



Lutheran Church-Canada Pension Plan (LCCPP) DC only

Province of Alberta and Canada Revenue Agency No.0356610

This booklet outlines the details of LCC's Plan. It is prepared as information only and does not constitute an agreement, nor does it create or confer any contractual rights or obligations. This is only a summary of the main provisions of the outlined benefits. In the event of any inconsistency between this document and the official plan or policy, the plan or policy texts will govern.

Possession of this booklet alone does not mean that you are entitled to benefits under the Plan. You must satisfy all the requirements of the Plan. Your right to benefits is determined by the provisions of the Plans in place at the time.

While LCC expects to continue these Plans indefinitely, future conditions cannot be foreseen, therefore, LCC reserves the right to amend, suspend or discontinue, in whole or in part, any benefit described within this summary. The foregoing does not affect benefits accrued to members at the time of change.

Each province has their own pension legislation that may require different rights and entitlements for members working in a particular province. While the LCCPP has been designed to treat members equitably in different provinces, provincial pension laws may result in some variances in benefits between provinces. These variances are generally minor or administrative in nature and will not significantly impact any member's pension entitlements. This booklet has been written based on Alberta legislation.

We suggest you read this Pension Booklet carefully, and then file it in a safe place with your other important documents.

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INTRODUCTION

The Lutheran Church-Canada Pension Plan (LCCPP) is an important part of your future retirement benefits along with government plans and your own personal savings. We urge plan members to take the time to understand how the Plan works and the benefits it provides so you understand how the Plan contributes to your larger financial planning requirements. Since each of us are individuals, with different needs, the amount of income you will need in retirement will vary according to the kind of retirement that you wish to pursue. There are tools on the Sun Life Financial website that can help you with your retirement planning (www.myretirementcafe.ca). In addition, you are encouraged to make the most of your personal retirement planning, through additional savings and Registered Retirement Savings Plan (RRSP) contributions.

How much will I need?

Retirement experts use a rule of thumb that most people will need retirement income equal to at least 70 percent of their pre-retirement salary to maintain their pre-retirement lifestyle. This 70 percent target includes all sources of potential retirement income, including the LCC Pension Plan, any personal RRSPs and investments you may have, as well as, government benefits such as Canada Pension Plan and Old Age Security. Keep in mind that this is just a rule of thumb as individuals may need more or less than this depending on their retirement lifestyle goals.

About Participating in the Plan

The Lutheran Church-Canada Pension Plan is available to employees of participating congregations, schools and other employers affiliated with Lutheran Church-Canada.

Your LCCPP is a Defined Contribution (DC) Plan.

Know Your Responsibilities

As a member of the Pension Plan, it is your responsibility to make use of the information and tools available to you. It is also your responsibility to decide whether you should obtain investment and financial planning advice from a qualified financial planner.

Eligibility and Enrolment

Regular full-time and part-time employees (working 24 or more hours per week) are enrolled in the pension plan on the first of the month following their date of hire.

Part-time employees working less than 24 hours per week are enrolled in the pension plan provided they meet the following:

- have 24 months of continuous service and,
- earn at least 35% of the Yearly Maximum Pensionable Earnings under the Canada/Quebec Pension Plan or who have worked at least 700 hours in each of two consecutive calendar years.

Your Beneficiary Under the Plan

If you have a spouse, your spouse will be deemed to be your beneficiary as required by law, regardless of any other beneficiary you designate.

If you don't have a spouse and you don't designate a beneficiary, all benefits payable in the event of your death will go to your estate.

Eligible Spouse

Generally speaking a spouse is defined as your legally married spouse who has not lived separate and apart from you for the preceding three year period. If the foregoing does not apply, a common-law spouse with whom you have lived for a minimum of three years or a relationship of some permanence if there is a child of the relationship by birth or adoption. The definition of spouse varies according to provincial pension legislation.

Keeping Your Information Up to Date

Please ensure you advise the Worker Benefit Plans office if you have any life changes such as changing your marital status so that your information is kept current. See the next section entitled "Additional Information and Assistance" for information on contacting us.

Additional Information and Assistance

LCC Worker Benefit Plans

If you have life changes or questions about your Pension Plan, please contact the Worker Benefit Plans Office at:

- Phone: 1-800-588-4226(Toll Free) or 204-895-3433, ext. 2226 or 2221
- Fax: 204-897- 4319
- E-mail:
 - wbpbenefits@lutheranchurch.ca
 - wbpinfo@lutheranchurch.ca
- Website: www.lccbenefts.ca

Sun Life Financial

If you want to make changes to your DC Account, please contact Sun Life Financial at:

- Phone: 1-866-733-8613 (8:30am - 8:00pm Eastern Time)
- Internet: www.sunlife.ca/member

Documents Provided Upon Request

You are entitled to examine certain Pension Plan documents. You may examine them at the Lutheran-Church Offices or for a fee of \$10.00 to cover the costs of copying and postage we will send them to you. You may exam such documents as the following:

- A copy of the Plan text including amendments
- The Annual Information Return filed with regulators
- Any other documents required to be filed with regulators.

