Heat & Frost Local Union 118 Pension Plan 2019 Year in Review

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Financial Markets

The pension plan is well positioned to withstand the turmoil in financial markets and the slowing global economy caused by the Coronavirus crisis.

Overview as at March 31, 2020

The 2019 year started with fears that never realized: a global economic slowdown; disruptive trade wars between the U.S. and China and potential missteps from the monetary policy makers. The year ended with the stock markets reaching new highs. Coming into 2020, optimism loomed as economists forecasted low risk of near-term recession and modest rise in global markets.

This optimism was quickly dampened by the coronavirus outbreak in China and its potential effect on the global economy. As the outbreak spread around the world and became a pandemic, there was a sudden halt to global economic activity. The result has been the fastest move in history from a stock market peak to a bear market. A bear market is a period during which stock prices consistently fall from their most recent high.

This picture attests to the fact that no one can predict what the market will do. It also reinforces the importance of following a disciplined, long-term approach to investing. While the shock to the economy and the significant market downturn will mean a decline in the value of the pension plan's assets, it is reasonable to expect that the market will recover and the pension plan's assets will bounce back over time. Your pension plan is resilient to these short-term fluctuations. Here's why:

Rational Perspective – Markets will go up and down over the short term and downturns happen frequently. Short term volatility is part and parcel of investing. However, market setbacks have typically been followed by recoveries, as evidenced by the recovery following the 2008 financial crisis.

Strict Discipline – Trying to time the market rarely pays off and can be costly. A rigorous, disciplined approach to investing (as outlined, for example, in your pension plan's Statement of Investment Policy and Procedures, or "SIPP") provides investors with a long-term plan for dealing with gains and losses that emerge over the short run.

Long-Term Focus – Although past performance is no guarantee of future results, there is ample evidence to show that, historically, stock markets have performed well over the long term. Your pension plan continues to have a long-term outlook and its assets are invested with this in mind. After all, pension benefits are long term in nature.

Broad Diversification – The expression "don't put all your eggs in one basket" is certainly good advice when it comes to investing. Your pension plan's assets are well diversified, meaning that the assets are allocated to a wide variety of different investment types (bonds, stocks, mortgages, real estate, infrastructure, etc.), industry sectors (energy, utilities, consumer goods, materials, financials, etc.), geographies (Canada, US, developed countries outside North America, emerging economies, etc.), and even investment styles. Since

LOCAL 118 INSULATORS UNION ™

Did You Know?

Total Plan Expenses **0.7%**

$142.6M Plan Assets (Net)

Net Investment Earnings

2019 **$18.4M**

2018 **$-2.3M**

Gross Rate of Return **13.9%**

1,431 Total Pension PlanMembers

Contributions **$3.2M**

28 Participating Employers

Benefit Payments **$4.9M**

$16.4M Net Increase in Assets

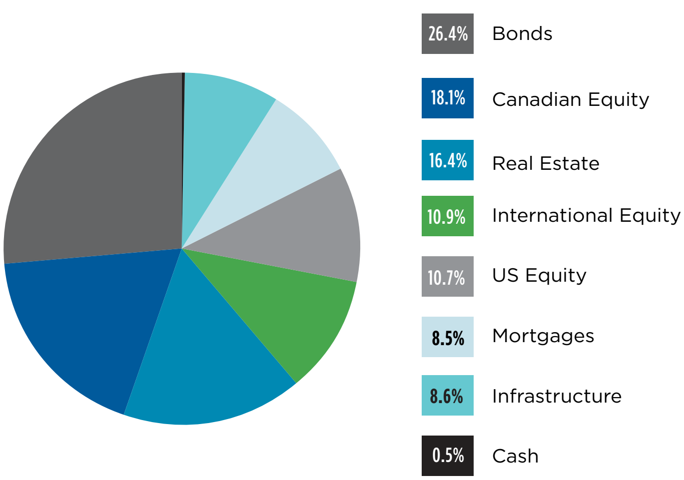
different asset types are impacted by different events, a diversified portfolio, such as your pension plan's, experiences lower volatility than any one individual investment.

