N.B. PIPE TRADES
SHARED RISK PLAN

Employee Summary Booklet

June 2014

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N.B. PIPE TRADES SHARED RISK PLAN

Employee Summary Booklet

INTRODUCTION

The pension plan was established on November 1, 1972 to provide pensions for eligible Union members in the pipe trades. This booklet is not a legal document, nor is it intended to be. Rather this summary booklet describes the main benefits provided by the plan in informal language for the convenience of you, your spouse and beneficiaries. It should be noted that this booklet is only a brief outline of the plan and does not in itself imply or confer any rights or benefits. In cases where disputes arise or clarification is required, the provisions of the official plan text will govern.

The plan has been amended a number of times since it was established. Most recently, it was converted to a shared risk plan as at January 1, 2013. Prior to this, the plan was a multi-employee pension plan with traditional defined benefit provisions (the "Predecessor Plan"). This booklet was prepared in June of 2014 and describes the provisions of the plan as they existed at that time.

This plan is registered under the Income Tax Act and the New Brunswick Pension Benefits Act under registration number 0371054. Accordingly, contributions made by you are deductible for income tax purposes. In addition to benefits from the plan, you may also be eligible to receive benefits under the Canada Pension Plan ("CPP") and the Old Age Security Act ("OAS").

Please read the booklet carefully so that you will be familiar with all the benefits to which you may be entitled. There may be questions which you would like to ask regarding your pension benefits which are not answered in this booklet or by your individual benefit statements. If this is the case, contact your Union representative or the N.B. Pipe Trades Administration Office at the address given below and they will obtain the answers for you. If you wish you may arrange to see a copy of the actual plan text itself.

N.B. Pipe Trades Administration Office
P.O. Box 910, Station A
5 Blizzard Road
Vanier Industrial Park
Fredericton, N.B. E3B 5B4

Phone: (506) 459-6040 Fax (506) 458-1257

EXPLANATION OF TERMS

There are a number of terms that are commonly used when discussing pension benefits which the reader might not be familiar with or which have special meanings when used for pension plans. In order to help you to better understand the benefit descriptions that follow in this booklet an explanation of various terms is set out below.

Accumulated interest – Accumulated interest is based on the actual rate of return of the pension fund, whether positive or negative. Interest accumulated between year ends will be based on the annual rate of interest established on the December 31 immediately preceding the applicable calculation date.

Active member - An active member is a member by whom, or for whom, contributions are currently being made to the plan. Active membership in the plan ceases when any one of several things happens. These are listed in detail in the "Termination of Active Membership" section of this booklet and include retirement and ceasing to be a member of the Union, among other things.

Actuarial valuation - The contributions of members and employers to the N.B. Pipe Trades Shared Risk Plan are being accumulated to provide lifetime pensions to plan members (as well as death, disability and termination benefits), wherein the Pension Benefits Act requires that an actuarial valuation be performed every year in order to keep track of how well the pension fund is doing compared to the estimated amount needed to provide the benefits targeted by the plan.

Assumptions are made with regard to probabilities of death, termination, disability and retirement and expected future investment earnings on the assets in the pension fund. For each plan member, the amount needed to provide the pension

earned to date and in the coming years is calculated. These amounts are compared to the assets already in the plan and expected to be contributed in the coming years. If the financial position in the plan is favorable, this may permit benefits to be increased or a buffer could be created for future unfavorable experience. However, if the valuation reveals that there is an unfavorable position in the plan, then contributions to the plan might have to be increased or pensions decreased.

Beneficiary - When enrolling in the plan, a member will be asked to name a beneficiary for any benefits payable on death before retirement. If the member does not have a spouse, he or she may name whoever he or she wishes to be his or her beneficiary for pre-retirement death benefits. If he or she has no spouse upon his or her death before retirement and has not named a beneficiary, any pre-retirement death benefit would be paid to his or her estate. If the member has a spouse, then his or her spouse will automatically be his or her beneficiary on death before retirement even if the member named a beneficiary. There is no provision in the New Brunswick Pension Benefits Act which would allow the spouse to waive rights to the pre-retirement death benefit.

At retirement, if the member has a spouse, he or she has to choose a joint and survivorship form of pension payment in which at least 60% of his pension continues for the lifetime of his or her spouse if the spouse survives him or her. The spouse can waive rights to the joint and survivorship optional form of payment. More details on these matters can be seen in the "Death Benefits" section of this booklet. See also the definition of "spouse" and “normal form of pension” for related information.

Deferred vested member - If a terminating member is not entitled to retire immediately but has two or more years of membership, or five years of continuous service with employers that participate in the plan, and does not take a lump-sum settlement of his pension by way of the transfer of

the termination benefit out of the plan, then he or she remains entitled to a deferred vested pension; that is, he or she will be entitled to a monthly pension paid from the plan starting some time in the future. This category of member is known as a "deferred vested members" with a “deferred vested pension” payable from the plan at retirement.

Deferred vested pension - See "deferred vested member".

Disability pension - An active member who becomes disabled may be eligible for an immediate pension from the plan regardless of how old he or she is when he or she becomes disabled. The conditions that have to be met in order to be eligible for a disability pension are described in detail in the "Disability Benefits" section of this booklet.

Disabled member - A disabled member is a member who has become disabled and meets conditions which are described in detail in the "Disability Benefits" section of this booklet. As described there, a disabled member may be eligible for disability retirement, but if not, he or she will be entitled to continued accumulation of pension benefits without making contributions to the plan as long as he or she is eligible to receive LTD benefits from the Health and Welfare Plan. During any period in which he or she is not eligible to receive LTD benefits from the Health and Welfare Plan (for example, when he or she is on Workers’ Compensation), there is no accumulation of pension benefits.

Early retirement - A member who retires before age 61 in this plan is said to have taken early retirement. The plan allows retirement as early as age 51. On early retirement, the pension that would have been payable starting at age 61 is reduced by 0.5% times the number of months by which the early retirement date precedes the normal retirement date at age 61.

Former member - If, on ceasing to be an active member, a person takes all of his or her money out of the plan by receiving a

lump-sum settlement, then he or she becomes a "former member" and is no longer entitled to any future payments from the plan. If he or she has less than two years of membership on termination and less than five years of continuous service with employers that participate in the plan, his or her only option is to take a refund of his or her own contributions (he or she then becomes a former member). If he or she has two or more years of membership, or five or more years of continuous service, he or she has the choice of leaving his or her money in the plan and becoming a deferred vested member or, if he or she is under the age of 51 at termination, transferring his or her money out of the plan on a locked-in basis and becoming a former member.

Late retirement - A member who retires after age 61 in this plan is said to have taken late or postponed retirement. The member continues to accumulate pension benefits related to his or her employment after age 61. The Income Tax Act forces pensions to commence no later than December 31 of the year in which the member attains his 71st birthday.

Locked-in - In the N.B. Pipe Trades Shared Risk Plan, accrued pensions vest when a member has completed two years of active membership or five years of continuous service with employers that participate in the plan. The New Brunswick Pension Benefits Act requires that, once a pension is vested, it is also "locked-in". The term "locked-in" means that a member or former member cannot surrender his or her pension benefit in exchange for cash, but must eventually take it in the form of lifetime pension payments. Locked-in does not, however, mean that you must leave your money in the N.B. Pipe Trades Shared Risk Plan. The Pension Benefits Act requires that, if a member terminates before becoming eligible to retire (age 51) and his or her pension is vested, he or she must be given several options. For example, he or she must be given the right to transfer the lump-sum value of his or her pension to a Locked-in Retirement Savings Account (LIRA), which is similar to a Registered Retirement Savings Plan

(RRSP), but has the additional provision that he or she cannot de-register the LIRA and take his or her money out in cash as can be done (on a taxable basis) with a personal RRSP. The money must eventually be used to provide a lifetime monthly pension. The options on termination from the plan are explained in more detail in the "Termination of Active Membership" section of this booklet.

Lump-sum value - See "termination benefit".

