



# Annual Report

## Lutheran Church – Canada Pension Plan

|  |                         |  |      |
|--|-------------------------|--|------|
|  | Worker<br>Benefit Plans |  | 2009 |
|--|-------------------------|--|------|

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*This annual report is for informational purposes only and does not constitute an agreement, nor does it create or confer any contractual rights or obligations. This is only a summary of the pension and benefit activities of 2009. In the event of any inconsistency between this document and the official plan or policy, the plan or policy texts will govern.*

## Planning for the Future

Market volatility over the past couple of years has made it extremely challenging for those responsible for the oversight of pension investments. The economic turbulence that characterized the last half of 2008 carried on to March 2009, when things began to recover. By the end of 2009 much, but certainly not all, of what had been lost in the market meltdown had been regained. The Board of Managers has been actively monitoring the challenging economic conditions and has consulted with experts in the area for their opinion and vision of what is happening in the markets and where we are likely to head in the future.

Defined Benefit (DB) funding issues continue to cause concern for all DB pension plan sponsors with the vast majority of plans having solvency deficits (insufficient funds to pay out all benefits owed to members if the plan were to be wound up as of the valuation date). The LCC Pension Plan has been no exception to this trend.

An actuarial valuation was conducted as of December 31, 2009. The results of the study indicated the plan was only 75% funded on a solvency basis with a deficit of approximately \$ 22 million and 83% funded on a going concern basis with an unfunded liability of about \$13 million.

Lower than expected investment return accounted for about half of our solvency deficiency. Our expectation was that our assets would grow at a rate of 6.25% per year from when the last actuarial valuation was conducted at the end of 2006. The actual rate of return from 2006 to 2009 was closer to 1%. The other half resulted from substantially increased liabilities because of larger than expected salary increases, increases in life expectancy (which affects how long pensions will be paid), members retiring earlier than expected, and decreases in long term bond yields. The latter are used to value the liabilities and the lower the expected bond yields the higher the amount of money that must be set aside to fund the benefits.

Normally we are required to pay off the solvency deficit over 5 years with special payments. The Alberta government (where our plan is registered), in recognition of the funding difficulties most pension plans are experiencing, enacted legislation to permit a moratorium on these special payments until the end of 2012. However, special payments must be made regarding the going-concern deficit and this has unfortunately triggered the need to increase rates to employers.

Members participating in the Defined Contribution (DC) part of the plan saw a number of changes to the investment options offered in 2009. Because of both historical underperformance and forward looking (expected) performance, the Jarislowsky Fraser Bond Fund, Balanced Fund, International and U.S. Equity funds were replaced with TDAM Canadian Bond Index Fund, Greystone Balanced Fund, MFS International Equity Fund and Legg Mason Batterymarch U.S. Fund, respectively. With the assistance of an external investment expert, these funds were selected based on criteria such as investment approach, organizational strength, and historical performance. The bond fund is now an indexed (passively managed) fund. In selecting the Greystone Balanced fund, the expectation is for more diversified sources of return. Specialist firms were chosen for the US and International equities asset classes.

Since this 2009 report is coming out late in the year (next year's report should be out in June), we are providing some 2010 news. In January of 2010 the Board of Managers held a strategic planning session with key stakeholders to discuss the future direction of the Worker Benefit plans. A Strategic Plan was adopted and is included elsewhere in this report. To keep our pension plan viable into the long term, changes to the design of the plan have been reviewed during 2010. A series of focus groups were held at various places across Canada for both members and employers to provide input into these suggested changes. One outcome has been the cancelling of the employer match on the DC plan effective January 2011. Another outcome, not yet implemented, is a necessity to move away from an entirely employer-paid plan. The Board of Managers is still reviewing this aspect and plans to make a final decision on changes at its meeting in January 2011.

One of the organizational changes that occurred in 2009 was the retirement of the Executive Director, Inge Schroeder. On behalf of the Board of Managers we wish to thank Inge for her many years of dedicated service in managing the Worker Benefit Plans. In early 2010 the Board of Managers appointed Dwayne Cleave to take on the Executive Director duties in addition to his role as Synod Treasurer.

Finally, we would like to thank all the employers for their continued support of the Worker Benefit Plans.

