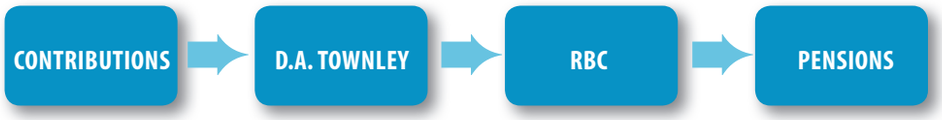
HEAT AND FROST LOCAL 118 UNION PENSION PLAN

Pension Update

SUMMER 2016

How does my plan work?



- Your employers contribute for every hour you work
- Contributions are pooled together and carefully invested in a mix of assets. If the stock market crashes the day before you retire, it does not affect your pension. Target benefit plans like this one only have to reduce pensions, or increase, if over the long term there are insufficient assets. This is carefully reviewed by the plan actuary.
- Your pension is calculated from a formula based on the hours you worked.

The advantage of this type of target benefit plan over an RRSP or a defined contribution plan is that there is less uncertainty: you can estimate how much your monthly pension will be for the rest of your lifetime if you know your hours worked. In target benefit plans, investment risk and the cost of members living longer are shared among all the members of the plan. This saves money. Thanks to the design of your plan, pensions are larger than for defined contribution plans that have the same amount of contributions.

UPDATE YOUR ADDRESS AND BENEFICIARY!

The data we have on file will determine your pension and how we contact you. It is very important that we have your correct address, birth date, and beneficiary information on file. If you move, or if the information on your pension statement is not correct, please contact the plan administrator, **D.A. Townley.**

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New pension laws in B.C.

In May 2015, B.C. released new pension regulations. The key changes which affect you are:

- **The threshold to unlock benefits has changed**. If you terminate, retire or die and your benefit is worth less than $10,980 (in 2016), you or your beneficiary may receive your benefit in the form of an unlocked transfer or cash lump sum, rather than as a monthly pension. Furthermore, if you terminate membership and your benefit does not exceed this threshold and you do not provide direction regarding the mode of payment within 90 days of receiving your statement and election form, you will receive a cash lump sum payment.
- **Immediate vesting** – All who join the plan from now on will earn a pension benefit for every hour they work and their employers contribute. Also, all those who were active plan members on September 30, 2015 are vested, which means they are entitled to a benefit from the plan.
- **Retirees will now receive annual statements.**
- **Death benefits change** – The law now requires that your spouse or beneficiary must receive a benefit worth at least as much as your benefit would have been had you terminated or retired.
- **Target benefit plan is a new plan design option.** Officially this plan converted to a target benefit plan design on December 31, 2015. This affects which types of actuarial valuations are conducted but does not change your pension if you take a monthly pension from the plan.

  In multi-employer plans, since contributions are fixed until the next round of bargaining, pensions may be reduced if the plan's actuary advises that forecasts of investment returns and contributions are not sufficient to cover pensions. This would be a

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last resort, as the Trustees prefer to exhaust all alternative solutions before reducing pensions. A key reason the Trustees decided to convert to a target benefit plan was to avoid the possibility of pension cuts to meet solvency funding rules (solvency is a measure of the Plan's ability to pay benefits if it were closed and terminated now).

Target benefit plans do not need to fund for solvency as this is unlikely for a multi-employer plan. Instead, the plan now must have a rainy day fund based on more accurate actuarial studies called going concern actuarial valuations. This new framework will be beneficial for the members going forward.

- **Extra checks and balances are required.** At least every three years, the Trustees must prepare a formal written report on how plan operations have been monitored.
- **Those who withdraw a lump sum** rather than take a monthly pension will be able to withdraw only the portion of their benefit that is fully funded. As the plan is currently fully funded, currently this means that they receive their full benefit. However, if the funded status of the plan falls below 100%, members who take a lump sum will receive just the funded portion of their benefit. This change does not affect a member who decides to take a pension from the plan.
- **The details behind lump sum calculations also changed.** Now, the formula to turn the pension benefit into a lump sum amount is based on the most recent valuation assumptions of the plan's actuary, which is fairer than the prior rules. This change came into effect on December 31, 2015 when the plan converted to the target benefit design. This only affects those who take their benefit out as a lump sum. There is no change for current and future retirees.