Member - The term "member" as used in the N.B. Pipe Trades Shared Risk Plan refers to anyone who has made contributions to the plan, or whose employer has made contributions on his or her behalf, and who is still entitled to future payments from the plan. There are several categories of member, including active members, deferred vested members, disabled members and pensioners.

Non-vested - See "vested".

Normal form of pension - The "normal" form of payment of pension as defined in the N.B. Pipe Trades Shared Risk Plan is one which is paid monthly for as long as the pensioner lives, but is guaranteed to be paid for 60 months even if the pensioner dies within 60 months of retiring. The use of the term "normal" here does not imply that most retirees choose a payment form that is for life with 60 monthly payments guaranteed. It merely means that it is the basic form from which all others are calculated. Other forms of payment are available, including single life with no minimum number of payments guaranteed or single life with at least 120 monthly payments guaranteed. If a pensioner has a spouse when he or she retires, the Pension Benefits Act requires that he or she elect a pension payment form in which at least 60% of his or her pension continues on his or her death to be paid to his or her surviving spouse for her or his lifetime, unless his or her spouse waives rights to the joint and survivorship form at retirement. The N.B. Pipe Trades Shared Risk Plan offers joint

and survivorship forms in which 60%, 75% or 100% continues to the surviving spouse on death of the pensioner. The amount of pension payable is adjusted to reflect the form of pension selected, with the value remaining the same on an actuarial basis.

Normal retirement date - The Pension Benefits Act requires a plan to define the "normal" retirement date and, in the N.B. Pipe Trades Shared Risk Plan, it is defined as the first of the month which follows the month in which the member's 61st birthday occurs or, if the member's birthday was on the first day of a month, then the member's normal retirement date is his or her 61st birthday. This use of the word "normal" is not meant to imply that most plan members necessarily retire at age 61. The plan allows retirement as early as age 51 and as late as the December 31st of the year in which he or she turns age 71. However, if retirement occurs earlier than age 61, the accrued normal retirement pension is reduced.

Normal retirement pension - A pension amount referred to as the "normal retirement pension", or "accrued normal retirement pension", is the amount of pension accumulated for service to date and payable starting at the member's normal retirement date (at age 61) and paid in the normal form of payment (for life with 60 months guaranteed). If the member retires before age 61, or chooses a form of payment other than for life with 60 monthly payments guaranteed, then the amount of pension will be adjusted accordingly. These matters are described in more detail in the "Retirement Benefits" section of this booklet.

Pensioner - A "pensioner" is a member who has retired and is receiving monthly pension payments from the plan.

Postponed retirement - See "late retirement".

Spouse - For purposes of the pension plan, the term "spouse" means “spouse” or “common-law partner”, each as defined under the

Pension Benefits Act. The Pension Benefits Act currently requires that "spouse" means either of two persons who (a) are married to each other, (b) are married to each other by a marriage that is voidable and has not been voided by a declaration of nullity, or (c) have gone through a form of marriage with each other in good faith that is void and have cohabited within the preceding year.

The Pension Benefits Act currently requires that “common-law partner” means (a) in the case of the death of a member or former member, a person who, not being married to the member or former member, was cohabiting in a conjugal relationship with the member or former member at the time of the death of the member or former member and was cohabiting in a conjugal relationship with the member or former member for a continuous period of at least two years immediately before the death of the member or former member, (b) in the case of the breakdown of a common-law partnership, a person who, not being married to the member or former member, was cohabiting in a conjugal relationship with the member or former member for a continuous period of at least two years immediately before the date of the breakdown of the common-law partnership, or (c) in any other case, a person who, not being married to a member or former member at the particular time under consideration, is cohabiting in a conjugal relationship with the member or former member at that time and who has so cohabited for a continuous period of at least two years immediately before that time;

Normally, if a marriage breaks down, the non-member spouse is entitled only to a portion of the part of the pension benefits that accumulated by the member during the marriage. However, the current definition of "spouse" in the Pension Benefits Act allow circumstances to arise in which two or more people might have conflicting spousal rights for the same period of time. It is important upon marriage breakdown for the member to get the ex-spouse's pension entitlements clearly defined and taken care of in a divorce settlement to avoid

future conflicting claims to spousal benefits from the pension plan.

Where a payment or payments under the plan is or are to be made to the spouse of a member and more than one person satisfies the definition of a spouse at the time a determination is required, and payments are required to be made to more than one spouse, the total of the payments made to the spouses shall in no case exceed the total payment which would be made to the member's spouse if only one person satisfied the definition of spouse.

Termination Benefit – Termination benefit means the relevant share of the plan's assets as determined by the Board of Trustees from time to time in accordance with the rules of the plan and the Pension Benefits Act.

As a simple example of the idea behind a termination benefit, we will first outline what is meant by a lump-sum payment. Consider a person who is promised a payment of $100 one year from now and another $100 two years from now. That person might be willing to accept one immediate lump-sum payment of $185.94 instead of the two later payments of $100. This single amount of $185.94 would be known as the lump-sum value of the two $100 later payments. If he or she invested the lump-sum payment and earned 5% per annum, he or she would be able to take out $100 after one year and would have $100 at the end of the second year because the interest at 5% would have made up the $14.06 original difference.

If he or she earned more than 5% per annum interest on his or her investment, he or she would have more than $100 left at the end of the second year. However, if he or she earned less than 5% per annum, he or she would not have enough to pay himself or herself the full $100 at the end of the second year. That is the chance he or she takes when he or she accepts the single termination benefit value payment of $185.94 instead of the two deferred payments of $100.

A pension is just a series of future periodic payments, but instead of being only two annual payments of $100 starting a year from now as in the above simple example, it is a monthly payment made for the lifetime of the pensioner. Since no one can know when a person will die, assumptions have to be made on how long the pension will be paid based on average mortality patterns from historical data in order to calculate the termination benefit. Assumptions also have to be made regarding future investment earnings rates and the age at which the pension will likely begin.

The assumptions to be used are specified by the plan's actuary, in conjunction with the Board of Trustees' directions, as referenced by the Pension Benefits Act. The investment earnings assumption is linked to the interest rate used in the most recent actuarial valuation, which may change from year to year. However, in general, the interest rate is usually the same for a three year period, wherein the interest rate being used is 5% per annum until the January 1, 2016 valuation (wherein it may be adjusted). The lower the prevailing interest rates, the higher will be the lump-sum value.

The size of the lump-sum value also depends on the plan member's age. The closer the member is to retirement age, the larger will be the lump-sum value. Two plan members can have the same pension payable at age 61 but, if one is 45 and the other is 40, the lump-sum value for the 45 year old will be larger than the lump-sum value for the 40 year old as it is payable five years sooner.

The Pension Benefits Act requires that, on termination from the plan (other than by retirement), any member entitled to a deferred vested pension and is still under the age of 51 at termination must be given the option to transfer the lump-sum value of his pension out of the plan on a locked-in basis.

In accepting the lump-sum settlement in place of the monthly pension from the plan, the terminating member takes on the risk that, if he or she does not make as much investment earnings on the lump-sum value as was assumed would be made in calculating the lump-sum value, he or she will not be able to fully replace the deferred pension he or she would have got from the plan had he or she left his or her money in the plan.

In order to finalize the value of the termination benefit, the pro-rata share applicable to the plan at a given date is then applied. The purpose of this pro-rata share is to make sure the termination benefit does not affect the funding ratio of the plan after such payout. For example, if the funding ratio of the plan is 90%, wherein assets are less than the associated liabilities, then the lump-sum value would be multiplied by 90% at payout. However, if the funding ratio of the plan is 110%, wherein assets are more than the associated liabilities, then the lump-sum value would be multiplied by 110% at payout. Currently, the plan has fewer assets than the associated liabilities, so the payout ratio multiplying the lump-sum value is less than 100%.

It is important to note that a member transferring such entitlement out will mean that he or she will not benefit from future contributions in excess of the cost to the plan of an extra year of service that is expected to accumulate in the plan, thus forfeiting such potential enhancements. Therefore, such pay-out comes with a potential cost in terms of foregoing any future benefit improvements that may take place in the future, wherein such future benefit improvements are not guaranteed. In essence, any such future benefit improvements are contingent on future plan investment returns, which cannot be forecasted with certainty at the time a member terminates.

