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SPECIAL EDITION #1

serving those who serve

WBP News

WELLNESS • BENEFITS • PENSION

Information from Lutheran Church–Canada Worker Benefit Plans

New! Investment Funds for Your Defined Contribution Plan

Special Edition Newsletters Will Assist Your Decision-Making

The Board of Managers (BOM), with input from the Pension and Benefits Advisory Committee (PBAC), have selected the investment fund options under the Defined Contribution Pension Plan (DC).

Over the coming weeks/months you will receive several special editions of *WBP News* that will provide information regarding the new investment fund options to assist you in making the appropriate choices for your portfolio.

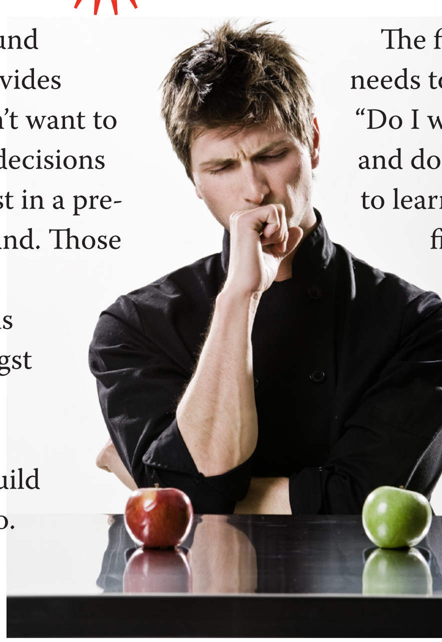
Effective January 1, 2013 the DC plan will be the primary retirement vehicle for most members and this means members now must make investment decisions.

Sun Life Financial has also indicated that a number of the investment options under our plan will no longer be available after this year. It was therefore important to undertake a review of the options being offered. Feedback received from members indicated that some feel uncomfortable investing and need help and more knowledge to make investment selections. Others indicated they had sufficient knowledge and had been making investing decisions for a long time.

The strategy adopted by the BOM, with input from the PBAC, provides investment options that should meet the needs of most members. ❏

It's Your Choice!

The new DC fund structure provides members who don't want to make investment decisions the option to invest in a pre-built target date fund. Those who want to make investment decions may choose amongst a variety of equity, bond and money market funds to build their own portfolio. (See chart #1 on page 2)



The first question a member needs to ask themselves is, "Do I want to make the time and do I have the inclination to learn about investing and finances?" If the answer is clearly no, then you may want to put your money in the target date fund where most of the investment decisions are done for you by the fund manager. ❏

What Are "Target Date Funds"?

Target date funds are a series of funds designed for various retirement dates. Members choose a fund from the series that is closest to their expected retirement date. The funds are invested in various assets (stocks, bonds and short-term securities/money market funds).

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The percentage in each asset class (the asset mix) changes over time. Target date funds are normally weighted toward equities or stocks early in the investor's life and, over time, shift toward a higher percentage of more conservative investments such as bonds. This shift in allocation to reflect the investor's changing tolerance for risk is commonly referred to as the glide path. Funds are rebalanced on a regular basis (typically monthly) to reflect the changing asset mix.

Advantages of Target Date Funds

- These funds are consistent with the member's investment time horizon.
- Members don't have to worry about changing their asset mix as they get older as this is done for them by the investment manager.
- Target date funds make it easier to invest for those who don't have a great deal of investment knowledge or are not interested in becoming more investment savvy.

Disdvantages of Target Date Funds

- It is assumed everyone of a similar age has the same risk tolerance because they have the same investment time horizon. This is not necessarily true. Each of us has a different level of risk tolerance and would allocate more or less to different asset classes than someone else. A certain asset mix for one person is not necessarily correct for everyone. ❏

Chart #1

OPTION	TYPE OF FUND(S)	BEST SUITED FOR
Pre-built portfolio	Target Date Fund	Investors who want to minimize the decisions they need to make or the time they spend making financial decisions, or members who are still learning about investing and aren't yet comfortable in making investment decisions
Build-your-own portfolio	A variety of funds representing all major asset classes (stocks, bonds, money market) from which to choose	• Investors who can make the time and are comfortable in making decisions on their asset allocation and investments

Chart #2

FUND TYPE	OLD FUND	NEW FUND
Asset Allocation	Russell Life Point Funds (growth, income, long-term growth)	No longer offered
Target Date Fund	Not available	BlackRock LifePath Funds
Canadian Equity	Jarislowsky Fraser	Jarislowsky Fraser – no change Connor, Clark and Lunn Q Growth Fund
Balanced Fund	Greystone Balanced	No longer offered
US Equity	Legg Mason Battery March US Equity	TDAM US Market Index Fund
International Equity	MFS international Equity	MFS International Equity – no change
Bonds	TDAM Canadian Bond Index	TDAM Canadian Bond Index – no change
Money Market	Sun Life Money Market	Sun Life Money Market – no change

What New Funds Will There Be?

…and what funds are being shut down?

