cwpp
CARPENTRY WORKERS PENSION PLAN

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In March, we announced that the Board of Trustees of the Carpentry Workers' Pension Plan of B.C. has decided to transition the pension plan to a Target Benefit Plan, effective June 30, 2016. To ensure you have all the information that you need, we prepared the following frequently asked questions to help you understand what this transition means to you, and an at-a-glance plan summary that gives you an overview of the plan.

For a copy of the original member announcement, visit http://www.cwbp.ca. If you have further questions, please reach out to Fred Kuhn, Chair of the Board of Trustees, at 250-480-9202.

Frequently asked questions

Q. What is a Target Benefit Plan? How is it different from the pension plan right now?

A. Target Benefit Plans were introduced as part of new B.C. pension legislation that came into effect September 30, 2015. Since then, the administrators of many pension plans like yours have made the decision to transition to a Target Benefit Plan to help ensure plan sustainability.

A Target Benefit Plan uses different rules to measure the funded level of the plan (i.e., a long-term view vs. a short-term view – see "why are we making this change?"). This approach allows for more stable benefit levels and reduces the risk of future benefit adjustments.

Q. Why are we making this change?

A. After careful consideration, the Board of Trustees has determined that transitioning the pension plan to a Target Benefit Plan is in the best interests of the pension plan and its members. Here's why:

Long-term view
The key advantage of a Target Benefit Plan is related to funding rules. Target Benefit Plan funding is measured using a long-term view that assumes the plan will continue ("going concern" basis), instead of using a short-term view that assumes that the plan may be terminated on a given date ("solvency" basis). Using a long-term funding view better reflects the ongoing nature of the pension plan. By transitioning to a Target Benefit Plan, solvency funding rules will no longer apply.

Increased stability
If the pension plan does not transition to a Target Benefit Plan, pension legislation changes will mean that stringent short-term, solvency funding requirements could put unsustainable financial pressure on the pension plan. With the long-term funding view used under a Target Benefit Plan, the impact of short-term financial fluctuations on the plan's funded level is reduced, which in turn minimizes the likelihood of having to adjust member benefits to ensure the plan's ongoing sustainability. That's why transitioning the plan to a Target Benefit Plan can significantly contribute to improved plan stability in the future.

Q. When will the change happen?

A. The planned effective date of the transition is June 30, 2016, pending final approval of plan document amendments by the Board of Trustees and regulatory approval by the pension authorities.

Q. Is my pension going to be reduced?

A. Your pension is not being reduced with this transition. The plan's provisions are not changing – pension benefits continue to accumulate the same way, based on the same formula.

The transition has no impact for active members who terminate their participation in the plan and choose to receive a deferred pension from the plan.

However, different rules apply to the calculation of lump sum termination benefits. This may result in lower lump sum payments for members who choose to withdraw their benefits out of the plan when they terminate their participation before retirement.

But remember that, since a Target Benefit Plan uses different rules to measure the funded level of the plan (i.e., a long-term "going concern" basis vs. a short-term "solvency" basis), we anticipate more stable benefit levels and a reduced risk of benefit adjustments going forward.

Q. Why will lump sum termination benefits be lower after the transition to a Target Benefit Plan?

A. When a member receives a lump sum from the pension plan, the lump sum represents an estimate of the amount of money that would need to be invested today to provide the member's monthly pension payments at retirement. The rules for determining the lump sum from the current plan are different than the rules for a Target Benefit Plan. Lump sums from a Target Benefit Plan are more closely linked to the money that has been set aside to fund your monthly pension payments at retirement.

Q. What's the financial situation of the plan?

A. The last complete valuation was performed as at June 30, 2014. Overall, the plan's health has improved compared to the previous valuation, performed in 2011. Strong investment returns since the last valuation have increased the plan's funded ratio on a going concern (i.e., long-term) basis to 121.1%.

When the plan transitions to a Target Benefit Plan, it is no longer required to be measured on the short-term solvency basis, which increases long-term stability of the plan by reducing the impact of short-term financial fluctuations. This means that the likelihood of benefits adjustments is lower.

The next valuation will be performed as at June 30, 2016 and will be completed by March 31, 2017.

Q. Now that the plan is well funded, will benefits be improved?

A. The main goal of the pension plan is to provide pension benefits that are stable and secure. While we want to maximize the benefits that members receive, we must also ensure that benefits are predictable and sustainable. The Trustees are working with their advisors to monitor the financial health of the plan on an ongoing basis to ensure that benefit levels are sustainable. Right now, no benefit changes are planned. We will continue to monitor the plan and regularly assess its financial health to determine whether benefit reductions can be restored in the future.

Q. What happens if I retire after the transition date (June 30, 2016)?

A. The transition has no impact for members who retire from the plan with a pension in the future. Your pension is safe and it is not being reduced with this transition. The plan's provisions are not changing – pension benefits continue to accumulate the same way, based on the same formula.

Q. What happens if I terminate from the plan on the transition date (June 30, 2016)?

A. Your pension benefit will be determined based on the same formula in effect before the transition. If you choose to receive a deferred pension from the plan when you retire, your pension benefit will be the same as before the transition.

However, different rules apply to the calculation of lump sum termination benefits. This may result in a lower lump sum payment if you who choose to withdraw your benefits out of the plan when you terminate your participation before retirement.

Q. How would my pension be affected if I terminate membership when the Target Benefit Plan funded ratio is less than 100% (i.e., there is a deficit)?

A. Your pension benefit will be determined based on the same formula in effect before the transition. If you terminate membership and choose to receive a deferred pension from the plan when you retire, your pension benefit will be the same as before the transition.

However, different rules apply to the calculation of lump sum termination benefits. If the funded ratio of the plan is less than 100%, there is a deficit, and your lump sum would be multiplied by the plan's funded ratio. For example, if the plan's funded ratio is 95% and you choose to take a lump sum payment, your benefit would be multiplied by 95% (this would be your final payment). If you choose to leave your money in the plan and receive a deferred pension, this adjustment will **not** apply.

Transitioning the plan to a Target Benefit Plan will greatly reduce the chance that the plan's funded ratio will fall below 100%, because short-term financial fluctuations will no longer have an impact; instead, a long-term view will be used to measure the plan's financial health, which will better reflect the ongoing nature of the plan. Note that strong investment returns since the last valuation have increased the plan's funded ratio on a going concern (i.e., long-term) basis to 121.1%, and that there are no foreseen reductions.

Q. What are the legal requirements for the transition, and are they being followed?

A. We are following a very strict transition process to ensure all legal requirements are met. To move forward, we require approval of plan document amendments by the Board of Trustees and regulatory approval by the pension authorities.

We have developed a comprehensive implementation plan with multiple work streams to ensure we are adequately addressing all aspects of the transition, such as governance, legal/regulatory, administration, actuarial and member communications.

The plan's liabilities and assets will be valued as at the transition date to determine the financial health of the plan under the new Target Benefit Plan rules. The valuation will be completed by March 31, 2017, and filed with the pension authorities. Once the valuation has received regulatory approval from the pension authorities, the plan's transition to a Target Benefit Plan will be complete.