



Annual Report
Lutheran Church-Canada Pension Plan

	Worker Benefit Plans		2010
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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 2010. In the event of any inconsistency between this document and the official plan or policy, the plan or policy texts will govern.

The Path to Sustainability

The past year has been one of extensive consultation with stakeholders and intensive examination of alternative pension plan designs and de-risking strategies. The intent of this work was to place the Pension Plan on a sustainable path into the future. Throughout the process the Board of Managers (BOM) was ever mindful of the need to balance the needs of members with the employer's ability to pay pension costs.

2010 began with a strategic planning meeting involving a wide range of key stakeholders. The goal was to establish a strategic framework that would provide guidance in the future work of the BOM, including the development of a plan redesign and funding strategy. The meeting resulted in the articulation of mission, vision and value statements for the Worker Benefit Plans, along with a set of strategic directions for 2010 and beyond. Three major themes emerged from the meeting: consultation, sustainability and joint responsibility. Keeping in mind the input received, the BOM prepared a number of design alternatives for the Pension Plan. These were presented for discussion and advice to sixteen focus groups involving over 200 employees and employer participants across seven locations.

Two major studies were also undertaken in 2010. In order to have a better idea of the longer term funding requirements of the Plan and the appropriateness of our investment policy, Towers Watson was commissioned to conduct an Asset Liability study. The study confirmed our current investment policy and provided a picture of the potential liabilities and contribution requirements for the Defined Benefit (DB) Plan over the next 10 years. The second study focused on the projected future revenues and demographics of LCC, its congregations and schools, over the next 10 years. These studies reinforced that it would be difficult for LCC employers to handle the potential volatility in pension contributions that the existing Plan would experience in the future.

In order to provide cost relief to employers while Defined Benefit Plan designs and de-risking strategies were being finalized, a decision was made and communicated to members mid-year to suspend the employer contribution match to the Defined Contribution (DC) Plan. This was intended as a first step until the final pension design could be approved and communicated.

In early 2011 the BOM, after considerable deliberation and financial analysis, determined that continuation of the DB Plan or any non-contributory plan was not cost sustainable into the future. As a result, effective January 2013, most active employees with the exception of a small group of older, long service employees, will be moved from the Defined Benefit Plan into a Defined Contribution Plan. All employees will be required to share in the cost of the Pension Plan by making required contributions.

The BOM recognizes that LCC's pension plan is an important and valued part of member's retirement planning. It also recognizes the concerns of employers regarding increasing costs. The changes that are being implemented are intended to put the Pension Plan on the path to sustainability by limiting volatility and reducing future costs, while at the same time providing for a reasonable retirement income to members.

Regarding our investments, the markets had a second year of positive returns in 2010 following the losses of 2008. The Pension fund's 2010 return on the portfolio was 10.5%.

An actuarial valuation of the Plan was conducted at December 31, 2010. This valuation showed that the Plan was only 77% funded on a solvency basis (an assessment of the funding and liabilities of the plan assuming it is wound up on the date of valuation) with a deficit of slightly more than \$22 million and that it was 82% funded on a going concern basis with an unfunded liability of \$15 million. These funding deficiencies occurred notwithstanding the second year of good returns and the special payments made to begin paying down the fund deficiency, This lack of improvement in the Plan's solvency position was due to decreases in long term bond yields in December 2010, which is the date the valuation is required to be based upon. (Bond yields 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). This actuarial study reaffirms the necessity of the future design direction we are taking.

Pension issues and pension reform continued to hit the front pages of newspapers during 2010, reflecting all Canadians' concerns over their retirement plans. Governments in some jurisdictions have responded with legislative changes and more are on the horizon. Manitoba made a number of changes in 2010 which affect its residents, the most notable being the requirement for immediate vesting of benefits for employees (currently there is a two year waiting period). Other jurisdictions are expected to make a similar change.

Finally, LCC approved expanding the size of the BOM from five to seven members and we will be looking for interested, qualified individuals to join the team.

We would like to thank all the employers for their continued support of the Worker Benefit Plans and all employees for their understanding as we implement change.