Robust Governance – The Trustees have hired professional fund managers to manage your pension plan's investments. These managers are responsible for implementing your pension plan's investment strategy and achieving its short and long-term goals, as outlined in the SIPP mentioned above. The Trustees oversee and regularly monitor the performance of the managers.

Although these principles are presented in the context of your workplace pension plan, they are equally applicable to your personal finances. Establish your personal investment goals and take a disciplined approach to investing, so that, when the ups and downs of the market happen, you can take advantage of opportunities that arise. In respect of your personal investments, a professional advisor can assist you with keeping a rational perspective, maintaining strict discipline, focusing on the long-term, diversifying broadly and implementing a robust governance framework.

Heat & Frost Local Union 118 Pension Plan Asset Allocation

For the period ending December 31, 2019



Source: George & Bell Investment Report

Trustees

The Board of Trustees met three times in 2019 April 23, July 29, and November 4.

The Pension Rainbow

Pension Plans in Canada are as varied as the colours of a rainbow. Let's look at the different types of pension plans and figure out the colour of your pension plan.

Traditional Types of Plans

There are two traditional categories of plans: defined benefit and defined contribution.

In a defined benefit plan, members receive a lifetime income, or a pension, upon retirement. The amount of pension received is typically based on a pre-determined formula and does not depend on how well the investments perform. The contributions going in to fund the benefits are variable and are calculated by periodic actuarial valuations. In simple terms, the benefits delivered by a defined benefit plan can be predicted as they are driven by a formula; the contributions needed to support the benefit are not predictable as they depend on the plan's investment returns and other factors.

In a defined contribution plan, members accumulate a pot of money based on the contributions made to the Plan and the investment returns earned on these contributions. Upon retirement, members can draw on the pot of money as a source of income. The amount of income at retirement largely depends on how the investments perform and what the pot of money has grown into. In simple terms, the contributions made to a defined contribution plan are known but the benefits delivered are not predictable as they depend on the plan's investments and the choices the member makes in converting the pot of money into income.

Cost Sharing

The cost of a pension plan, regardless of whether the pension plan is defined benefit or defined contribution, can be shared between the employer and the plan members; or it can be employer pay all. A pension plan that requires member contributions is known as a "contributory" plan. One that does not require member contributions and is solely funded by employer contribution is known as a "non-contributory" plan. If the contributions to the pension plan are determined by negotiations between the union and the employer, then the pension plan is coined as a "negotiated cost" plan.

Plan Sponsors

A pension plan can be sponsored by a single entity such as an employer or a union or it can be sponsored by multiple entities. When a plan is sponsored by a single employer, it is known as a "single employer" pension plan. When a plan is sponsored by a group of employers, it is known as a "multi-employer" pension plan.

When the responsibility for the pension plan is equally shared between the employer(s) and the plan members, then the plan is known as a "jointly sponsored pension plan".

Non-traditional Types of Plans

Generally speaking, the non-traditional types of plans are found in the defined benefit environment. A defined benefit plan by nature is exposed to cost pressures as it attempts to deliver the ultimate pension benefits but the cost of these benefits can go up or down depending on the economic times.

A "Target Benefit Plan" is the most recent innovation in the pension industry. While the concept is not new to negotiated cost defined benefit multi-employer plans, the pension regulators in Canada have recognized the need to focus on the long-term sustainability of defined benefit plans. Special funding rules are now in force for plans that qualify as a Target Benefit Plan.

A Target Benefit Plan has elements of both defined benefit and defined contribution pension plans. Similar to a defined contribution plan, a Target Benefit Plan has stable contribution rates. This provides cost certainty to the plan sponsor. Similar to a defined benefit plan, it provides a targeted future pension benefit based on a formula. This allows members to predict with some accuracy their expected income during retirement.

