PENSION REPORT

Canadian Piping Trades® LOCAL 67

Hamilton-Niagara

Trustees of the Plumbing and Pipefitting Workers' Pension Plan

October 2018

Message from the Board of Trustees

Update on the plan's financial health

Given our plan's strong financial position, we weren't required to do another valuation until the end of 2018. However, to ensure we're monitoring the UA Local 67 plan effectively and practicing good governance, the Board of Trustees asked our actuary to prepare a valuation as of December 31, 2017.

On a going concern basis, the plan's **104.9% funding ratio** at the end of 2017 shows continued strength, up from 99.4% two years earlier. That's good news for our members, and an important gauge of our plan's sustainability.

We're happy to report that 2017 was a bounce-back year for our plan's investments – **gaining 8.1%** after expenses – the best investment return for the plan since 2013. We have also experienced stronger work levels since the last valuation was prepared at the end of 2015, resulting in greater than expected contributions to the plan.

DB pension plans like ours depend on investment returns and contributions per hour paid to stay financially healthy over the long term. So, the unstable investment markets and unpredictable job market we've seen since 2008 have posed a challenge. Unfortunately, we can't control investment markets or work levels.

While we can't control things like interest rates or investment markets, we will continue to work closely with our advisors to monitor our plan's funding level – and to understand and identify things that might impact its health in the future.

We have also been keeping a close on eye on Ontario's ongoing review of pension funding regulations for Multi-Employer Pension Plans like ours. See *Ontario funding rules changing* inside for the latest on regulatory changes impacting our plan.

Although our financial health improved in 2017, pension funding pressures remain a challenge. Canadians are living longer, investment markets show continued volatility and interest rates are rising at a snail's pace. The Trustees and our team of expert advisors will continue to work together to monitor trends that impact on our plan and to manage our plan in members' best interests. And, we'll continue to communicate with you and keep you aware of how the plan is doing.

Sincerely,

What's inside:

Financial health is strong!

Valuation shows plan is fully funded

The plan's funding level had improved significantly by the end of 2017 to 104.9%. This means that the plan is more than fully funded. The main reasons for the funding improvement is our strong investment return in 2017 and strong work levels.

The pension plan's financial health is reviewed at least once every three years by the plan's actuary. The actuary is a pension expert, who tests the plan's financial health by preparing a report called a *valuation*. The rules for measuring the financial health of a pension plan are set by Ontario's pension regulations. Each valuation looks at how healthy the plan is based on two different types of tests: *going concern* and *solvency*.

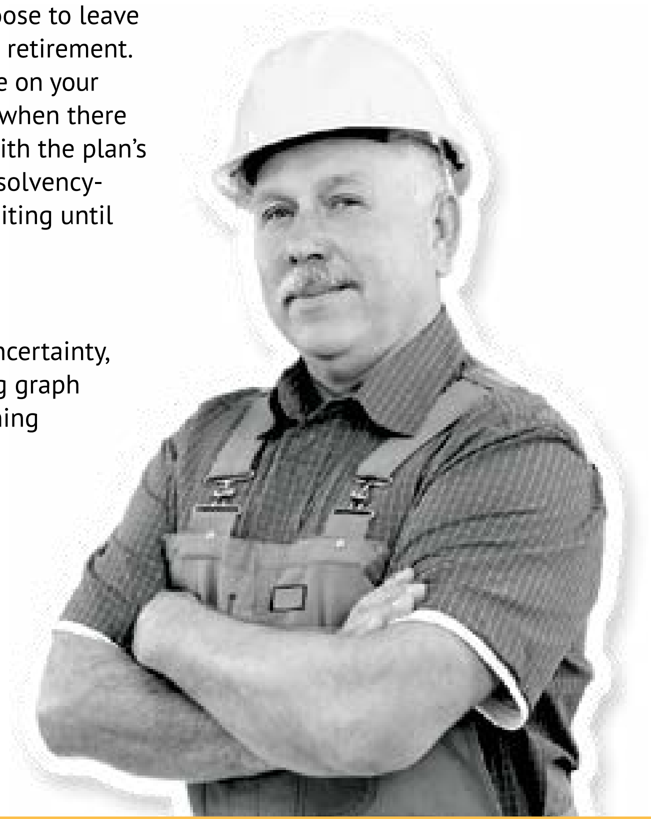
Type of valuation	Plan's funding level on Dec. 31, 2017	Plan's funding level on Dec. 31, 2015
Going concern – measures our plan's health on the valuation date assuming that contributions will continue to come into the plan, and members will continue to retire and be paid pensions, for years to come.	104.9%	99.4%
Solvency – measures our plan's health assuming that the plan suddenly closed down on the valuation date. In the unlikely event that happened, the plan would have to immediately pay out all benefits earned by active and retired members. Solvency is measured for information and administration purposes only and has no impact on the plan's funding requirements.	67.7%	67.1%