Mrs. Lois Griffin  
Chair, Board of Managers

Dwayne Cleave  
Director, Worker Benefit Plans

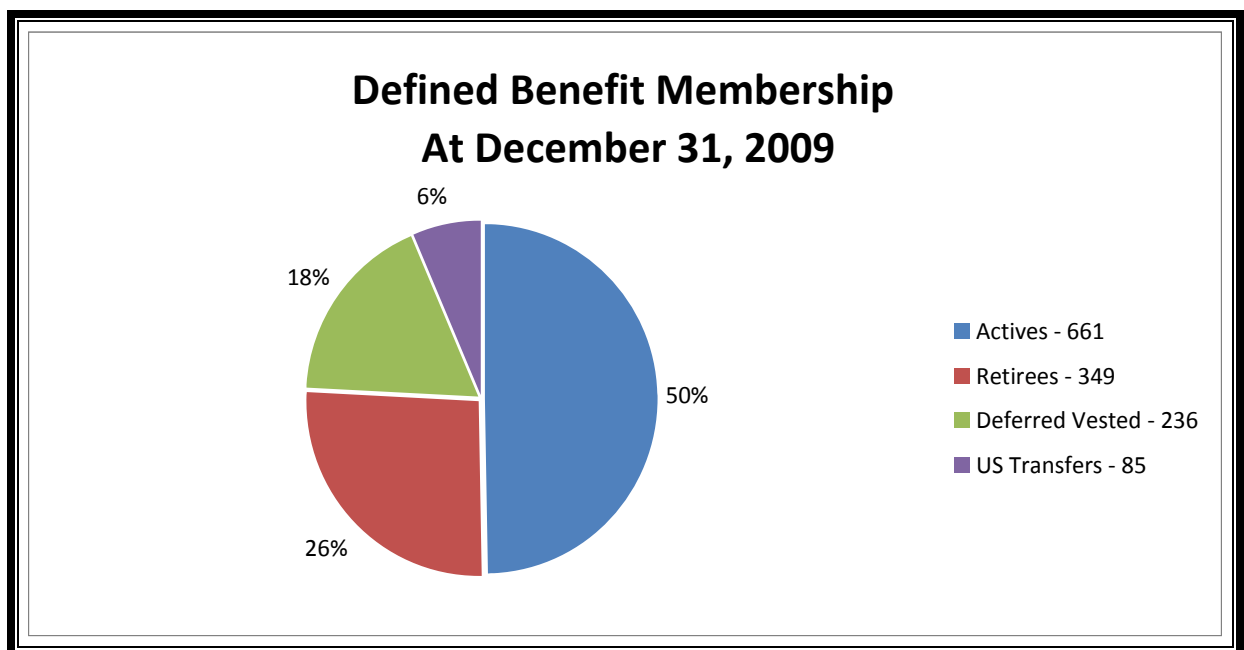
## Introduction

The Lutheran Church-Canada Pension Plan consists of both an employer-paid defined benefit plan, and a voluntary contributory defined contribution plan. The plan is available to employees of participating congregations, schools and other employers affiliated with Lutheran Church-Canada.

The plan is registered in the Province of Alberta and with Canada Revenue Agency as No.0356610.

