

October 24, 2011

Pension Plan Contribution Announcement

Effective October 1, 2011 the contribution rate that employers pay to the LCC Pension Plan has been reduced from 16.6% to 14% of employee compensation.

When the Board of Managers of Lutheran Church–Canada’s Worker Benefit Plans began its evaluation of the Pension Plan following the 2008 stock market downturn, it had two goals. The first was establishing a financially viable plan design that would still meet the needs of LCC church workers and employees; the second was stabilizing the current costs for employers (churches, schools and institutions.)

With the announcement of a redesigned pension plan taking effect in January 2013, the Board met its first goal. Now, thanks to the cooperation of LCC’s districts, the BOM has reached its second goal.

Like 80 percent of pension plans in Canada, LCC’s Plan finds itself in an under-funded position primarily because asset growth through investment returns has been less than expected and also because historically low interest rates are dramatically increasing the value of pension liabilities. Although stock market returns in 2009 and 2010 were positive, the worldwide financial climate is still volatile and interest rates remain low. Therefore, the speed at which the Plan can regain its fully-funded position is slow.

Following the market downturn in 2008, the regulators of LCC’s Pension Plan provided relief to us by granting a three year solvency funding moratorium. That moratorium will end on December 31, 2012. At the end of the moratorium, the Plan is required to make up the difference in the funding deficit position within five years. The impact on employers would be dramatic because required pension contributions would exceed 20% of payroll for the five year period.

To avoid this situation, the Board of Managers directed WBP Executive Director Dwayne Cleave to negotiate long-term loans with the three District's Church Extension Funds. The Districts have recently approved the loans. Over the next five years, a combination of employer contributions and loan capital will get the Pension Plan back into a fully funded position. The loan capital will be paid back to the Church Extension Funds over a 10 year period which will allow us to keep employer pension contributions relatively stable for the foreseeable future.

Stabilizing pension plan contributions will assist employers in budgeting as the new financing reduces the need for the Plan to respond as quickly to changing financial market conditions.

This move by the Board of Managers completes the overhaul of LCC's Pension Plan—a process which began two years ago. During that time the Board and WBP staff spent time consulting with members, employers, church leaders and financial advisors to adapt the 23-year-old Plan to current conditions.