Mrs. Lois Griffin
Chair, Board of Managers

Dwayne Cleave
Executive Director, Worker Benefit Plans

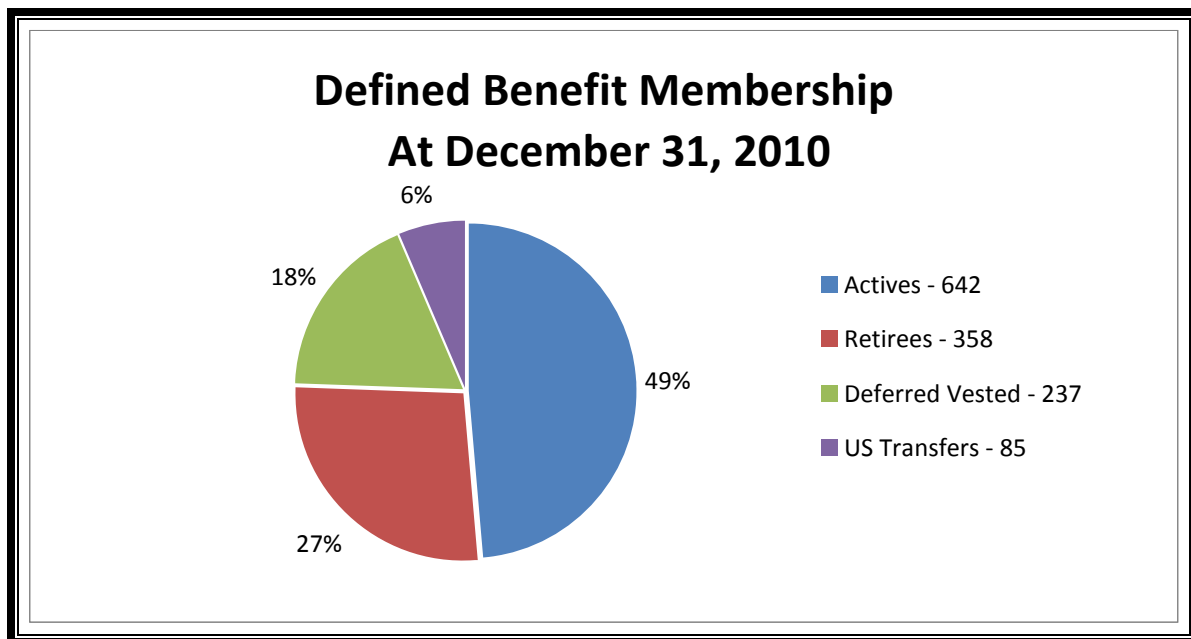
Introduction

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

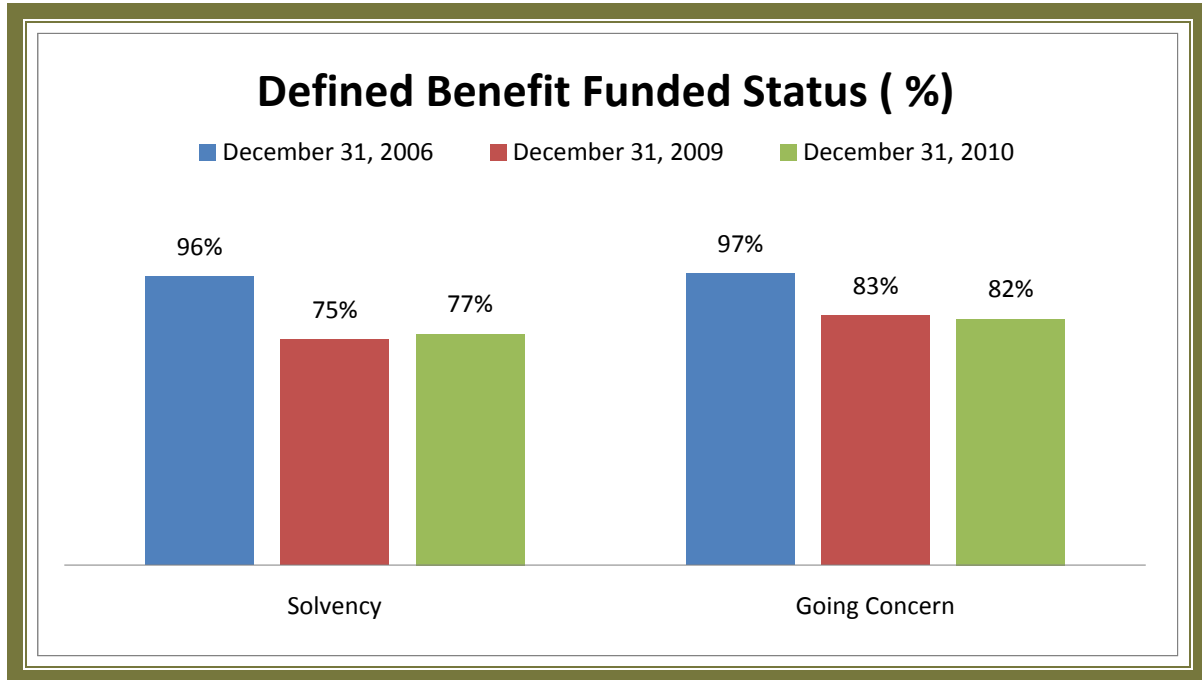
Membership



DB Active Membership Changes