## Defined Benefit Plan

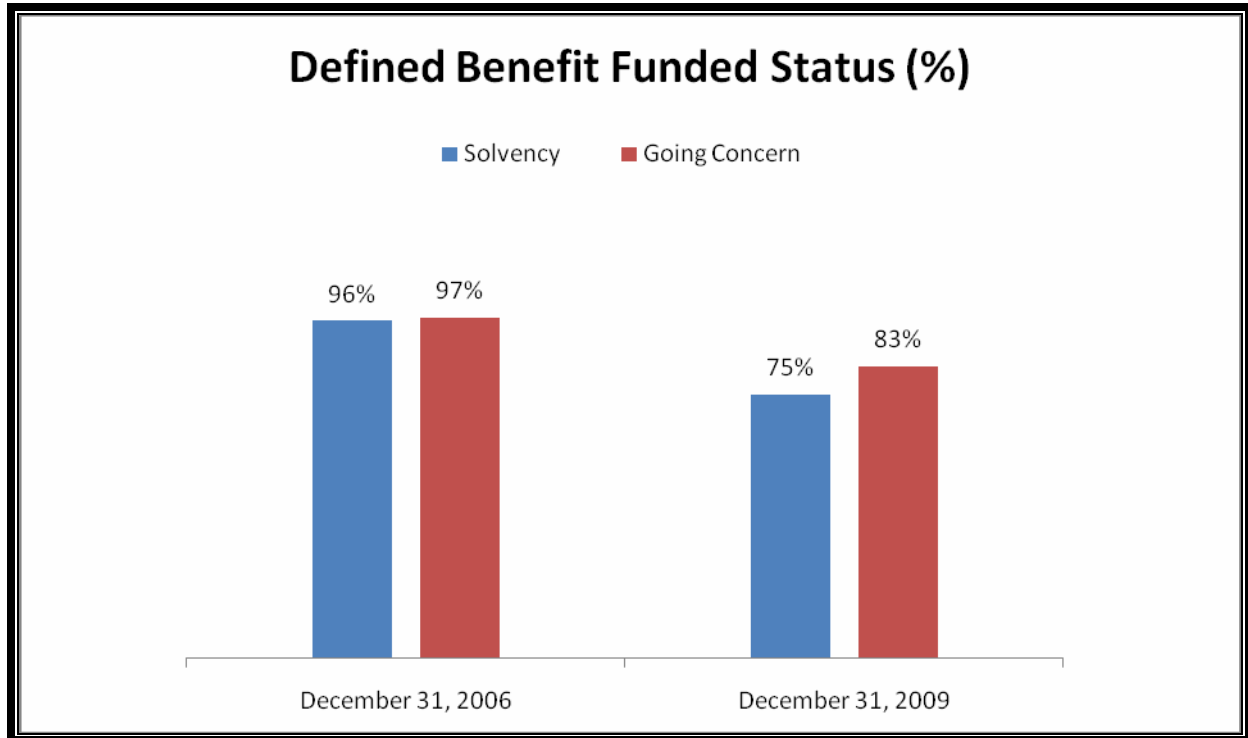
### Membership



### DB Active Membership Changes

|                                     |      |
|-------------------------------------|------|
| Active Members January 1, 2009      | 702  |
| New members in 2009                 | 64   |
| Terminations                        | (81) |
| US Transfers                        | (1)  |
| Retirements                         | (21) |
| Death Claims                        | (2)  |
| Active Members at December 31, 2009 | 661  |

