrangements can be made. The TTC, ATU Local 113 and PFS will work together over the next few years in an attempt to transition remaining support functions, where practical. It is not anticipated that the transition of any of these support functions will result in cost savings to the TTC.

Background

The TTC and ATU Local 113 are joint Sponsors of the TTC Pension Fund Society. The TTC and ATU Local 113 each have five representatives on the PFS Board of Directors. All PFS staff with the exception of the CEO are TTC employees. There are currently 13 full-time TTC staff working for the PFS.

Pension assets have grown to \$6.1 billion with a 97% funded status on a going concern basis as of the last actuarial valuation dated January 1, 2017, putting the PFS in a strong financial position. The PFS also has a powerful risk management feature in the plan design which limits funded status and contribution volatility. Benefit improvements, such as base year updates and pensioner cost of living increases, are provided only when it is deemed to be

¹ Includes employer pension contributions, CPP, employee health, accidental death, LTD. Estimated to be 27% of labour cost.

² Represents the value of the current office lease at 1920 Yonge. If the lease is not assigned to PFS, TTC will pay this cost directly. Additional office space will be procured and paid by the PFS directly, subject to PFS Board approval.

appropriate by the PFS Board, based upon completion of independent third party actuarial analysis on plan affordability. This feature is advantageous when compared to many other pension plans where those benefit improvements are contractual obligations. As a result, the PFS Board has been able to control costs and maintain a stable, affordable contribution rate. PFS contribution rates are comparable to, or significantly lower than the PFS peer group (see Appendix 1 - Peer Group Analysis). Based on the PFS's strong financial position, both base year updates and pensioner cost of living increases have been provided annually since 2011.

Pursuant to an agreement between the Sponsors, the TTC is required to fund all PFS administration costs, with the exception of the PFS's CEO compensation. PFS administration costs provided by the TTC include staff salaries and benefits, department non-labour expenses, office leasing costs, office equipment, systems support and other administrative and overhead support services.

As a result of the PFS's growing need for specialist expertise among its staff, the PFS Board of Directors has approved a reorganization plan recommended by the PFS CEO that will allow the PFS to hire new staff from external sources, without additional costs being incurred by the TTC. The TTC's oversight of the PFS would continue to be exercised through its continued representation on the PFS Board of Directors.

The reorganization plan requires agreement from the Sponsors. ATU Local 113 has provided the TTC with an offer that will allow for the necessary organizational changes. These changes are supported by the PFS Board. The offer will limit the TTC's obligations to fund PFS administration costs, and allow for additional organizational costs to be funded directly by the PFS.

Comments

Reorganization Plan Rationale

PFS staffing levels have changed only slightly over the last 20 years, during which the pension fund assets have nearly quadrupled and administrative functions have increased significantly in scale and complexity. The current PFS staffing levels fall well short of those maintained by other similarly sized pension plans and may pose a risk to the organization's ability to confidently and systematically meet its fiduciary obligations in the future. Additional staff with specialist expertise not currently available to the PFS are needed in the near term in order to enable continued prudent management and administration of pension assets, to improve pension plan member communications, establish an advocacy presence, and to continue delivering service and systems in a manner consistent with a best-in-class pension organization. PFS staff must have function specific skills and experience that would be difficult to recruit from within

the TTC, particularly in the case of pension investment specialists. The PFS must have the ability to employ staff directly in order to hire and retain suitable pension talent.

Benefits to the TTC

The proposed changes will address PFS's operational needs and will increase alignment between the PFS Board, the PFS CEO and pension fund staff. The PFS Board would be directly responsible for evaluating organizational needs and staffing costs, and holding the PFS CEO accountable to deliver on PFS Board objectives. Oversight of the PFS staffing and other operational needs would be assumed by the PFS Board, which will reduce the current administrative burden on the TTC.

The proposed changes will significantly reduce the TTC's ongoing financial obligations by capping the TTC's funding of direct PFS staff costs at 2016 levels, increasing by CPI only. Proper staffing of the PFS will ensure that the pension fund improves the efficiency of its investment strategy and should therefore limit the likelihood of future contribution level increases. Improvements to the PFS's operational capabilities will also benefit TTC employees as members of the PFS pension plan. A key objective of the PFS is to develop more robust communication tools to help TTC employees better understand their pension benefits, and the overall advantages of defined benefit pension plans.

The TTC would continue to be a Sponsor of a best-in-class pension organization. TTC management would retain all current oversight capabilities through their unchanged representation as Directors on the PFS Board. TTC staff will continue to be members of a prudently managed organization whose efforts are directed specifically to the needs of TTC employees.