The new funds will be available in September of this year and the old funds being discontinued will be shut down in mid-December. This gives members time to consider the new fund selections and move their existing assets into one of the new funds as well as deciding how they will invest their future contributions. The new fund lineup is shown in Chart #2 on page 2.

How was the new investment fund line-up selected?

The BOM made the fund selection with the assistance of an investment consultant from Towers Watson.

Three funds will no longer be offered. Two of them—the Russell Life Point funds and the Legg Mason Battery March US equity fund—are being terminated by Sun Life at the end of the year. The BOM decided to terminate the Greystone balanced fund as it was not meeting performance objectives. The remaining DC funds will continue to be offered.

Introducing the new funds

BlackRock LifePath target date fund

This new addition will accommodate the needs of those who don't want to have to make a lot of investment decisions or who don't have a great deal of investment knowledge at this time. This particular target date fund was selected based both on investment performance and higher asset diversification. Its funds are invested not only in equities and bonds, but also include some real estate, commodities and infrastructure.

Since BlackRock LifePath is a more sophisticated version of a balanced fund with wider diversification and ongoing rebalancing, no new balanced fund is being offered in place of Greystone.

TDAM US equity fund

This replaces the Legg Mason Battery March US equity fund. An index fund manager was selected because it is hard for an active manager to beat the index in the US as markets are very efficient. The fees charged by the index manager are also lower.

Connor Clark and Lunn (CCL) Canadian equity fund

This fund provides style diversity against Jarislowsky Fraser (JF). CCL is a growth manager that selects stocks based on quantitative analysis. Computer models and mathematical formulas are used to determine whether an investment is attractive. The intent is to eliminate human error in selecting and selling stocks. In contrast, Jarislowsky Fraser is a "growth at a reasonable price" (GARP) manager. They use bottom-up management, looking for stocks by analyzing companies and meeting with company management (over 200 Canadian companies each year) and choosing those who meet their criteria. ❏

What Happens if a Member Doesn't Make an Investment Decision?

If a new DC member doesn't make an investment selection, their contributions will be directed to the BlackRock LifePath funds, more specifically the fund in the series closest to their 65th birthday.

Current DC members who do not make an investment selection will have their **existing accumulated account balances** (both employer and employee money) for the funds being closed, transferred to the funds noted below. In the absence of an investment selection, **new employer and employee contributions** going into the plan will be invested in the funds noted in Chart #3, page 4.

We urge all members to consider your asset allocation rather than letting the direction of your funds be decided for you. It is prudent for you to consider your investment selections in light of your goals, risk tolerances and planning horizon. Keep in mind that pension funds are long-term investments (i.e., 10, 20, 30 years or more) giving you the ability to ride out short-term volatility and capture the reward of potential higher returns. ❏

Chart #3

CURRENT FUND	EXISTING BALANCE MOVED TO	NEW CONTRIBUTIONS TO
Russell Life Point Funds (growth, income, long-term growth)	BlackRock LifePath Funds	BlackRock LifePath Funds
Legg Mason Battery March US Equity	TDAM US Market Index Fund	BlackRock LifePath Funds
Greystone Balanced	BlackRock LifePath Funds	BlackRock LifePath Funds
Sun Life Money Market	Sun Life Money Market	BlackRock LifePath Funds

What Do Plan Members Need To Do?

- Take the time to learn about the new investment funds by reviewing the material that will be sent to you in the coming months.
- Review your investment strategy and asset allocation. Do your investment choices align with your risk tolerance and retirement goals?
- Decide where you want to transfer your existing assets in the funds that are going to be closed.
- Decide where you want to direct your future contributions.
- If you decide to build your own portfolio, the Sun Life Customer Care Centre can provide assistance in coming up with the right asset mix for you.
- Remember…if you don't make an investment selection by the time the Russell Life Points and Greystone funds close, both your existing assets and future contributions will be transferred to the BlackRock LifePath funds. Existing assets in the Legg Mason fund will be moved to the TDAM US Market Index Fund and future contributions will go to the BlackRock LifePath funds.
- Once the new funds are set up in September you will be able to change your investment allocation on Sun Life's website (www.sunlife.ca/member) or by contacting Sun Life's Customer Care Centre (see bottom of page 6). ❑

How Do I Get More Detailed Information?

Further information on the new funds will be coming in the next few weeks and months. Since the funds were just selected, we need some time to get everything up and running. If you want detailed information on the current funds, many of which will continue as part of the DC fund line-up, you can find this information on the Sun Life member website. You can access in-depth, objective information on all the investments through **Morningstar**. Just go to **Accounts** and in the drop-down menu select **Investment Performance**, then select the **Morningstar** link. ❑

The Importance Of Asset Mix

Did you know that asset mix or allocation is the most important part of any investment portfolio? Asset mix is a term used to describe the range of funds in which you invest (equities, bonds, money market or cash). It includes not only the funds you select, but the amounts you choose to invest in each fund.

Studies have shown that asset mix explains about 90% of a portfolio's performance over the life of the portfolio. This means that only 10% of your portfolio's performance is due to individual fund selection while 90% of it is determined by how you allocated your money.