Changes to the plan

In 2015 the plan was changed in several ways. The pre-retirement death benefit increased and immediate vesting was introduced to meet requirements of the new B.C. pension law. The plan also changed from defined benefit to target benefit design on December 31, 2015. While that sounds like a large change, it will have a minimal impact for members, particularly those who stay in the plan and take pension from the plan. It does not affect retirees. Monthly pension payments will not change.

How can I get a larger pension?

Your pension is directly related to the contributions made to the plan for hours you work so, in general, your pension will be larger if you work more hours. Your pension is also generally larger if you start pension payments later. If you work less than 2400 hours in a year (but more than 175 hours), you can self pay to top up your hours to 2400.

What does "locked-in" mean?

If you qualify to transfer your entire benefit out when you leave the pension plan, you will be given a "locked-in" transfer. Once that benefit is no longer in the plan, pension regulations do not allow you to withdraw all of those locked-in funds at once; you may withdraw only a certain amount each year after you reach age 50.

A pension benefit may be unlocked only under these circumstances:

- You have a considerably shortened life expectancy (as certified by a physician) due to physical or mental disability.
- Your benefit is less than $10,980 (in 2016).
- You have written evidence from the Canada Revenue Agency stating that you are a non-resident of Canada for tax purposes.
- Your status in the plan is "terminated" and you meet certain other hardship criteria. Unlocking for financial hardship is not possible for active members.
- For those who leave the plan early, if their locked-in benefits are below a certain limit, those funds may be unlocked once the former plan member is 65 or older.

Financial planning for your retirement is a three-step process.

When can I retire?
You can start a full pension with no penalty for early retirement once you are 60. You may start your pension as early as age 50, although your pension will be reduced if you start it before age 60. Once you stop work, your pension will not get any bigger after age 60. Canadian tax rules state that you must start your pension by the end of the year you turn 71.

You may only start a pension or receive a benefit from the plan if you:

- retire;
- become permanently disabled;
- "terminate" from the plan (you are only considered to be terminated from the plan if the total number of hours you have worked for all participating employers is less than 350 hours in a 2-year period); or
- die.

When you decide to retire, you will be asked to choose a form of pension. If you have a spouse, you are required to choose a pension which continues payments to your spouse after your death, unless your spouse waives the right to that ongoing pension.

If you do not have a spouse, you may choose a pension which ends when you die, or you may choose a pension which pays less each month but includes a death benefit to your beneficiary if you die within a guarantee period.

How can I meet my retirement needs?
Financial planning for your retirement is a three-step process:

1. Add up how much you need to maintain a comfortable retirement lifestyle.
2. Determine your sources of retirement income and estimate your income from each.
3. Determine any gap between your future resources and expenses.

Be sure to estimate the income for both you and your spouse if you are married or living in a common-law relationship, and learn how your family income will change once one of you dies or if you separate.

Once you have estimated the total income for you and your spouse from all sources, the final step in your plan is comparing your after-tax retirement income with your expense estimate. If your projected after-tax retirement income is greater than your projected expenses, you will be in good financial condition; if your projected retirement income is less than your expenses, you may need to plan to retire later (if that is an option), save more for retirement or re-evaluate your planned retirement spending.

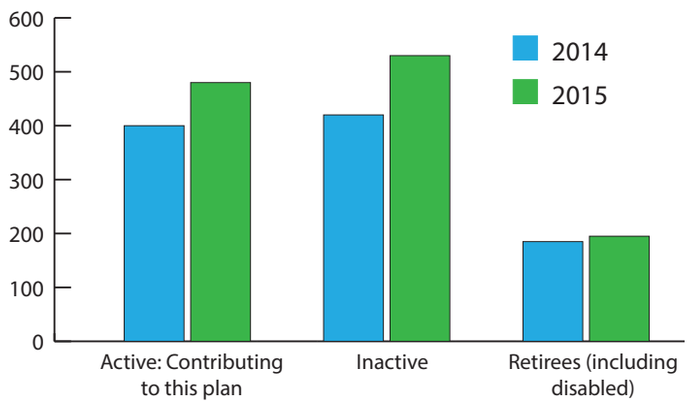
BEWARE OF SCAMS!

