LUTHERAN CHURCH–CANADA
WORKER BENEFIT PLANS

Important Changes to Your Lutheran Church–Canada Pension Plan

This newsletter describes important changes to the Pension Plan. Please take the time to read it thoroughly.

Background

For the past 18 months, the Board of Managers (BOM) has reviewed all aspects of Lutheran Church–Canada's Pension Plan with the goal of ensuring the plan is appropriately funded so members receive the benefits they have earned and that it is cost sustainable to employers over the long-term. The review looked at a number of different design options, as well as alternate pension fund investments and other de-risking strategies.

The review was sparked by concerns from employers about increasing pension plan costs. Costs have increased primarily because of a significant plan deficit which arose because of:

- Lower than expected investment returns
- Changing demographics, including longer life expectancies and higher than predicted salary increases
- Continuing low interest rates (which we are required to use in determining the liabilities of the plan)

Many pension plans face similar financial pressures leading numerous plan sponsors to rethink their ability to continue with their Defined Benefit (DB) pension plan. In reviewing what is happening in the broader public sphere, it is clear that DB plans such as the plan LCC sponsors, continue to be closed down with no new DB plans being started. Government policy, an aging population, increased longevity, volatile markets, and low interest rates have all contributed to the decline of DB plans.

Our review involved extensive consultation with stakeholders. We heard that our members value the pension plan and consider it an important part of their overall compensation. We also heard that employers are finding it difficult to fund increased pension costs and their ongoing ministry.

The review included forecasts of liabilities and costs of the current pension plan, as well as redesigned plans. We analyzed projected revenue and expense scenarios of the whole LCC organization over the next ten years to judge employers' ability to pay. The whole organization includes congregations, districts, synod, schools and the higher education institutions.

We considered the contribution requirements needed to generate an adequate retirement benefit and the ability of LCC to manage the increased volatility associated with interest rate movements and capital markets – factors beyond the control of pension sponsors.

All of the above led the Board of Managers to the conclusion that LCC no longer has the capacity to handle the volatility of a DB plan and that the present DB plan is not cost sustainable into the future.

A final set of pension changes was reviewed and approved at the February 2011 Board of Managers meeting. These changes were designed to have the least impact on members, save the most benefits, and balance this with the employers' ability to pay. The changes were subsequently approved by LCC's Board of Directors at its March 2011 meeting.

Overview of Pension Changes

Changes to the plan become effective **January 1, 2013** except as noted.

It is important to note that:

- **Changes apply to future service only and do not impact DB benefits earned up to the date of change.**
- **Changes do not impact pensions currently paid to retirees or which will be paid to deferred pensioners.**

Members Under age 55
and
Members Age 55 and Older
with less than 80 Points (age + years of service)
at December 31, 2012

All members under age 55 **and** employees age 55 and older who have less than 80 points (age + years of service) at December 31, 2012 will be enrolled in a Defined Contribution (DC) plan from January 1, 2013 onwards. **A DC plan defines the amount the employer and member contribute towards a member's pension.** These contributions are deposited into an account in the member's name and the member chooses how the contributions are invested. The contributions plus investment earnings are used to fund the member's retirement income.

The plan will have the following features:

- Employers will make contributions of 6% of pay into the DC plan.
- Members are required to contribute 4% of pay into the DC plan and may make additional optional contributions of up to 4% of pay.
- Members will be provided a range of investment options reflecting different risk and reward potentials.

Participants will not earn any further service under the Defined Benefit (DB) pension plan after January 1, 2013. However, pre-January 1, 2013 DB service will continue growing through future salary increases because the DB pension will be based on an average of the member's earnings at the time of retirement or termination, not on the January 1, 2013 earnings average. Upon retirement or termination from employment, members will receive pension benefits from both the DB and DC plans.

Members age 55 and older with 80 points (age + years of service) at December 31, 2012

Employees age 55 and older with 80 points (age + years of service) at December 31, 2012 will remain in the current Defined Benefit (DB) plan, which will become a contributory plan. The plan provisions and benefits are unchanged except that **effective January 1, 2013 members will be required to make contributions of 4% of pay to the DB plan.** Members may also make unmatched optional employee contributions up to 4% of pay into the DC plan.

New Hires

All new hires from **<u>January 1, 2012</u>** onwards will automatically be enrolled in the contributory DC plan.