DEFINED CONTRIBUTION (DC) PLAN

Introduction

A defined contribution pension is a type of plan that provides a retirement account to which contributions are made based on your earnings. You then decide how you wish to invest the contributions from a number of investment options, with a range of risk and return potentials. The money that has accumulated in your account when you retire is transferred out of the plan to a retirement vehicle from which you will be able to draw an income. Retirement vehicles include an annuity (a monthly pension), or a Life Income Fund. The amount in your DC Account will depend on how well your investment funds performed, and how much you contribute over your working lifetime.

Employees hired on or after January 1, 2012 or part-time employees working less than 24 hours per week who qualify for pension membership on or after January 1, 2012 will be enrolled in the DC Plan.

Summary of Benefits

- You will receive an employer contribution of 6% of your pensionable earnings to your DC account. You are required to contribute 4% of your pensionable earnings.
- Members can make optional contributions up to 4% of pensionable earnings.
- You choose how both your contributions and the employer contributions are invested from a variety of investment options, offering various ranges of risk versus return potential.
- At retirement, the accumulated money in your account can be used to buy an annuity, or can be transferred to a locked-in retirement vehicle.

Important DC Option Definition

The following definition is important in helping you understand how your DC option works. Other pension definitions are included at end of this booklet.

Pensionable Earnings: Means your basic wages or salary including cash utility allowances, cash housing allowances and the monetary value of housing furnished by an employer, which shall be deemed to be thirty percent (30%) of basic wages or salary.

Contributions

When you join the DC Plan, an account will be set up in your name at Sun Life Financial.

Your contributions to the DC Plan are tax deductible. Employer contributions to your DC option are not considered to be a taxable benefit to you.

You direct the investment of your account (your contributions and employer contributions) to a range of investment funds, each with varying degrees of risk and return potential.

Employers make contributions of 6% of your pensionable earnings to your DC account. You are required to make contributions of 4% of your pensionable earnings.

All members may make **optional** DC contributions of up to 4% of pensionable earnings. These contributions are not matched by your employer.

Contribution Examples

The following shows examples of members at various salary levels who have chosen to make 4% **optional** DC contributions:

Annual Salary	Employer Contributions (6%)	Employee Required Contributions (4%)	Optional Employee Contributions (4%)	Total Contributions
\$50,000	\$3,000	\$2,000	\$2,000	\$7,000
\$60,000	\$3,600	\$2,400	\$2,400	\$8,400
\$70,000	\$4,200	\$2,800	\$2,800	\$9,800
\$80,000	\$4,800	\$3,200	\$3,200	\$11,200
\$90,000	\$5,400	\$3,600	\$3,600	\$12,600
\$100,000	\$6,000	\$4,000	\$4,000	\$14,000
\$110,000	\$6,600	\$4,400	\$4,400	\$15,400
\$120,000	\$7,200	\$4,800	\$4,800	\$16,800

Retirement Dates

Your normal retirement age is 65, however you can retire any time after you reach age 55 provided you have completed at least two years of credited service. You may postpone receipt of your retirement funds until the end of the year that you reach age 71. (Canada Revenue Agency does not permit pension plan membership beyond age 71.) Your funds must be converted into one of the payment options noted below in the "Payment Options at Retirement" section. Your retirement income will be based upon the contributions and investment income in your DC account. The longer you remain employed and are contributing to the DC Plan, the greater your benefits from both contributions and the effect of compounding investment returns in your account.

Notifying Worker Benefits of Your Retirement

You must notify your employer 3 months before you wish to retire. Your employer will submit a Request for Change form to the Worker Benefit Plans Office. You will receive a retirement package from Sun Life near your retirement date.

If you have questions regarding your retirement, you can contact the Worker Benefit Plans Office. If you would like information regarding your pension balance you can call the customer care line at Sun Life to get this information which you can take to your advisor for pre-retirement advice.

