SPRING 2022
SPECIAL EDITION

WBS News

CARING FOR THOSE WHO SERVE

Information from LCC Worker Benefit Services Inc.

POTENTIAL MERGER
with Colleges of Applied Arts and Technology (CAAT) Pension Plan

This newsletter contains important information FOR EMPLOYERS on potential changes to the Lutheran Church–Canada Pension Plan. Please take the time to read it thoroughly.

We are delighted to announce that LCC is currently in discussions with the CAAT Pension Plan on the possibility of merging the LCC pension plan with the CAAT Pension Plan. The possible merger with CAAT is the culmination of a number of years of work to find solutions to eliminate the deficit on the Defined Benefit component of the pension plan and permanently secure members' pension benefits.

Over that time, a number of strategies have been put into place to reduce and minimize risk in the plan, an example being the two annuities LCC purchased with Canada Life and RBC Life whereby 50% of the plan liabilities are locked–in and protected from future volatility due to investment, interest rate and longevity risk. However, our ability to effectively manage the risks and volatility of a defined benefit pension plan becomes more challenging as the LCC organization reduces in size. Employers have also expressed their concerns regarding the cost of the Worker Benefit Programs, a significant component being the deficit on the pension plan, while in contrast many employees have indicated that they would prefer a defined benefit pension structure.

In summary, we have been seeking a strategy that would limit volatility, reduce costs over time, provide a lifetime pension to all members without transferring risk to them, and provide employers with a known period of time to pay off the deficit without it increasing due to changes in interest rate, investment and longevity risks. We strongly believe the CAAT merger is the solution we have been seeking.

How Will the Merger Work?

We are looking at merging with the CAAT Plan effective April 1, 2023. This means that:

- All active members including those in LCC Defined Benefit Plan (DB), the LCC Defined Contribution Plan (DC) and those currently in the Defined Contribution with past Defined Benefit service (DC/DB) will be enrolled and start earning a future defined benefit pension benefit under CAAT's DBplus provisions. Employers will contribute 6% of member's earnings and members will contribute 4% of earnings.
- Past Defined Benefit service will be transferred to CAAT. On retirement members will receive a pension comprised of the pension they earned under the LCC Defined Benefit and the pension they earn under CAAT's DBplus provisions.
- Members have the option of using their eligible DC Plan assets to

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How will it work, continued

purchase additional pension with CAAT. We are required to wind-up the LCC Pension Plan before members can transfer their DC assets to CAAT. If a member had periods of employment with another prior employer where they were a member of a registered pension plan they may also be able to buy additional pension.

- Pensioners included in the annuity purchase will start receiving their monthly pension payments directly from the insurers (Canada Life and RBC Life).
- Each year while contributing to CAAT, members will receive an annual increase on their earned LCC DB Pension that is transferred to CAAT based on increases to the Average Industrial Wage (AIW) in Canada to a maximum of 2.3%. This replaces using future salary increases to determine the member's pension benefit and applies regardless, if the member receives a salary increase.
- In order to fund liabilities to a level equal to CAAT's going concern funded ratio of 124% along with providing for an annual increase to the LCC pension that is being transferred, we will need to top up the assets being transferred from the pension fund to CAAT by approximately $ 6 million dollars. This is an estimate and could change due to market performance between now and when a Memorandum of Agreement is signed with CAAT. Once an agreement is signed, the CAAT top-up payment is a fixed amount that will not change as a result of changes largely outside our control, such as investment, interest rate and longevity risks, unlike solvency deficits which are impacted by these issues.
- Employer pension contributions are expected to remain the same at 16% for the next five years with 6 % allocated to earning benefits under CAAT's DBplus provisions and the remaining 10% (about $1.4 million annually) being used towards financing the shortfall of about $ 6 million. After the shortfall is paid, the amount of employer contributions can drop to 6%.

Advantages to Employers

- Joining a larger plan with a diverse group of employers improves plan sustainability as the plan is not reliant on the financial health of any one organization.
- CAAT is a large, expertly run plan that has been in existence for more than 50 years. Their business is pensions.
- Employers will have certainty on when the pension funding shortfall will be eliminated and when their pension contributions will decrease.
- Employers will get better value for the same contribution rate with an enhanced pension benefit for their member and economies of scale resulting in significantly lower administration costs so that more of the contribution goes towards member benefits.
- The merger eliminates balance sheet risk for LCC and employers as contributions can be accounted for on the same basis as a DC Plan even though CAAT provides DB benefits.
- LCC will be out of the pension business and can concentrate efforts on core charitable activities.

