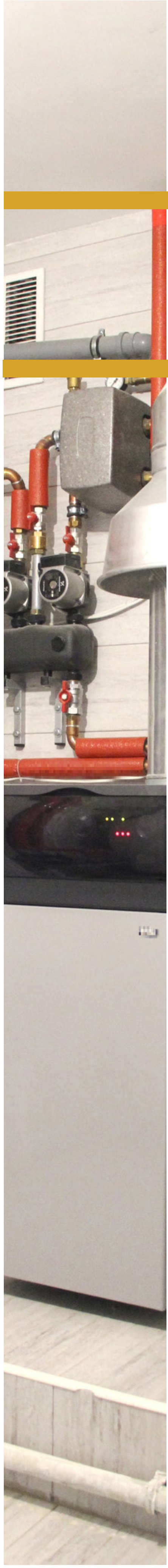

Boilermakers Lodge 191 Pension Plan 2019 Year in Review

www.boilermakers191benefits.org

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Financial Markets

The pension plan is well positioned to withstand the turmoil in financial markets and the slowing global economy caused by the Coronavirus crisis.

Overview as at March 31, 2020

The 2019 year started with fears that never realized: a global economic slowdown; disruptive trade wars between the U.S. and China and potential missteps from the monetary policy makers. The year ended with the stock markets reaching new highs. Coming into 2020, optimism loomed as economists forecasted low risk of near-term recession and modest rise in global markets.

This optimism was quickly dampened by the coronavirus outbreak in China and its potential effect on the global economy. As the outbreak spread around the world and became a pandemic, there was a sudden halt to global economic activity. The result has been the fastest move in history from a stock market peak to a bear market. A bear market is a period during which stock prices consistently fall from their most recent high.

This picture attests to the fact that no one can predict what the market will do. It also reinforces the importance of following a disciplined, long-term approach to investing. While the shock to the economy and the significant market downturn will mean a decline in the value of the pension plan's assets, it is reasonable to expect that the market will recover and the pension plan's assets will bounce back over time. Your pension plan is resilient to these short-term fluctuations. Here's why:

Rational Perspective – Markets will go up and down over the short term and downturns happen frequently. Short term volatility is part and parcel of investing. However, market setbacks have typically been followed by recoveries, as evidenced by the recovery following the 2008 financial crisis.

Strict Discipline – Trying to time the market rarely pays off and can be costly. A rigorous, disciplined approach to investing (as outlined, for example, in your pension plan's Statement of Investment Policy and Procedures, or "SIPP") provides investors with a long-term plan for dealing with gains and losses that emerge over the short run.

Long-Term Focus – Although past performance is no guarantee of future results, there is ample evidence to show that, historically, stock markets have performed well over the long term. Your pension plan continues to have a long-term outlook and its assets are invested with this in mind. After all, pension benefits are long term in nature.

Broad Diversification – The expression "don't put all your eggs in one basket" is certainly good advice when it comes to investing. Your pension plan's assets are well diversified, meaning that the assets are allocated to a wide variety of different investment types (bonds, stocks, mortgages, real estate, infrastructure, etc.), industry sectors (energy, utilities, consumer goods, materials, financials, etc.), geographies (Canada, US, developed countries

Did You Know?

Plan Expenses (Compare to 2%-3% in Retail Market) **0.53%**

$46.1M Plan Assets (Net)

