The Northwest News

Newsletter of DL250 2015 Pension Edition

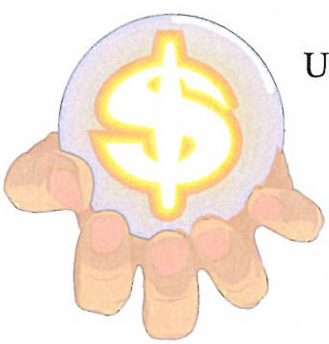
Special Edition:
Retirement Options for BC Machinists

For a long part of our working lives, our retirement seems distant and remote. But as we pass our 50th birthday, it is suddenly crowding in with little time to prepare.

The truth about retirement is, the sooner we start preparing, the easier it is to be prepared when the great day of our retirement comes.

Government retirement benefits may keep us from eating pet food but that level of income closes off many avenues we are finally free to pursue after retirement. Travel can become an unaffordable luxury. We may be unable to assist our children and grandchildren. And then there are the expenses of life like house and car repairs, not to mention drug and dental costs no longer covered by our workplace benefits.

With the economy so unpredictable, it is hard to save for retirement. One bad day on the stock market could wipe years of savings or we can play it safe with bonds but they pay less than the rate of inflation, eroding our savings year after year.



Unions are composed of workers, with a common interest, banded together for the good of all. The Machinist Pension Plan was established in BC so our Members can make the best of this bad situation where we save for retirement in a sea of financial sharks. The Machinists have two non-profit pension plans where we maximize our savings opportunities and monthly pensions and minimize our risk.

These pages will shed some light on our options

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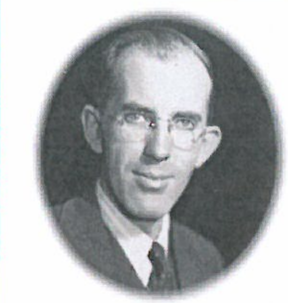
Pension Reform Is Needed
But Workers and Corporations See Two Different Solutions

Everyone can agree on one thing. Many corporate pension plan do not have enough money invested to guarantee adequate payments to retirees. In the past era of 12% returns, many corporations did not put contributions into company pension plans as the growth of the funds was sufficient to cover the needs of the retirees. But when the markets took losses, companies claimed they were broke and unable to make up shortfalls. And if companies made staffing cuts, they raided their pension plans for surplus money no longer needed to meet the needs of a smaller number of retirees. Unions fought in court but lost.

The corporate solution is to convert pension plans from defined benefits to defined contributions. In other words, they would only have an obligation to put in so much money per hour but no obligation to how much a pension cheque would be. This has been one of the biggest sources of conflict in labour relations. Look at the lock out at CAT's EMD in London, the nickel mines in Sudbury and the steel mills of Hamilton. Stripping pensions was and is a leading issue. In the airline industry, this issue also is front and centre.



Stanley Knowles,
NDP MP
was instrumental
in the creation of
the Canada Pension Plan
in 1966

Workers need dependable and predictable income in their retirement. The Canadian Labour Congress initiative to increase the Canada Pension Plan (see page 12) goes some way to address the issue but private savings are still essential to a comfortable retirement. Most of us do not have a company pension plan so we need an alternative.

The Machinist Pension Plan is our way of helping make retirement a reward and not a condemnation to poverty.

It is a defined contribution plan but it is not dependent on the financial health of one employer and it maximizes the return on our savings by pursuing an intelligent investment strategy of buying undervalued stocks and holding them for the long term.

**By sticking together,
we Machinists can make
the best of a poor situation**

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Retirement Income - *Where Will It Come From?*

The retirement income system in Canada rests on Three Pillars:

- Universal Government Benefits for Seniors
- The Canada Pension Plan
- Employment Pension Plans and Individual Retirement Savings

Pillar One

Universal Old Age Security (OAS) for 2015
$563.74 / month payable at 65, if born on or before March 31, 1958, otherwise graduated to 67 years old.

Guaranteed Income Supplement (GIS) for 2015
This benefit is based on other income excluding OAS, GIS and SPA
The benefit is reduced on a sliding scale, with a maximum income above which no GIS is paid.

