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# UFCW Union Pension Plan: Overwaitea Division Target Benefit Conversion

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- Investments
- Impact of Low Interest Rates
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# Background and Summary of the Plan and the Overwaitea Division

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- Overwaitea joined the Plan on January 1, 1998 and became the Overwaitea Division – one of five Divisions currently in the Plan
- Before 2017, the Plan was a negotiated cost collectively bargained multi-employer pension plan
- As of January 1, 2017, the Overwaitea Division, while still part of the Plan, became a collectively bargained multi-employer target benefit plan
- Canada Revenue Agency Registration #0574467
- British Columbia FICOM Registration #085453-4
- Members of the Division include employees of Overwaitea Foods, Save-On-Foods, PriceSmart, Urban Fare, Bulkley Valley Wholesale and Cooper's Foods

# Background and Summary of the Plan and the Overwaitea Division

- Some statistics:

Division	Assets (at 9.30.2016)	Active Members (1.1.2016)	Retired Members (1.1.2016)	Approximate Annual Contributions	Approximate Annual Benefit Payments
<b>Overwaitea</b>	<b>\$652.1 Million</b>	<b>14,677</b>	<b>1,102</b>	<b>\$26.3 Million</b>	<b>\$16.9 Million</b>
Safeway	\$1,270.1 M	8,148	3,583	\$18.1 M	\$48.0 M
Tober	\$88.5 M	532	240	\$1.1 M	\$2.8 M
Miscellaneous	\$157.7 M	1,593	675	\$1.8 M	\$6.3 M
Terminated Employers	\$138.6 M	-	1,354	\$0	\$7.7 M
<b>Total Plan</b>	<b>\$2,307.0 M</b>	<b>24,950</b>	<b>6,954</b>	<b>\$47.3 M</b>	<b>\$81.7</b>

# Background and Summary of the Plan and the Overwaitea Division

- 14 Trustees manage the Plan in accordance with the Trust Agreement:

Trustee	Organization	Trustee	Organization
Ivan Limpricht <i>(Chair)</i>	UFCW Local 1518	Leif Hansen	UFCW Local 247
Art Van Pelt <i>(Secretary)</i>	Overwaitea	Susan Philpott	UFCW Local 247
James Raposo	UFCW Local 1518	Kim Novak	UFCW Local 1518
Kim Balmer	UFCW Local 1518	Mark Dimnik	Safeway/Sobeys
Frank Pozzobon	UFCW Local 1518	Bryan Wall	Employer Representative
Suzanne Hodge	UFCW Local 247	Sean Naldrett	Safeway/Sobeys
Dan Goodman	UFCW Local 247	Maxine Faedo	Overwaitea

- Plus four *“Trustees in Training”*

# Background and Summary of the Plan and the Overwaitea Division

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Trustees have engaged a number of professional advisors to help manage the Plan, make recommendations and educate where necessary:

- Plan Administrator – Bilsland Griffith Benefit Administrators (Barb Bilsland and Stephanie Griffith)
- Actuary – PBI Actuarial Consultants Ltd. (Adam Rennison and Karen Chen)
- Investment Consultant – Strategic Income Security Services (David Lee) and George & Bell Consulting (Brendan George)
- Lawyer – Lawson Lundell (Lisa Chamzuk)
- Auditor – PricewaterhouseCoopers
- Custodian – RBC Investor & Treasury Services

# Background and Summary of the Plan and the Overwaitea Division

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- The Overwaitea Division provides a retirement pension based on a formula
  - For members who joined the plan prior to January 1, 2014
    - Annual pension equal to a percentage of annual earnings (currently either 1.4% or 1.6% depending on collective agreement)
    - Bridge benefit from age of retirement to age 65
    - Early retirement subsidies for retirement prior to age 65
  - For members who joined the plan after December 31, 2013
    - Annual pension equal to 1.0% of annual earnings while in the Division
  - Pension amounts for Urban Fare and Cooper's Foods employees are calculated under a different formula