## Funded Status

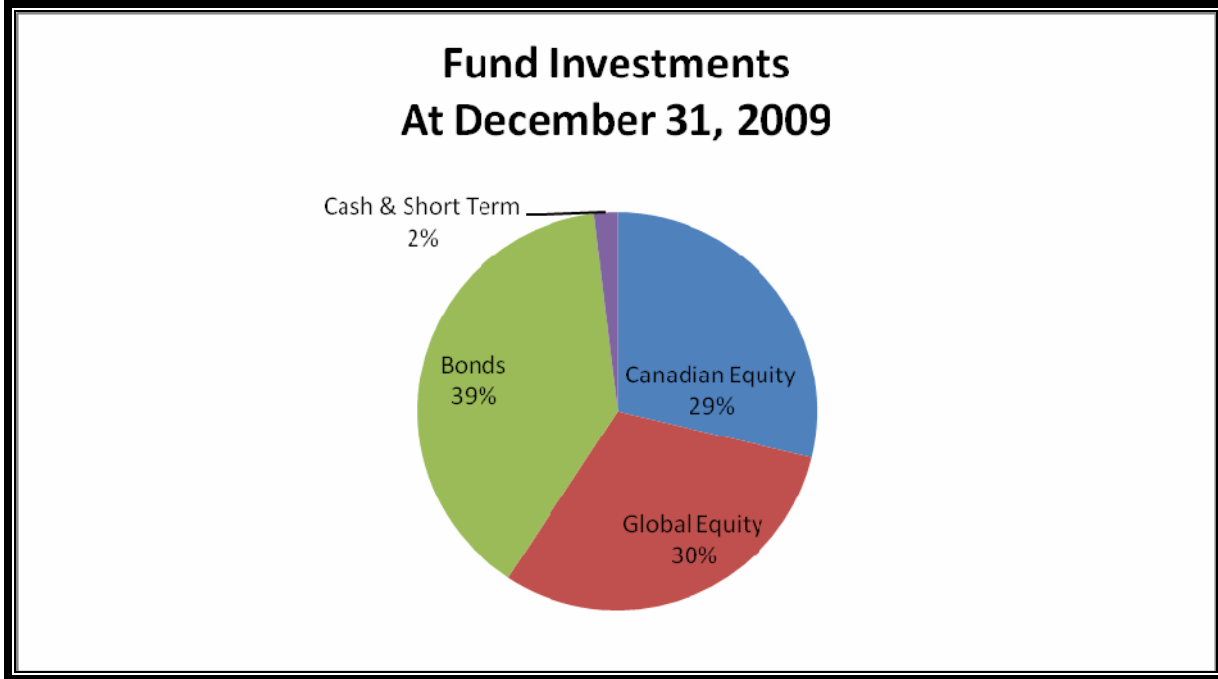


### ***Funding Terminology – What does it Mean?***

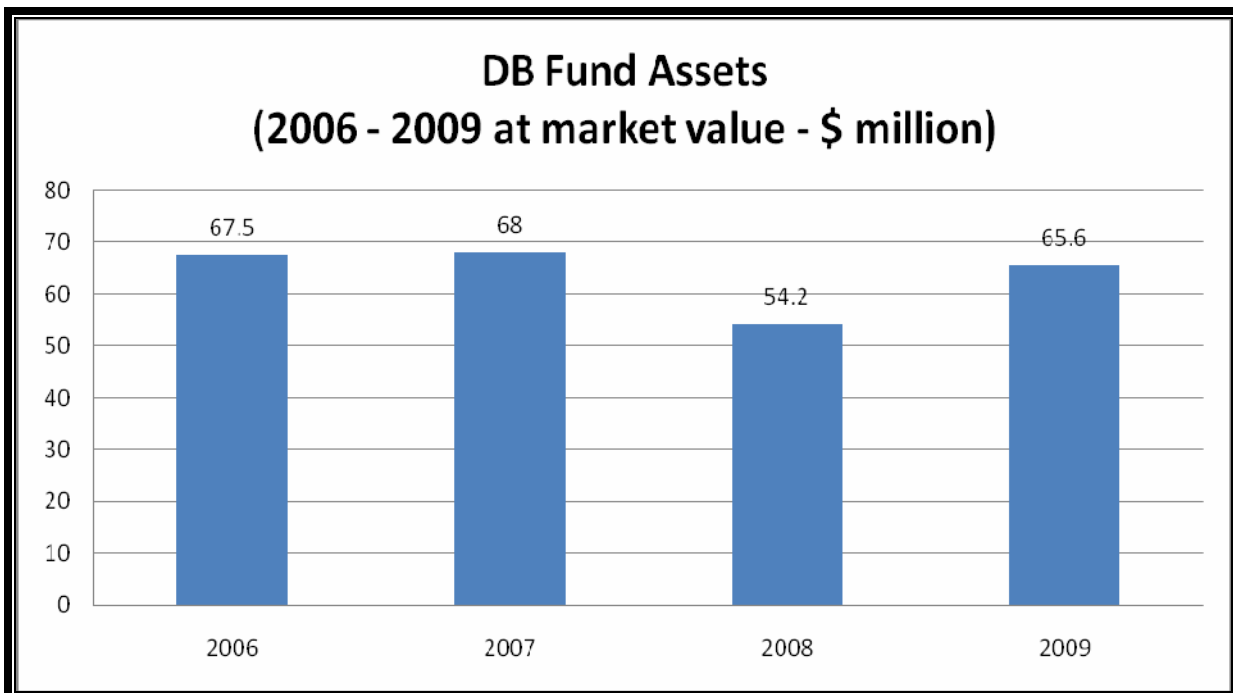
***Going-Concern Basis:*** The going concern valuation values the present value of member's future benefits for credited service up to the date of the valuation and is based on assumptions that the pension plan will continue in operation indefinitely. Economic assumptions such as future salary increases and probabilities of retirement, termination and death are set with a long-term view.

***Solvency Basis:*** The plan valuation assumes that the plan is terminated and wound up as of the valuation date. The solvency liabilities are those that need to be paid out immediately both to retired members and to those currently employed. The value of these liabilities is directly affected by the level of bond yields as of the valuation date. Decreases in bond yields has the effect of increasing the liability and conversely increases in yields decreases liabilities.