	Single, divorced or widowed		
benefit (monthly)	$0 /month	↗	$764.40
income (yearly)	$17, 088	↘	$0
	Married		
benefit (monthly)	$0 /month	↗	$506.86
income (yearly)	$22,560	↘	$0

Spouse's Pension Allowance (SPA) (OAS + GIS) for 2015
SPA is a bridge for partners (aged 60 to 64 changing to 62 to 66) of retirees while waiting to receive OAS

benefit (monthly)	$0 / month	↗	$1070.60
income (yearly)	$40,912	↘	$0

Pillar Two

Canada Pension Plan (CPP)

CPP is based on previous yearly incomes. The maximum yearly contribution is 4.95% of the first $53,600 ($2,356.70 per year) in 2015. Your employer makes an equivalent contribution.

The maximum benefit in 2015 is $1065.33 per month with Canadians collecting an average payment of $610.57 (October 2014).

The CPP is indexed to the Consumer Price Index.

You may opt to start to receive your CPP as early as 60 and as late as 70 years old.

- For each month before your 65th birthday, your monthly amount will decrease by 0.6% to a maximum of 36% for a person who retires at 60.
- Each month after your 65th birthday will increase the monthly amount by 0.7% to a maximum of 42% if you delay benefits until you are 70 years old.

Pillar Three

Pension Plans

- ☑ Pension Plans can be Employer, Union or Multi-employer.
- ☑ A Defined Contribution (DC) pension has a set contribution by the employer to an employee account
- ☑ A Defined Benefit (DB) pension has a set benefit based on years of service
- ☑ A Hybrid pension has aspects of both DB and DC pensions
- ☑ Employer pensions are dependent on the health of the sponsoring employer. Many bankrupt companies, such as Nortel, have reneged on promised benefits.
- ☑ A Union pension is dependent on sound investment and sustainable benefit levels.
- ☑ A multi-employer pension administers for many employers, allowing small companies to offer pensions. The plan is independent of the employers and needs prudent management of funds and benefits.
- ☑ No benefits are cast in stone. A plan may increase benefits if returns on investment are good and reduce benefits if the assets of the plan are hit in a recession.
- ☑ All registered pension plans are supervised by the Commissioner of Pensions who makes sure pension can pay the retirees' pensions. If a plan asset's slip below 100% of the funds needed to pay out all obligations, the Commissioner of Pensions will order remedial action either by reducing benefits or increasing contributions.
- ☑ Likewise if the funds of a plan grow too great, the plan will be required to reduce contributions or increase benefits. A company plan will always do the former whereas a Union plan often increases benefits.

Registered Retirement Savings Plans

- ☑ RRSP savings are the most common form of personal retirement savings.
- ☑ A maximum of $24,930 per year can be contributed in 2015. You accumulate unused contributions amounts and may top up at any time.
- ☑ Money going in is not taxed but withdrawals are.
- ☑ RRSPs have two major drawbacks:
  - ➢ The value of your savings is subject to the economy, stock market and interest rates.
  - ➢ The banks take an average of 2 ½% of an RRSPs funds each year. That is 2.5% each year subtracted from the growth of the fund.

  A pension typically has a cost of 0.5% thereby earning 2% more in growth per year over a RRSP.

TFSA - Tax Free Savings Accounts

- ☑ TFSA program allows a maximum investment of $5,500 per year.
- ☑ Unlike RRSPs, money going in is taxed; money coming out is not.
- ☑ This is an ideal savings plan for low income earners whose income tax rate is low.
- ☑ It is also a place to save if the RRSP contributions are maxed out for the year.

RRIF - Registered Retirement Income Funds

- ☑ All RRSPs must be cashed out or converted to RRIF by age 71.
- ☑ Otherwise taxes on entire balance become payable.
- ☑ The return on a RRIF is dependent on interest rates or investment depending on which flavour you choose.

  It is subject to fees like RRSPs.
- ☑ You are required to withdraw a minimum each month but may draw more up to a set limit.
- ☑ All withdrawals are subject to taxation.
- ☑ Retirees can outlive their RRIF money and be reduced to poverty.