Impact of Implementing the Recommended Plan

Item	ATU 113 Proposal (Endorsed by PFS Board)	Status Quo (Not recommended by PFS Board)
2019 TTC Costs	<ul style="list-style-type: none"> TTC pays costs to the PFS in January, equal to approximately \$2.2 million in 2019, escalating in future years by CPI only. 	<ul style="list-style-type: none"> Assuming no increase from 2018 budget, total TTC cost in 2019 is \$2.5 million rising over time as staffing increases.
Additional Staff and Costs	<ul style="list-style-type: none"> Additional costs for staff, including new hiring, promotions and benefits, are borne by the PFS. 	<ul style="list-style-type: none"> Additional costs for staff, including new hires, promotions and benefits are borne by the TTC.
Process	<ul style="list-style-type: none"> Sponsors enter into agreement as described above. Required changes to PFS bylaws have been approved by the PFS Board and are presented to the TTC Board for ratification Bylaw changes approved at PFS Annual General Meeting. Transfer TTC staff to PFS payroll. Transition to occur as soon as practical (expected date is January 1, 2019). 	<ul style="list-style-type: none"> n/a
TTC Total Cost estimate in 2022	<ul style="list-style-type: none"> \$2.3 million for department budget, increasing by CPI only. Other overhead costs provided by TTC until alternate arrangement approved by the PFS Board (expected that soft costs would continue to be borne by the TTC for the next 3 to 5 years) at which time other options would be assessed for PFS Board consideration. 	<ul style="list-style-type: none"> Estimated department budget is \$3.5 million, based on pension staff needs and approval to staff additional resources. Other overhead costs borne by the TTC indefinitely. Office space for all staff.

Contact

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Signature

Sean Hewitt
TTC Pension Fund Society CEO

Attachments

Appendix 1 – Peer Group Analysis

Appendix 1: Peer Group Analysis

Figure 1: Staffing level compared to other similarly sized pension plans

	Canadian Pension Plan A	Canadian Pension Plan B	Canadian Pension Plan C	
Size	\$9 billion	\$6 billion	\$9 billion	\$6 billion
Structure	Jointly Sponsored Pension Plan	Provincial Public Plan	Jointly Sponsored Pension Plan	Jointly Sponsored Pension Plan
Total Staff	40	40	70	14
# of Dedicated Investment Staff	5	5	6	1
Dedicated Pension Administration Staff	?	18	17	7
Dedicated Actuarial Staff	Yes	Yes	Yes	No

The case for more PFS staff has been presented in more detail to the PFS Board. The information shown in Figure 1 is to illustrate the need for more staff generally and show a broad level peer comparison.

The PFS Board has approved hiring additional staff, paid for by the PFS, subject to approval of a detailed recommendation from the PFS CEO and a resolution of the governance matters addressed in this document.

Figure 2: 2017 Contribution rates for both employees and employers for Ontario JSPP's, before/after Yearly Maximum Pensionable Earnings (YMPE).³

Plan	2017 Contribution Rate (% of Employee Earnings)
PFS	9.25 / 10.85
Ontario Teachers' Pension Plan (OTPP)	11.5 / 13.1
Ontario Municipal Employees Retirement System (OMERS)*	9.2 / 15.8
Hospitals of Ontario Pension Plan (HOOPP)**	6.9 / 9.2
Colleges of Applied Arts and Technology Pension Plan (CAAT)	11.2 / 14.8
OPTrust	9.4 / 11.0

*Normal Retirement Age 60

**Employer match is 126% of employee contribution rate noted

³ YMPE is \$55,900 in 2018. An increase of 1 percentage point in the PFS contribution rate would increase TTC's annual pension contribution amount by approximately \$10 million per annum.

Attachment 2: Proposed Amendments to TTC PFS By-laws

3.04 – Officers

- (1) The officers of the Board shall be a President and a Vice-President. The Board shall also appoint a Secretary and a Treasurer, who shall be employees of the Commission Society. ~~No remuneration shall be paid to any such individual by the Society.~~
- (2) The President and Vice-President shall be Directors, and shall be elected by the Board and shall hold office as long as they continue to be Directors or until successors are appointed. The President, and in his or her absence the Vice-President, shall convene and preside over all meetings of the Board. In the absence of both the President and the Vice-President, the Board shall select a Director from among its number to preside.
- (3) The Secretary shall be a Regular Member of the Society but shall not be a Director. He or she shall be appointed by the Board ~~on recommendation of the President with the approval of the Commission and shall be paid by the Commission. As an employee of the Commission the Secretary shall be subject to all rules for Commission employees and may be partially employed upon Commission work.~~ The Secretary shall receive and deal with all applications for benefits and when they have been found to be in order shall submit them to the Board for approval. The Secretary shall submit at meetings of the Board any records which the Secretary shall be notified by the Board to produce. The Secretary shall keep such statistical records as may be required by the Board.

