IAM Labour-Management Pension Plan

Changes to the Plan

Effective 1st January 2019

Dear Member

As an active member of the Plan, the way your pension is calculated is changing from 1st January 2019. This letter explains the changes and the reasons for them.

What is changing?

It is very important to note that pension earned up to 31 December 2018 is not changing

The pension you earn on contributions paid after 1 January 2019 is changing. Not only is the amount of benefit changing, so is the way it is calculated. The new plan formula will be as follows:

Monthly pension = 1.455% of all contributions paid on your behalf after 1 January 2019

An example of how this works in practice is set out at the end of this letter.

How does this new rate compare to the current method?

The current rate is 40 times the hourly rate, with each 150 hours worked earning one month's pension credit. However, each employer group is tested at entry and many groups are on a lower multiple because of the age profile of the group.

For those employer groups on the full, 40 times multiple, it is likely that the new rate will see the amount of pension you earn going forward reduce. The position is less clear for the other groups. However, please see the comments below about additional benefits.

Why has the benefit rate reduced for most groups?

The Plan's actuary regularly looks at the financial position of the Plan in what is known as an actuarial valuation. One of the things considered is whether the current benefit rate is affordable. It has become clear over recent years that it is no longer affordable.

Why is the current rate no longer affordable?

There are two reasons as follows:

First, people are living longer. That means we have to pay pensions for longer, which has a cost impact on the Plan. We have set out some background information and explanation on this at the end of this letter.

Each year of pension payments costs over $8m

Second, interest rates continue to be low. That makes it hard to earn a good return on the Plan's assets without taking a lot of risk. As we said in the recent Newsletter, we need to take some risk, but not too much. So, the expected return on Plan assets is coming down. Since we only have two sources of income, contributions and investment income, our income will be less.

Why have we changed from a multiple to a % contributions formula?

The first thing you will notice is the new formula is much easier to understand. We want our members to understand the Plan and be able to plan for retirement and this change helps. **So, this change is part of the Trustees' recent initiative to be more transparent.**

In addition, it is also easier to administer so should help us control costs.

Additional benefit

Under the old formula, you needed 150 hours to get one month's credit. So, 1500 hours was 10 months' credit, but so was 1600 hours.

There is one other important impact of the change to a % contributions formula. Under this new formula you will **earn benefit on every $ of contributions you make**. This also makes it tricky to quantify the impact of the changes here.

Can we be sure this will not happen again?

The above issues force us to reduce benefits now. In these circumstances, it is prudent to create a margin and we have done that in setting the new rate at 1.455%. By doing that, we can have more confidence the new rate is the "right" one and can withstand some negative experience in the future. But we can never be sure.

How does this Plan compare to others?

With the new rate of 1.455%, the Plan remains at the top end of Union plans in Canada. In a recent survey of 50 multi-employer plans in Canada, published in *Pension and Benefits Monitor* in May 2018, only 6 plans had a better benefit rate than our Plan. **Evidence shows this is a good pension plan.**

From best to worst, this graphic shows where we would fit into that survey, based on the new benefit rate.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50

Do I need to do anything?

No, **you do not need to do anything**. These changes will happen automatically on 1st January 2019.

What if I have questions?

As always, questions should go to Irene Perry at the Fund Office address below. Please note that, to ensure all members get the same information about the Plan, all non-personal Q&As will be published on the website. We encourage you to check-in there on a regular basis.