Payment Options at Retirement

At retirement you may use the funds accumulated in your DC Account for any of the following options:

- ***Transfer your DC account balance to a Locked-In Retirement Account (LIRA).*** A LIRA is similar to a Locked-In RRSP except that it is designed to hold only pension monies. You can continue investing your retirement funds in a LIRA up to the end of the year that you turn age 71. You can then either use your LIRA funds to buy an annuity or you can transfer your funds to a Life Income Fund. In Alberta, at the time of such a transfer you may unlock up to 50% of your funds providing your spouse consents by completing the prescribed waiver form. Any funds held in a LIRA may be moved into a Life Annuity or LIF anytime after you reach age 50 or 55 depending on your province.
- ***Convert your DC account balance (or funds transferred to a LIRA) to an annuity (In Alberta funds must be transferred to a LIRA first before the purchase of an annuity).*** An annuity is a monthly pension income. It is usually purchased from an insurance company that guarantees the amount of your payment. Your annuity income will depend upon the type of annuity that you select, the interest rates when you retire, and your age and your spouse's age when the annuity payments begin. The higher the interest rates are, and the older you are when your annuity payments begin, the larger your annuity payments will be. If you have a spouse, you are required by law to elect a joint and survivor annuity with a surviving spouse's benefit (unless your spouse waives this requirement on the prescribed form). An annuity provides you with a predictable amount of income for life. It provides the greatest certainty of income because the insurance company bears the investment risk as well as the risk that you will live longer than expected. However, this option is the least flexible because once you have elected the form of annuity or pension, it can't be changed. This option is a good choice if you are looking for a secure monthly income. Quotes from insurance companies on annuities can vary, so you are encouraged to shop around and obtain a number of quotes from different insurance companies.
- ***Transfer your DC account balance (or funds transferred to a LIRA) to a Life Income Fund (LIF) (In Alberta funds must be transferred to a LIRA first before transferring to a LIF).*** LIFs are available at most financial institutions. You determine how much

income you want to receive annually (subject to minimum and maximum withdrawal requirements) and continue to invest the balance of your account. Unlike an annuity you maintain ownership and control of the assets. You can vary the amount you receive each year to reflect additional expenditures. The LIF combines some of the flexibility of favorable investment performance with some of the certainty of the life annuity. However, the LIF also can decrease in value if the investments lose value – for example if the money in the LIF is invested in stocks or mutual funds and the value decreases. The LIF allows for flexible, but nonetheless limited, payments until the end of the year in which you reach age 85. After this point, you will be permitted to withdraw any remaining account balance. At any point with a LIF, you also have the option to purchase a life annuity. If you take out the maximum allowable amounts each year as you get older, your monthly payments will generally decline, because the overall amount in your LIF is decreasing.

Forms of Pension Payments

Legislation requires that employees retiring with an eligible spouse must purchase a pension that provides the spouse with a minimum basic pension of 60% of their pension in the event of their death. To select an alternate form of pension providing lower survivor benefits, your spouse must waive this requirement in writing on the appropriate form. This requirement applies to employees transferring funds to an annuity or LIF.

Vesting

Vesting refers to your rights to the employer contributions in the pension plan even if you leave employment before retirement. You have vested rights after you complete two years of credited service, or if less, the service requirements prescribed by legislation in the province in which you work.

If You Leave Before Retirement

If you leave your employer before retirement and you have not completed two years of credited service, you will receive a taxable refund of your own contributions and any related investment earnings. You may be able to tax-shelter the funds in a personal RRSP. (Note: legislation in some provinces provides for vesting before two years of service have been completed.)

If you have completed two years of service, you will have a vested right to your DC account balance (including your contributions, LCC's contributions and related investment earnings). You will have the following options:

- Transfer your account balance to a Locked-In Retirement Account (LIRA) with Sun Life or any other Canadian financial institution.
- Transfer your account balance to another Registered Pension Plan, if that plan permits
- Transfer your account balance to an insurance company to buy an annuity (in Alberta funds must be transferred to a LIRA first).

Generally speaking, you may not access the funds until you are at least age 55.

When you transfer your funds from the Plan, you cannot receive it in cash (except for certain exceptions such as small benefits), nor can you collapse your LIRA and receive benefits (except for certain specific cases such as shortened life expectancy etc.). In Alberta, at or after age 50 you can unlock up to 50% of the funds at the time you transfer your funds from a LIRA to buy an annuity or Life Income Fund (LIF).

Your employer will notify the Worker Benefit Plans Office of your termination of employment and you will receive a statement outlining your benefit entitlement and payment options from Sun Life.

If You Are Re-Employed

If you are re-employed within one year of termination and your re-employment is prior to the end of the year in which you turn age 71, you will be enrolled in the Defined Contribution (DC) plan effective the first of the month following your subsequent re-employment. Your service in respect of your prior employment will be recognized for purposes of determining your vesting date. If you are re-employed more than one year after your original termination, you will be enrolled in the DC plan:

- the first of the following month if you are working 24 hours a week or more
- OR
- after 24 months of continuous service provided you earn at least 35% of the Yearly Maximum Pensionable Earnings under the Canada/Quebec Pension Plan or work at least 700 hours in each of two consecutive calendar years.

If You Become Disabled

If you are totally disabled and are receiving LCC-sponsored long-term disability benefits, you will continue to receive employer contributions to your DC account. Contributions are based on your earnings at the time your disability began, with annual increases in accordance with *Increases in the Consumer Price Index for Canada*, up to a maximum of 3% per year. While disabled you are not required to contribute to the DC plan; you may, however, continue to make optional member contributions.