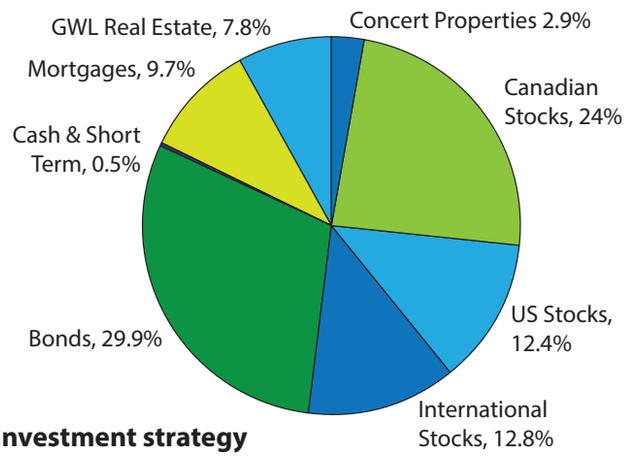
Do not give out personal information if someone contacts you claiming to be the Canada Revenue Agency, the police, or your bank. Instead, contact the agency at a number or address you can verify is correct. Do not click on any of the links provided in suspicious emails.

Also, some companies advertise ways to get around pension locking-in rules, often on a "tax free" basis. Be wary of offers that sound too good to be true. Many are scams that charge high fees and, in some cases, cause investors to lose all of their savings.

If you have questions, call the plan administrator or the bank or financial institution where your retirement savings are held.

Heat & Frost Membership





Investment strategy
The Trustees are reviewing the optimal types of investments and will change the asset mix in 2016. This chart shows the allocation between investments on December 31, 2015.

The plan benefited from diverse and carefully chosen investments.

Plan Investments

While pensions from this plan are not directly linked to market returns, investment growth is important for funding benefits.

Your plan's rate of return for the year (before expenses were deducted) was 2.4%. The plan benefited from diverse and carefully chosen investments in 2015, a year where Canadian stock prices fell. Four different investment managers select stocks, bonds, real estate, and mortgage investments for the plan.

At least 4 times a year the Trustees compare the investment managers' performance to their competitors and to the markets. The Trustees remain confident that the plan is receiving excellent investment advice.

Plan Income and Expenses	2015	2014
Net Assets Available for Benefits at beginning of year	108,332,585	$99,241,072
Payables/Receivables	219,431	
Contributions	2,891,259	$3,058,923
Net Investment Income	2,274,327	$11,147,915
Pensions	($3,141,189)	($2,892,924)
Member Withdrawals	($1,389,163)	($1,876,510)
Operational Fees (Custodial, Actuarial Administration, Legal, Audit)	($344,733)	($345,891)
Net Assets Available for Benefits at end of year	108,842,517	$108,332,585
Operational Fees as a percent of average net assets	0.32%	0.30%
Total Fees (operational + investment management) as a percent of average net assets	0.69%	0.70%
Most RRSPs have fees of 2.5% or 3% of assets; this plan's fees are 0.69%!		

Plan Governance

The Board met in February, June, October and November to review and manage the operations of the pension plan. As a further safeguard, the plan's financial statements were audited, as they are each year. This involves a review of contributions into the fund and expenses and benefits out of the trust fund. The auditor found that the statements were fairly presented and the plan's records were in order.

TRUSTEES OF THE PLAN

Bob Barter
Earl Bleiker
Darryl Huber
Lee Loftus (Chair)
Neil Munro

This material has been compiled by the Trustees from information provided to them and is accurate to the best of their knowledge at the date of printing. Formal legal documents ultimately govern the operation of the Plan, including the Plan Text, Trust Agreement and relevant legislation. Should there be any discrepancies between the information in this Newsletter and the actual provisions in the Plan Text and Trust Agreement, the Plan Text and Trust Agreement prevail.