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Boilermakers' Pension Plan Update

April 11, 2019

The Trustees are pleased to provide you with an update on the financial status of your pension plan. There is some good news to share with you now that the actuarial valuation report for the Plan as of December 31st, 2017 has been completed and filed with the BC Financial Institutions Commission (the provincial pension plan regulator).

As a result of the continued prudent management of the Plan's financial condition (more detail on that below), the Trustees have approved an increase to your pension benefit *accrual rate* for the next three years (ie. from January 1, 2019 until December 31, 2021). This means that for every 1,000 hours that your employer reports for you between January 1, 2019 and December 31, 2021, you will earn a pension of $86.15 rather than $78.32. This change represents a 10% increase in the accrual rate.

Accrual rate: the accrual rate is the rate at which you earn a pension based on the hours that are reported for you. The accrual rates for the Plan have changed over the years. Here are the accrual rates in effect currently:

October 1, 1996 - September 30, 1989	$32.31 for every 1000 hours
October 1, 1989 – September 30, 1992	$68.53 for every 1000 hours
October 1, 1992 – December 31, 1996	$78.32 for every 1000 hours
January 1, 1997 – December 31, 2002	$93.00 for every 1000 hours
January 1, 2003 – December 31, 2018	$78.32 for every 1000 hours

December 31st, 2017 Actuarial Valuation Report

At least once every three years, the Trustees must file an *actuarial valuation report* with the provincial pension plan regulator. The most recent report was completed and filed as of December 31, 2017. When a valuation report is completed the Trustees are able to analyze the financial position of the Plan and to know whether they can make changes to the benefits that have already been earned and that will be earned in the future.

The financial position is determined by many factors including:

- Reported hours
- Negotiated contribution rates
- Pension payments
- Member demographics
- Mortality rates
- Interest rates
- Investment performance

The Trustees have been carefully monitoring all the above, always with the primary objective of maintaining a strong financial position for the Plan going into the future. They work with their actuary to ensure that the Plan is sustainable for the long term. They look at the Plan's funding under a number of different economic scenarios to make sure that the fund has the ability to withstand certain events, such as reported hours falling below what is typically expected, without negatively impacting the ability to deliver the pensions that members have earned.

Actuarial valuation report: an actuarial valuation report provides an assessment of the Plan's financial position and is conducted at least every 3 years. It contains information required under the B.C. Pension Benefits Standards Act and identifies whether the assets and contributions to the Plan are expected to be sufficient to support the Plan's targeted benefit levels on a long-term basis.

After reviewing the results of the 2017 valuation and conducting various stress tests with respect to the possible performance of the Plan in the future, the Trustees approved the January 1, 2019 increase to your pension accrual rate for the next three years. The Trustees seek to balance the needs of **all** Plan members including active members for whom the current $7.75 hourly employer contribution rate is more than what is required to fund for the pensions that they are earning. The increase in the pension accrual rate discussed in this communication means that there is a closer relationship between the accrual rate and the contribution rate for members who are actively working in the field today. It is also important to note that the pension standards legislation and the funding rules for the Plan do not allow the Trustees to grant an improvement to benefits that have already been accrued, which is explained in greater detail below.

The Trustees consulted with their professional advisors - including their actuary and legal counsel – while making this decision to implement a higher pension accrual rate. Supporting documents were filed with the Superintendent of Pensions at B.C.'s Financial Institutions Commission in accordance with the *Pension Benefits Standards Act ("PBSA")*, which is the governing legislation for pension plans registered in B.C. The Superintendent has approved the necessary plan amendment, contingent on supplemental information being submitted on an annual basis supporting the affordability of this temporary benefit improvement.

You may have some questions at this point – so read on!

Why is this increase only for three years?

An actuarial valuation report for the Plan is normally prepared every three years. It may be prepared more often from time to time, but typically the Trustees work with the Plan Actuary to prepare this report every three years. One of the reasons that they file the report with the Financial Institutions Commission is to demonstrate that the Plan is sufficiently funded to pay the pensions that have been earned (ie. pensions already in pay and pensions that have accrued before the date of the valuation) as well as to pay the pensions that will be earned in the future. The Trustees have decided to take a somewhat conservative approach and improve the accrual rate for only three years in order to ensure that the future benefit accrual rate (ie. after this three year period) properly reflects the Plan's funding at that time. While the Trustees hope to be able to extend this increase further into the future, given their prudent and conservative management of the Plan, they want to review the Plan's financial position at that time in order to again determine what can be afforded beyond December 31, 2021.

In addition, if the Superintendent of Pensions is not satisfied with the supplemental information submitted on an annual basis, it is possible that the temporary benefit improvement may be removed before December 31, 2021. Both the Trustees and the Superintendent wish to ensure that the temporary benefit improvement continues to be prudent and affordable.

What difference will this make to my pension?

Let's assume the conservative case that this new accrual rate of $86.15 for every 1,000 hours reported remains in effect for only the next 3 years. For a member working 1,500 hours per year for the next three years, the improvement means he or she will accrue an *additional* pension of $35.24 per month.

Why aren't the Trustees increasing the pension benefits that I earned in the past?

As noted earlier, the PBSA contains funding guidelines by which all provincially regulated pension plans must abide. For the Trustees to satisfy these funding guidelines and to grant any improvement to your past pension accruals (e.g., pensions in pay to current retirees and pensions that accrued before January 1, 2019), the Plan must hold enough 'reserve', or excess assets.

While the December 31, 2017 valuation report shows that the $7.75 hourly contribution rate currently in effect is more than what is required to pay for the pension that active members will earn in the ***future*** (after the improvement takes effect), the valuation report also shows that right now the Plan does not have enough 'reserve' or excess assets to justify an improvement to benefits already earned. The Plan's funded ratio is 108% but the law requires that it be at least 133% (i.e., that the Plan have its full, mandated reserve amount) before any past service increase may be granted.

You can see in the table below, which is taken from the December 31, 2017 actuarial valuation report, that while the Plan is well funded, the Plan does not have enough reserve (Required Margin $) to increase pensions earned in the past. As of December 31, 2017, the Plan has a margin of $18,737,200, but more than $72 million is required to improve benefits already earned.

Actuarial Valuation	December 31, 2017
Assets	$ 237,664,700
Liabilities	$ 218,927,500
Excess (Shortfall)	$ 18,737,200
Funded Ratio	108%
Required Margin %	32.90%
Required Margin $	$ 72,027,100
Margin Excess (Shortfall)	$ -53,289,900

Will retirees be getting a pension increase?

The Trustees are not permitted to increase pensions earned in the past (ie. pensions already being paid out and pensions earned on hours reported before January 1, 2019) until the results of an actuarial valuation report show the required amount of margin – as shown in the table above. Unfortunately, this means that retirees will not be receiving any increase to their pensions at this time.

I have more questions – where do I go?

Please contact your pension plan administrator at 1-877-926-4537. Or send an email to boilermakers359@bgbenefitsadmin.com.