Reminder: you can access the Plan's website here *http://www.iamlmpf.ca/*

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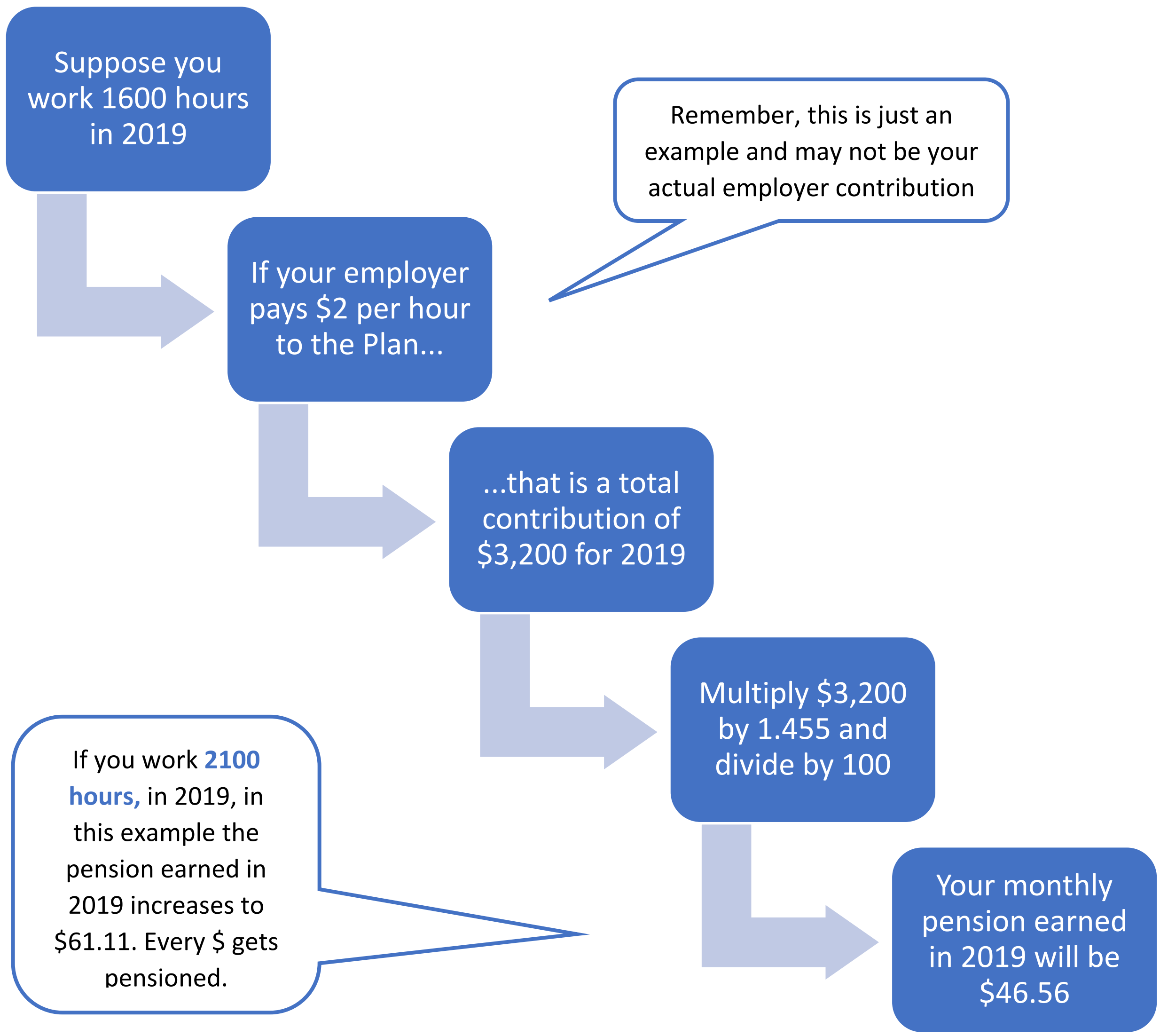
Additional Information

How the new formula works: example for 2019



Additional information

Life expectancy

It is expected that life expectancy will continue to improve, so we have built that in to our funding projections

The actuarial profession in Canada and the US regularly produces studies on life expectancy. Actuaries rely on those studies when estimating the cost of providing a pension. The table below shows how the **life expectancy at age 65** has increased.

1983 data

Men **16 years 8 months**
Women **21 years 4 months**

1994 data

Men **19 years 0 months**
Women **21 years 5 months**

2014 data

Men **21 years 2 months**
Women **24 years 1 months**

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