Active Members January 1, 2010	661
New members in 2010	40
Terminations	(49)
US Transfers	(0)
Retirements	(10)
Death	(1)
Data Correction	1
Active Members at December 31, 2010	642

Funded Status

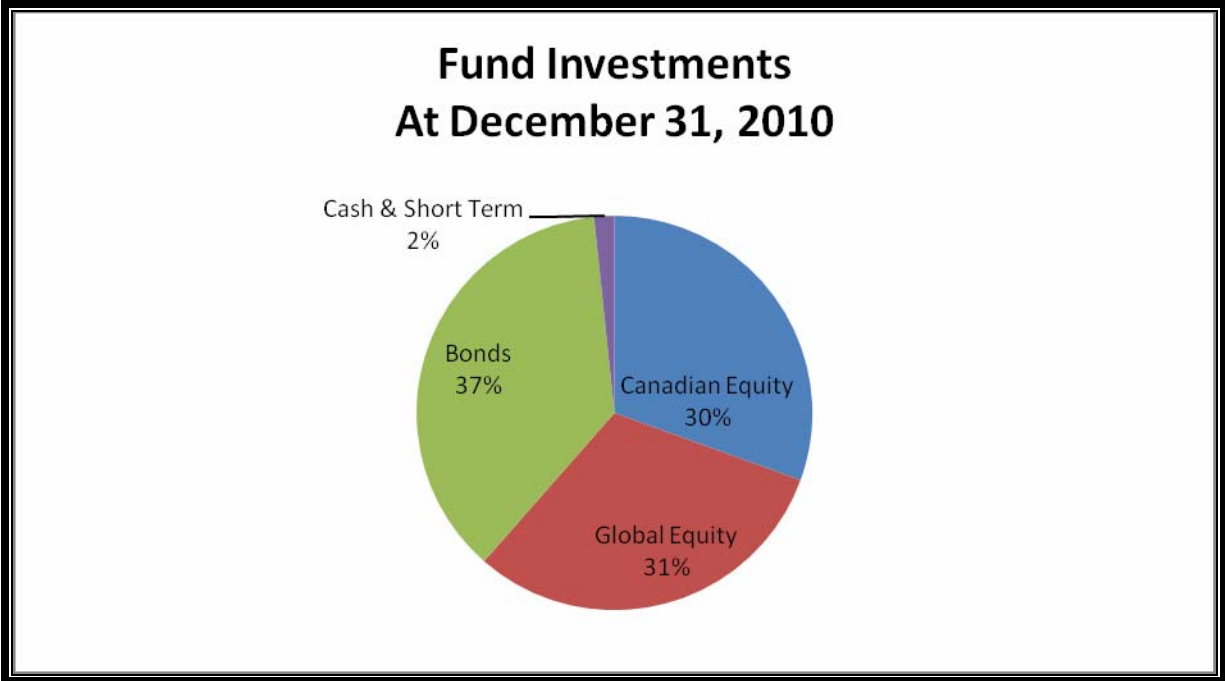


Funding Terminology – What does it Mean?