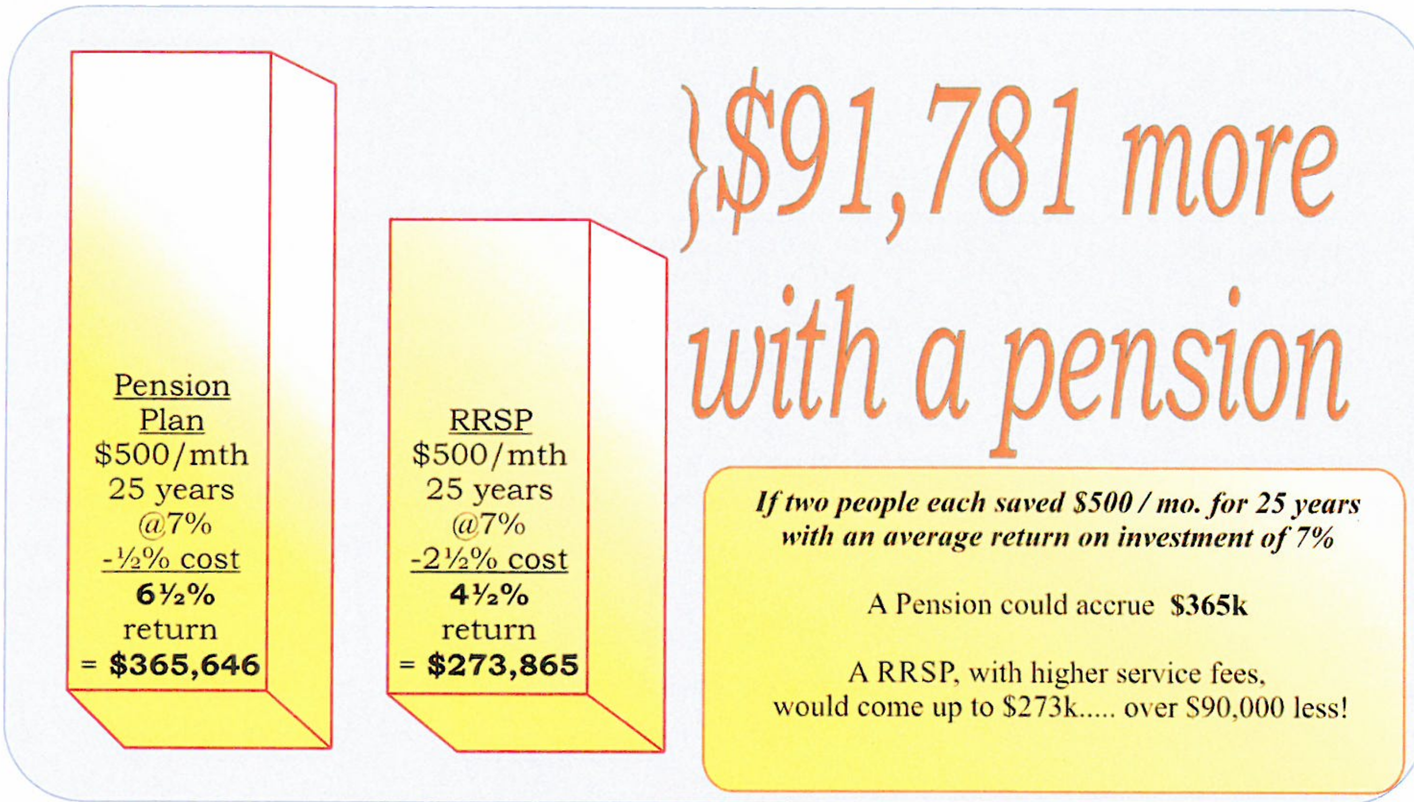
Union Pension Plans vs. RRSPs

Retail RRSPs typically take, on top of administrative costs, 2% or more of the growth of the fund to pay off investment managers and help contribute to the bank's healthy bottom line.

Non-profit Pension Plans take only what is needed to manage and administer the plan, approximately a ½ % of the growth of the fund.

The 2% difference does not seem to be that big until years of compounding interest are factored in.

That becomes a big difference.....



Vesting is a thing of the past....

Vesting was a standard feature of Pension Plans in the Past. It was the number of years required to become a full member of a plan and lock in Employer contributions, often 10 years!

Both the Machinists Pension Plan Lodge 692 and the IAM Labour-Management Pension Plan vest all Members immediately, meaning even short term members get the full benefit of all contributions to their Pension Plan.

Lodge 692 Machinists Pension Plan

The 692 Machinists Pension Plan was created in British Columbia in 1959 for LL692
In 2011, the plan was opened up to all Machinists in BC

- ☑ Each Member has a dollar account in his name which is used to calculate his/her pension at retirement. The account is a sum of the contributions of employer and employee as defined by the Collective Agreement plus any voluntary contributions made by the Member. Each year, the growth of the Plan is applied as a percentage of the Member account.
- ☑ Upon retirement a monthly pension is paid, avoiding the need to roll over RRSPs into a fee-based Register Retirement Income Fund (RRIF).
- ☑ Your pension will be paid as long as you or your spouse is alive. There is no danger you will run out of savings during your retirement.
- ☑ The Plan uses a professional money manager, Leith Wheeler, and has enjoyed average annual returns of over 8 1/2% over the last 25 years.
- ☑ The assets of the plan have grown since 1988 from a little over $10,000,000 to over $130,000,000 today.
- ☑ The plan is on sound financial footing and can continue to serve Machinists as long as the need is there.