The plan's **solvency** funding level – at 67.7% on December 31, 2017 – has also improved since the end of 2015, although it is still under 100%. This is mainly because interest rates are low and have been for some time. This significantly increases the estimated lump sum cost to immediately pay out pensions owed to members, which in turn drives down the solvency funding level. However, our plan is a Specified Ontario Multi-Employer Pension Plan (SOMEPP) – a special class of pension plan that has many participating employers and is therefore unlikely to be shut down. As a SOMEPP, our plan doesn't have to pass the solvency funding test.

The solvency funding level does have an impact if you voluntarily choose to leave the plan and withdraw the cash value of your pension benefits before retirement. You can end your plan membership if no contributions have been made on your behalf for at least 24 months and you are under age 52. If you do this when there is a solvency shortfall, your pension benefits will be reduced in line with the plan's solvency funding level (also called the *transfer ratio*). You can avoid a solvency-related reduction by leaving your pension benefits in the plan and waiting until at least age 52 to start a pension.

Healthy investment returns

Despite another year of considerable market volatility and political uncertainty, our plan's investments performed well. As shown in the accompanying graph on rate of return, the plan's investments had a good year in 2017, earning a net return of about 8.1% after all investment and operating fees. This return beat the 5.75% long-term target set in our valuation, leading to the improvement in our going concern funding.

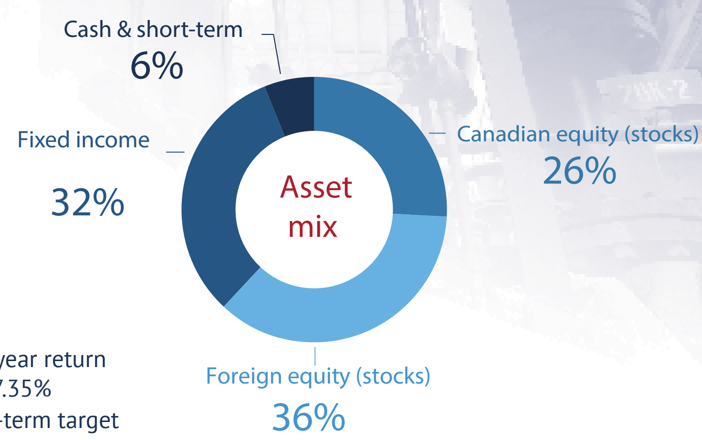


By the numbers: *2017 highlights*

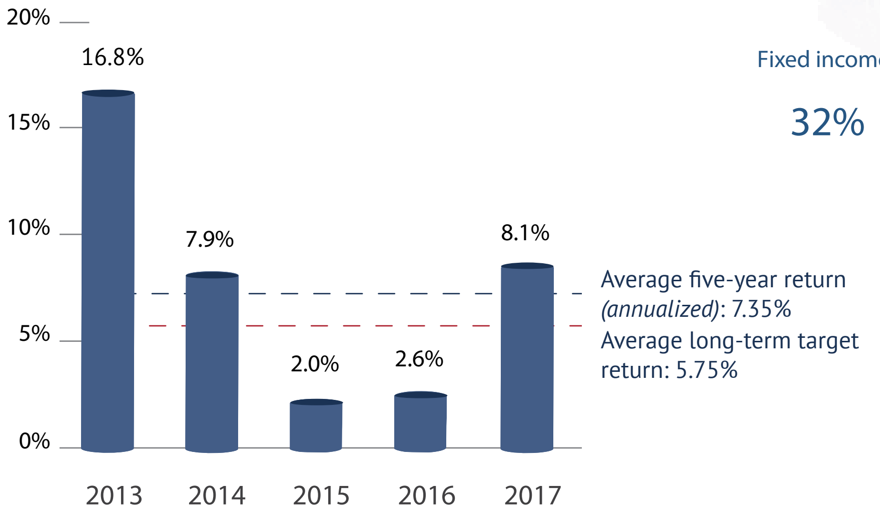
Pension fund ins and outs

	2017	2016
Assets at beginning of year	**$319,331,000**	**$323,429,000**
Money in		
• Contributions:	$10,779,000	$11,722,000
• Investment income:	$27,431,000	$10,103,000
Money out		
• Benefit payments:	$21,189,000	$24,098,000
• Fees & expenses:	$2,092,000	$1,825,000
Assets at end of year	**$334,260,000**	**$319,331,000**