The Secretary shall be ex-officio Clerk of the Board and shall attend all the sessions of the Board and meetings of the Members and record all facts and minutes of all proceedings in the books kept for that purpose. The Secretary shall give all notices required to be given to Members and to Directors; shall keep such individual records of Members as may be required by the Board, and shall keep in accessible form all Board decisions which might be used as precedents for future action. The Secretary

shall give such security as may be decided by the Board, the cost of which shall be approved and paid by the Commission. The Secretary shall also see that the provisions of Sections 299 and 300 of the Corporations Act of Ontario, as amended from time to time, are duly complied with.

- (4) The Treasurer of the Society shall be a Regular Member and shall be appointed by the Board on recommendation of the President. ~~and shall be appointed by the Chief General Manager of the Commission, or if the Chief General Manager is not a Member of the Society, by the Commission appointed Directors.~~

The Treasurer of the Society shall not be a Director. He or she shall pay the invoices related to the operation of the Fund, as approved by the Board, along with all benefits provided by the Bylaws. Claims to such benefits shall be approved by the Board. The Treasurer shall submit to the Board regular statements of the current financial position of the Society and such other statements or records which the Treasurer shall be notified by the Board to produce.

The Treasurer shall collect all monies due to the Society. All payments out of the Fund shall be made by cheque signed by the Treasurer and the President or their duly authorized deputies, or by electronic transfer authorized in writing by the Treasurer and President or their duly authorized deputies. The Treasurer shall keep the general books of account of the Fund and shall be responsible for safeguarding the assets of the Society. The Treasurer shall also see that provisions of Section 302 of the Corporations Act of Ontario, as amended from time to time, are duly complied with. The Treasurer shall give such security as may be decided by the Board, the cost of which shall be approved and paid by the Commission.

- (5) The CEO and Society staff and his or her staff shall be hired by the Board, or as otherwise directed by the Board, and shall be ~~an~~ employees of the Society. The CEO shall perform such duties in respect of the day-to-day administration of the Society as directed by the Board, and shall provide such reports and information to the Board regarding such duties as the Board may request from time to time.

The salary, benefits, and related expenses of the CEO and- Society staff shall be paid by the Society from the Pension Fund. ~~The Commission shall at its own expense provide all necessary support services to the CEO including office space, administrative resources, and information technology support.~~

7.02 – Contributions Other

- (1) A Member's contributions to the Fund shall be in addition to any contributions that the Member will be required to make under the Canada Pension Plan. Such contributions will be deducted by the Commission or the Society, as applicable, from the salary or wages from time to time payable to each Regular Member, and shall commence from the beginning of the pay-period in which the Regular Member completes six months of Continuous Service with the Commission or the Society, and shall continue as long as he or she remains a Regular Member.
- (2) Regular Members granted leave to serve with the Armed Forces of Canada shall not be required to contribute to the Society during such leave.
- (3) The Society shall maintain a record of each Regular Member's Required Contributions made annually, plus Credited Interest thereon. Credited Interest shall be determined at a rate of interest to be calculated on the basis of the 12 month average of the yields of five year personal fixed term chartered bank deposit rates, averaged over a reasonably recent period, credited from the end of the month in which the Contribution is made, and compounded yearly, to the date on which the Member dies or otherwise terminates employment with the Commission or the Society.

The amount of interest to be calculated on contributions made for period that is part of a calendar year shall be determined as one-half the contributions made by the Member during that period multiplied by the product of the applicable annual rate of interest and the fraction that period is of a whole year.

- (4) Contributions made by a Member under Bylaw 5.05 or 5.06 to purchase Credited Service for periods of service prior to 1987 shall be considered Required Contributions. One half of the contributions made by a Member under Bylaw 5.05 or 5.06 to purchase Credited Service for periods of service after 1986, shall be considered Required Contributions, except that all of the contributions made by a Member for a period of family medical leave shall be considered Required Contributions.
- (5) The applicable employer participating in the Society may contribute additional amounts provided that each such amount is all or part of the amount of Member contributions under Bylaw 5.03, 5.05 or 5.06 in relation to service purchase, excluding those related to previously credited pre-1990 service, pursuant to an agreement between the employer and the Member or Members, or the Union representing them. Where this applies, Bylaw 5.03, 5.05, and 5.06 are modified as necessary to permit contributions by the employer in lieu of Member contributions.

(6) ~~The Commission shall, in addition, bear all administration and office expenses of the Society, with the exception of the following (which shall be paid by the Society from the Fund):~~ The Society shall be responsible for any actuarial and special legal fees incurred by the Society; the salary, benefits and related expenses of the CEO and his or her staff; such other special expenses specifically approved by the Board, and fees of the trust and insurance companies and investment counsellors for custody and investment of the Fund, and any other administrative expenses as may be agreed by the Sponsors from time to time in writing-

(7) The Commission shall be responsible to reimburse the Society for expenses in accordance the Memorandum of Agreement, Establishing the Society as a Jointly-Sponsored Pension Plan, dated May 27, 2011, as amended.