Investment Earnings

2019 **$5.8M**

2018 **$-0.7M**

Gross Rate of Return **14.97%**

867 Total Pension Plan Members

Contributions **$4.3M**

5 Participating Employers

Benefit Payments **$2.4M**

$7.5M Net Increase in Assets

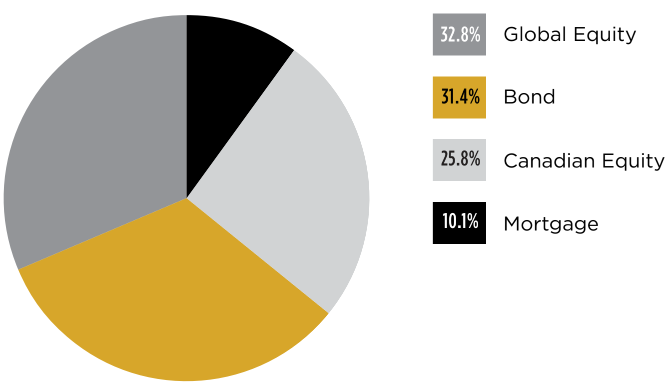
outside North America, emerging economies, etc.), and even investment styles. Since different asset types are impacted by different events, a diversified portfolio, such as your pension plan's, experiences lower volatility than any one individual investment.

Robust Governance – The Trustees have hired professional fund managers to manage your pension plan's investments. These managers are responsible for implementing your pension plan's investment strategy and achieving its short and long-term goals, as outlined in the SIPP mentioned above. The Trustees oversee and regularly monitor the performance of the managers.

Although these principles are presented in the context of your workplace pension plan, they are equally applicable to your personal finances. Establish your personal investment goals and take a disciplined approach to investing, so that, when the ups and downs of the market happen, you can take advantage of opportunities that arise. In respect of your personal investments, a professional advisor can assist you with keeping a rational perspective, maintaining strict discipline, focusing on the long-term, diversifying broadly and implementing a robust governance framework.

Boilermakers 191 Pension Plan Asset Allocation

For the period ending December 31, 2019



Source: PH&N Investment Management Report

Trustees

The Board of Trustees met three times in 2019 on March 27, August 23, and November 28.

Set Your Retirement Income Goal

Planning for your retirement is like any other project you take on in life – if you don't give yourself a deadline you may never get around to it. And remember that it is never too early or too late to start planning for your retirement. You just need to roll up your sleeves and get to work. Here are some ideas to help you chart your course ...

Get Started

We all want the peace of mind of knowing that we will have a comfortable income when we retire. However, many of us don't spend the time to think about retirement. Some of the barriers are:

- Procrastination — It's not that we don't want to prepare for our retirement years; we just can't get around to it.
- Preference for today —The dollar we have in our pocket today is more valuable to us than what that dollar might grow into 20 years from now.
- Too complicated – There are so many choices: banks offering investments, employers providing retirement savings plans, financial planners and well-meaning relatives offering advice. Planning for retirement is complex and we are paralyzed into inaction.

But let's take it one step at a time. ***The first step is to define your retirement income goal.*** Once an income goal is identified, then you can picture your financial future; you will be more engaged, and you can turn all that complication into action.

Set an Income Goal

How much money you need in retirement is a personal decision as it relates to the lifestyle you wish to maintain in retirement.

In retirement, some expenses such as CPP, EI contributions and union dues will disappear, while others may increase or decrease depending on your personal circumstances. On average, it is reasonable to expect that a lower income may meet one's needs. However, as the needs vary between individuals, a good place to start is to assess your current living expenses and give some thought to how they may change in retirement.

Step 1—Create a Personal Budget

Create a budget by categorizing your current annual expenses into the following:

1. Housing (principal and secondary) – Include mortgage payments, rent, taxes, heat and electricity, insurance, cable, internet, phone, maintenance.
2. Transportation Expenses – Such as expenses to commute to and from work; car expenses; car insurance, public transportation costs.
3. Living Expenses – This category includes all your living expenses such as food; clothing, personal care; health care costs.
4. Personal expenses – Any typical expense not included in one of the other categories should be included here; such as entertainment costs, vacation, education, etc.
5. Income Tax and Payroll Deductions – This category includes all of your income taxes and statutory payroll deductions such as CPP and EI contributions, or union dues.
6. Savings and Financial Security Expenses – Here include your contributions to RRSPs, TFSAs, non-registered savings, life, disability insurance, health benefit and your workplace pension plan.