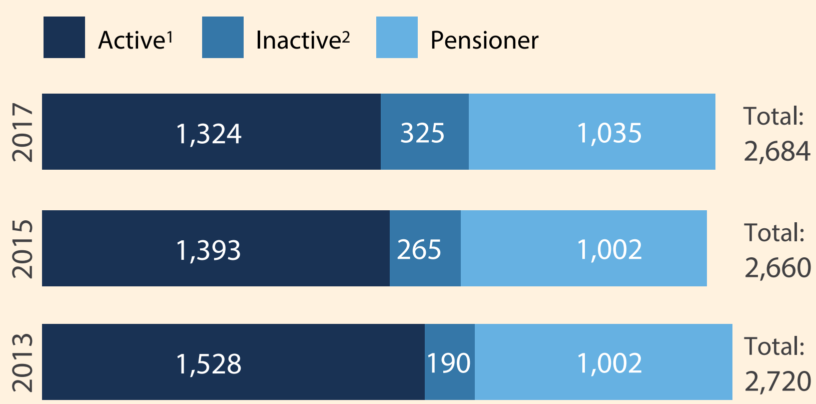
Asset Mix *(as of December 31, 2017)*



Annual rate of return *(after all expenses)*



Change in membership *(as of December 31)*



[1] Includes members on long term disability.
[2] Members who no longer belong to the union but who are entitled to a pension at a later date.

Average monthly pension

(as of December 31, 2017)

Ontario funding rules changing

Pension plan sponsors have long struggled with the regulatory requirement to measure financial health based on a **solvency valuation**. Since multi-employer plans like ours have an extremely low likelihood of having to suddenly shut down the plan, the need to fund for this unlikely event can lead to negative consequences such as unnecessary benefit cuts. Many multi-employer plan sponsors have pursued the government to change the rules that require solvency-based funding.

The good news is, in Ontario, we seem to be on the cusp of change. In April 2018, the Ontario government released a consultation document providing proposed new funding rules for target benefit multi-employer pension plans (TB MEPPs) like ours. Once finalized, these rules would replace the temporary funding rules that have been in place for specified Ontario multi-employer pension plans (SOMEPPs) like our plan for the last 10 years.

The proposed rules for target benefit plans would:

- permanently exempt our plan from solvency funding;
- require that we fund a reserve – called a *provision for adverse deviations* (PfAD) – to help protect against future investment or other losses;
- require our plan to fully fund this reserve before any past service improvements can be implemented; and
- introduce new rules for calculating benefits when a member stops participating and leaves the plan.

We'll continue to monitor the government's progress and keep you posted on any developments on these rules in the future.

Life happens

We all get caught up in our daily lives, but it's important to take a few minutes to keep your personal information updated, particularly your named beneficiary for any death benefits. Please let us know by filling out a new **Member Enrolment / Appointment of Beneficiary form** if any of the following events occur:

- Birth, adoption or death of a dependant
- Change of address – including email address
- Change of beneficiary
- Change of name
- Details on children who reach age 18, or 24 if a full time student
- Marriage, divorce or the start/end of a common-law relationship.

Member Enrolment / Appointment of Beneficiary Forms are available by contacting the plan administrator – Reliable Administrative Services. Be sure to notify the administrator within 31 days of any change in your information, to avoid any benefit payment delays or denials.

Got a question?

Ask Reliable Administrative Services Inc.
We're here to help!

By phone: 905-387-5861
Toll free: 1-855-387-5861
By fax: 905-387-4146
Email: **local67@reliableadmin.com**

Website: **www.reliableadmin.com**

You can also provide comments to the Financial Services Commission of Ontario, Pension Plans Branch, 5160 Yonge Street, P.O. Box 85, Toronto, ON M2N 6L9.

Please include our plan's registration number (0381525) in any correspondence with the Commission.