## Fund Investments



## Fund Assets



## DB Financial Position (000's)

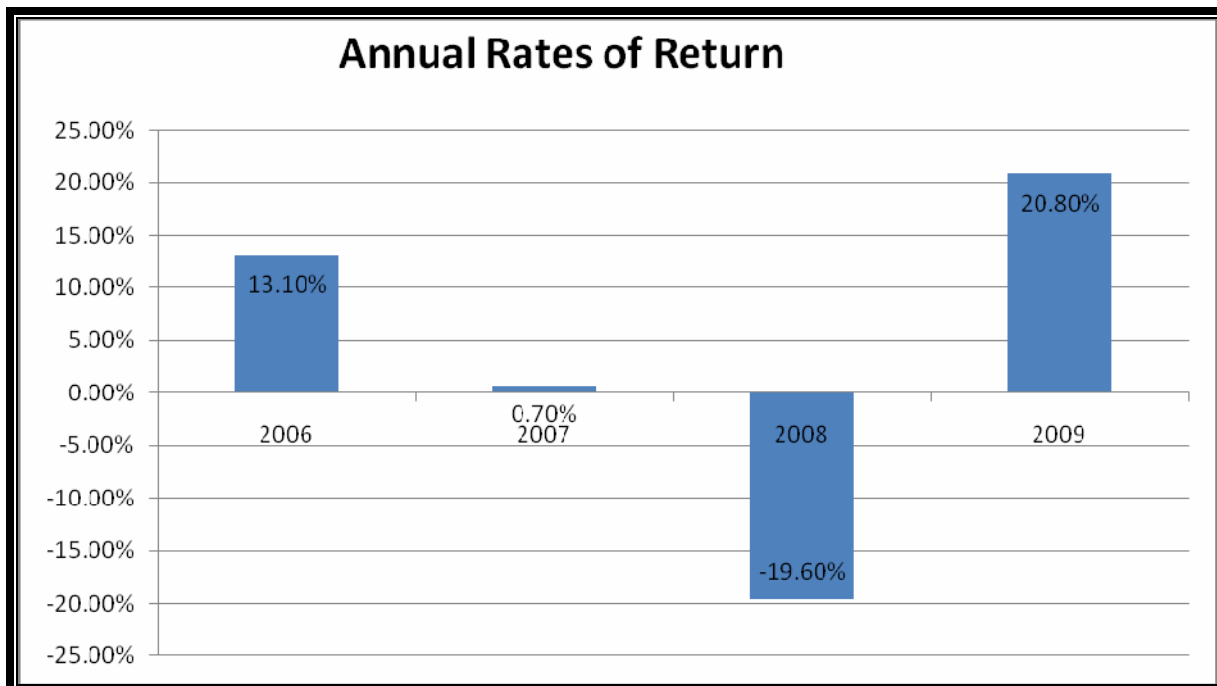
|   | December 31, 2009 | December 31, 2006 |
|---|-------------------|-------------------|
| <b>Going Concern Basis</b>                        |                   |                   |
| Actuarial Value of Assets                         | \$ 65,626         | \$ 63,530         |
| Actuarial Liability                               | 78,995            | 65,418            |
| Actuarial Surplus (unfunded, actuarial liability) | \$ (13,369)       | \$ (1,888)        |
| Going-concern funded ratio                        | 83%               | 97%               |
| <b>Solvency Basis</b>                             |                   |                   |
| Solvency value of assets                          | \$ 65,255         | \$ 67,248         |
| Solvency liability                                | 87,166            | 70,049            |
| Solvency surplus (deficit)                        | \$ (21,911)       | \$ (2,801)        |
| Solvency funded ratio                             | 75%               | 96%               |

## DB Annual Rate of Return

The funds are invested with Foyston Gordon & Payne, an active value style manager, TD Quantitative Capital Asset Management, a passive index manager and Phillips, Hagar & North (Sky Investments) who manages the fund's foreign (non US) investment component. The Board of Managers regularly monitors and reviews the performance of each manager with comparisons to benchmark returns, SEI Median Returns and the fund objectives.

Annual rates of return for the fund over the last four years are shown in the graph below:

## Fund Annual Rates of Return



## Lutheran Church - Canada Defined Benefit Pension Plan Statement of Changes in Net Assets available for Benefits

|   | 2009                 | 2008                 |
|---|----------------------|----------------------|
| <b>Net assets available for benefits, beginning of year</b> | <b>\$ 54,845,013</b> | <b>\$ 68,057,227</b> |
| <b>Increase in assets:</b>                                  |                      |                      |
| Contributions   | 3,656,193            | 3,643,861            |
| Investment Income   | 2,126,960            | 2,482,687            |
| Realized investment gains net of realized losses            | 170,329              | (366,421)            |
| Unrealized investment gains, net of unrealized losses       | 8,971,513            | -                    |
| <b>Decrease in assets:</b>                                  |                      |                      |
| Unrealized investment losses, net of unrealized gains       | -                    | 15,272,401           |
| Pension benefits paid                                       | 2,809,153            | 2,513,450            |
| Lump-sum transfers  | 610,968              | 658,247              |
| Consulting fees   | 341,871              | 174,563              |
| Investment and custodial fees                               | 247,780              | 254,514              |
| Administration expenses                                     | <u>105,703</u>       | <u>99,166</u>        |
| <b>Net Assets available for benefits, end of year</b>       | <b>\$ 65,654,533</b> | <b>\$ 54,845,013</b> |

## Description of the DB Plan

The following provides a general description of the DB plan. Further details on the plan can be provided by contacting Worker Benefit Plans.

### General

The plan is a non-contributory defined benefit pension plan, covering employees of the various entities affiliated with the Lutheran Church-Canada and was established on January 1, 1989. The pension funds are held in trust with CIBC Mellon.