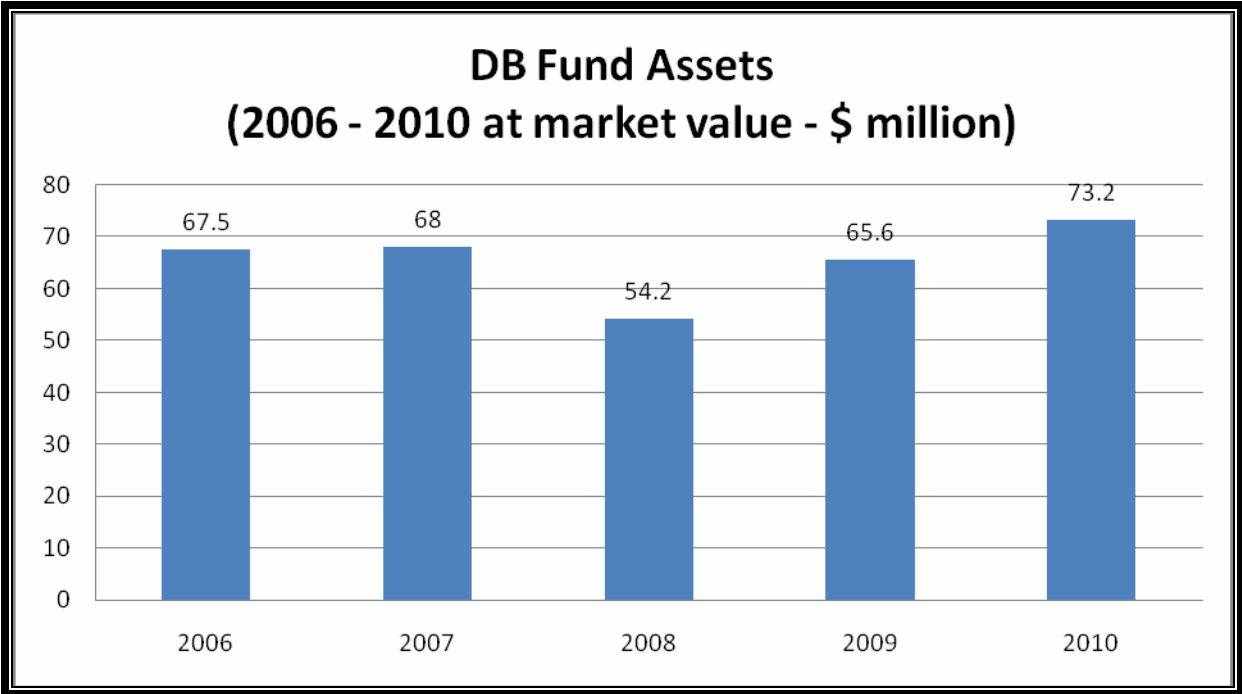
Going-Concern Basis: The going concern valuation values the present value of member's future benefits for credited service up to the date of the valuation and is based on assumptions that the pension plan will continue in operation indefinitely. Economic assumptions such as future salary increases and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

Solvency Basis: The solvency 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 have the effect of increasing the liability and conversely increases in yields decreases liabilities

Fund Investments



Fund Assets



DB Financial Position (000's)

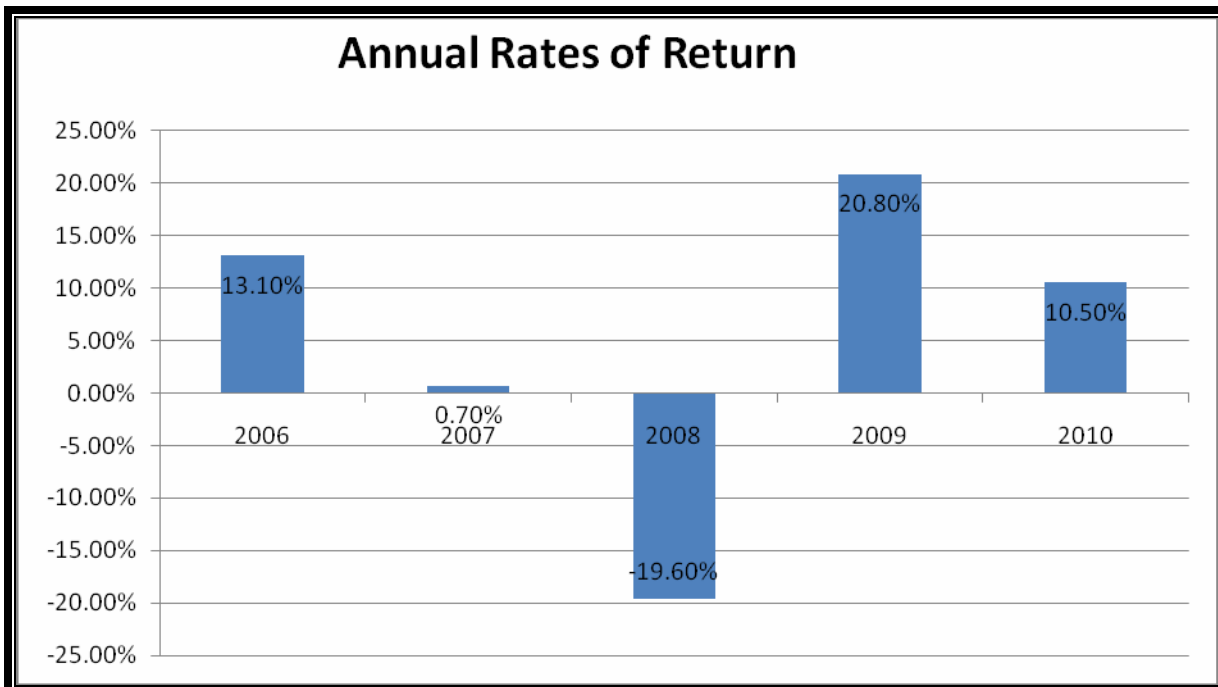
	December 31, 2010	December 31, 2009
Going Concern Basis		
Actuarial Value of Assets	\$ 68,388	\$ 65,626
Actuarial Liability	83,657	78,995
Actuarial Surplus (unfunded, actuarial liability)	\$ (15,269)	\$ (13,369)
Going-concern funded ratio	82%	83%
Solvency Basis		
Solvency value of assets	\$ 73,041	\$ 65,255
Solvency liability	95,145	87,166
Solvency surplus (deficit)	\$ (22,104)	\$ (21,911)
Solvency funded ratio	77%	75%