# Background and Summary of the Plan and the Overwaitea Division

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- The Plan takes a shared approach to retirement savings
- Benefits of shared approach are:
  - Efficiencies / economies of scale
  - Access to investments
  - Pooling of investment and longevity risks for individual members
    - Members do not need to consider changing investments (move away from riskier assets) when approaching retirement (like they would in an RRSP)
    - Members will not “out-live” their monthly pension – a possibility with their personal savings if an annuity is not purchased
  - Expenses are lower
    - Administrative
    - Investment management



# Background and Summary of the Plan and the Overwaitea Division

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- In most cases, a member's pension is the most valuable, or second most valuable asset when they retire
- A monthly pension is expensive to replicate
- Cost of an Annuity to provide a lifetime monthly payment of:
  - \$1,000/month ~ \$225,000
  - \$2,000/month ~ \$450,000
  - \$3,000/month ~ \$675,000

*Assumes male age 62, spouse age 59, joint & survivor with 60% payable to survivor*

*\* The lump sum amount you would need to purchase an annuity from a financial institution according to November 2016 Canadian Institute of Actuaries' guidance*

Investment Firm	Asset Class
Phillips, Hager & North (RBC GAM)	Bonds, Mortgages, Equities, Private Credit
CIBC Asset Management	Bond strategies
Fiera	Bond strategies
ACM Advisors	Mortgage and Debenture Funds
Crestline Canada Inc.	Private Credit, Bond Overlay
Fengate Capital Management	Canadian Infrastructure Funds
Concert	Canadian Infrastructure and Real Estate Funds
Bentall Kennedy	Canadian Real Estate
Northleaf Capital Partners	Global Private Equity, Global Infrastructure, Private Credit

- The Trustees of the Plan have taken a conservative and balanced approach when it comes to plan design and investment choices
  - Plan assets are invested over a number of asset classes
- Investments are selected to deliver a return that, along with contributions, is expected to be sufficient to pay targeted pensions
- Primary goal of the Trustees is to ensure there will be sufficient assets to pay targeted pensions under most economic conditions
- Prolonged low interest rates are a real challenge to this goal

# Investments

(for Overwaitea Division assets only)

Year	Return	Year	Return
1998	17.1%	2008	1.4%
1999	-5.8%	2009	5.1%
2000	11.6%	2010	14.6%
2001	2.9%	2011	33.1%
2002	12.4%	2012	6.0%
2003	11.3%	2013	-12.6%
2004	14.1%	2014	22.0%
2005	26.3%	2015	6.6%
2006	7.5%	2016 (estimate)	3.0%
2007	4.8%		

Total Division Assets	
2001 – Q4	\$43.6 Million
2005 – Q4	\$141.0 Million
2010 – Q4	\$258.1 Million
2016 – Q3	\$652.1 Million

Note: Returns are gross of directly paid investment manager fees

- Investment returns have been strong over the last 15 years;
  - 9.9% annualized return from January 1, 2001 through December 31, 2015
  - A large portion of the Division's assets are in long bonds and these increase in value as interest rates decrease
- Unfortunately, the cost of pensions has gone up significantly because of the **decline in interest rates** and **longevity improvements**:
  - 1.6% benefit accrual rate cost about 5.75% of earnings in 2005
  - Today that same benefit costs about 11% of earnings

# Why have pension benefits become more expensive: Interest Rate Impact

Long Term Canada Bonds Yields (select dates)	
July 1, 1976	9.89%
July 1, 1981	17.56%
July 1, 1986	9.17%
July 1, 1991	10.08%
July 1, 1996	8.06%
July 1, 2001	5.94%
July 1, 2006	4.45%
July 1, 2009	3.86%
July 1, 2011	3.55%
July 1, 2012	2.33%
July 1, 2013	2.89%
Dec 31, 2013	3.24%
Dec 31, 2014	2.33%
Dec 31, 2015	2.15%
July 1, 2016	1.72%
Dec 31, 2016	2.31%