A Target Benefit Plan is different from a traditional defined benefit plan in the sense that under a Target Benefit Plan, benefits are "targeted" as opposed to guaranteed. In a Target Benefit Plan, benefits can be adjusted both up or down in order to keep the contributions stable. However, unlike a defined contribution plan where each individual member is exposed to investment risk and longevity risk (risk of outliving your savings), a Target Benefit Plan pools these risks together so that the risks are shared among all the plan members.

Your Pension Plan

Now, let's see if you can determine what type of pension plan you have.

You have a multi-employer Target Benefit Plan. It is a non-contributory negotiated cost plan as members are not required to make contributions to the Plan. The Plan is entirely funded by employer contributions at a rate specified in the applicable Collective Agreement.

These are some of the features of your pension plan:

- Sustainability — Given that benefits are targeted rather than guaranteed, the Plan is more resilient to short term cost pressures and as a result more sustainable over the long term.
- Predictability — You can predict your expected income at retirement with some accuracy.
- Pooling of risk — The major risks the plan faces such as the investment risk or longevity risk are shared among all plan members; this mitigates the impact of risk any one individual member would have to bear otherwise.
- Lifetime pension — Your pension is paid to you for your life; you do not bear the risk of outliving your money. You can also elect a form pension that protects your survivors in the event of your death.

Heat & Frost Pension Plan — Actuarial Valuation Report as at December 31, 2018

Further to instructions received from the Trustees of the Heat & Frost Local Union 118 Pension Plan (the "Plan"), the Plan's Actuary carried out an actuarial valuation as at December 31, 2018 to assess the financial position of the Plan. While the next statutory valuation would not normally be due until December 31, 2020, the trustees have used their discretion to file a valuation two years earlier than otherwise required.

On a going concern basis, the valuation revealed a surplus of $23 million (an improvement from a surplus of $18 million a year earlier). The going concern valuation assumes that the Plan continues indefinitely. The Plan's "surplus" means that the assets in the Plan are $23 million greater than the Plan's liabilities (the amount that is currently needed to pay all members the benefits they had earned up to the valuation date).

However, the Plan must also include a buffer to protect itself in bad years called a "provision for adverse deviation" (PfAD). After including the PfAD, the Plan's remaining surplus is $8.2 million. The Trustees are not considering any plan improvements at this time. The "surplus" will remain in the Plan as a protection against future contingencies such as investment returns being less favorable than expected.

Furthermore, the Plan's target benefit funded ratio is 100%. This means that until the next actuarial valuation report is filed, terminated plan members who choose to withdraw their benefits from the Plan, may receive their benefits in full.

In addition to ensuring the Plan is well funded for service earned up to the valuation date, the Trustees must also look forward to future costs. The cost of benefits earned in each future year, including the PfAD, is $4.38 per hour worked, compared to the average negotiated contribution rate of $4.44 per hour. This average negotiated contribution rate is sufficient to satisfy the minimum funding requirements under B.C. pension legislation over the period up to the next actuarial valuation.

As at December 31, 2018, the Plan is in a strong financial position. The next valuation date will be no later than December 31, 2021. Emerging experience differing from the assumptions used in the December 31, 2018 valuation will be revealed by the next valuation and may impact the financial position of the Plan in the future.

Set Your Retirement Income Goal

Planning for your retirement is like any other project you take on in life – if you don't give yourself a deadline you may never get around to it. And remember that it is never too early or too late to start planning for your retirement. You just need to roll up your sleeves and get to work. Here are some ideas to help you chart your course ...

Get Started

We all want the peace of mind of knowing that we will have a comfortable income when we retire. However, many of us don't spend the time to think about retirement.

Some of the barriers are:

- Procrastination — It's not that we don't want to prepare for our retirement years; we just can't get around to it.
- Preference for today — The dollar we have in our pocket today is more valuable to us than what that dollar might grow into 20 years from now.
- Too complicated — There are so many choices: banks offering investments, employers providing retirement savings plans, financial planners and well-meaning relatives offering advice. Planning for retirement is complicated and we don't know where to start.