### Funding Policy

Lutheran Church – Canada and its various affiliated entities make contributions to the trust fund based on an actuarial valuation of the plan that is conducted at least every three years. As of January 2010, we are required to file an annual valuation in accordance with Alberta Finance and Enterprise requirements that an annual valuation be done if a pension plan has a funded ratio less than 85% on either a going concern or solvency basis. The actuarial valuation provides information on both the going-concern and solvency position of the plan.

The going concern valuation values the present value of member's future benefits for credited service up to the date of the valuation. Measurement of the funded status on a going concern basis is based on assumptions that the pension plan will continue in operation indefinitely. As a result, the economic assumptions used to measure the pension obligations are set with a long-term view and include margins

for adverse deviations. Assumptions are made for future salary increases and probabilities of retirement, termination and death. This valuation uses an asset smoothing method to value the plan assets. This has the effect of averaging periods of underperformance with periods of outperformance over a three year period.

The solvency position of a pension plan represents the funded status of the pension plan assuming the plan was to be terminated or be wound-up at that date and all members' benefits settled. The market value of the plan assets, less an allowance for expected plan wind-up expenses, is compared to the actuarial present value of members' accrued benefits at the valuation date. The members' accrued benefits are determined in accordance with the plan formulae, based upon years of service and actual pensionable earnings up to the valuation date (i.e., no allowance is made for future earnings escalation or future service accruals). To determine the actuarial present value of these accrued benefits, members not yet eligible to retire are assumed to receive a commuted value (the lump-sum value of future payments), whereas annuities are assumed to be purchased from an insurance company for members who are retired or eligible to retire. Economic assumptions used in the solvency valuation reflect interest rates in effect for settling members' benefits at the valuation date, and are directly correlated to Government of Canada bond rates.

## **Plan Formula**

Members accrue benefits based on 1.25% of Final Average Earnings (average of the highest 60 consecutive months during the last 240 months of credited service) up to the Average Year's Maximum Pensionable Earnings (AMPE) (for the year of retirement and the two previous years) as set by Canada Pension Plan, plus 1.6% of Final Average Earnings in excess of the AMPE, multiplied by credited years of service.

## **Normal, Early Retirement and Postponed Retirement**

Normal Retirement is the first of the month coincident with or immediately following the attainment of age 65.

A member can retire as early as age 55. Members who retire at or after age 60 will have their pension reduced by .55% for each month that their early retirement date precedes age 65. A member who retires between age 55 and 60, will have their pension benefit reduced by 33% plus an additional .27% for each month that their early retirement precedes the first of the month following their 60th birthday.

Members may continue to accrue benefit up to the end of the year in which they turn 71 years of age, at which time they must commence to receive their pension.

## **Vesting and Termination**

Members who cease employment are entitled to a benefit from the plan upon completing two years of service. Benefits are determined based on the plan formula and member's earnings and credited service. Members may transfer the value of their benefits to eligible retirement vehicles, however, such transfers are subject to locking-in provisions (i.e. an amount that cannot be received in cash). Alternatively, benefits may remain in the pension plan and the former member may commence a monthly pension as early as age 55.

## **Death Benefits**

If a member dies before retirement, a benefit is paid to the surviving spouse or beneficiary if there is no surviving spouse. If a member's death occurs after retirement, the benefit paid to the surviving spouse is paid according to the form of pension chosen at the time of retirement.

## Defined Contribution Option

### 2009 Summary Financial Statement

|                                     | 2009         | 2008         |
|-------------------------------------|--------------|--------------|
| <b>Change in Assets</b>             | <b>\$</b>    | <b>\$</b>    |
| Assets beginning of the year        | \$ 4,000,998 | \$ 3,990,305 |
| Employee contributions              | \$ 614,099   | \$ 637,564   |
| Employer contributions              | \$ 281,507   | \$ 297,850   |
| Investment income (loss)            | \$ 585,791   | (\$631,955)  |
| Transfers to Financial Institutions | (\$ 496,206) | (\$292,766)  |
| Increase (decrease in assets)       | \$ 985,191   | \$10,693     |
|                                     |              |              |
| Assets, end of year                 | \$ 4,986,189 | \$ 4,000,998 |

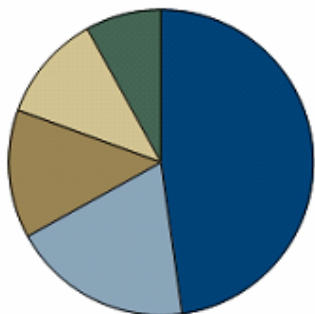
## Fund Asset Mix

### Fund Asset Mix

The following charts illustrate the DC Option Asset Mix at December 31, 2009 both by asset category and by the funds in which members allocated their assets.

