NEW REALITIES FOR THE PENSION WORLD

WORDS TO DESCRIBE THE GLOBAL ECONOMIC AND MARKET INSTABILITY

HIGHLIGHTS FOR THE 2012 YEAR

10 LUCKY IPAD WINNERS
New Realities for the Pension World

It really has been crazy out there in the pension world lately! Very few pension plans, if any, have escaped the realities of the past few years – unscathed. Volatile investment returns, low interest rates, pressure to increase contributions, pressure to reduce benefits, increased focus on investment strategy, plan re-design considerations, greater scrutiny from regulators, solvency relief and/or exemption considerations, increasing longevity, short-term versus long-term focus… and the list goes on and on. These issues are shared amongst all pension plans – MEPPs, public sector and corporate plans, big and small alike – and the Labourers’ Pension Fund (LPF) is no different.

The burning question, though, is what is being done about it all and why is the LPF better positioned than most to deal with it?

The fundamental pension equation of

\[
\text{Benefits}(B) + \text{Expenses}(E) = \text{Contributions}(C) + \text{Investment Earnings}(I)
\]

may hold the secret. A low interest rate low-return investment environment will drive contributions up in order to pay for the same level of benefit promised years ago. There is no doubt that times have changed since then.

If the same level of benefits “B” is to be maintained, the more “I” can be increased, the less “real” money is needed to go into the plan through contributions “C”. Conversely, if the plan has a depressed level of “I” over a sustained period, then “C” needs to make up for it. That is why the low interest rate environment is affecting the pocket books of so many organizations and members.

Or, the benefits “B” may be reduced, which has not typically been the choice in respect of the LPF:

The challenge for the Board of Trustees in working with their various professional advisors is to balance the above fundamental pension equation. The contribution increase of $1.50 per hour after the 2008 market meltdown has now been fully phased in and alternative investment strategies are being introduced in order to maximize returns while minimizing risk, both of which will help with the balancing. At the same time, the LPF has grown to over $3.5 billion in assets and maintains a contingency reserve or “cushion” of almost 10% to mitigate the future potential adverse impact of short-term market volatility or other plan experience.

A funding valuation effective December 31, 2012 is currently in process to determine the financial position of the plan and progress made towards funding the deficit. Together we will meet the challenges of today in order to make the LPF plan even stronger for tomorrow by balancing the oft-conflicting objectives of benefit adequacy, affordability, and security.

Words to describe the global economic and market instability

Over the past few years, many new phrases have been coined or used to describe the economic and market instability that has persisted globally. These include:

Sequestration – budget cuts made in the US as Republicans and Democrats have been unable to agree how to balance government revenue and spending.

Euros Crisis – ongoing financial crisis that has made it difficult or impossible for some countries in the Euro area to repay or re-finance their government debt without the assistance of third parties.

Contagion – the likelihood that significant economic changes in one country will spread to other countries.

While Canada has managed to make its way through the financial crisis of 2008 and recession of 2011 relatively unscathed, our economy and markets have not been immune either. The Bank of Canada, in line with the US Federal Reserve, has kept interest rates extremely low at 1%, which has impacted bond yields. In addition to making it difficult for retirees to earn enough from their investments, it has also meant that pension fund liabilities have increased since their valuation is tied in part to the level of interest rates. Slowing global growth and fluctuating commodity prices has meant that our equity market, which has significant exposure to energy and other commodities, has experienced volatile returns.

The continuing market and economic stability was evident in market returns over the past five years. Returns in 2012 were broadly strong, following poor to negative returns in 2011. Returns in 2012 ranged from 7.5% for the Hong Kong equity market. It is worth noting that on a five year basis, equity market returns were negative.

This means that those invested in equities over the past five years would have lost money.

The Labourers’ Pension Fund (LPF) began a program of diversifying its investment strategy in 2006, lowering its allocation to equities and increasing both real estate and private equity. This disparate asset mix has enabled LPF to weather the past few years relatively well. For the four years ending March 31, 2013, LPF earned an average annual rate of return of 11%, which has helped in greatly strengthening the security of the plan.

LPF continues to search for ways to earn stable, less volatile returns, and will be investing more of the pension fund’s assets in real estate, infrastructure and private equity over the next few years.
Voluntarily ending your LPF membership? Your benefit may be reduced

New pension rules that took effect after May 18, 2010 let you voluntarily terminate your LPF membership if no contributions are paid to the LPF by an employer on your behalf for twenty-four consecutive months.

When a voluntary termination occurs, you are able to take the value of your pension in a lump sum and transfer it out of the plan. The issue is that when members do this, it negatively impacts the long-term financial health of the plan.

To protect the benefits of all plan members, we introduced plan amendments in February 2013 to require the permanent reduction in the plan benefit paid out based on the funding level of the plan on a “solvency basis,” which is the percentage of benefits that would be paid out if the plan itself were to be terminated. This permanent reduction will also apply to a deferred pension if the member chooses to terminate and then elects the Deferred Pension option.