Summary of Changes

Members Under age 55 and Members Age 55 and Older with less than 80 Points at December 31, 2012

New Hires

Members Age 55 and Older with 80 points at December 31, 2012

DC Plan
4%of pay
Member contribution

DB Plan
4% of pay
Member contribution

Further Information

A comprehensive communication program is planned over the next two years until the plan changes are implemented. This will provide numerous opportunities for plan members to hear further details on the changes in a variety of forums and to have any questions addressed.

In the meantime, we have provided further information on the changes on the attached Questions and Answers sheet.

Conclusion and Contacts

The BOM recognizes that LCC's pension plan is an important and valued part of member's retirement planning. The changes being made are necessary to ensure the ongoing viability of a pension plan, given the organization's limited capacity to handle potential future volatility of pension contributions. They are being implemented after careful deliberation and extensive consultation with stakeholders. The BOM believes the changes are fair and balanced and continue to meet our goal of providing for our members needs while balancing employers' ability to pay. Thank you for your patience and understanding as we work through the challenges before us.

If you have any questions or comments, please e-mail the following contacts or call WBP at 1-800-588-4226 at the extensions noted below. Further Questions and Answers sheets will be developed and posted on the WBP website based on the questions received from members.

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In His Service,

Dwayne Cleave, Executive Director
LCC Worker Benefit Plans

Pension Plan Changes
Questions and Answers

Q. Are we only changing the plan because the pension fund investments haven't performed well?

A. No. The plan had a positive return of 20.8% in 2009 and 10.5% in 2010, recovering from the 19.6% loss that we had in 2008. The reasons for changing the plan are more complex and have to do not only with the plan itself but also within the broader LCC community.

Defined Benefit (DB) plans have become more volatile in recent years because of increased volatility in equity markets (in which a portion of the pension funds are invested) and because of the volatility that results from changes in interest rates. These are legislatively required to be used to determine the liabilities under the plan. A 1% change in interest rates can increase or decrease plan liabilities by about 15%. Considering our current plan with accumulated liabilities of about $ 83 million dollars, a 1% drop in the interest rates would increase liabilities by $12,000,000 and require a substantial increase in annual contributions.

Looking at revenue projections into the future, LCC has a declining capacity to absorb the increased volatility of a DB plan.

Q. Why are some employees (those over 55 with 80 points) being left in the DB plan?

A. We believe older employees who already had a large stake in the DB would have a lot of concerns with having to learn about investing and taking on risk with less time to ride out the ups and downs of the investment markets and still make reasonable rates of return. We felt that the security of benefits is paramount for this group of employees and that they would have little desire to have their pension funds at risk for any potential upside to improve their pensions (under a DC plan).

Q. Do I have to contribute to the pension plan (DB or DC)?

A. Yes. In the case of the DB plan we need member contributions in order to make the plan affordable to employers. Requiring contributions towards a DB benefit is fairly common in Canada. The same is true with the DC plan. Requiring both employer and employee contributions for the DC plan will ensure members accumulate adequate retirement savings to replace a reasonable amount of their working income.

Q. Instead of having a DC plan why not give me the contributions and let me do my own investing?

A. We believe that effective retirement planning must consider three sources of retirement income; government benefits, employer sponsored benefits, and your own personal saving through RRSP's or other means. A DC plan provides a lot of flexibility while ensuring that all employees will be entitled to receive a pension benefit.

Q. If I am now going to be in the DC plan, can I withdraw the value of my DB pension?

A. No. Your DB pension remains in the plan to provide you with a future retirement income. The pension you will receive will continue growing as you receive salary increases since your pension under the plan formula is determined based on your **service** up to January 1, 2013 and your final five years of average earnings (out of the last 20 years) **at the time of your retirement** or at your termination date if you terminate before retirement.

Q*. I don't know a lot about investing, and now that the DC plan is going to be a big part of my retirement plan I'm worried about my investment skills. Is there going to be any help in choosing how I invest my DC plan contributions*?

A. Yes, we will provide educational materials in a variety of media to help members learn about investing. In addition, the DC plan has a number of balanced fund options that reduce the investment decision-making needed by members. Sun Life also offers investment counsellors to help you understand the different investment options, how they work and their risk and reward potential.

Q. Since I'm now going to be in the DC plan what will I get in pension when I retire?

A. You will get the pension from the DB plan which you earned up to the date the plan changed but determined on your final average earnings at retirement and you will also get the value of your DC account. There are a number of different options for drawing retirement income from your DC plan that you may choose based on your individual circumstances. That could include continuing to invest your DC funds up to the end of the year in which you turn age 71. Sun Life Financial will provide you with further information on your options at the time you retire.