Vested - The terms "vested" and "not vested" or "non-vested" appear often in discussions of pensions. A vested member means that he or she has completed two years of active membership or

five years of continuous service with employers that participate in the plan. To say that a member's pension is vested means that the member has acquired the right to the deferred pension and retains that right even when he or she leaves the plan and has not taken a termination benefit payout. If the pension is not vested, this means that the member has not acquired the full right to his or her deferred pension and, if he or she leaves the plan, he or she does not retain the right to the deferred pension. He or she would get back any contributions he or she made to the plan, with interest, but nothing more.

ELIGIBILITY AND ENROLMENT

Who the Plan Covers

The plan covers members of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada in good standing in Locals 213 and 325, as represented by the New Brunswick Pipe Trades Association (the "Union"). The plan also covers members in Locals 740 (Refrigeration Members) and 56. In order to be a member of the plan, such member of the Union must perform work under an applicable collective agreement, who is obligated to make contributions to the plan or for whom an employer is obligated to make contributions to the plan. Members also include any full time salaried officer or employee of the Union who is permitted by the Board of Trustees to participate in the plan.

Conditions for Membership

Each member of the plan prior to conversion to an SRP as at January 1, 2013 joins the plan on January 1, 2013. Accrued pensions from the pre-conversion plan carry over as accrued pensions in the plan as at the January 1, 2013 conversion date.

Members of the Union who work for an employer who has entered into a collective agreement with the Union must join the plan on the first day of the calendar month in which a contribution is made to the plan for the Union member as required under the collective agreement. Upon joining the plan, you must complete an enrolment form which enables you to name a beneficiary to receive any benefits due in the event of your death and provides additional information to the administrator necessary for the proper administration of the plan.

CONTRIBUTIONS

Employee Contributions

Most active members contribute to the plan regularly by payroll deduction, wherein such contributions accumulate interest. The amount of contribution made by each member, expressed as cents or dollars and cents per hour, is determined by the particular collective agreement which has been entered into by the member's employer. Members are not permitted to increase their pension by making additional contributions on a voluntary basis over and above the amount of regular contributions set out in the collective agreement covering the member.

Disabled members are not required to make contributions. Please see the "Continuing Accrual of Pension Credits" subsection of the "Disability Benefits" section for more information on this.

Employer Contributions

As a condition of maintaining the registered status of the plan with pension regulatory authorities, employers must contribute to the plan. The amount of employer contribution is determined by the particular collective agreement the employer has entered into. The employer's contribution rate is not necessarily equal to the member's contribution rate and may be more than, less than or equal to the members' rate, depending on the applicable collective agreement.

Income Tax Considerations

Under the present Income Tax Act, your contributions made to the plan are fully tax deductible.

Withdrawal of Contributions

As long as an employee remains a member of the plan, he or she is not entitled to withdraw his or her contributions. Only upon termination of active membership may funds be withdrawn from the plan and the specific rules governing such withdrawals are described in more detail in the "Termination of Active Membership" section of this booklet.

RETIREMENT BENEFITS

Normal Retirement

The amount of a member's normal retirement pension at age 61 depends on how long he or she has been a member of the plan and the amount contributed on the member's behalf during that time. Currently, the monthly amount of pension earned for each year of membership is 1.05% of the total of the member's contributions for the year plus his or her employer's contributions made for the year on his or her behalf. Thus, if a member made $1,000 in contributions in a year and his or her employer made $4,000, his monthly normal retirement benefit earned to date would increase by $52.50 at the end of the year (i.e., 1.05% of $5,000).

The benefit accrual rate is scheduled to reduce by 5% per annum, corresponding with automatic contribution increases of 5% per annum, with each such reduction / increase to take place as at January 1st.

Should the plan experience unfavorable results in the future, such reductions / increases could change by as much as 25% (25% is the maximum limit allowed under the plan). However, the membership would be given advance warning of such change, which would be in addition to the automatic 5% changes. Should this maximum increase in contributions not be sufficient to meet the funding requirements of the Pension Benefits Act, pension accruals, including pensions-in-payment, may be subject to reduction, including those benefits already earned.

In the N.B. Pipe Trades Shared Risk Plan, the level of contributions made by employees and employers were set by the collective agreements as at January 1, 2013, the conversion date to the shared risk plan, wherein the level of contributions are now subject to increases as outlined above. Correspondingly, the level of benefits promised in the plan are also automatically adjusted with automatic

contribution changes to ensure that the pre-determined level of employee plus employer contributions support the targeted benefits. This is done through actuarial valuations which must be performed every year.

In past years, the benefit level has been adjusted a number of times, and the benefit level will continue to be adjusted in the future. This will continue to result in a complicated benefit formula for service earned in the plan, with several different rates applying for various periods of service. As such, the administrator keeps track of the amount of monthly pension earned to date and updates that every year according to the amount of contributions a member and his employer(s) make for that year, along with the applicable benefit level. A member's accumulated normal retirement pension is reported to him or her every year on an individualized pension statement to help him or her keep track of his or her estimated pension level payable from the plan.

IMPORTANT: Under a shared risk plan, such as this plan, accrued benefit amounts are not guaranteed and therefore can be reduced (this provision also existed in the plan from which it was converted). The benefits can only be met if contributions and plan experience, most importantly investment performance, allow this to happen. The triggers and timing of any potential benefit reductions are administered by the Board of Trustees and are subject to applicable laws (primarily the Pension Benefits Act) and the plan’s funding policy. This, along with conditions wherein contribution increases of up to 25% may apply (with corresponding benefit formula decreases), are summarized in the “Shared Risk Plan” section. Understanding this section will help you understand the risks and limitations of the plan, as well as the potential rewards in favorable scenarios, that may apply in the future. The operation of a shared risk plan is complicated, so this section simplifies the terms of such operation to make it easier to understand. As such, the formal funding policy and plan text will prevail and will be used exclusively by the Board of Trustees for these purposes.

Early Retirement

The level of pension targeted in the plan is set and funded for assuming that the pension will start at the normal retirement age of 61. If a member's pension starts before age 61, he or she would receive more monthly payments than if it started at age 61 and would therefore receive a greater total amount of pension payments than was originally assumed in setting the benefit level. For this reason, early retirement pensions are reduced so that, on average, the smaller pension paid over a longer period of time is approximately equal in value to the larger pension which does not start until age 61. The reduction is 0.5% times the number of months by which a member's early retirement date precedes his normal retirement date at age 61. For example, on retirement at age 57, which is 48 months prior to age 61, the percentage reduction would be 48 times 0.5% or 24%. The following table shows the reduced immediate early retirement pension payable at sample ages if the unreduced pension payable at age 61 is $1,000 per month. If the unreduced pension payable was, for example, $1,500, the reduced amounts at the various retirement ages would be 1.5 times those shown below (wherein such amounts cannot be less than the approximate actuarial equivalent, a minimum amount required by the Pension Benefits Act that may increase the amounts illustrated below, particularly at earlier ages).

Age at Pension Commencement	½% for each month prior to age 61
61	$1,000
60	$940
59	$880
58	$820
57	$760
56	$700
55	$640
54	$580
53	$520
52	$460
51	$400

Please note that if you retire early because of disability and are eligible for an immediate pension from the plan, your pension will not be reduced (unless required to under the funding policy, which will be as uniform as possible to all members as outlined in the Pension Benefits Act). See the "Disability Benefits" section of this booklet for more information.

Late Retirement

If a member continues to work after age 61 for an employer that participates in the plan, then employer/employee contributions continue in the same manner as before age 61 and the member continues to accumulate a pension in the usual manner until retirement. It should be noted, however, that contributions must stop and a pension must begin no later than December 31 of the year in which the member attains his 71st birthday. This is an Income Tax Act requirement.