**Reduction Only Applies If You Voluntarily Terminate Plan Membership**

It’s important to note that this reduction only applies if you voluntarily terminate your plan membership and work in Ontario or Prince Edward Island.

If you do not voluntarily terminate membership in the Plan, you will remain a member of the Plan until you retire and these benefit reductions will not apply to you.

Members of other provinces who elect to voluntarily terminate their membership will not be affected by these reductions; however, they may lose entitlement to some future pension benefits as they will no longer be considered plan participants.

**For Your Information: Electronic Signature Form**

If you are eligible to voluntarily terminate your plan membership – and choose to pursue this option despite the reduction to your benefit – you must request a “Voluntary Election To Terminated Membership Form” from the LPF office. This form will provide you with an estimate of your benefit.

To complete your termination request, you must sign the form and mail it to the LPF office. The date of your termination will be effective the date we receive the signed form. If we don’t receive a signed form, you will continue your LPF membership.
Separated but not divorced in Ontario?
Make sure you name a beneficiary

A recent court case has changed the rules in Ontario relating to who may receive your LPF pre-retirement death benefits in the event you die before retirement.

This court decision relates directly to a situation in which you and your married spouse have separated, but have not divorced, and you have a new common-law spouse.

Before this court decision, your common-law spouse would be entitled to your pre-retirement death benefit, even if another beneficiary was named.

Not anymore. If you have both a common-law spouse and a married spouse who is separated but not divorced from you at the time of your death, neither spouse has an automatic entitlement to the pre-retirement death benefit. Instead, the benefit is payable to your designated beneficiary. If you have not designated a beneficiary, then it is payable to your estate.

The chart below shows the "ranking" of who will receive your pre-retirement death benefit in different situations in Ontario. As you can see, naming a beneficiary is an important step no matter what your marital situation. It gains particular importance in situations where you have separated from your spouse, but are not divorced.

ACTION STEP: REVIEW YOUR BENEFICIARY DESIGNATION FORM

We talk a lot about it, but it’s important to review your beneficiary designation to ensure it continues to reflect your wishes. You can review your current beneficiary online by clicking on the “Access LPF” icon at www.lpfec.org.

If you do not currently have a beneficiary designation, or you wish to change it, you can download the beneficiary designation form directly from the website, then complete the form and mail it to us.

<table>
<thead>
<tr>
<th>Ranking by law of who will receive your pre-retirement death benefit</th>
<th>No spouse (no married or common-law spouse)</th>
<th>Married spouse (not separated)</th>
<th>Common-law spouse (and divorced from married spouse)</th>
<th>Separated from married spouse, with or without a common-law spouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Beneficiary</td>
<td>Beneficiary</td>
<td>Beneficiary</td>
<td>Beneficiary</td>
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<tr>
<td>2</td>
<td>Estate</td>
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<td>Beneficiary</td>
<td>Estate</td>
</tr>
<tr>
<td>3</td>
<td>n/a</td>
<td>Estate</td>
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10 lucky iPad winners – just for sending us their email address!

Earlier this year, we asked you to send us your email address – with the first 500 respondents entered to win one of 10 iPads!

We’re pleased to announce the 10 lucky winners. Congratulations – and thanks to everyone who sent in their email information!

And if you still haven’t provided us with your email, it’s easy to do. Just log on to Access LPF and add your email address to your personal information. Simple!

Jennifer M. Smith – Member of Local 506
Christopher D. Kirk – Member of Local 493
Douglas Serroul – Member of Local 900
Richard Neron – Member of Local 493
Jeff D. Stiles – Member of Local 900
Jose Ferreira – Member of Local 183
Marino Moniz – Member of Local 183
Christopher D. Kirk – Member of Local 493
Jennifer M. Smith – Member of Local 506

Access your pension information – online or mobile

It’s easier than ever to access your pension information. Whether you want to view your Pension Contributions and work history, get a pension estimate, apply for your pension, or access one of the many other services available, it’s all available on our secure member site!

Visit www.lpfec.org and click on the “Access LPF” icon. Enter your LPF Member ID number (User ID). If you didn’t receive your LPF ID card, please call us at 1-866-932-1100.

You can also connect through your mobile phone by downloading the LPF Mobile App – available for Apple, Android and Blackberry devices!

Are you a pensioner planning to return to work?

Don’t forget to sign a “Re-Employed Pensioner – Notice of Election” form before you start working! Send the completed form to the LPF by fax, email or regular mail. These forms are available at your local union, at the LPF office and online at www.lpfec.org.

Make note – new LPF mailing address!

If you’re sending us something by mail, make sure you use our new mailing address:

The Labourers’ Pension Fund
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