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 five 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

	2010	2009
Net assets available for benefits, beginning of year	\$ 65,654,533	\$ 54,845,013
Increase in assets:		
Contributions	4,899,658	3,656,193
Investment Income	2,196,795	2,126,960
Realized investment gains net of realized losses	1,145,459	170,329
Unrealized investment gains, net of unrealized losses	3,610,324	8,971,513
Decrease in assets:		
Unrealized investment losses, net of unrealized gains	-	-
Pension benefits paid	3,139,447	2,809,153
Lump-sum transfers	189,644	610,968
Consulting fees	348,889	341,871
Investment and custodial fees	266,517	247,780
Administration expenses	<u>110,924</u>	<u>105,703</u>
Net Assets available for benefits, end of year	\$ 73,451,348	\$ 65,654,533

Description of the DB Plan

The following provides a general description of the DB plan. Further details on the Plan are provided on the WBP website at www.lccbenefts.ca or 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 2011, 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 are at least age 62 and whose age plus years of credited service equals 85 points or more at the time of their termination of employment, can retire without reduction in their pension. 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 under age 55 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

2010 Summary Financial Statement

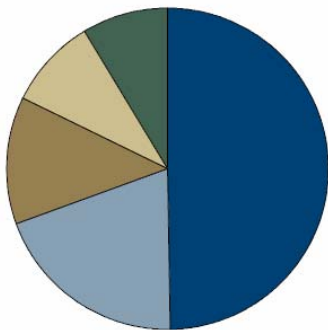
	2010	2009
Change in Assets	\$	\$
Assets beginning of the year	\$ 4,986,189	\$ 4,000,998
Employee contributions	\$ 618,865	\$ 614,099
Employer contributions	\$ 272,769	\$ 281,507
Investment income (loss)	\$395,099	\$ 585,791
Transfers to Financial Institutions	(\$ 362,484)	(\$ 496,206)
Increase (decrease in assets)	\$ 924,249	\$ 985,191
Assets, end of year	\$5,910,438	\$ 4,986,189

Fund Asset Mix

The following charts illustrate the DC Plan asset mix at December 31, 2010 both by asset category and by funds in which members allocated their assets.

