United Food & Commercial Workers Union Pension Plan

Overwaitea Division
BC Reg. # P085453-4

Notice of Overwaitea Division Conversion to a Target Benefit Pension Plan

November 2, 2016

Summary

New pension legislation in British Columbia allows certain types of pension plans to become "target benefit plans". After extensive discussions with their advisors and thorough evaluation, the Trustees decided that converting to a target benefit plan design is best for the members in the Overwaitea Food Group Division of the UFCW Union Pension plan (the "Overwaitea Division").

The target benefit plan design is similar to the current design for the Overwaitea Division and you won't notice much difference. Right now the Overwaitea Division is a division of a multi-employer negotiated cost defined benefit pension plan (current structure). By converting the Overwaitea Division to a target benefit plan, the Trustees will have more flexibility in the design and funding of your pension benefits. Conversion will also help avoid immediate benefit reductions which would otherwise be inevitable in the short term because the Overwaitea Division is underfunded on a solvency basis, as described below.

The purpose of this newsletter is to help you understand:

- *what it means to be in a target benefit plan and why make the change;*
- *what will remain the same after the conversion; and*
- *what will change after the conversion.*

What does it mean to be in a target benefit pension plan and why make the change?

While target benefit plans are a new category of pension plan under the Pension Benefits Standards Act (PBSA) they are the same as the current structure in many ways. However, a key difference is that target benefit plans do not have to satisfy a 'solvency' funding test, which means the Trustees do not need to fund the Overwaitea Division on the assumption that it will be wound up on the valuation date. Instead, the Trustees can focus on the future and manage the Division's assets and benefits with a view to maintaining stability and secure funding over the long term. This is known as a 'going concern' valuation and funding approach.

Solvency funding tests require the actuary to assume that the pension plan will cease operating on a fixed valuation date, no additional pensions will be earned and all contributions from all sources will stop on that date regardless of the likelihood of that wind up occurring. And yet, the solvency funding rules must be applied under the current structure and are very expensive to satisfy, particularly in the current low interest rate environment.

If the Overwaitea Division continued under the current structure and had to meet the solvency funding rules, benefits would have to be reduced.

The good news is that the new target benefit plan rules create a more flexible funding environment. Conversions of plans similar to yours have already taken place to take advantage of this flexibility.

Of course, regardless of this change to a target benefit plan, the Trustees will continue to operate the Division (and the plan) prudently, focused primarily on protecting earned benefits and, secondarily, on improving benefits when the financial position of the plan allows them to.

What will remain the *same* under a target benefit plan?

There are two key design features that are not changing:

1. *Negotiated contributions* – The union will continue to negotiate the amount of employer and employee contributions through collective bargaining. Contribution rates currently in effect in the Overwaitea Division will not change unless done so in bargaining by Local 1518.
2. *Potential future benefit increases or decreases* –The Trustees manage the plan prudently to minimize the chance of benefit reductions, but if Overwaitea Division assets + contributions cannot generate the returns necessary to sustain benefits at existing levels, cuts will be necessary. The ability to reduce pension benefits is not new – the Trustees have it in the current structure of the Overwaitea Division. After the conversion, the Trustees will continue to have the ability to improve benefits with available funding and subject to rules about the funded status.

Pension benefits are paid from plan assets, which come from contributions and investment earnings. Funding rules under the PBSA require the plan actuary to estimate the assets necessary to pay benefits. The different funding rules require different levels of contributions and assets on hand to ensure your benefits will be paid.

What will *change* under a target benefit plan?

Is the plan funded?

Based on the most recent actuarial valuation (December 31, 2013), your Division was fully funded on a 'going concern basis'. This assumes the plan will continue indefinitely, will not be wound up and does not have to meet the solvency test. The actuary certified that the assets of the plan plus future contributions and investment returns were sufficient to pay 100% of the liabilities (benefits) of the Plan.

If the assets, future contributions and investment returns were not sufficient, the Trustees would have to address this shortfall with a change to the benefit structure.

There are some key features of the Overwaitea Division that will change when it becomes a target benefit plan:

1. *Funding rules will be relaxed* – We referred to this earlier - the Overwaitea Division will no longer have to meet the solvency funding test. It will be funded as if it will continue indefinitely into the future and will not be wound up.

2. *Smaller chance of future pension decreases* – With the elimination of the solvency test, there is a better likelihood that the Division will be fully funded and not require benefit cuts or increases in contributions to meet the funding requirements of the PBSA. The solvency test would require a decrease in pension benefits if the conversion did not take place.

3. *Lump sum payout amounts (i.e. commuted values) will decrease for members terminating their membership* – Under the new target benefit plan rules, lump sum payments to individuals who choose to transfer their pensions out of the Overwaitea Division upon termination of membership will be calculated differently and will result in a lower amount than under the current structure. Spouses and beneficiaries of members who die before retirement who choose to receive a lump sum payment must also be calculated on this new basis.

Further, if the Division is less than fully funded when the lump sum payment is made (applying the funding test that applies to a target benefit plan and on which basis the Overwaitea Division is currently fully funded), then the lump sum payment will be reduced by the percentage amount that the Overwaitea Division is underfunded.

Although this change will result in lower amounts for individuals electing to terminate their membership and transfer their pensions out of the Overwaitea Division, the new calculation method will result in a more equitable transfer value of the departing member’s entitlement.

Next Steps

To complete the conversion the Trustees have to take a number of steps:

- The Trustees will have the plan actuary prepare an assessment of the Overwaitea Division **as at December 31, 2016.** This is required by the PBSA.
- The Trustees will file all required documentation with FICOM – the Financial Institutions Commission (the BC pension regulator), who will ensure that all regulatory requirements have been met.
- Once all required documentation is provided to FICOM the Trustees expect to receive the approval for the conversion and the conversion will take effect. We anticipate a conversion effective date of December 31, 2016. Once the conversion is effective, the changes referred to above including the change in the calculation of commuted values, will take effect.
- The Trustees will hold member information meetings regarding the conversion of the Overwaitea Division to a target benefit plan. The Plan Administrator will advise members of the dates of these sessions via the website (www.ufcwpensionplan.com).

In the meantime, should you have any questions, please contact the Plan Administrator at 1-888-345-8329