You continue to receive employer contributions up to the earliest of:

- the date you are no longer disabled
- the date you elect to retire
- the date you turn age 65
- the date of your death.

If You Take a Leave of Absence

Maternity, Adoption or Parental Leave

If you take a maternity, adoption or parental leave of absence you will continue to receive the employer contribution for the first 12 months of such absence or for a longer period of time if required by provincial legislation. While on leave, you are not required to make member required contributions; you may, however, continue to make optional member contributions.

General Leaves of Absences

If your employer grants you a leave of absence with pay, you will continue to receive employer contributions into your DC account and continue to make member required contributions.

If your employer grants you a leave of absence without pay, you will continue to receive employer contributions for as long as your employer or former employer continues to make contributions on your behalf. While on leave without pay, you are not required to make member required contributions.

On leaves of absence with or without pay; you may continue to make optional member contributions.

Educational Leaves

While on Educational leave you will continue to receive employer contributions to your account for a maximum of five years. You are not required to make member required contributions while on leave; you may, however, continue to make optional member contributions.

Pastors In Between Calls

If your employer or former employer grants you a leave of absence, you will continue to receive employer contributions to your account as long as your employer or former employer elects to continue making contributions on your behalf (to a maximum of one year). While on leave, you are not required to make member required contributions; you may, however, continue to make optional member contributions.

If You Transfer to Another Employer

If you transfer to another participating employer you continue to participate in the LCCPP just as if you had not changed employers.

If You Transfer to the United States

If you transfer to the United States you will be treated as a terminated member and be entitled to receive benefits like any other terminated member. See the section in this booklet entitled “If You Leave Before Retirement”. If you are considered a non-resident of Canada for the purposes of the *Income Tax Act (Canada)* you may be entitled to receive your benefits on a non-locked-in basis.

If You Die Before Retirement

Your eligible spouse is automatically your beneficiary for any pre-retirement death benefits payable, regardless of whom you may have designated. In certain provinces your spouse may waive this provision.

If you die before you retire and you are not vested, your eligible surviving spouse, beneficiary or estate will receive a refund of your own contributions and related investment earnings.

If you are vested, your surviving spouse, beneficiary or estate will receive your DC account balance (including your contributions, employer contributions and related investment earnings).

Payment to a beneficiary that is not your spouse or to your estate is paid as a cash payment, less applicable taxes.

Your spouse may choose to:

- Transfer funds to a locked-in retirement vehicle such as a locked-in retirement account (LIRA). Note: some provinces do not require funds to be locked-in.
- Transfer the commuted value to another registered pension plan, if that plan permits.
- Transfer the commuted value to an insurance company to buy an annuity (in Alberta funds must be transferred to a LIRA first before the purchase of an annuity).

If You Die after Leaving Employment

If you leave your DC funds in the Plan and die after leaving employment, your eligible spouse or beneficiary will receive the death benefit outlined in the above section entitled "If You Die Before Retirement".

If you transfer your funds out of the Plan when you leave employment, no further benefits are payable. All benefits, including death benefits, will be paid from the plan to which your DC account value was transferred.

Tax Implications

The employer's contribution to your DC account is not considered a taxable benefit by Canada Revenue Agency. Your contributions to the plan are tax deductible. As well, any earnings you receive on your investments are tax sheltered.

Once you start drawing a retirement income, the payments you receive will be subject to tax. Cash payments paid to your beneficiary upon your death are taxable to your beneficiary.

Canada Revenue Agency limits the amount that can be contributed into a DC plan in a year. In 2013 the maximum contribution is \$ 24,270.

Registered Retirement Savings Plan Limits (RRSP)

Many people save additional funds in their personal RRSP's to supplement their retirement income. The following provides you with an overview of how RRSP room is impacted by your participation in the DC Plan.

Canada Revenue Agency (CRA) permits tax-deductible contributions to an RRSP each year equal to your 18% of your previous year's earnings to a maximum of \$23,820 (in 2013) less your pension adjustment (reported on Box 52 of your tax slip) for the prior year. The pension adjustment is the funds that you and LCC contributed to your DC account in the prior year.

RRSP Limit Example:

For example let's assume an employee earns \$65,000 in 2012 and contributes 4% of pensionable earnings into their DC account in 2012. The employee's RRSP room is calculated as follows:

Overall RRSP Contribution Room (18% of \$65,000):	\$11,700
<i>less</i>	
Employee Contributions to DC in 2012:	\$2,600
Employer Contributions to DC in 2012:	<u>\$3,900</u>
	\$6,500
<i>equals</i>	
Remaining RRSP room:	\$9,000

The employee's RRSP room for 2013 is \$9,000. Revenue Canada notifies you of your RRSP limit on your tax assessment notice. You receive the notice after you file your personal tax return.