Payment of Pensions

Pension payments always start as of the first day of a month and are payable on the first day of each month thereafter. A member can choose when he or she wants his or her pension to start by notifying the N.B. Pipe Trades Administration Office at least one month prior to when he or she wishes to retire.

The basic pension described above in the "Normal Retirement", "Early Retirement" and "Late Retirement" subsections continues for as long as the pensioner lives. However, if he or she should die before a total of 60 monthly payments have been made (i.e., five year's worth), then the remainder of the 60 monthly payments would be made to his or her beneficiary or, if his or her beneficiary so elects, the lump-sum value of the remaining payments may be paid. If the pensioner has no beneficiary, the lump-sum value of the remaining payments would be paid to his or her estate. Any such payout would be subject to possible limitations as prescribed in the Pension Benefits Act.

If a member has no spouse as defined in the Pension Benefits Act at his or her retirement date, he or she can elect a form of pension in which the monthly payments are higher than those paid under the basic or "normal" form described in the previous paragraph because there is no guaranteed number of payments. Under this single life with no guarantee form, payments stop on the pensioner's death even if he or she dies before 60 payments have been made (we will refer to this as “Option A”). Another option is also available under which the monthly payments are smaller than those under the normal form described in the previous paragraph but 120 payments (i.e., 10 year's worth) are guaranteed rather than 60 (we will refer to this as “Option B”).

If a member has a spouse at the time he or she retires, the three optional forms of pension payment described above are available to him or her only if his or her spouse signs a waiver. If his or her spouse does not sign a waiver, he or she must choose a joint and survivor type of pension in which the initial payment is smaller than under the normal form but under which either 60%, 75% or 100% (his or her choice) of the monthly amount being paid at the time of his or her death continues during the lifetime of his or her spouse if his or her spouse survives him or her.

The initial amount payable under a joint and survivor form is normally less than would be payable under the “normal form”. The amount of reduction depends on several things, including the age of the member and the spouse at retirement, the percentage continuing to the spouse, and whether or not the pension reverts to its unreduced amount if the spouse dies before the member.

As well as having a choice of whether 60%, 75% or 100% continues to the surviving spouse on the death of the member, the member has the choice of whether or not the amount of pension will revert to its original unreduced amount if the spouse dies before the member, as if the member had been single when he or she retired. The case in which the pension does not revert back to its original unreduced amount is referred to as “Option C” and the case in which it does is

referred to as the "reversionary joint and last survivor form" under "Option D".

When a member notifies the Administration Office that he or she wishes to retire, they send him or her an option form which sets out the amount of pension payable under each of the optional forms available. If he or she fails to elect one of the optional forms, the automatic form payable is the normal form (single life with a 60 month guarantee) if he or she has no spouse, or the 60% joint and survivor form if he or she has a spouse (payable on an actuarially reduced basis).

It should be noted that, under all joint and survivor forms, there is a guarantee that at least 60 month's worth of payments will be made even if both the member and his or her spouse die less than 60 months after the member retired.

The table below gives an idea of the relative amounts of pension payable under the various optional forms and is a rough approximation only. The amounts under the various options depend on the age of the member at retirement and also, in the case of the joint and survivor options, on the age of his or her spouse. In the examples below, it has been assumed that the member's spouse is three years younger than the member.

		Monthly Pension		
		Age 55	Age 58	Age 61
Normal Form	Single, 60 month guarantee	$1,000	$1,000	$1,000
Option A	Single, no guarantee	$1,005	$1,007	$1,010
Option B	Single, 120 month guarantee	$985	$979	$970
Option C	Regular joint and survivor			
	- 60% to spouse	$899	$885	$870
	- 75% to spouse	$876	$860	$843
	- 100% to spouse	$842	$822	$801
Option D	Reversionary joint and survivor			

- 60% to spouse	$894	$879	$862
- 75% to spouse	$871	$853	$833
- 100% to spouse	$834	$813	$789

The above table is intended to give you an idea of the approximate amount of reduction that is applied under the various optional forms of pension. The actual amount of reduction would depend on your actual age at retirement and, under Options C and D, on the actual age of your spouse at your retirement, mortality assumption and interest rate.

It is important to note that the $1,000 normal form amount in the above table is **after** having applied the reduction for early retirement in the cases of age 55 and age 58. If, for example, the reduced early retirement pension at age 58 was $820 rather than $1,000 and Option C with 75% going to the spouse was chosen, then the pension would be calculated as $820 x ($860/$1000) = $705.20.

Pension Increases after Retirement

Accrued pensions and pensions-in-payment may or may not be increased depending on a variety of factors as outlined in the "Shared Risk Plan" section, but is primarily based on how well the pension fund investments do. The more favorable a financial position the plan is in, the greater the probability of pension increases (and vice versa).

There may be a further limit to any increase to be granted in a given year because the Income Tax Act does not allow an increase that would result in the total pension being more than the initial pension amount increased by the total increase in the Consumer Price Index since the pension began.

Returning to Work After Retirement

If a pensioner returns to work, the pension being paid from the plan will continue to be paid during the period of re-employment. The Income Tax Act does not allow accrual of benefits while at the same

time a pension is being received, so no additional benefits would be earned during the period of re-employment. Any contributions made by the employer on his or her behalf would be forfeited to the plan. Any contributions made by the member will be refunded to him or her, with interest, upon subsequent retirement. However, if a pensioner returns to work and he or she chooses to suspend his or her pension instead, he or she shall accrue additional pension benefits according to the benefit formula and contribution rate applicable. Pension benefits will recommence after retirement, wherein such additional pension benefits will be added to those pension benefits that applied at the time the member chose to suspend his or her pension. If this becomes applicable for you at a later date, further information will be supplied to you on your option to suspend your pension at the applicable time.

DISABILITY BENEFITS

Qualifying as a Disabled Member

To be considered a disabled member for purposes of the plan, a member must make a written application to the Board of Trustees. The application must describe the member's disability and include certification by a medical practitioner that he or she is totally disabled by bodily injury or disease so as to be prevented from working at any occupation or employment for money or profit. If the doctor's certificate is acceptable to the Board of Trustees, they will declare the member to be a disabled member.

Disability Pension

In order to be eligible to receive a monthly disability pension from the pension plan a member must meet the following conditions:

(a) he or she must qualify as a disabled member to the satisfaction of the Board of Trustees as described in the "Qualifying as a Disabled Member" subsection above;

(b) he or she must have applied for a long term disability insurance benefit under the Health and Welfare Plan but was found to be ineligible for benefits under that plan;

(c) he or she must have applied for a disability benefit from the Canada Pension Plan and received confirmation of eligibility for such a benefit; and

(d) he or she must not be eligible for benefits under any Workers' Compensation law or any similar law.

If a disabled member is eligible for a disability pension from the pension plan, the amount will be the amount of normal retirement pension he or she has earned to the date of his or her disability with

no reduction applied even though the pension is starting before age 61. He or she would be able to choose an optional form of payment for his or her disability pension in the same manner as if he or she was taking normal retirement as described in the "Payment of Pensions" subsection of the "Retirement Benefits" section of this booklet.

Since most disabled members would be eligible for LTD benefits from the Health and Welfare Plan, most disabled members would not meet condition (b) above and thus would not be entitled to a monthly disability pension from the pension plan. They may, however, be eligible for continuing accrual of pension credits as explained in the next subsection.

The Income Tax Act prevents a member from receiving a pension from the plan and accumulating pension credits at the same time so, if a disabled member is receiving a disability pension from the plan, he would not also accumulate pension credits at the same time.

Continuing Accrual of Pension Credits

Any disabled member who is eligible to receive LTD benefits from the Health and Welfare Plan is not entitled to an immediate monthly disability pension from the pension plan. However, he or she would continue to accumulate pension credits in the plan while disabled until he or she reaches age 61 as long as he or she remains eligible to receive LTD benefits from the Health and Welfare Plan. He or she would not have to make any contributions to the plan during this period. His or her accrual of pension credits would be based on contributions of $4 per day made on his or her behalf. At the 2014 benefit rate, he or she would accumulate 1.05% of $4 times 365 or $15.33 in monthly pension for every year he or she is disabled (with such benefit rate to decrease every year).