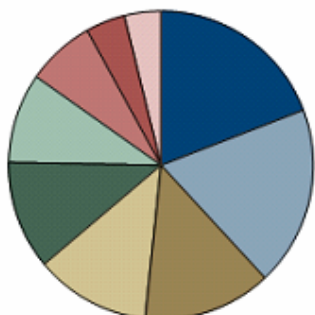
| Asset category          | Month-end closing balances \$ | % of investment |
|-------------------------|-------------------------------|-----------------|
| Balanced                | 2,378,959.26                  | 47.71           |
| Canadian Equity         | 961,717.42                    | 19.29           |
| Fixed Income            | 558,655.29                    | 11.20           |
| Foreign Equity          | 407,110.61                    | 8.16            |
| Guaranteed/Money Market | 679,746.77                    | 13.63           |
| <b>Total</b>            | <b>\$4,986,189.35</b>         | <b>100.00%</b>  |

#### By asset category



|                           |         |
|---------------------------|---------|
| ■ Balanced                | 47.71%  |
| ■ Canadian Equity         | 19.29%  |
| ■ Guaranteed/Money Market | 13.63%  |
| ■ Fixed Income            | 11.20%  |
| ■ Foreign Equity          | 8.16%   |
| Total:                    | 100.00% |

#### By fund



|                     |         |
|---------------------|---------|
| ■ JF CDN EQ (6JW)   | 19.29%  |
| ■ GRYSTN BAL (P8D)  | 18.79%  |
| ■ MB MN MKT (DHS)   | 13.63%  |
| ■ RSL LP BLGR (DJG) | 12.30%  |
| ■ TD C BD IND (G1X) | 11.20%  |
| ■ RSL LP LTGR (DKD) | 9.39%   |
| ■ RSL LP BLIN (DJS) | 7.22%   |
| ■ MFS INTL EQ (PCN) | 4.26%   |
| ■ LM BTY US (GDS)   | 3.90%   |
| Total:              | 100.00% |

The top 11 items are represented in each graph. All other items are grouped under 'Others/Autres', if applicable.

## Rates of Return\*

|  | 2009<br>(%) | 2008<br>(%) |
|--|-------------|-------------|
| <b>Balanced Funds</b>                    |             |             |
| • Greystone Balanced                     | 15.14       | -18.32      |
| • Russell Life Points Balanced Growth    | 17.68       | -17.14      |
| • Russell Life Points Balanced Income    | 13.94       | - 8.05      |
| • Russell Life Points Balanced LT Growth | 20.30       | -24.17      |
| <b>Canadian Equity</b>                   |             |             |
| • JF Canadian Equity                     | 26.40       | -23.81      |
| <b>Fixed Income</b>                      |             |             |
| • TDAM Canadian Bond Index               | 4.93        | 6.42        |
| <b>Foreign Equity</b>                    |             |             |
| • Legg Mason Batterymarch U.S. Equity    | 2.17        | -22.68      |
| • MFS International Equity               | 13.04       | -18.29      |
| <b>Money Market</b>                      |             |             |
| McLean Budden Money Market               | .75         | 3.78        |

\*Returns stated are before investment management fees and include the reinvestment of all distributions. They do not take into account any administration charges or taxes payable. Past returns may not be repeated.

## DC Membership Changes

|                                     |      |
|-------------------------------------|------|
| Active Members January 1, 2009      | 476  |
| New members in 2009                 | 42   |
| Terminations                        | (60) |
| Death Claims                        | (2)  |
| Active Members at December 31, 2009 | 456  |

## Description of the DC Plan

The following provides a general description of the DC plan. Further details on the plan can be provided by contacting Worker Benefit Plans.

### General

Established January 1, 2003, the Defined Contribution Option (DC) is a voluntary component of the Lutheran Church-Canada Pension Plan. The pension assets are held in trust with Sun Life Financial.

## Funding

The DC Plan provides an opportunity for employees to tax effectively build their retirement income by making contributions through payroll deduction and receive a matching plan sponsor contribution as follows:

| <b>Member<br/>(% of earnings)</b> | <b>Plan Sponsor<br/>(% of earnings)</b> |
|-----------------------------------|---|
| 1 %                               | .75%                                    |
| 2% - 4 %                          | 1%                                      |

Members have a further opportunity to enhance their retirement savings by directing excess flex credits from the Flex Plan to the DC Option.