Custodian/ Record Keeper and Fund Managers

Outside professional expertise is required to run the DC Plan. Sun Life Financial is our custodian and record keeper. Sun Life is responsible for the day-to-day management and administration of member accounts. They are responsible for keeping your account record, acting on your investment instructions, distributing investment returns to your account, etc. You may get further information on your funds, change the investment directions of current contributions, or move past contributions into different funds, at any time by contacting Sun Life.

The investment options are managed by professional fund managers who are selected by the LCC Board of Managers. They invest your DC account in various asset classes such as bonds, Canadian equity etc. Fund managers are selected from the investment funds available from Sun Life Financial, based on a number of criteria, including:

- Investment approach
- Organizational strengths
- Historical performance
- Service capabilities

The Board of Managers regularly monitors the performance of the fund managers including monitoring:

- Short and long term return results against established benchmarks indices such as the S&P/TSX Composite, DEX Universe etc.
- The fund's returns against other pension managers who manage similar assets.
- To ensure managers are operating within their mandates, including reviewing any mandate changes.
- The fund manager's investment process to ensure it hasn't changed.
- The organizational structure to ensure no changes have occurred involving key personnel managing a fund.
- The Investment Consultant's Rating (by an expert retained to comment on fund performance/management).

A fund manager may be put "Under Review" and monitored more closely if they fall short on any of the above areas and if necessary a change in the fund manager may be made.

Your Investment Options

Members choose how to invest both the member and employer contributions made to the DC Plan from a suite of investments with varying risk and return potential. The DC Plan currently provides two different investment approaches. You can invest in a “pre-build” target date fund or you can “build your own” portfolio by selecting from seven different investment options managed by six fund managers (including the Target Date fund manager).

Target Date Funds

The “pre-build” or Target Date funds are a series of funds designed for people retiring at various retirement dates in the future. Members choose a fund from the series that is closest to their expected retirement date. The funds are invested in various assets (stocks, bonds and short-term securities). The percentage in each asset class (the asset mix) changes over time. The fund manager is responsible for determining the asset mix and regularly rebalances it over time. Target Date funds are normally weighted towards equities or stocks early in an investor’s life and as the expected retirement date gets closer the asset mix becomes more conservative with a higher percentage of the portfolio allocated to bonds.

Target date funds make it easier to invest for those who don’t have a great deal of investment knowledge or who are not interested in becoming investment savvy. Target Date funds are also consistent with the member’s investment time horizon and members don’t have to worry about changing their asset mix as they get older. One of the disadvantages of a Target Date fund is there is an implicit assumption that everyone of a similar age has the same risk tolerance because they have a similar investment time horizon. This is not necessarily true as each of us has a different level of risk tolerance and would allocate more or less to different asset classes compared to someone else.

Build Your Own

You can build your own portfolio by allocating your contributions to the various fund options available under the plan. To determine your asset mix you may want to start by using some of the tools available on the Sun Life website such as the Investment Risk Profiler. This will suggest an asset mix from which you would then select different funds you wish to participate in as well as the amount you would like to allocate to each fund. Typically once per year you would rebalance your selections to maintain your asset mix or you may rebalance when your risk tolerance changes. Please see the section on “Investment Considerations” for things to consider when investing.

Members may change the investment directions of current contributions, or move past contributions into different funds, at any time. The funds cover a range of asset classes, so that you may diversify your DC account. Please see the section entitled “Fees” for a list of funds that you may invest in.

Fees

LCC pays the administration and recordkeeping fees associated with the DC Plan with the exception of the following fees charged to members:

- Withdrawals/transfers at termination of membership or retirement - \$75 per transaction
- Replacement tax forms - \$10 per form

Members are charged an asset based fee that varies depending upon the fund they participate in. These fees cover investment managers services provided by the fund manager and include certain services performed by Sun Life. The following are the annual fees; however, they are charged daily and are deducted from the funds before the unit values are determined. They are therefore reflected in the value of your account.

Name	Fee
Target date (Lifecycle)	
<ul style="list-style-type: none"> • BlackRock LifePath® Index 2015 • BlackRock LifePath® Index 2020 • BlackRock LifePath® Index 2025 • BlackRock LifePath® Index 2030 • BlackRock LifePath® Index 2035 • BlackRock LifePath® Index 2040 • BlackRock LifePath® Index 2045 • BlackRock LifePath® Index 2050 • BlackRock LifePath® Index Retirement 	0.90% 0.95% 1.00% 1.05% 1.05% 1.05% 1.05% 1.05% 0.90 %
Money Market	
<ul style="list-style-type: none"> • SLF Money Market 	0.65%
Bond (Fixed Income)	
<ul style="list-style-type: none"> • TDAM Canadian Bond index 	0.80%
Canadian Equity	
<ul style="list-style-type: none"> • Beutel Goodman • CC&L Group Canadian Q Growth 	1.00% 1.00%
Foreign Equity	
<ul style="list-style-type: none"> • TDAM US Market Index • MFS International Equity 	0.80% 1.45%

Keeping You Informed

To help keep you informed, you will receive semi-annual statements on the status of your DC account from Sun Life. In addition, they will provide general investment information on a regular basis. For further information check out the Sun Life website at www.sunlife.ca/member

Investment Considerations

In order to invest your DC account wisely it is important to understand some investment basics.