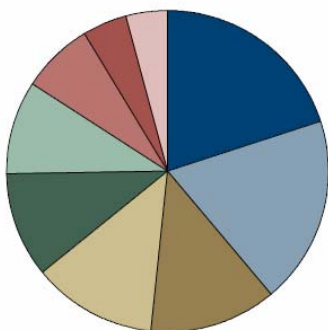
Asset category	Month-end closing balances \$	% of investment
Balanced	2,938,173.97	49.71
Canadian Equity	1,174,459.88	19.87
Fixed Income	552,780.43	9.35
Foreign Equity	500,761.24	8.47
Guaranteed/Money Market	744,263.26	12.59
Total	\$5,910,438.78	100.00%

By asset category



■ Balanced	49.71%
■ Canadian Equity	19.87%
■ Guaranteed/Money Market	12.59%
■ Fixed Income	9.35%
■ Foreign Equity	8.47%
Total:	100.00%

By fund



■ JF CDN EQ (GJW)	19.87%
■ GRYSTN BAL (P8D)	18.99%
■ RSL LP BLGR (DJG)	12.77%
■ MB MN MKT (DH8)	12.59%
■ RSL LP LTGR (DKD)	10.56%
■ TD C BD IND (G1X)	9.35%
■ RSL LP BLIN (DJS)	7.38%
■ MFS INTL EQ (PCN)	4.33%
■ LM BTY US (GD5)	4.14%
Total:	100.00%

Rates of Return*

	2010 (%)	2009 (%)
Balanced Funds		
• Greystone Balanced	11.60	15.14
• Russell Life Points Balanced Growth	11.16	17.68
• Russell Life Points Balanced Income	9.48	13.94
• Russell Life Points Balanced LT Growth	12.15	20.30
Canadian Equity		
• JF Canadian Equity	10.70	26.40
Fixed Income		
• TDAM Canadian Bond Index	6.60	4.93
Foreign Equity		
• Legg Mason Batterymarch U.S. Equity	7.73	2.17
• MFS International Equity	5.22	13.04
Money Market		
• McLean Budden Money Market**	.72	.75

*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.

Towards the end of September, the underlying fund of the McLean Budden Money Market Segregated Fund will change and the fund will be renamed the Sun Life Money Market Segregated Fund. There is no impact to plan members with assets in this fund and no action is required. Plan members will see the name change on the **my Sun Life website and on their statements after September 30, 2011.

DC Membership Changes

Active Members January 1, 2010	456
New members in 2010	30
Terminations	(24)
Death Claims	(0)
Active Members at December 31, 2010	462

Description of the DC Plan

The following provides a general description of the DC Plan. Further details on the Plan are provided on the WBP website at www.lccbenefts.ca or by contacting Worker Benefit Plans.

General

Established January 1, 2003, the Defined Contribution Plan (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 up to 4% of pay through payroll deduction.

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

Members choose how to invest contributions made to the DC Plan from a suite of investment options 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 Plan 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

Any 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. 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 current 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 at least three times per year and more often, if required.

In June 2011, the size of the BOM was increased to seven members and the term of office reduced to three years, with members able to serve a maximum of three successive 3-year terms. All appointments are staggered, with 50% of the BOM being appointed following each Convention. At least five of the BOM members must be communicant members of member congregations of the Synod.

The BOM consists of:

- two rostered church workers
- three lay persons each of whom have experience in either human resources, pensions, health benefit programs or investment management
- one person from a Lutheran Church–Canada higher education institution
- the treasurer of the synod.

Board Members

LOIS GRIFFIN, BSc. McMaster University
Chairperson Board of Managers
Etobicoke, ON



After a brief period as a high school teacher, Lois Griffin's main career was as a municipal politician, serving on both Etobicoke Council and Metro Toronto Council. During her 25 year political career (winning in 10 consecutive municipal elections) Lois served on numerous boards and committees, including chair of the Toronto Transit Commission, vice-chair of the Toronto Police Services Board, and head of Metro Council's Budget Committee. In 1997 she was appointed by the Province to serve on the Provincial Transition Team which oversaw the amalgamation of six municipalities into one new City of Toronto. Lois retired from politics in 1998. Lois has broad experience in governance, municipal finance and personnel matters. She is currently the Chair of the Board of Managers. At present she is also a member of the Board of Directors of the East District, LCC. She is a member of Our Saviour Lutheran Church, Etobicoke, where she serves as organist and choir director, and is also a member of the church council.

DWAYNE CLEAVE, CIM*, PFP*
Executive Director, WBP
Winnipeg, Manitoba



Dwayne has served in the office of treasurer of Lutheran Church–Canada since May 2002. In March 2010 he was also appointed as the Executive Director of the LCC Worker Benefit Plans. Prior to his employment with the Church, Dwayne’s 25 year business career included positions as an Investment Consultant with CIBC Wood Gundy and as a Regional Manager for the Brick Warehouse Corporation.

