LCC Worker Benefit Services Inc.
Caring for those who serve

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To: Congregational Treasurers and Institutional Business Managers

From: Nancy Swerhun, Pension and Benefits Manager
LCC Worker Benefit Services

Date: October 16, 2019

Re: **2020 Employer Rates for pension and benefits**

Implementation of changes effective January 1, 2020

As announced in March, 2019 a set of plan design changes for the Group Benefit Plans is being implemented effective January 1, 2020. The changes replace the FlexBenefits Plan with a traditional plan where everyone is enrolled in the same option (previously Option 2) for health, dental and long-term disability (this is the Option where the majority of members were enrolled prior to the change). Employer paid Basic Life insurance will be based on three times annual salary effective from January 1, 2020 for all members (currently those hired prior to January 1, 2008 are provided with five times annual salary whereas those hired January 1, 2008 and later receive three times annual salary). The move to a traditional plan was undertaken to simplify the plan structure so that it would be more cost efficient going forward, as well as, being more aligned with the organizations' s needs, changing structure and smaller membership base.

Market Survey Results

In conjunction with the plan design changes the WBS Board undertook a market survey of benefit providers to determine which one would be best suited from a pricing and service perspective to underwrite the new benefits program. Manulife was selected because of their competitive rates, as well as, their service capabilities. They also guaranteed the rates for life, accident and disability for the next two years. While the survey provided some modest savings, more importantly it confirmed that we are providing a cost-effective program for the dollars spent by members and employers.

Impact as a result of the Changes and Market Survey

There has been an overall decrease in employer costs to fund the Group Benefit Plans for 2020 of about 5 %. Member paid costs for most members are similar to last year's costs **excluding** additional Optional Life costs members may incur if they increase their Optional Life coverage (to replace the additional two times basic life insurance that was previously paid by employers).

Details on Rate Changes

Plan costs for the Basic Life and Dependent life insurance decreased by about 17% overall, primarily as a result of the decrease in coverage from five times annual earnings to three times annual earnings. Manulife offered the best rates for these insurances compared to other insurers who provided quotes. Member paid Optional Life, Optional Spousal Life and Optional Child Life rates remained the same. Extended Health rates saw an overall increase of 4.2% and Dental rates declined by 5.7%. Retiree rates for the health plan increased by 4.6 % and the retiree dental plan saw a decrease of 5.7%. Retirees will be assuming a large portion of the cost of these plans as they will now pay 70% of the costs, up from 60% last year.

Rates for the member paid Long Term Disability Plan declined by about 17%.

Rates for the Pension Plan, Post-Retirement Benefits Plans, the Employee and Family Assistance Plan and Administration remain unchanged. The pension plan rate remains at 16% of payroll and the employer 2020 contribution for post-retirement benefits remains at 1.9% of payroll. As noted above, in 2020 retirees will pay 70% of the total premium cost; in 2019, they paid 60%. The rate for EAP remains at $7.00 per month and the monthly administration expense per active member in 2020 will be $75.00, which has been the same for many years. Administration services include such things as administrative costs for providing enrollment, billing, communication and customer services; data maintenance; pension calculations; government calculations and tax reporting; benefit enrollment system; consulting services for group benefits and Defined Contribution (DC) pension investments; DC pension plan record keeping; regulatory filing requirements and legal, accounting and auditing services.

Our continuing goal is to ensure that our member's pensions are secure, members receive the benefits they require; and costs to congregations, schools, and institutions and their employees are affordable. Meeting all those goals simultaneously can be challenging. Before making any decisions about changes to benefit plans or rate increases, all alternatives are very carefully reviewed and we ensure we have the best rates possible from the insurer.

To provide further clarity, we have also included in your material two appendices, which illustrate the net dollar impact the new rates will have on a typical employer and employee that participate in our plans.

If you have any further questions regarding the new rates, please do not hesitate to contact Ellement at 1-844-440-1045.

Further information on the Pension Plan

The 2020 contributions required to fund the pension plan will remain the same at 16.0% of payroll.

Each year we publish an Annual Report on the pension plan that can be found on the website at www.lccbenfits.ca .

A valuation of the DB pension Plan was last conducted as at December 31, 2017 (plan valuations are required to be filed with the regulator every three years.) The valuation showed the plan is 100% funded on a going concern basis. The December 31, 2017 valuation also showed the plan is 80% funded on a solvency basis with a deficit of $19.7 million. The solvency valuation is an assessment of the funding and liabilities of the Plan assuming it is wound up on the date of valuation. With the decrease in the interest rates (long-bond yields) throughout 2019 that would be used in doing a solvency valuation, we expect our solvency ratio to have declined, although we have not done a valuation to confirm this. Our next valuation is scheduled to be undertaken based on December 31, 2020 and will be completed sometime in the spring of 2021. It is our hope that the position of the plan will have improved by then.

All employers own a pro-rata share of the deficit in the defined benefit plan and all employers make supplemental contributions (currently 10% of Payroll) to pay for current and past employees who have defined benefit service. This contribution rate has been set on the assumption that employers will fund the solvency deficit on a best efforts basis. The contribution rate is subject to change if the plan has to start funding the Defined Benefit component of the Pension Plan on a solvency basis, although we are not expecting this. Currently, the pension regulator has not required us to fully fund the solvency deficit but it is within their power to do so. The WBS Board has worked with the pension regulators to create understanding on the implications to our employers if they are required to fully fund the solvency deficit. I think it is fair to say that the regulators have a good understanding of the financial constraints of our employers. However, should a further rate increase become necessary in 2020, employers will be given as much notice as possible in advance of the change.

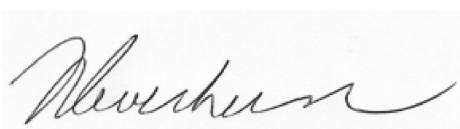
Employee Deductions

It is important that the premium for the following benefits be entirely paid for by the employee and not be paid by the congregation. This is a legal requirement to comply with both our plan regulations and Canada Revenue Agency taxation rules. Furthermore, any LTD premium paid by the employer will taint the whole plan, making the benefit when paid to any claimants taxable rather than non-taxable.

1. Employee required pension contributions (4%) and Optional DC pension contribution (choice of 1%, 2%, 3% or 4% of compensation)
2. Long Term Disability premiums

Should you have any questions or require further clarification, please do not hesitate to contact Ellement at 1-844-440-1045 or email lccbenefits@ellement.ca

In His Service,



Nancy Swerhun, Pension and Benefits Manager
LCC Worker Benefit Services

Note: Employer premium costs are calculated as a percentage of an employee's Total Annual Compensation which includes basic salary plus utility allowance plus housing allowance. When the employer provides a residence (parsonage), the housing allowance is considered to be 30% of the basic salary.