Risk

As a member of the DC Plan, you will make investment decisions that will impact your retirement income. The higher the rate of return you receive on your investments, the greater your DC account will be at the time you retire. Different investments have different levels of risk and also different returns. More risky investments typically provide a higher rate of return over the long run. You'll have to think about your attitude towards risk and decide what level of risk you are comfortable with when selecting your investments. A knowledge of the risk and return trade-offs available in the investment markets is also helpful in deciding where to invest your funds. The Sun Life website and written materials have lots of information that will help you become a more informed investor and will help you determine your risk comfort level.

When you invest, you expect your money to grow, to generate a return on your funds. The possibility of losing money in the short term is one reason people choose investments with low return as these investments have low investment risk. However, there is another type of risk. That is the risk that your returns will be lower than inflation and your money will lose its purchasing power (diminish in real value) and may not be enough to support your retirement goals. Purchasing power risk may be low over the short-term but increases for those with a long-term investment horizon.

Other key risks are market risk, which is the potential for the value of your investments to fluctuate due to market conditions. Market cycles or business cycles occur when the economy shifts from strength and expansion to weakness and contraction and back again. Each cycle typically occurs over several years. Interest rates, exchange rates and inflation are other market-driven factors that cause investments to fluctuate in value. Market risks can be high over the short-term but generally reduce over the long-term.

Currency risk is another key risk to think about when investing. Currency risk is the uncertainty that the value of a foreign investment will rise or fall as a result of the

movement of the Canadian dollar relative to a foreign currency. If the Canadian dollar weakens against a foreign currency, assets held in the foreign currency will increase in value. Conversely, if the Canadian dollar strengthens, the value of the foreign investment will fall. Generally, over long periods of time, the impact of currency risk declines.

Accepting some risk over the long term usually achieves a higher rate of return.

Diversification

Diversifying your investments helps reduce the risk of investing in only one asset class. Diversification involves investing in a range of investments in order to balance your risk exposure. If one of your investments performs poorly, your risk is minimized because you hold other investments.

The investment funds available to you are well-diversified. Each fund, whether they are actively or passively managed, is composed of a number of different securities. By holding a range of securities, each fund is less susceptible to poor performance of a few companies.

However, there are still market risks to consider. Investments respond differently to market conditions. For example when the economy is faltering and interest rates are falling, bonds will usually perform well, whereas when the economy is booming, equities will generally outperform bonds. Holding a diversified portfolio of money market, bonds and equities may reduce the impact of market changes. You can further diversify by holding a mix of Canadian and foreign funds and by holding both active and passively managed funds.

Asset Mix

Asset mix is a term used to describe the range of funds in which you invest. It includes not only the funds that you select but the amounts that you choose to invest in each fund. Your asset mix is influenced by things such as your age, your retirement goals and your tolerance for risk. Generally, the more time you have to invest before you retire the more risk that you can afford to take since you have time to ride out the ups and downs of the investment markets. However, if retirement is something you are considering in the near future you'll probably want to have a more conservative and safer asset mix.

Your risk tolerance is a key consideration in selecting your asset mix. Think about your ability to accept fluctuations on the value of your investments. Some people feel strongly that they want the highest possible return and they are prepared to live with the associated volatility in returns. They may be in a good financial state that allows them to take more chances. Others might be comfortable with some risk, but because they are close to retirement, or because of their financial circumstances they may choose moderate to low risk investments. There are also people who are low-risk investors, regardless of their age, because they are not comfortable with market fluctuations or they are conservative by nature, they are willing to accept lower potential returns for the comfort of less volatile investments.

If you are not sure of what your asset mix should be, you might want to consider the Target Date fund. A Target Date fund is a more sophisticated version of a balanced fund with wider diversification and ongoing rebalancing. See the section called “Your Investment Options” for a description of the Target Date fund.

If you decide to choose your own mix of investment funds, Sun Life Financial has both on-line and written information tools that can assist you in deciding your asset mix. You may also wish to get some help from your investment advisor or financial planner to create a portfolio of investments that is suitable for your personal situation.

Active versus Passive (Index) Funds

Active and Passive or index management are two common management styles, both of which we have in the DC investment fund options.