Medical Examinations

The Board of Trustees may require a disabled member to submit to a medical examination by a doctor chosen by the Board of Trustees to

establish whether the member initially meets the requirements, or continues to meet the requirements, to be considered a disabled member. Such medical examinations cannot be required by the Board of Trustees after the member reaches age 61 nor more than twice in any one calendar year.

Conditions for Ceasing to be a Disabled Member

At any time prior to age 61, the Board of Trustees may deem that a disabled member is no longer a disabled member if one of the following conditions holds:

(a) the disabled member refuses to submit to a medical examination requested by the Board of Trustees;

(b) on the basis of a doctor's written report the Board of Trustees determines that the disabled member no longer meets the requirements to be classified as a disabled member; or

(c) the disabled member engages in any occupation or employment for wage or profit, except for the purpose of rehabilitation (as determined by the Board of Trustees).

If the disabled member was receiving a disability pension from the pension plan, payment of the pension would stop. If the disabled member was not receiving a disability pension but was accumulating pension credits instead while receiving LTD benefits, the accumulation of the special pension credits while disabled would stop. If the member goes back to work and ordinary pension contributions begin to be made to the plan once again, he or she would resume accumulating pension credits as an active member. On the other hand, if after ceasing to be a disabled member and ordinary contributions to the plan do not resume, he or she will be treated as any other member for whom contributions have ceased and will be entitled to benefits as described in the "Termination of Active Membership" section of this booklet.

Occasionally, the insurance company paying long term disability benefits to a disabled member under the Health and Welfare Plan will pay all future benefits off in one lump sum. That is, instead of continuing to pay the benefits out monthly over time, it will pay the value of those future benefits in one lump sum. In this case, just because the disabled member has stopped receiving monthly payments under the Health and Welfare Plan, does not mean that he or she now becomes eligible for a disability pension from the pension plan. If he or she received the lump-sum (or termination benefit) value of his or her expected future disability payments, he or she would be treated in the pension plan as if he or she was continuing to receive the benefits monthly and would not be eligible for a disability pension from the pension plan.

If the monthly disability payments under the Health and Welfare Plan cease because the member is no longer considered disabled under that plan and the member did not receive a lump-sum payment for the full value of expected future disability payments, then whether or not the member can continue to be considered a disabled member and possibly be eligible for a disability pension from the pension plan depends on whether or not the member continues to meet the requirements described earlier in this section for qualifying as a disabled member and eligibility for a disability pension. The Board of Trustees may require that the member submit to a medical examination by a doctor of the Board of Trustees' choice in determining the disability status of the member.

TERMINATION OF ACTIVE MEMBERSHIP

Non-Vested Termination

If a member ceases active membership (other than by death) before completing two years of such membership and before completing five years of continuous service with an employer or employers who participate in the plan, then the contributions the member made to the plan will be refunded with accumulated interest. If the refund is made in cash, taxes will be withheld and sent directly to the Canada Revenue Agency. At the member's option, he or she will be entitled to have the refund transferred directly to an RRSP and, in such a case, no taxes would be withheld.

Vested Termination

If a member ceases active membership (other than by death or retirement) after completing two years of active membership or five years of continuous service with an employer or employers who participate in the plan, then the member will be entitled to the deferred normal retirement pension earned to the date of his termination commencing when he or she reaches age 61 (that is, his or her deferred pension is "vested"). Members who are under age 51 at termination have some options with respect to the deferred pension as explained below in the subsection "Options With Respect to Deferred Vested Pension".

In addition, a test is made between the value of the member's termination benefit and the amount of his or her own contributions with interest. If his or her own contributions with accumulated interest are more than the termination benefit, then the excess contributions would be refunded to him or her on a non-locked-in basis. In this way, the member is assured that he or she will never receive a termination benefit that is worth less than his or her contributions with accumulated interest.

When Active Membership Is Considered Terminated

If a plan member ceases to be a member of the Union, his active membership in the plan ceases also. If, however, he or she merely ceases working for his present employer while still maintaining his Union membership, his or her active membership in the plan does not automatically end because of the possibility that he or she will work with another employer that participates in the plan and resume contributing to the plan. If a period of two years goes by and he or she has made no contributions to the plan in that period and no employer has made contributions on his behalf, he or she has the right to deem that he or she has terminated membership in the plan. Active membership is also terminated by retirement or death.

Options With Respect to Deferred Vested Pension

A member who was entitled to a deferred vested pension on termination of active membership could elect to leave his or her benefits in the plan. In such a case, he or she could start his pension as early as age 51 (on a reduced basis) as described in the "Retirement Benefits" section. All the optional forms of pension available to an active member on retirement would be available, as would any benefits on death before retirement and any benefit increases that may occur after retirement.

Instead of leaving his or her benefits in the plan, a member who is under age 51 when he or she terminates service could elect to transfer the termination benefit to the pension plan of his or her new employer (if that employer agrees to the transfer) or to a Locked-In Retirement Account (LIRA). A LIRA is similar to an RRSP except that the owner is not free to take the value of the account in cash.

By law, the money in a LIRA must remain locked-in until retirement, at which time the money must be used to provide a monthly retirement income for life. All the rules regarding death benefits and joint and survivor retirement benefits if the member has a spouse when he or she retires as described elsewhere in this booklet must be

followed when the money is in a Locked-In Retirement Account or another registered pension plan.

As an alternative to transferring the termination benefit to a LIRA, it could be transferred to a Life Income Fund (LIF) on a locked-in basis. A LIF offers somewhat more flexibility with regard to the timing and amount of monthly payouts than a LIRA and is similar to a Registered Retirement Income Fund (RRIF) in operation. However, there are more restrictions on a LIF than on a RRIF, including a limit on the amount that can be paid out of the LIF in any one year.

If the member's pension is small, the administrator has the right to settle the benefit by way of a lump-sum cash payment or transfer to a Locked-In Retirement Account if they choose to do so.

Please note that the provision of the details of these alternative arrangements is outside of the scope of this booklet. However, a financial institution, such as a chartered bank, specializing in these types of products should be able to provide you with further information. Any advice received by you outside the pension plan is separate from the operation of the plan and is considered to be completely at the risk of the person seeking such services.

DEATH BENEFITS

Death Before Retirement

On death before retirement, the termination benefit, or his or her own contributions with interest if greater, is payable to his or her spouse, less any taxes that must be withheld and sent directly to the Canada Revenue Agency. If there is no spouse, the payment is made to his or her named beneficiary or estate.

If the member's spouse is his or her beneficiary, then, instead of taking the termination benefit in cash, the spouse may elect to have the full amount transferred directly to an RRSP or to an insurance company to purchase a lifetime pension.

Please see the discussions of "spouse" and "beneficiary" in the "Explanation of Terms" section of this booklet for more information.

Death After Retirement

At retirement, a member chooses the form of his or her pension payments as described in the "Payment of Pensions" subsection of the section on "Retirement Benefits". The amount of any payments after a pensioner's death, and to whom they will be paid, will be determined by the form of pension elected at retirement.

GENERAL INFORMATION

Administration of the Plan

A Board of Trustees, made up of an equal number of Union trustees and employer trustees, is responsible for the overall operation and administration of the plan. The Trustees are appointed to the Board of Trustees in accordance with the provisions of the collective agreement. The Board of Trustees has the authority and responsibility to see that the benefits provided under the plan are correctly determined in accordance with the provisions of the plan. The Board of Trustees also has the responsibility to administer the pension fund and to ensure that the benefits targeted by the plan are properly funded.

The day-to-day administration is handled on behalf of the Board of Trustees by the N.B. Pipe Trades Administration Office.

The invested assets of the plan are held separately by a custodian specifically for the benefit of plan members. The current custodian of the plan is RBC Investor Services (RBCIS). RBCIS physically holds and keeps track of the fund's investments and cash on behalf of the Board of Trustees, along with paying of pension benefits.