1988	10.00%		1996	15.75%		2004	12.75%
1989	11.50%		1997	17.00%		2005	10.25%
1990	-2.90%		1998	6.50%		2006	14.25%
1991	19.50%		1999	3.50%		2007	0.50%
1992	8.50%		2000	10.25%		2008	-16.00%
1993	25.00%		2001	4.50%		2009	16.00%
1994	0.00%		2002	2.00%		2010	10.75%
1995	13.20%		2003	13.75%		2011	0.75%
2012	9.45%		2013	16.7%		2014	~9.6%

Average Yearly Return Over 24 Years:

more than 8%!

692 Pension Payment Options *How do I get access to my money?*

Prior to retirement, contact the Pension Administrator, who will walk you through your various options.

What about before I retire?

- You cannot access your Pension Account unless your retire or cease to be a Member of the Pension Plan *except for voluntary contributions.*
- Voluntary contributions are always accessible, even if still a Member. There is no cost for the first early withdrawal but subsequent early withdrawals are subject to a fee of $75 + tax
- To access Collective Agreement mandated Employer and Employee you must either:

Retire

-or-

Cease to be an active Member of the Pension Plan

because you no longer are employed under a Collective Agreement which includes the 692 Pension Plan.

You will remain an inactive Member of the Plan until retirement unless you choose to leave.

If your age is less than 55 years old and you are no longer an active Member of the Pension Plan, you may close (cash out) your Pension Account and will receive the larger of:

your Pension Account

-or-

the commuted value of your Pension Account

At 55, you must take a monthly Pension, unless the monthly payment is less than $417. If so, you may close the Pension Account and take the lump sum.

The amount of Pension you receive per month is calculated from:

- ✓ The total in your Savings Account
- ✓ The age of you and your spouse
- ✓ The survivor benefit chosen by a married Member
- ✓ The guaranteed payment option selected
- ✓ The current interest rate of the Pension Plan

The Normal Form Monthly Pension for Retirees 65 years old:

- Married with the default 60% Survivor Pension
- Single with a 5 year of guaranteed payments
- For every month before your 65th birthday, the Pension is reduced by ½% less or 6% per year.
- Retiring on your 63rd birthday will reduce your monthly payment by 24 months X 0.5% = 12%. An early Pension are paid longer if you retire before 65 years old and so the monthly amount is reduced
- There is no option for deferred pensions.

Unless the Spouse signs a Release Waiver, Canadian Pension Law dictates a surviving Spouse will receive a 60% pension. A monthly pension would be higher with no Survivor benefit or no guarantee. If you opt for a 100% Survivor Pension or longer guarantee, the monthly amount will be reduced. Other options include 50% or 75% Survivor Pensions and 120 and 180 month guarantees.

692 Pension Payment Options con't

Single Pensioners can opt for a guarantee of 60, 120 or 180 months or waive the guarantee entirely. Monthly payments will be adjusted accordingly. Should the Pensioner die before the end of the guarantee, his estate will receive the remaining payments.

Married Pensioners can choose to include a guarantee. If the Pensioner dies during the guarantee period, his survivor will receive full payment to the end of the guarantee and then receive the survivor benefit.

These are examples of how the Guarantee and Survivor Benefits affect monthly payments:
These are for illustration only.

	Single Pensioner	
Option	Monthly Pension	% of Default Pension
0 months guarantee	$2,922	101%
60 months guarantee	$2,882	100% Default Pension
120 months guarantee	$2,776	96%
180 months guarantee	$2,632	91%

	Married Pensioner	
Option	Monthly Pension	% of Default Pension
No Survivor Benefit	$2,922	117%
50% Survivor Benefit	$2,562	102%
60% Survivor Benefit	$2,501	100% Default Pension
75% Survivor Benefit	$2,414	96%
100% Survivor Benefit	$2,281	91%

When you retire, the Pension Administrator will present your personal options for monthly payments.

Voluntary contributions are allowed for any active Member:

As a Registered Plan to Pension Plan transfer
RRSP ⇨ 692 Pension Plan
Other Registered Pension Plan ⇨ 692 Pension Plan
These transfers attract no tax

Additional lump or monthly contributions through payroll
These contributions will not be taxed up to your RRSP contribution limit