Once you are done, remember that your total expenses must add up to your gross income.

Step 2—Create a Retirement Budget

After you have identified all your current expenses, look at them in a slightly different way to help you estimate how these expenses will change after retirement.

Remove your statutory deductions as you will no longer have those expenses. You can also allow for lower income taxes. Divide your other expenses into the following three categories to make it easier for you to know where the trade-offs, if any, need to be.

Necessities	Comforts	Luxuries
Expenses **necessary** to meet your and your family's basic needs.	Expenses that are not necessary but they enhance your life and provide comfort.	Expenses that provide enhanced comforts. Generally, they fulfill dreams.
Analogy: Bread	Analogy: Cheese	Analogy: Lobster

Doing a budget in anticipation of retirement will give you a clearer picture of what you'll need in retirement. The logical starting point is what you're spending now. Also, if your retirement income target presents a challenge to achieve, a current budget can help you identify areas where you might be able to cut back and save a little more for your retirement.

Here's an example of a sample budget completed by a colleague, Mr. Joe Jolly.

	Current Actual (Annual $)	Anticipated in Retirement (Annual $)
	Total Household	Total Household
Housing	$10,000	$8,000
Transportation	$2,000	$1,000
Living Expenses	$15,000	$12,000
Personal Expenses	$5,000	$10,000
Income Tax	$8,000	$4,000
Payroll Deductions • Employment Insurance • Canada Pension Plan • Union Dues • Other	$5,000	$0
Savings • Pension Plan • RRSP • TFSA • Other	$5,000	$0
Total = Gross Income	$50,000	$35,000

In completing this, Joe makes the following observations:

1. Once accounted for all their expenses, the family's budget must add up to the family's gross income of $50,000. Do you know why?
2. The family's take-home pay, after taxes, payroll deductions and savings is $32,000. Add (1) to (4) under column labelled "Current Actual" to see if this is true.
3. To maintain their standard of living in retirement, Joe and his partner need roughly the same take home pay in retirement as in their working years. Add (1) to (4) under column labelled "Anticipated in Retirement" to see if this is true.
4. Joe figures out that in retirement with an income of $35,000 before taxes, he and his partner can meet their expenses. Joe is mighty Jolly. Can you see why?

Now it is your turn to do the work and figure out how much money **you** need in **your** retirement.

Who Looks After My Money?

Have you heard the expression it takes a village to raise a child? Well, it also takes a village to look after your money. Let's look at how your Plan is governed and who looks after your money.

As a start, the Plan is overseen by a board of trustees. The trustees are fiduciaries of the Plan. That is, the trustees must, among other things, act in the best interests of the plan members. They must also act in an even-handed manner. That is, in dealing with different classes of members, the trustees have to be fair to all plan members.

To help carry out their responsibilities, the trustees have employed the following professional advisors:

- Plan Administrator – Day-to-day operations of the Plan including record keeping and administration are delegated to D.A. Townley, one of the largest third-party employee benefits administrators in Western Canada. They keep track of the benefits you earn in the Plan.
- Custodian – The role of the custodian is to safekeep your money in a trust, separate and apart from the assets of your employer. The custodian also prepares the Plan's financial statements.
- Investment Manager – The investment manager is responsible for investing the Plan's assets according to the guidelines established by the trustees. Your money is pooled with other plan members and invested by professionals who also manage other pension funds.
- Auditor – The Plan's financial statements are audited by a professional auditor every year. The role of the auditor is to certify that all the financial activities related to the Plan are accurate and fairly represented. In other words, your money has been properly accounted for.

These entities collectively look after your money; and in doing so the trustees have made sure that all the checks and balances are in place.

Ready to Retire?

Are you ready to retire and draw an income from your workplace pension plan? What are your options? How do you decide which option is the right one for you?

In this article, we give you the unbiased, factual information you need to make an informed decision. But first, let's get the jargon out of the way.