The decisions on which securities to invest the fund in and how much to invest in each is made by several firms of professional investment managers engaged by the Board of Trustees for this purpose. The investment firms are changed from time-to-time by the Board of Trustees as conditions warrant.

Marriage Breakdown

On marriage breakdown, the value of the pension accumulated during the marriage is part of the overall family assets that are subject to division between the marital partners. The Administration Office will supply to any member in the process of getting a divorce

the value of his benefits earned during the marriage and subject to division. When the divorce settlement is finalized, the plan will pay out (on a locked-in, lump-sum payment basis) the non-member spouse's share of the value of the pension accumulated during the marriage. When the member subsequently terminates or retires, the amount of his or her pension will be reduced accordingly to reflect the fact that a portion of his or her benefit was paid out to his or her ex-spouse.

As an alternative to settling matters with his ex-spouse by having the plan pay out a portion of the value of the pension benefits to his ex-spouse at the time of the divorce settlement, the member and the ex-spouse can settle pension matters by trading off marital assets outside the pension plan to cover the non-member spouse's share of the pension benefits. Doing this allows the plan member to keep his or her pension benefits intact by taking a lesser proportion of non-pension assets.

It is important to clearly settle pension matters on the breakup of a marriage so as to avoid conflicting claims in the future to pension benefits.

Assignment of Pensions

The only time ownership of pension benefits can be assigned to another person is upon marriage breakdown as part of the divorce settlement as described in the previous subsection. Otherwise, the assignment of any benefit under the plan is prohibited by law. Also, a member may not use the value of his or her contributions to the plan or the value of his or her pension benefits as collateral to borrow money. A positive side to these rules for the member is that his or her pension benefits are not subject to seizure from his or her creditors, even in the case of personal bankruptcy.

Tax Considerations

Contributions paid into the pension fund are fully tax deductible. Also, investment earnings on the fund are not taxed. Tax is payable

on monthly pension benefits as they are paid out to pensioners, as well as on any lump-sum cash payments made on termination or death. Taxes are not payable on amounts transferred directly to an RRSP, Locked In Retirement Account (LIRA), Life Income Fund (LIF) or other registered pension plan as allowed or required on termination of active membership, death or marriage breakdown (however, taxes are payable on these amounts when they are actually paid out).

Integration with Government Pension Benefits

The amount of normal retirement pension payable from the N.B. Pipe Trades Shared Risk Plan is totally separate from, and unaffected by, any pension payable from the Canada Pension Plan and Old Age Security benefits.

SHARED RISK PLAN

Discussions with the Regulators

The journey to change the N.B. Pipe Trades Pension Plan to a Shared Risk Plan (SRP) began in 2010. The global economic events leading up to 2010, sometimes called the "perfect storm" of the pension world, created a financial dilemma for the plan requiring significant increases in contributions and / or decreases in pensions-in-payment.

The financial dilemma was amplified by the Pension Benefits Act requiring solvency deficits be funded over a five year period, along with other restrictions unique to New Brunswick for Multi-Employer Pension Plans ("MEPPs"). In essence, the Global Financial Crisis of 2008 / 2009, combined with historical lows in long-term bond-yields, suddenly decreased the assets at the same time liabilities continued to increase.

As a result of this financial dilemma, the Board of Trustees quickly engaged the Province of New Brunswick to seek a compromise to this difficult position. In addition to various meetings with high-level members in the Finance department of the Province, two formal letters were sent to the Minister of Finance on this subject (September 21, 2010 and October 28, 2010).

In response, the Province indicated that the plan could have a reprieve as the Province was taking an in-depth study of a new type of plan that could present a solution. This new type of plan was the introduction of the SRP, with details starting to come out in 2011 / 2012 and ever expanding until the regulations became as they are today.

Based on information supplied from the Pension Task Force, the Board of Trustees made a decision that an SRP was the best solution that the Province would be able to offer.

A group was formed by the plan to begin an in-depth process of reviewing the SRP alternative consisting of the following:

- Plan Administrator
- Chair of the Board of Trustees
- Local 213 Business Manager
- Local 325 Business Manager

After further discussion and deliberation by the Board of Trustees, an agreement was eventually signed with the Province to convert the plan to an SRP, with a formal letter dated May 22, 2012 delivered to Premier Alward by this group.

Contribution Increases

The purpose of this section is to outline the background for the recently implemented 5% automatic annual contribution increases (with corresponding benefit decreases) that started on January 1, 2014. This was a result of the N.B. Pipe Trades Pension Plan (the “Predecessor Plan”) being converted into a Shared Risk Plan (“SRP”), now the N.B. Pipe Trades Shared Risk Plan as at January 1, 2013, and the corresponding changes that resulted from this conversion.

Automatic 5% contribution increases

The first 5% contribution increase occurred on January 1, 2014. For example, if a Union group was contributing $5.00 per hour in 2013, this amount will have increased to $5.25 per hour effective January 1, 2014. Correspondingly, the benefit accrual rate reduced by 5%, from 1.10% to 1.05%, also effective January 1, 2014.

Due to the transition in implementation of administrative processes that have resulted from the conversion, some Union groups will not have put this in place as at January 1, 2014. However, the collective

agreements will reflect this increase as soon as possible, with the collective agreements altered to allow further prescribed increases to contributions to occur automatically from January 1, 2015 and on, in addition to the 5% increase that will be implemented as early in 2014 as possible. Each of these 5% automatic increases will then be required to come into effect on January 1st of future years, with a corresponding reduction in the benefit accrual rate. Note that these increases apply to both employer and employee contributions equally.

The purpose of these automatic increases is to keep the dollar amount of benefit accrual rate constant, but allow the plan to meet the security requirements for pension benefits as outlined in the plan in compliance with the Pension Benefit Act to SRPs.

Using the above example, the following illustrates how this dollar amount is kept constant in 2014 in comparison to 2013:

- Dollar amount of benefit accrual in 2013 = $5.00 per hour contribution x 1.10% contribution formula = $0.055

- Dollar amount of benefit accrual in 2014 = $5.25 per hour contribution x 1.05% contribution formula = $0.055

Emergency Contribution Increases of up to 25%

The other requirement of the Pension Benefits Act with respect to SRPs such as the plan is that the pension benefits be funded at a sufficient level that there is a less than 2.5% chance of pension benefits being reduced in the next 20 years, or a 1 in 40 chance.

The valuation results as at January 1, 2013 are showing this security to be such that there is a less than 1 in 2000 chance of pension benefits being reduced in the next 20 years, 50 times less of a chance than required under the Pension Benefits Act. In order to accomplish this high level of security, the possibility of "Emergency Contributions" were implemented into the plan by the Board of Trustees.

In essence, Emergency Contribution Increases (the "ECI") of up to 25% (with corresponding benefit formula decrease) automatically come into effect should the funding ratio of the plan reduce to under 100% two years in a row. The January 1, 2013 valuation shows this funding level to currently be over 105%.

If the funding level does drop to such low levels for two years in a row, contributions will be required to be increased by up to 25% to reestablish primary goal objectives being passed as per the Pension Benefits Act (once the 25% is "used up", no further ECI is allowed again until such increase is reversed).

The use of ECI was adopted by the Board in order to ensure the probability of pension benefit reductions exceed minimum requirements. The good news is that, based on Plan projections as at January 1, 2013 using 2000 investment return scenarios, the probability of such ECI ever being implemented in the next 20 years is only around 5%, or a 1 in 20 chance.

For illustrative purposes of what this could do to contribution / plan formula levels, let us use the above example again and assume 15% Emergency Contribution Increases are required effective January 1, 2018. This would have been after five 5% automatic increases would have already taken place at each January 1st from 2014 to 2018 inclusive, plus the 15% ECI.