The main objective of an actively managed fund is to outperform the market index. In active management the fund manager takes an active approach in selecting the most appropriate securities (e.g. corporate shares, corporate and government bonds) for the fund. They research and analyze the direction of the economy and markets and evaluate companies by dissecting financial statements and visiting the management of the companies. Active managers believe the higher fees they incur to research and actively trade securities will be rewarded through higher returns. In other words they believe that with superior knowledge and research, they can produce returns that beat the market index and cover their extra costs over the long term.

Passive management (index management) is an investment approach that seeks to provide market returns reliably. Managers don't try to beat the market rather they invest in the same way that an index is invested and by doing so they mirror the market, or index return. Passive managers generally charge lower fees because they are not required to do as much research and generally do less trading. Passive managers believe that markets are too efficient to be beaten. They believe that information moves so quickly that any knowledge about a security such as management changes or new products is immediately reflected in its price. Passive managers believe that when costs are included, it is difficult for active managers to add value or in other words, beat the index.

With actively managed funds, opportunities exist to outperform or underperform the respective market index, regardless of whether the markets rise or fall. In other words when the market index is up, there is the opportunity to either outperform or underperform the “up” index. Similarly, when the market is down, the same opportunity exists – the fund may take a greater or smaller loss than the market index.

Passively managed or index funds, on the other hand, rise or fall with the market index.

Investment Funds

Your investment options cover the common asset categories including Canadian and foreign equities, fixed income (bonds) and money market funds. The range of funds allows you to diversify your account. As noted earlier, if you are not sure how to determine your asset mix, you may want to select the Target date fund closest to your anticipated retirement date. These funds adjust the asset mix to be more conservative as your retirement date approaches. The following provides a general overview of the asset classes; actual detailed characteristics of each fund may differ. Detailed information on the fund options is available through Sun Life Financial's website.

Investment Options At-A-Glance

Investment	Invests in...	Objective	Growth Potential	Volatility	Risk
Canadian Equity Funds	Common stocks (equities) of Canadian Corporations.	Intent is to provide long-term growth through capital appreciation and dividends.	Higher – historically equities have offered the highest rate of return over the long-term.	Higher – stock (equity) prices can fluctuate significantly over the short-term.	Risk of loss in the short-term; but has lowest risk of losing purchasing power in the long-term.
International Equity Funds	Equities outside of Canada and the U.S.	Intent is to provide long-term growth through capital appreciation.	Higher – historically equities have offered the highest rate of return over the long-term.	Highest – stock (equity) prices can fluctuate significantly over the short-term and fluctuations in currency can negate positive returns.	Higher than Canadian Equity due to fluctuations in currency value; lower risk of losing purchasing power in long-term.
U.S. Equity Indexed Funds	Common stock of large U.S. companies. Intent is track the performance of the S&P 500 Index.	Intent is to provide long-term growth through capital appreciation by matching the performance of the index.	Higher – historically equities have offered the highest rate of return over the long-term.	Highest – stock (equity) prices can fluctuate significantly over the short-term and fluctuations in currency can negate positive returns.	Higher than Canadian Equity due to fluctuations in currency value; lower risk of losing purchasing power in long-term.

Investment	Invests in...	Objective	Growth Potential	Volatility	Risk
Canadian Indexed Bond Funds	Government and corporate bonds of various terms. Intent is to replicate the returns of DEX Universe Bond Index.	Intent is to match the risk and return characteristics of the index by selecting a subset of the bonds held in the index.	Moderate – returns from a bond fund are expected to be lower than equities over the long-term.	Moderate – bond prices increase when interest rates decrease, and vice versa.	Moderate to high – less risk than an equity fund but susceptible to interest rate movements. Moderate risk of losing purchasing power over the long-term.
Target Date Funds	Mix of stocks (CDN and foreign), bonds, short-term investments, commodities, real estate and infrastructure. Underlying investments are index funds designed to track various market indices.	Asset mix for each series of the fund is rebalanced regularly until the fund's maturity date. Evolves to a more conservative asset mix over time. Normally weighted towards equities early in an investor's life and as the expected retirement date gets closer a higher percentage of the portfolio is allocated to bonds.	Higher initially when the portfolio is largely weighted in equities (historically equities have offered the highest rate of return over the long-term). More moderate as the fund matures and a greater proportion of the fund is in bonds. Overall the fund provides conservative asset growth potential and income generation.	Higher at the early stages of the fund when a larger portion of the fund is in stocks – more moderate as the fund matures and a larger allocation of the portfolio is in bonds.	Moderate – equity and bond price are subject to market and interest rate risks. Moderate to low risk of losing purchasing power.

Investment	Invests in...	Objective	Growth Potential	Volatility	Risk
Money Market Funds	Short-term, high quality interest bearing investments (treasury bills, commercial paper etc.)	Intent is to preserve capital and maintain liquidity.	Low	Low	Low market risk but moderate to high risk of losing purchasing power.