Process for Approving and Implementing the Merger

The following are the major steps for implementing the merger:

- Employers will receive an Agency Agreement authorizing Lutheran Church–Canada to act on their behalf in negotiating a Memorandum of Agreement (MOA) with CAAT. These agreements must be signed and returned prior to end of July 2022.
- A presentation on the CAAT merger will be delivered at the Lutheran Church–Canada Synod Convention to be held in June 2022. Delegates will be asked to support a resolution in favour of pursuing the merger with CAAT.
- Assuming delegate support is favourable, the MOA with CAAT is expected to be signed by August 2022.
- Pension regulations require 2/3rds of the active membership with DB service to vote in favour of the merger and no more than 1/3rds of inactive members with DB service to vote against the merger. We expect voting packages prepared by CAAT to be sent to members in early December 2022. Members will have 90 days to return their voting forms.
- The result of the vote by members will be communicated to employers and members mid-March 2023.
- Assuming the vote is favourable, effective April 1, 2023 active members will commence earning benefits under CAAT's DBplus provisions and employer and member contributions will be sent to CAAT.
- Reports will be filed with the Pension Regulators to seek a merger of the DB component of the LCC Pension Plan with the CAAT Pension Plan and to wind-up the DC component of the LCC Pension Plan.
- Once the regulator approves the DB asset transfer and DC wind-up, the DB Pension Plan assets will be transferred to CAAT, and the DC Pension Assets will be transferred according to the member's option election.

Who is CAAT?

The CAAT Plan was originally created in 1967 to support the Ontario college system. The DB plus component of the CAAT Pension Plan was first introduced in 2019 and has already attracted 150 employers. CAAT now has more than 200 participating employers in 11 industries including the for-profit, non-profit, and broader public sectors. It is a profit-for-members trust that delivers secure lifetime pensions. It currently has more than 75,000 active and retired members. CAAT is a jointly governed plan; through two governing bodies, members and employers have an equal say in Plan decisions about benefits and funding. CAAT is well-funded and is respected for its pension and investment management expertise focused on stability and benefit security.

At January 1, 2022, the Plan was 124% funded on a going-concern basis with assets of $18 Billion. CAAT's 10-year net investment return is 11%. CAAT estimates pension costs very conservatively using a going-concern funding rate of 4.95%. This means that the Plan's funding health will continue to improve if investment returns exceed 4.95% over the long term.

Communication

A separate communication will be sent to plan members on the merger, employers will be sent copies of that communication. We are expecting to provide webinars and possibly in-person presentations to both employers and members in May 2022, and in-person presentation at the June 2022 convention to explain the merger and provide further details on the CAAT Pension Plan. Further details on the plan merger and planned communication will be sent in the next couple of weeks.

Further information on the CAAT Plan may be found on the CAAT website: www.caatpension.ca.

Summary and Contacts

The WBS Board believes that a merger with CAAT would provide positive outcomes for both employers and members. The CAAT Plan provides a secure lifetime DB pension to members with inflation and survivor protection while relieving members of the burden of understanding and managing investment under the Defined Contribution Plan or worrying about whether they will outlive their savings. Employers will have certainty on pension funding with a clear path to eliminating the pension shortfall and will get better value for the same contribution rate they currently pay with enhanced benefits for members. As indicated above, further details will be communicated prior to implementation. In the meantime, if you have any questions or comments, please e-mail or call the following:

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Factors for Evaluating Retirement Plans

This chart provides a view of the key factors to consider when making a decision about a workplace retirement plan.

Key Factors	DBplus By CAAT	Defined Contribution Plan	Defined Benefit Plan
Financial			
Fixed cost	Yes	Yes	No
Eliminates contribution volatility	Yes	Yes	No
Eliminates employer risk of funding solvency deficit	Yes	N/A	No
Eliminates employer risk of funding wind-up deficiency	Yes	N/A	No
Eliminates balance sheet liability	Yes	N/A	No
Employee Perspective			
Helps reduce stress about retirement	Yes	No	Yes
Predictable lifetime income (no concern about outliving one's saving)	Yes	No	Yes
Ability to purchase additional pension	Yes	No	Depends on plan

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