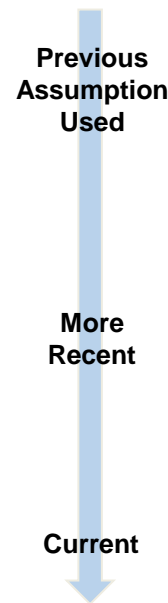
- Long term fixed income interest rates have been in steady decline since 1981
- As interest rates decrease, the cost of pension benefits increases since contributions that fund the benefits must be invested in lower yielding assets

- \$100 of contributions invested for 10 years in 2006 when interest rates were 4.45% would be worth \$155 at maturity
- \$100 of contributions invested for 10 years in 2016 when interest rates are 1.72% will be worth \$119 at maturity

- To pay \$100 to someone in 10 years when interest rates are 4.45% you would need to invest \$65 today
- To pay \$100 to someone in 10 years when interest rates are 1.72% you would need to invest \$84 today

# Why have pension benefits become more expensive: *People are living longer (Longevity Impact)*

Expected Age of Death for 20 Year Old		
Mortality Study	Male	Female
Old Assumption 1	77.9	84.1
Old Assumption 2	78.6	83.4
Old Assumption 3	79.4	84.1
Old Assumption 4	81.6	84.9
Old Assumption 5	85.5	87.1
Current Assumption	86.2	90.3



Expected Age of Death for 60 Year Old		
Mortality Study	Male	Female
Old Assumption 1	80.6	85.7
Old Assumption 2	81.2	85.0
Old Assumption 3	81.8	85.6
Old Assumption 4	83.6	86.1
Old Assumption 5	84.0	86.5
Current Assumption	86.8	89.5

Members are living longer and therefore receiving more payments from the Plan relative to previous generations - increasing the cost of benefits.

# Target Benefit Conversion and What it Means to You

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- The challenge for the Trustees is to ensure pensions already earned are secure **and** that they continue to build at the same or better levels while we remain in a low interest rate environment
  - A lower benefit rate (i.e. 1% of earnings vs. 1.6% of earnings) for new members beginning 2014 was necessary due to these pressures
- Low interest rates and improved longevity have increased the cost of benefits over the last 15 years
- Target Benefit Plan option adopted January 1, 2017 relieves valuation pressures to change (decrease) benefits



# Target Benefit Conversion and What it Means to You

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- Trustees have always had ability to reduce benefits when the assets and contributions plus investment earnings do not cover the cost of benefits being earned
  - A true “defined benefit plan” **must** have contributions increased to fund pensions in hard times
  - This can’t happen with negotiated (fixed) contributions
  - Therefore, the Trustees have had to reduce benefits when faced with funding challenges (for the Overwaitea Division, this led to the lower benefit rate for new entrants starting in 2014)
  - The UFCW Union Pension Plan has never been a true defined benefit plan

# Target Benefit Conversion and What it Means to You

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- Prior to conversion, the Division was required to meet a stringent solvency test which measures the ability of a pension plan to pay all benefits in the event of a pension plan wind-up
- A pension plan sponsored by a single employer is always at risk the employer will go out of business and the plan will have to be wound up
  - Solvency rules address the possibility of wind-up
  - The rules require that plans that have not converted to a target benefit plan have enough assets on hand to buy annuities for all pensioners and pay lump sums to all other members and beneficiaries (both are more expensive than providing benefits from the plan)

# Target Benefit Conversion and What it Means to You

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- The Plan has 26 participating employers at December 31, 2016
- The risk of the entire Plan winding up is low
- An expensive and unrealistic solvency test makes no sense for collectively bargained multi-employer plans
- Target benefit plans (introduced in B.C. legislation on September 30, 2015) **do not have to fund for solvency**
- Target benefit plans are very beneficial for multi-employer plans and, in fact, part of the reason they are now an option under the B.C. legislation is because of lobbying by unions