Government Retirement Benefits

In addition to the retirement income you will receive from the LCCPP, you are eligible to receive retirement income from two government sources: *Canada Pension Plan (CPP)* and *Old Age Security (OAS)*.

Canada Pension Plan (CPP)

The CPP provides a lifetime monthly pension (taxable) based on the length of time you have contributed to CPP and your earnings during each month of participation. In 2013, the maximum pension payable at age 65 is \$1,012.50 per month (\$12,150 per year). The amount you receive may be less than the maximum if you had contributory years where your earnings were less than the CPP maximum earnings (YMPE) or you had years in which you did not work and contribute to CPP or you worked outside the country and did not contribute.

If you retire early you may commence a reduced CPP monthly pension any time on or after your 60th birthday. Your pension will be reduced by 0.5% for each month (6% per year) that your CPP payments begin prior to your 65th birthday. Beginning in 2012, CPP will be increasing the reduction that is applied for early receipt. By 2016 if you start receiving your CPP pension at age 60, your pension will be reduced by 36% (7.2% reduction per year for 5 years).

The amount of your CPP pension amount increases by 8.4% per year for each year you start your pension after age 65, up to age 70.

Your CPP payment is adjusted at the beginning of each year to reflect 100 per cent of the increases in the *Consumer Price Index (CPI) for Canada*.

For further information on your CPP benefits see the Service Canada website or visit your local CPP office.

Old Age Security (OAS)

OAS provides an additional lifetime monthly pension starting at age 65. The benefit payable as of January 30, 2013 is \$546 per month (\$6,552 per year). To be eligible for the maximum pension, you must meet certain Canadian Residency requirements; otherwise you may qualify for a reduced pension. Your OAS payments will be adjusted quarterly to reflect increases in the *Consumer Price Index (CPI)*. Depending on your total income, a portion of your OAS benefit may be taxed (or “clawed back”).

Definitions

Active Fund Management

A fund where the fund manager actively researches, hand-picks, and trades securities in a fund with the intention of generating returns that exceed a benchmark index.

Annuity

An annuity is a lifetime series of monthly payments purchased through a contract with an insurance company that guarantees the amount of the payment. There are many types of annuities. The amount of monthly pension payments you receive depends on the type of annuity selected, prevailing interest rates at retirement and your age (or your spouse's age) when the annuity payments begin.

Asset Mix

The proportion you invest in different asset classes (stocks, bonds, and money market).

Basis Point

One-hundredth of a percentage point, For example, the difference between 3.25% and 3% is 25 basis points.

Consumer Price Index

The rate of inflation as calculated by Statistics Canada.

Currency Risk

The chance that the Canadian dollar will rise or fall in relation to other currencies. Currency movements can increase or decrease the value of your investment in foreign funds. For example, if the Canadian dollar rises in relation to U.S. dollar, the value of U.S. Equity funds will fall.

Index

An index provides a way to measure the fluctuation in the value of stocks and bonds. The funds under the DC Plan are measured or benchmarked against various indices. For example, the performance of the Canadian Equity fund under the DC Plan is measured against the *S&P/TSX Composite Index*. This is an index of the stock (equity) prices of the largest companies on the *Toronto Stock Exchange (TSX)*. An index fund is designed to track the performance of a published index. The index fund manager invests the fund to replicate the risk and return characteristics of the index. For example the Bond Index fund under the DC Plan is built to track the *DEX Universe* of bonds. This index is made up of hundreds of corporate and government bonds of various terms.

Life Income Fund (LIF)

A type of RRIF that is subject to pension legislation. Each year an amount must be withdrawn which is not less than the minimum prescribed under the Income Tax Act but not more than the maximum prescribed in provincial pension legislation.

Locked-In Retirement Account (LIRA)

A LIRA is a type of RRSP where funds are subject to pension legislation. Funds must be used to purchase an annuity or a LIF by the end of the year that the owner turns age 71.

Market Risk

The risk that the value of your investment will fluctuate due to market conditions such as downturns or expansions in the economy, and increases or decreases in interest and inflation rates and so on.

Passive or Index Fund Management

A fund where the manager replicates the risk and return characteristics of an index; the goal being to track not beat the index.

Pension Adjustment (PA)

When the Canada Revenue Agency determines your RRSP contribution room, it makes an adjustment to reflect your participation in the LCC Pension Plan. Under the DC Plan, your PA is the total contribution (employer contributions and your contributions) made to your DC account for the year.

Purchasing Power Risk

The risk that the growth of your investment is not going to beat the rate of inflation and that your money will lose real purchasing power.

YMPE

The Year's Maximum Pensionable Earnings (YMPE) is set by the federal government annually as the maximum amount upon which CPP contributions are made and upon which the CPP benefit is based.