



**LUTHERAN CHURCH-CANADA
WORKER BENEFIT PLANS**

To: Congregational Treasurers and Business Managers

From: Dwayne Cleave, Executive Director
LCC Worker Benefit Plans

Date: October 12, 2010

Re: **2011 Rates for pension and benefits**

At its September meeting, the BOM wrestled with the financial state of the worker benefit program with considerable attention paid to the under funded status of the pension plan. During those discussions, the Board was always mindful of the impact any of its decisions has on congregations, schools and institutions recognizing the challenges and difficulties that can be caused by rate increases. Before making any decisions about increases, all alternatives are very carefully reviewed. Our continuing goal is to ensure that pensions are secure; members receive the benefits they require; and costs to churches, schools and institutions and their employees are affordable. Meeting all of these goals has become increasingly challenging.

Like almost all Defined Benefit Pension Plans in Canada, the most significant challenge that we are facing is in regard to the funded status of the Pension Plan, which has been negatively affected by two persistent economic realities:

- Lower pension asset growth than expected, reflective of the larger market realities impacting all investors
- Historically low long-term interest rates resulting in pension plan liabilities being dramatically increased (the lower the interest rate the greater the amount of money that must be set aside to pay the promised pension).

After seeking the advice of our plan advisor, reviewing current information from our investment managers, and asking for the Lord's wisdom, the Board of Managers has set the 2011 contribution rates for the pension and group benefit plans.

Please find enclosed the following information:

- A letter from the Board of Managers outlining the challenges we are facing, the changes we are making in the plans and future actions that we will be taking.
- A schedule of contribution rates required to fund the pension, post-retirement and group benefit plans for 2011. (This rate sheet is also available for download from our website at <http://www.lccbenefts.ca/employer/rates>)

You will notice two new line items are now shown on the employer rate sheet. The first is for post-retirement benefits (PRB) and the second for administration expenses. A further explanation of these items is noted below.

An Explanation of 2011 Employer Rates

Notwithstanding the cost saving initiatives we are implementing as outlined in attached letter from the Board of Managers, the 2011 rates will be increasing for the following reasons:

Pension Plan

The contributions required to fund the pension promise must increase to 16.6% of payroll. In 2010, employers contributed 15% of payroll for the pension contribution. The increase of 1.6% of payroll equates to an additional **\$553,000** in contributions that are required to be made to the pension fund.

The increase in contributions is a result of lower than expected returns on the pension assets. We plan and base our pension funding on a long-term basis with an annual investment return projection in the range of 6.25%. We realize that investment returns from a portfolio that contains a portion in equities may fluctuate on a year to year basis but it is a tradeoff we and most other plan sponsors make as it generally results in lower employer contributions. The actual investment returns in our pension portfolio while exceeding its benchmark is reflective of larger market performance which continues to be lower than long-term expectations and hence the need for a further increase in employer rates.

We want to assure you that the BOM regularly monitors the performance of the investment managers to ensure they are meeting their investment objectives. The monitoring includes a review of how the manager's performance compares to its benchmark and to its peer group. In addition to return performance, the review process also checks if the manager is remaining committed to their investment style and is in compliance with our investment policy statement. Key personnel changes within an investment manager's firm are also monitored and analyzed on how the change may impact future performance.

As of now, we have not found a compelling reason to change our investment managers as their performance is similar to other investment managers investing in the same asset class. The managers have retained their key personnel and remain committed to their investment style and are in compliance with our investment policy statement. One action we have taken is intensifying the monitoring process of our US equity manager as that portion of our portfolio has been disappointing in comparison to the benchmark. Our investment firm just recently changed their US equity portfolio manager so we expect an improvement soon or a change may need to be made.

The BOM also periodically reviews our asset allocation strategies. This has intensified over the last couple of years with the market volatility. Recently the BOM had our actuaries and investment consultant undertake an asset-liability study. The results of that study indicated that our current asset allocation of 60% equity and 40% fixed income is still appropriate. This allocation provides us with the best chance to make up the deficit position in our pension plan.

In addition to a review of the asset allocation of the plan, the Board of Managers has also been exploring a number of de-risking strategies with a variety of pension experts in an effort to reduce not only the volatility of the plan investments but also the plans liabilities. While a decision has not yet been made to pursue any of these strategies we wanted to assure you that we are consulting with some of the best minds in the business, exploring a number of different avenues and employing our best efforts to find a way to stabilize the funding of the pension plan.