- **Annuity** – this is a contract between you and an insurance company. In exchange for a lump sum payment, called the premium, the insurance company will provide you with a fixed stream of income for your life, called an annuity.
- **Life Income Fund (LIF)** – Under provincial pension legislation, when you are ready to draw an income, you can transfer your savings to a spending vehicle called a Life Income Fund (LIF). A LIF is subject to minimum annual withdrawal limits set by the tax rules, and maximum annual withdrawal limits set by provincial pension legislation. *Think of a LIF as a "spending account".*
- **Locked-in Retirement Account (LIRA)** – A LIRA is a savings vehicle for locked-in funds. You can think of it as a resting place for your savings from your workplace pension plan until you are ready to draw an income. *Think of a LIRA and your workplace pension plan as "savings accounts".*

Now, let's look at your two options; buy an annuity from an insurance company; or transfer your money into a LIF.

Your Options in a Nutshell

The decision boils down to this:

- Do you want to "set and forget" your income withdrawal? If yes, then buying an annuity may be an appropriate strategy for you.
- Do you want to have flexibility over the income you receive? If yes, then transferring to a LIF may be an appropriate strategy for you. The trade-off for this flexibility is that you bear the investment risk and the longevity risk (the risk of outliving your money).

Remember that you can use one or a combination of these two strategies. For example, you can use part of your savings towards purchase of an annuity to give you the peace of mind of a fixed income and direct the remainder to a LIF.

Also, keep in mind that purchase of an annuity is a one-time decision; you cannot change your mind later. But if you decide to transfer your money into a LIF, you can buy an annuity later in life when you no longer wish to manage your money. For example, beginning in 2020, the tax rules were amended to allow purchase of annuities known as **Advanced Life Deferred Annuity or ALDA**. An ALDA is similar to a regular annuity but its payments can begin as late as the end of the year the individual reaches age 85.

The following table provides you with a comparison between an annuity and a LIF.

	Annuity	LIF	Comments
Peace of Mind	✔		Insurance company takes on all the risk/reward
Flexibility		✔	Within certain parameters
Who bears the risks/ rewards	Insurance Company	You	
Death Benefits	Limited, depends on contract terms	Unused LIF account balance goes to your beneficiaries	

Ready to Draw an Income?

If you are ready to draw an income and you have made your choice between an annuity, a LIF, or a combination, here are the next steps:

Annuity – You need to obtain quotes from a few insurance companies and compare them. You also need to choose the form of annuity you want to purchase.

LIF – You need to open an account with a provider and start investing your money. Your two main options here are:

- A financial institution of your choice; or
- The Plan's internal LIF option.

The Boilermakers Lodge 191 Pension Plan's Internal LIF Option

You can leave your money in the Plan and receive payments from the Plan. Your account balance will remain invested with the Plan and you can continue to take advantage of the following benefits:

a. Robust governance structure – The Plan is overseen by the Board of Trustees. In carrying their fiduciary duties, the Trustees engage professional advisors and consultants and together they continuously monitor the Plan's investments and operation.

b. Professional fund management – the Plan's assets are invested with professional fund managers in institutional funds. These funds are accessible only to Plan sponsors.

c. Low fees – Given the pooling of assets under the Plan, the fees are substantially lower than what you can obtain in the retail market on your own.

d. Dedicated and bias-free support – The staff at D.A. Townley are engaged by the Trustees to provide member services. They provide member support in a non-conflicted environment.

Not Ready to Draw an Income?

Under the tax rules, you have until December 31 following your 71st birthday to convert your account balance under the Plan to a stream of income (immediate annuity, ALDA or LIF). If you are not yet ready to draw an income from your savings under the Plan, you have the following options:

- Transfer your account balance to a LIRA with a financial institution of your choice; or
- Leave your funds in the Plan and enjoy the benefits described above.

The staff at D.A. Townley are available to discuss these options with you and answer any questions you may have.

Questions? Contact Us

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