But let's take it one step at a time. The first step is to define your retirement income goal. Once an income goal is identified, then you can picture your financial future; you will be more engaged, and you can turn all that complication into action.

Set an Income Goal

How much money you need in retirement is a personal decision as it relates to the lifestyle you wish to maintain in retirement.

In retirement, some expenses such as CPP, EI contributions and union dues will disappear, while others may increase or decrease depending on your personal circumstances. On average, it is reasonable to expect that a lower income may meet one's needs. However, as the needs vary between individuals, a good place to start is to assess your current living expenses and give some thought to how they may change in retirement.

Step 1—Create a Personal Budget

Create a budget by categorizing your current annual expenses into the following:

1. Housing (principal and secondary) – Include mortgage payments, rent, taxes, heat and electricity, insurance, cable, internet, phone, maintenance.
2. Transportation Expenses – Such as expenses to commute to and from work; car expenses; car insurance, public transportation costs.
3. Living Expenses – This category includes all your living expenses such as food; clothing, personal care; health care costs.
4. Personal expenses – Any typical expense not included in one of the other categories should be included here; such as entertainment costs, vacation, education, etc.
5. Income Tax and Payroll Deductions – This category includes all of your income taxes and statutory payroll deductions such as CPP and EI contributions, or union dues.
6. Savings and Financial Security Expenses – Here include your contributions to RRSPs, TFSAs, non-registered savings, life, disability insurance, health benefit and your workplace pension plan.

Once you are done, remember that your total expenses must add up to your gross income.

Step 2—Create a Retirement Budget

After you have identified all your current expenses, look at them in a slightly different way to help you estimate how these expenses will change after retirement.

Remove your statutory payroll deductions as you will no longer have those expenses. You can also allow for lower income taxes. Divide your other expenses into the following three categories to make it easier for you to know where the trade-offs, if any, need to be.

Necessities	Comforts	Luxuries
Expenses **necessary** to meet your and your family's basic needs.	Expenses that are not necessary but they enhance your life and provide comfort.	Expenses that provide enhanced comforts. Generally, they fulfill dreams.
Example: Bread	Example: Cheese	Example: Lobster

Doing a budget in anticipation of retirement will give you a clearer picture of what you'll need in retirement. The logical starting point is what you're spending now. Also, if your retirement income goal presents a challenge to achieve, reviewing your current expenses can help you identify areas where you might be able to cut back and save a little more for your retirement.

Here's an example of a sample budget completed by a colleague, Mr. Joe Jolly.

	Current Actual (Annual $)	Anticipated in Retirement (Annual $)
	Total Household	Total Household
Housing	$10,000	$8,000
Transportation	$2,000	$1,000
Living Expenses	$15,000	$12,000
Personal Expenses	$5,000	$10,000
Income Tax	$8,000	$4,000
Payroll Deductions • Employment Insurance • Canada Pension Plan • Union Dues • Other	$5,000	$0
Savings • Pension Plan • RRSP • TFSA • Other	$5,000	$0
Total = Gross Income	$50,000	$35,000

In completing this, Joe makes the following observations:

1. Once accounted for all their expenses, the family's budget must add up to the family's gross income of $50,000. Do you know why?
2. The family's take-home pay, after taxes, payroll deductions and savings is $32,000. Add (1) to (4) under column labelled "Current Actual" to see if this is true.
3. To maintain their standard of living in retirement, Joe and his partner need roughly the same take home pay in retirement as in their working years. Add (1) to (4) under column labelled "Anticipated in Retirement" to see if this is true.
4. Joe figures out that in retirement with an income of $35,000 before taxes, he and his partner can meet their expenses. Joe is mighty Jolly. Can you see why?

Now it is your turn to do the work and figure out how much money **you** need in **your** retirement.