Post Retirement Benefits

Since their inception in 1996 (Health) and 2002 (Dental) benefits for retirees were paid for by a \$2 million dollar reserve fund that was accumulated during years of benefit surplus. The reserve fund was completely used up by the end of fiscal 2009. Even though the program has been closed to the majority of future retirees, we still need to fund the benefit for current retirees and for active members who will retire in the next couple of years. Post-Retirement Benefit (PRB) contributions in 2011 will be 1.80% of payroll. Post-retirement contributions are expected to go up modestly in the short term over the next several years and then decrease over a 25-30 year time horizon, eventually declining to zero (as a result of the program being discontinued for all but current retirees and grandfathered active members - essentially members retiring in the next 2-5 years). Also, retirees will now be contributing to the premium cost of their benefits. In 2011 retiree's will pay 10% of the premium cost.

Group-Benefits (Life Insurance, LTD, Dependent Life, Health, Dental, EAP)

The most significant change being implemented is that members will now pay for their LTD premium (cost is 1.45% of payroll). This provides a better benefit in the event that a member makes a claim since benefits are non-taxable when members pay the premium.

The rates for life insurance, dependent life and EAP remain the same as they were in 2009. These will appear to be lower on your invoice as we have taken out the administration load and shown it as a separate line item on the invoice.

The rates for health and dental both increased as a result of actual claim experience and drug cost increases that far exceed increases in the consumer price index.

Administration Fees

Administration expenses in past years were imbedded in the benefit plan rates but in response to input received at the focus groups for more transparency, these costs are now shown separately. The monthly administration expense per active member in 2011 will be \$75.00. Administration costs will show up as a separate line item on the invoice.

Administration services include such things:

- WBP staffing costs for providing enrollment, billing, communication and customer services.
- Death Benefits to Retirees
- Manu-life enrollment system
- Consulting services for group benefits and Defined Contribution (DC) pension investments
- DC pension plan record keeping and defined benefit pension software upkeep and maintenance (to calculate pensions, provide member statements, tax reporting and reporting to provincial regulators)
- Annual filing fees paid to provincial regulators and Pension Benefits Guarantee fund
- Legal, accounting and auditing services.

For both the Board of Managers and the staff in our Winnipeg office, our constant focus is “Serving those who serve.”

2011 CONTRIBUTION RATES WORKER BENEFIT PLANS

	Worker Only	Worker with 1 dependent	Worker with 2 or more dependents
BASIC LIFE			
1 x	.34%	.34%	.34%
2 x	.68%	.68%	.68%
3 x	1.01%	1.01%	1.01%
4 x	1.35%	1.35%	1.35%
5 x	1.69%	1.69%	1.69%
LTD	Employee Paid	Employee Paid	Employee Paid
DEPENDENT LIFE	n/a	.078%	.078%
OUT OF COUNTRY	\$1.43/mth	\$3.00/mth	\$3.00/mth
EAP	\$8.19/mth	\$8.19/mth	\$8.19/mth
EXTENDED HEALTH			
Plan Option 1	\$50.95/mth	\$101.83/mth	\$125.79/mth
Plan Option 2	\$69.16/mth	\$138.29/mth	\$170.71/mth
Plan Option 3	\$85.17/mth	\$170.25/mth	\$210.25/mth
DENTAL PLAN			
Plan Option 1	\$33.33/mth	\$66.57/mth	\$89.64/mth
Plan Option 2	\$49.99/mth	\$99.98/mth	\$134.44/mth
Plan Option 3	\$69.32/mth	\$138.64/mth	\$186.42/mth
PENSION PLAN	16.60%	16.60%	16.60%
POST RETIREMENT	1.80%	1.80%	1.80%
ADMINISTRATION	\$75.00/mth	\$75.00/mth	\$75.00/mth

For health and dental premium budgeting purposes, employers should use Option 2 as most employees are provided with sufficient credits to purchase that option.

For life insurance, employees who were hired before January 1, 2008 have sufficient credits to purchase life insurance of 5X earnings. If your employee falls into that category budget for 5X. If an employee was hired after January 1, 2008 they have sufficient credits to purchase 3X life insurance. In that case budget for 3X.