Based on this, the following illustrates the contribution level and corresponding dollar amount of benefit accrual in 2017 versus 2018:

- Dollar amount of benefit accrual in 2017 = $6.08 per hour contribution x 0.90% contribution formula = $0.055

- Dollar amount of benefit accrual in 2018 before 15% ECI = $6.38 per hour contribution x 0.86% contribution formula = $0.055

- Dollar amount of benefit accrual in 2018 after 15% ECI = \$7.34 per hour contribution x 0.75% (wherein 0.75% = 0.86% / 1.15) = \$0.055

Impact if Shared Risk Plan not adopted

Had the SRP option not been available and adopted by the Board of Trustees, they had some extremely hard choices to make that would affect most, if not all, of the members of the Predecessor Plan. Indeed, if the Predecessor Plan had not converted to an SRP, the Predecessor Plan had some very unattractive alternatives that would have had to be considered to have the Predecessor Plan meet Pension Benefits Act funding requirements. These included the following:

- **OPTION 1:** Reductions in ALL accrued benefits, including pensions-in-payment, of around 10% (as allowed in Section 18.01 of the Predecessor Plan text)

- **OPTION 2:** Increasing contributions by 130% (over double the current rate), with a corresponding decrease in benefit formula

- **OPTION 3:** Some combination of the above

To put this in perspective using Option 2 as an example, wherein contributions were \$5.00 per hour under the plan in 2013, here is a comparison to the Predecessor Plan (assuming that benefit reductions were to be avoided):

- Dollar amount of benefit accrual in 2013 for the plan = \$5.00 per hour contribution x 1.10% contribution formula = \$0.055

- Dollar amount of benefit accrual in 2013 for the Predecessor Plan = \$11.50 per hour contribution x 0.48% contribution formula = \$0.055

By the Board of Trustees converting the Predecessor Plan to an SRP, as allowed under the Pension Benefits Act (the only jurisdiction that

currently allows SRPs in Canada), the Board of Trustees was able to avoid the catastrophic measures outlined above.

In comparison, the very earliest that contributions could ever reach the $11.50 per hour contribution level under the SRP (using the above example again), even with the full 25% ECI kicking in, would be the year 2026 ($5.00 x 1.25 x 1.05 ^ (2026 – 2013) = $11.79).

The Board believed that a sudden equivalent decrease in hourly wages of $6.50 per hour (for those at the $5 contribution level) would have been very hard to budget for the individual. This prompted the actions by the Board of Trustees with the Province as previously discussed.

By using the SRP as designed and illustrated in this section, these increases would occur, but over a much longer period of time, wherein average wages are also expected to continue to increase, making this situation more manageable. That is, the majority of projections indicate that this level of funding would not be necessary until the year 2030 ($5.00 x 1.05 ^ (2030 - 2013) = $11.46).

The alternative would have been to make significant cuts to accrued pension benefits for all members, including pensions-in-payment for retirees, under the Predecessor Plan.

Wind Up Financial Position

A hypothetical wind-up valuation assumes that a pension plan is wound-up on the valuation date and member's benefit entitlements are calculated as of that date. Although this type of valuation is no longer required under the Pension Benefits Act for a shared risk plan, the Standards of Practice of the Canadian Institute of Actuaries require that actuarial valuation reports provide information with respect to hypothetical wind-up situations.

In this case, plan liabilities are calculated using a discount rate of 2.96% (as at December 31, 2012), reflecting the low bond yields for Government of Canada Bonds that is currently in place (this is at

historical lows, thereby increasing liabilities). This lower discount rate is a critical factor in generating a large deficit.

To help illustrate the time value of money, a dollar payable say, 10 years from now, is much more expensive the lower the discount rate. This is due to bringing back that dollar as a present value is that much more expensive. As such, a discount rate of around 3% for wind up versus a higher discount rate of around 5% is going to drive up these liabilities considerably.

In essence, had the plan been wound up as at January 1, 2013, the assets would have been approximately $163 million less than the liabilities. This would have resulted in all pension accruals being reduced by approximately 35%, since the wind-up ratio is only 65.1%.

This shortfall under the Pension Benefits Act would have been required to be funded over only five years and is in many ways the main reason the Board of Trustees made the decision to convert the plan to an SRP as discussed earlier.

Funding Policy Financial Position

An initial funding policy valuation is required under the Pension Benefits Act. The funding policy valuation funded status of the plan is determined by comparing the fair market value of the assets to the funding policy actuarial liabilities.

In turn, the funding policy actuarial liabilities are based on the benefits earned up to the valuation date assuming the plan continues indefinitely. Liabilities as at January 1, 2013 were calculated using a discount rate of 5%, wherein future returns are expected to average above this 90% of the time and average below this only 10% of the time. In general, to the extent that returns are favorable, the financial position will improve, and vice versa.

On a funding policy basis as at January 1, 2013, the assets would have been approximately $58 million less than the liabilities. This results in a termination value funded ratio of 84.1%.

With respect to termination benefits as discussed in earlier sections of this booklet, this is the "pro-rata share" currently being applied, wherein this amount will be updated in the future (typically, this will take place in September on an annual basis).

In other words, the termination value funded ratio is used in the calculation of the "termination value" of any individual's pension benefits, also known as the termination benefit. This includes lump sum pension benefits paid out at termination of employment, death, marriage breakdown, or retirement (small amounts only), as the case may be, in accordance with the Pension Benefits Act.

The purpose of the funded ratio being used (currently 84.1%) is to help ensure that remaining plan members benefits do not have a reduction in benefit security as a result of a payout. Members who receive payouts forego any plan enhancements that may occur in the future.

The funding policy valuation normal cost is the value of the pension benefits being earned in the twelve month period after the valuation date. By comparing the funding policy valuation normal cost to the level of member and employer contributions, the level of contributions being made to the plan in excess of the funding policy valuation normal cost can be calculated.

For 2013, the ratio of the funding policy valuation normal cost to the total contributions was approximately 90%, with an "excess contribution" of approximately $1.2 million. However, as the contribution amounts increase annually by 5%, with corresponding benefit formula decreases, this ratio should continue to decrease favorably, along with the amount of "excess contributions".

These "excess contributions" are the critical factor in calculating the "15-year open group funded ratio", a ratio required to be calculated

in accordance with the requirements of the Pension Benefits Act. The 15-year open group funded ratio is used extensively in the funding policy to determine the actions to be undertaken by the Board of Trustees under the funding policy deficit recovery plan and the funding policy excess utilization plan (explained in detail later in this booklet).

As at January 1, 2013, including the present value of the next 15 years of excess contributions, the 15-year open group funded ratio is 105.6% (which compares to the 84.1% termination value funded ratio). The higher the 15-year open group funded ratio is, the greater the probability of shared reward. The lower the 15-year open group funded ratio is, the greater the probability of shared risk.

SRP Risk Managing Process

The primary risk management goal is to achieve a 97.5% probability that base benefits will not be reduced over the 20 years following the valuation. The goal is measured by taking into account the following funding management plans:

- The funding deficit recovery plan (which we will call “SRP Risk Sharing”) except for reduction in past or future base benefits, and

- The funding excess utilization plan (which we will call “SRP Reward Sharing”) excluding permanent benefit changes

For the purposes of meeting these goals, base benefits include future accruals and any contingent indexing provided based on the financial performance represented by each scenario tested. If as a result, through the testing process, a scenario allows for indexing in a given future year, then this contingent indexing amount becomes part of the base benefits that is to be protected.

In other words, the base benefit is dynamically adjusted based on the stochastic results for each economic scenario tested. The risk

management goals are measured using an asset liability model with future economic scenarios developed using a stochastic process.

So then, what is a stochastic process? In essence, a model is run with 2,000 alternative economic scenarios over 20 years, giving 40,000 different points (which exceeds the minimum requirements under the PBA of 1,000 economic scenarios). For each of these scenarios and for each year, the financial position of the Plan is measured. For each of these measurements, a decision consistent with the SRP Risk Sharing or the SRP Reward Sharing, as applicable, is modeled.

When modeling the SRP Risk Sharing actions over the 20-year period of each of the 2,000 economic scenarios, the SRP Risk Sharing plan is implemented in sequence until such time as the 15-year open group funded ratio of the plan reaches 100% or higher.