# Target Benefit Conversion and What it Means to You

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- What is the same?
  - The current benefit structure remains in place
  - Benefit reductions will happen if funding is not sufficient
  - Benefit improvements can still occur if there are sufficient assets
  - Contributions are unchanged from the negotiated agreements

# Target Benefit Conversion and What it Means to You

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- What is different?
  - The solvency test is removed
  - Smaller chance of future benefit reductions/changes
  - Funding rules will change - new funding test requires funding on an ongoing long-term basis plus a buffer or margin for negative experience
    - Margin varies depending on economic environment and asset allocation
    - Will likely range between 10% and 25% of the cost of benefits
  - Termination benefits (i.e. commuted values) are lower for those taking their benefits out of the Division

# Target Benefit Conversion and What it Means to You

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- Plan actuary advises that under target benefit funding standards, the Overwaitea Division was above 100% funded as of January 1, 2016
- January 1, 2017 actuarial valuation will be completed late summer 2017
- On a solvency basis, the Overwaitea Division would have a deficit which means that if the Division had not converted to a target benefit plan, the Trustees would have to make benefit reductions

# Target Benefit Conversion and What it Means to You

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- With the solvency test removed, the Trustees will focus on longer term objectives:
  - This includes a continuation of investment strategies that can deliver strong returns with lower volatility over the long term
    - Infrastructure
    - Real Estate
    - Bond Enhancement Strategies
    - Private Debt and Private Equity
- With the removal of the solvency test and more flexibility in investment choices, there is a reduced likelihood of a benefit reduction under a target benefit plan than existed previously

# Summary of Plan Provisions

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*\* This summary is as of December 31, 2016. Benefits may change and where the official Plan documents are inconsistent with this presentation the Plan documents govern.*

- The Plan provides the following basic benefits:
  - Monthly pension benefit payable at retirement age
  - Death benefits to surviving spouse or beneficiary
  - Early termination benefits



# Summary of Plan Provisions

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- Pension commencement can be at age 55 or, if eligible, at age 50 with at least 15 years of service in the Plan
- Pension reduction is typically  $\frac{1}{4}$  of one percent per month (3% per year) prior to the members 60<sup>th</sup> birthday (i.e. retire at age 55 with a 15% reduction)
- Unreduced retirement, with Trustee consent, at age 60

# Summary of Plan Provisions

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- If you die before retirement
  - Lifetime pension paid to spouse
  - Commuted value of spouse's or beneficiary's pension entitlement shall be equal to 100% of the commuted value of your pension entitlement on the date of your death
  - If there is no spouse, commuted value paid in a single payment to beneficiary or estate

# Summary of Plan Provisions

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- If you die after retirement
  - Depends on option you chose at retirement
  - Life-only or life with guaranteed payments
  - Joint and last survivor option
    - Spouse must receive 60% of your pension or sign a waiver

# Summary of Plan Provisions

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- If you have no hours reported to the Administrator in 2 consecutive plan years, you will qualify for a termination benefit or commuted value
- By the end of March each year, those who qualify at previous year end will be sent a statement with their options
- Can request termination benefit calculation before the date noted above provided you have ceased working for your employer
- Must be less than age 55

# Summary of Plan Provisions

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- If terminated member chooses a lump sum benefit, AND
- If Overwaitea Division is underfunded at the time the lump sum benefit is to be paid, THEN
- Lump sum benefit will be reduced by the level of underfunding
  - e.g. if Division is 95% funded, lump sum will be reduced by 5%
- Members always have the option to take the deferred pension

# Where to get more information

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- Pension Plan booklet
- Retirement Planning Seminars for those aged 50-65
- Visit [www.ufcwpensionplan.com](http://www.ufcwpensionplan.com) for further information
- Contact Bilsland Griffith Benefit Administrators at
  - 1-888-345-8329
  - [ufcw@bgbenefitsadmin.com](mailto:ufcw@bgbenefitsadmin.com)