In addition to his business experience, Dwayne has received formal training through the Certified General Accountant Program (CGA), Certified Employee Benefit Specialist Program (CEBS) and the Canadian Securities Institute (CSI). Dwayne completed a 4 year certificate course in Management through the University Of Manitoba continuing education program in 1994.

Dwayne, his wife Bonita and their two (now adult) children have been members of Saint James Lutheran Church in Winnipeg since 1989.

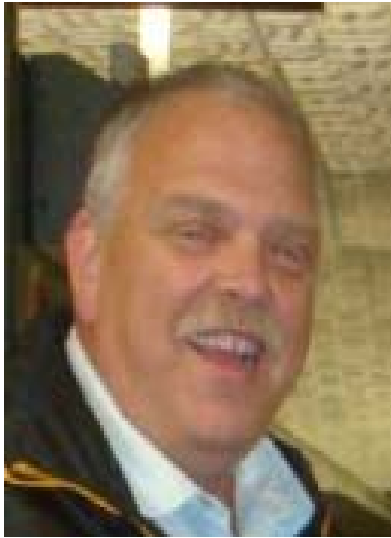
* Canadian Institute of Management, Professional Financial Planner

PASTOR MARK HENNIG,
Edmonton, Alberta



Mark graduated from Concordia Lutheran Seminary in Edmonton in 2003 and went on to serve Immanuel Lutheran Church in Tomahawk, Alberta for six years. He currently serves Concordia Lutheran Church in south east Edmonton. He also serves as LWML–C Pastoral Councillor for the past 5 years; the Board of Regents–Concordia University College since 2009; and the Board of Managers–Workers Benefits since 2010. Mark is married to Darla Kulak and they have four children.

STEVE RAINE
Regina, Saskatchewan



Steve Raine has worked for the Royal Canadian Mounted Police for more than 30 years, beginning his career in the Yukon Territory and the Northwest Territories before moving to a variety of different posts in Saskatchewan. For the past 12 years Steve has been a Staff Relations Representative and has been the fulltime Chair of the National Staffing Committee working in the Human Resources field. Steve is a musician, song writer and Worship Leader and with his group “Arise” has used music as a Ministry opportunity in Regina and other Saskatchewan locations. Steve is a member of New Beginnings Lutheran Church in Regina.

DIETER E. KAYS, ICD.D, Phd.
Special Advisor to the Board of Managers
Kitchener, Ontario



Dr. Kays is a certified professional director serving on several boards including the Canadian Ombudsman for Life and Health Insurance, (OLHI), St. Mary’s Hospital, and the International Rotary Club. He is the recently retired President and Chief Executive Officer of FaithLife Financial, an organization providing insurance and investment programs to Canadian families. Prior to accepting this role, Dieter was Chief Executive Officer of Lutherwood, a social service agency serving more than 10,000 clients annually. He was also the President of the Lutherwood Foundation, has served as a Director of Lutheran Life Insurance Society of Canada and its investment committee, the Canadian Life and Health Insurance Association (CLHIA) and FI Capital. He also served two terms as a municipal councillor.

Dr. Kays has a Master of Divinity degree from Concordia Seminary, St. Louis, Missouri, and a Master of Social Work. In 1993, he earned his doctorate, specializing in organizational leadership at Waterloo’s Wilfrid Laurier University. He has done post graduate work at Stanford University, the Wharton School of Business, and most

recently the Rotman Business School – U of T.

Dr. Kays and his wife, Rosalind, have three children and nine grandchildren. They are members of Holy Cross Lutheran Church (LCC) in Kitchener where Dieter serves as an elder.

RICHARD CURRIE
Edmonton, Alberta



Richard Currie currently holds the position of Vice President Finance and Administration at Concordia University College of Alberta. His past experience includes the administration of benefits and pension programs in senior administrative roles within advanced education, health, not-for-profit and Christian organizations. He holds a Bachelor of Science from the University of Western Ontario and a Masters Health Science Administration from the University of Alberta. He is CGA certified and is also a member of the Certified General Accountants of Alberta. Richard has been a member of the Board of Managers since 2009.



**Know someone who
would be interested in
serving on the
Board of Managers?**

**We are looking for individuals
with expertise in investments,
actuarial science, law or
governance.**

**Call or email:
Dwayne Cleave
Lutheran Church–Canada
1-800-588-4226 ext 2219
email:
treasurer@lutheranchurch.ca**

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**