Stocks and bonds often move in different directions so having a mix of both will reduce the volatility of your portfolio and provide you with better returns over the long-term than just 100% stocks or bonds.

What is the right asset mix for me?

Choosing the right fund that will best suit your needs depends on a number of things.

- **Your risk tolerance**: Think about your ability to accept fluctuations on the value of your investments. Some people feel strongly that they want the highest possible returns and they are prepared to live with the associated volatility in returns. Others might be comfortable with some risk, but, because they are close to retirement, or because of their financial circumstances, they may choose moderate to low risk investments. There are also people who are low risk investors, regardless of their age, because they are not comfortable with market fluctuations or they are conservative by nature. These investors are willing to accept lower potential returns for the comfort of less volatile investments. How much volatility can you handle? The lower your risk tolerance, the lower your equity allocation.
- **Your time horizon**: How long until you will need the money? Generally speaking, the more time you have to invest before you retire, the more risk you can afford to take since you have time to ride out the ups and downs of the investment markets. If retirement is something you are considering in the near future, you will probably want to have a more conservative and safer asset mix.
- **Your retirement goals**: How much money will you need in retirement and what other assets do you have to fund your retirement?

Although there are some other criteria that go into determining asset allocation, these are the important factors.

DIVERSIFICATION is another important factor in creating your asset mix. Diversifying, or choosing a number of investments, allows you to spread your risk. For example, selecting the money market fund may seem like the least risky thing to do, but it may also provide you with the lowest rate of return and expose you to the risk of not achieving a high enough return to meet your financial goals. Diversifying your portfolio will allow you to temper your risk and security in a mix that suits your personal situation best.

If you don't feel comfortable making choices to diversify your portfolio, you might want to consider putting your money into the target date fund (BlackRock LifePath Funds). These funds have a mix of all asset classes determined by the fund manager who rebalances or changes the asset mix as the fund approaches its target date.

For members who choose their own mix of investment funds, Sun Life has both online and written information tools that can assist you in deciding your asset mix. Members may also wish to get some help from their investment advisor or financial planner to create a portfolio of investments that is suitable for their personal situation. ❑

COMING SOON

- Great links to information on investing and financial planning
- More information on the new fund line-up and investment information

RECORD-KEEPING FEES

Record-keeping fees are paid by Lutheran Church–Canada to Sun Life for services such as maintaining members' accounts, distributing income to accounts, processing members' investment changes, answering member inquiries and providing other communication to members such as the Sun Life website.

INVESTMENT MANAGEMENT FEES (IMFS)

You may not know it, but Investment Management Fees (IMFs) are charged on your investments regardless if your investments are in a bank, an investment company, or if you have investments through your DC plan.

As an investor it's important that you understand the fees you pay. So, what exactly are investment management fees? They are the fees charged for having your fund professionally managed. The fee not only compensates the manager for their time and expertise, but it also covers the administration costs of the fund. IMFs are typically calculated as a percentage of the fund's total assets. For example a fund's fee may be stated as 1.00% of assets under management.

The amount of the IMF charged depends on the type of fund. Some funds require more research and active management than others so a higher fee is charged. Index funds that invest according to an index typically charge lower fees than funds that are actively managed. An international equity fund would charge higher fees than a money market fund. That's because an international equity manager must do research on the companies, analyze financial statements, meet with company management, continuously monitor the fund's investments and decide when to sell existing investments or buy new investments. The hope is that the cost of high fees will be offset by higher returns.

Fees on a group plan such as the DC pension plan, have the advantage of volume bargaining power through the pooled group assets and can obtain lower fees than those charged to individual investors by funds in the retail market such as mutual funds. Fees in the retail market can be 1.5% to 3.5% of assets whereas fees in the DC funds range from .65% to 1.45%. Lower fees, even small amounts, can have a large impact on your retirement savings when funds are invested for a long period of time. For example, let's assume you invest $4,000 in a plan each year that has an annual growth rate of 5.75% and an annual fee of 1.5%. At the end of 30 years you would have accumulated $240,176. But the same plan with an annual fee of just half a percent more (i.e., 2% instead of 1.5%) would only be worth $218,814 —a difference of $21,362 over the same 30-year span. And a one percent difference (1% fee versus 2%) adds an extra $45,158 to your nest egg. ❑

ARE OTHER FUNDS BEING CONSIDERED?

Yes, the BOM is looking to add other funds that could provide diversification for members but it wants to add funds that are distinguishable from those already being offered and can provide different risk and reward opportunities. Additional information will be communicated as soon as it is known. ❑

If you have questions or comments about this information, please e-mail one of the following contacts or call Worker Benefits Plan (WBP) at 1-800-588-4226 (toll free) at one of the extensions listed.

Dwayne Cleave	treasurer@lutheranchurch.ca	Extension 2219	Lil Kozussek	wbpinfolil@lutheranchurch.ca	Extension 2223
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Contacting Sun Life

Phone: 1-866-733-8613 (toll free; 8:00 a.m. - 8:00 p.m. Eastern Time) Internet: www.sunlife.ca/member