A benefit reduction scenario is recorded (for purposes of the primary risk management goal calculation) when a reduction in past base benefits is triggered at any point in the 20-year period of an economic scenario. The primary risk management measure is therefore the proportion of those 2,000 scenarios that do not result in a benefit reduction scenario over a 20-year period.

In order to pass the primary risk management goal, at least 1,950 of those 2,000 scenarios (97.5%) must not trigger a benefit reduction scenario as described above at any point over the 20-year period. In comparison, the plan result was 1,999 of 2,000 scenarios (99.95%). This means the plan passed the primary risk management goal by a wide margin based on the January 1, 2013 valuation.

SRP Risk Sharing

The SRP Risk Sharing plan must be implemented by the Board of Trustees if the 15-year open group funded ratio of the plan falls below 100% for two successive plan year ends. Once triggered, a report shall be provided to the Superintendent of Pensions describing

how the Board of Trustees is dealing with the underfunding of the plan.

In addition, members, employers and the Unions shall be informed of the actions being taken, along with the effect and timing of these actions on the contributions and benefits.

The SRP Risk Sharing plan shall consist of the following actions in the order of priority as listed below:

- **Step 1:** Increase contributions, limit of 25% increase (this is in addition to the 5% per annum automatic contribution increases that forms the SRP); and

- **Step 2:** Reduce base benefits on a proportionate basis for all members regardless of membership status, including those currently receiving pensions from the plan, in equal proportions, for past service

The above actions shall be taken one by one and, when the primary risk management goal is met (97.5%), no further actions are required at the time. Further actions are triggered when the primary risk management goal cannot be achieved with the cumulative effect of all previous actions, such goal being measured annually and follow-up actions to take effect as per the timelines outlined later in this booklet.

For example, if the SRP Risk Sharing plan is triggered, the Board of Trustees would implement step 1 first and conduct the primary risk management goal test. If step 1 is sufficient to meet the primary risk management goal, no further action would be required at that time.

At the next annual review, the goals would be tested again and, if not achieved, step 2 would be implemented in the same manner and under the same circumstances as step 1. The base benefit reduction in Step 2, if required, shall be such that both goals below are achieved:

- 105% 15-year open group funding level; and

- Primary risk management goal of a minimum of 97.5% probability that base benefits need not be further reduced over the next 20 years

The measurement date is the funding policy valuation date that triggered the need for the action or actions taken under the plan. The timing of the changes shall be as follows:

- For contribution increases under step 1, no later than 12 months following the date of the funding policy valuation report that triggered the need for contribution increases

- For step 2, no later than 18 months following the date of the funding policy valuation report that triggered the need for base benefit reductions

<u>Emergency Contribution Increases of up to 25% (Step 1)</u>

There would be plenty of warning given before Emergency Contribution Increases ("ECI") would kick in. This is not at risk to occur until a funding ratio first falls below 100%.

Here is a hypothetical example of this warning:

- We would start to have hints of this in the fall before the valuation (say, for example, fall 2018, with first ratio below 100% as at January 1, 2019)

- Now looking for the second funding ratio being below 100%, we would monitor this during the year (say 2019, with more information once fall 2019 comes, with second ratio below 100% as at January 1, 2020)

- We now have 12 months before the ECI kicks in as at January 1, 2021, wherein warnings would have started back

in the fall of 2018 (over 24 months of "watching and warning")

SRP Reward Sharing

The SRP Reward Sharing plan describes the actions the Board of Trustees must take or consider when the 15-year open group funding level exceeds 105%. If the 15-year open group funding level is at 105% or less, there are no actions that can be taken under the SRP Reward Sharing plan. Under normal circumstances, the amount available for utilization is as follows:

- Nil if the 15-year open group funding level at the valuation date is less than 120%

- 30% of the excess funds that make up the difference between the 15-year open group funding level at the valuation date of 120% to a maximum of 140%; PLUS

- 100% of the excess above 140%

Notwithstanding, the amount available for utilization for reversing any prior base benefit reductions is as follows:

- Nil if the 15-year open group funding level at the valuation date is less than 105%

- 20% of the excess funds that make up the difference between the 15-year open group funding level at the valuation date of 105% to a maximum of 140%; PLUS

- 100% of the excess above 140%

The actions that can be taken depend on whether the base benefits have ever been reduced and such reduction not subsequently reversed and on the priority order set out as follows:

- **If base benefits have been reduced:** All excess available for utilization must first be used to reverse such base benefit reductions with respect to future payments after the date of reversal until all the previous reductions to base benefits have been eliminated.

- **If base benefits have never been reduced or after all previous reductions have been reversed for future payments:** Then the Board of Trustees shall take the actions with respect to the excess available for utilization in the following order of priority:

  - **Action 1:** Provide indexing of flat dollar amounts and pension benefits for current year at 0.8% per annum

  - **Action 2:** Provide indexing of accrued flat dollar amounts and pension benefits for any past years that were missed at 0.8% per annum

If some residual excess remains available after providing maximum allowed increases under the Income Tax Act for actions 1 and 2 above, such excess shall remain in the fund as increased security against future potential downturns in experience.

If all improvements for actions 1 and 2 have been made and the 15-year open group funded ratio is still in excess of 140%, then the following actions shall be taken:

- **Action 3:** 30% of such amounts in excess of the 140% 15-year open group funded ratio shall be used to provide further contingent indexing of accrued flat dollar amounts and pension benefits

- **Action 4:** Remaining 70% of such amounts in excess of the 140% 15-year open group funded ratio shall be used to:

  - Further increase benefits; and/or

- Provide further benefit security by not spending on benefit enhancements

The level to which action 4 is utilized by the Board of Trustees is based on the full discretion of the Board of Trustees in power at the time such excess arises.

Notwithstanding the above, the percentage increase to accrued benefits or pensions in payment that may result from actions 1 to 4 shall be the same for all members and former members, subject to an individual limit of recovery of full inflation (CPI) up to January 1st of the year that follows the valuation date or coincides with it if the date of the valuation is January 1st of the same year.

If the 15-year open group funded ratio is above 140%, any and all base benefit reductions have been reversed and actions 1 and 2 have been provided, the Board of Trustees may consider permanent benefit changes and / or amending the plan by reducing contribution rates.

If all of the actions above still leave the plan with contributions in excess of the Income Tax Act limits, then contributions are to be reduced accordingly until such Income Tax Act limits are no longer exceeded, wherein both employer and employee contributions are reduced proportionally (to the extent allowed).

Each of the actions above can only be implemented after confirming that the primary risk management goal is achieved after the change is made. The timing of the above actions shall be the first of the year that is 12 months after the date of the funding policy valuation report that triggered the actions.

Summary

The primary purpose of the plan is to provide pensions to eligible employees after retirement and until death in respect of their service as employees. A further purpose of the plan is to provide secure

benefits to members of the plan, without an absolute guarantee but with a risk focused management approach, delivering a high degree of certainty that base benefits can be met in the vast majority of potential future economic scenarios.

In an SRP such as the plan, deficits or surpluses are no longer a direct issue, but rather the funding position of the plan instead dictates the level of risk sharing or reward sharing available to members. The more favorable the funding position, the more the excess funds that may be available for benefit improvements and security. In contrast, the less favorable the funding position, the higher the probability of increased contributions (up to a 25% increase maximum) and possible benefit reductions.

In reality, the biggest determinant of funding position is the investment returns in the long term. The management of the SRP, in turn, is fully outlined in the SRP Shared Reward plan and the SRP Shared Risk plan and depends on the position of the SRP at any given time.

Please note that this booklet is an overview only. It is important that the member keep the administrator of the plan up to date on any personal data changes.

IMPORTANT: Circumstances may arise in the future wherein the plan may need to be amended significantly and / or terminated in whole or in part. However, the future of the plan appears secure based on multiple projections made under a variety of economic scenarios (as required in the process of registering the plan as a Shared Risk Plan under the Pension Benefits Act). Indeed, the Board of Trustees hopes and expects to continue the plan indefinitely, but note that this risk does form a part of the plan.