Members choose how to invest both the member and plan sponsor contributions made to the DC options from a suite of investment with varying risk and return potential. The investment options are managed by professional fund manager selected by the Board of Managers. Fund managers are selected from the investment funds available from the record keeper, Sun Life Financial, based on a number of criteria, including investment approach, organizational strengths, historical performance and service capabilities. The DC Option currently provides nine investment options managed by seven fund managers. Sun Life is responsible for the day-to-day management and administration of member accounts. Members may change the investment directions of current contributions, or move past contributions into different funds, at any time.

## Vesting and Termination/Retirement

Plan Sponsor contributions are vested (owned) by the employee and locked-in (required to be ultimately used to provide a retirement income) after two years of service. As such, withdrawals prior to termination are not permitted. At termination or retirement members may transfer their funds from the Plan to a financial institution of their choosing.

## Death Benefits

If a member dies before retirement, the member's account balance is transferred to an eligible retirement vehicle of the surviving spouse. Such transfers are subject to locking – in provisions (i.e. an amount that cannot be received in cash). If there is no surviving spouse, the member's account is paid in a lump sum to the member's beneficiary or if not named to the estate of the member.

## Governance and Administration

Good pension plan governance requires control mechanisms that encourage good decision making, proper and efficient practices, clear accountability, and regular review and evaluation. In order to achieve its goal of good governance and to meet its legal and fiduciary obligations the Board of Directors approved two documents that provide guidance to plan administrators and governors, "Pension Plan Governance Structure" and the "Regulations for the Administration of the Lutheran Church-Canada Pension Plan". The governance objectives of the Plan are to be in compliance with all applicable laws, to be able to demonstrate prudent oversight of the plan to stakeholders and to ensure the Plan is funded and administered so as to meet its obligations to members and beneficiaries. The Board of Directors of Lutheran Church-Canada has delegated to the Board of Managers (BOM) the responsibility for pension strategy, implementation and administration of the Plan including the management of the investment funds.

## Board of Managers (BOM)

The BOM has general oversight responsibilities for the Plan and in that capacity they oversee all aspects of the Plan's operations, including the selection or termination of investment manager(s), trustee(s), custodian(s), third party administrator(s), actuary and other advisors, set pension related policies, determine funding, contribution and actuarial strategy, and ensure the plan is in compliance with all legislation. The BOM acts in fiduciary capacity to ensure the best interests of all present and future plan members, pensioners and beneficiaries. Day - to - day management of the Plan is delegated to the Director, Worker Benefit Plans (WBP) and WBP staff.

The BOM consists of five individuals who are appointed by the Board of Directors of Synod to serve a six-year term. The BOM meets regularly three times per year and more often, if required.

### Board Members

|   |                                  |   |
|---|----------------------------------|---|
| <b>Lois Griffin</b><br>Chairperson<br>Etobicoke, ON   | <b>Steve Raine</b><br>Regina, SK | <b>Richard Currie</b><br>Edmonton, AB   |
| <b>Dwayne Cleave</b><br>Director, WBP<br>Winnipeg, MB |                                  | <b>Rev. Mark Hennig</b><br>Edmonton, AB |

### Advisors and Service Providers

|                                  |   |
|----------------------------------|---|
| Aikins, MacAulay and Thorvaldson | Legal Counsel                               |
| CIBC Mellon GSS                  | DB Trustee, Custodian and Pension Payments  |
| KPMG                             | Auditor                                     |
| Sun Life Financial               | DC Record Keeper/Custodian                  |
| Towers Watson                    | Actuary, Pension and Investment Consultants |
| Foyston, Gordon & Payne          | DB Investment Manager                       |
| Phillips, Hager & North          | DB Investment Manager                       |
| Greystone                        | DC Investment Manager                       |
| Jarislowsky Fraser               | DC Investment Manager                       |
| Legg Mason Batterymarch          | DC Investment Manager                       |
| Russell LifePoints               | DC Investment Manager                       |
| McLean Budden                    | DC Investment Manager                       |
| MFS                              | DC Investment Manager                       |
| TDAM                             | DB & DC Investment Manager                  |

## **Strategic Plan 2010**

### **Our Mission**

The mission of Worker Benefit Plans is to serve members and employers by ensuring the provision of sustainable benefits. “Serving those who serve.”

### **Our Vision**

We will develop an efficient, innovative and sustainable benefit plan with shared responsibility among engaged stakeholders

### **Our Values**

1. Integrity
2. Transparency
3. Stewardship
4. Consultation
5. Shared Responsibility
6. Excellence.

### **Our Strategic Directions**

1. Ensure sustainability and stability of benefits
2. Develop an educated and knowledgeable member and employer base
3. Cultivate a meaningful involvement of stakeholders and develop the philosophy of shared responsibility
4. Promote Health and Wellness
5. Strengthen and Enhance Governance