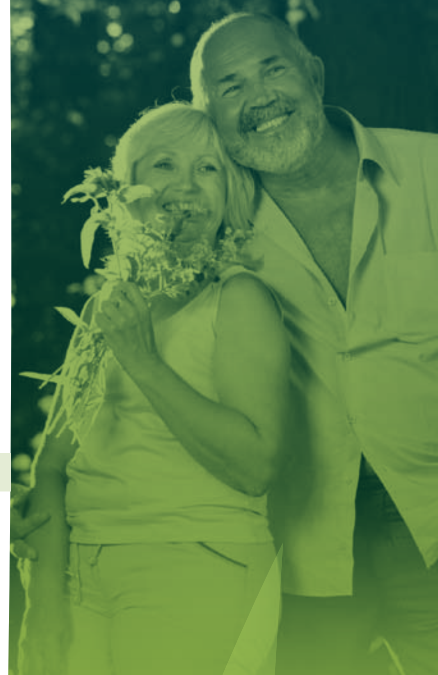
HEB Manitoba
HEALTHCARE EMPLOYEE BENEFIT PLANS
A Secure Tomorrow Together

PLANTalk

PENSION PLAN SPECIAL EDITION WINTER 2010/2011



HEPP Funding

Over the last two years HEB Manitoba has provided members with updates and information relating to financial implications of the unsettling events in financial markets in 2008.

Although the events of 2008 resulted in more public attention to pension plan administration, the Healthcare Employees' Pension Plan (HEPP) Board of Trustees has always continuously monitored the financial status of the Pension Plan to ensure its long term sustainability and its ability to meet all future payment obligations as provided for under the Pension Benefits Act, the HEPP Trust Agreement, and the HEPP Plan Text.

The Pension Benefits Act, Manitoba requires that pension plans in Manitoba perform an actuarial valuation every three years; however, under the *HEPP-Manitoba Trust Agreement*, these valuations are required annually to ensure the Board is aware of the Plan's financial status at all times. Sub-committees of the Board, namely the Investment Committee and the Audit Committee, regularly assess the Fund's performance and investment policies.

Member and employer contributions to the Pension Plan along with the related investment income are important in ensuring the Plan has sufficient assets to meet its' obligations. As such, the HEPP Board of Trustees monitors and determines the amount which must be contributed to the Pension Plan. In the event of a funding shortfall and evidence that the specified contribution rate is insufficient to support the Plan benefits, funding deficiencies would first be resolved by special payments and/or contribution rate increases. Under the HEPP governance structure, the Board does not have the authority to increase the contribution rate; such increases would require the approval of all Plan Settlors. If no other option will enable the Plan to eliminate its deficiency, remedial action would be taken by means of a reduction in benefits, which under the *Trust Agreement*, is determined by the HEPP Board of Trustees.

HEPP's investment returns recovered dramatically in 2009 following the financial crisis and its impact on returns in 2008. The Plan achieved a 14.5% return in 2009, its best annual return since inception. Equally important, the Plan did not experience any permanent decrease in the values of our investments as a result of any credit defaults or liquidity issues. In large part, this strong performance reflects the Plan's ongoing conservative investment policy framework.

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In the Winter 2009/2010 edition of PlanTalk, we indicated that based on the actuary's review of the Plan's financial position, the Pension Plan contribution rate would have to increase by 3.8% to meet funding requirements. As a result of our investment management strategy, this contribution rate increase has been dramatically reduced to 2.2% with a gradual implementation over 27 months from January 1, 2011 to April 1, 2013.

Did You Know?

Pension Plan Background

There are two main types of pension plans: defined benefit (DB) and defined contribution (DC) pension plans.

A defined benefit (DB) pension plan, such as the Healthcare Employees' Pension Plan (HEPP) uses a formula to determine a member's pension entitlement. The contributions made by members and their employers are invested, and used to pay monthly retirement income.

While investment income is important in maintaining the pension payments for all members of HEPP, the investment income does not determine the member's monthly pension benefit. The member's pension benefit is directly related to their pensionable earnings based on a pre-determined formula. Eventual retirement income is calculated using the employee's years of service and an average of their earnings over a specified number of years. At retirement, the pension benefit is paid for the member's lifetime, regardless of how long they live.

The other type of pension plan is called a defined contribution (DC) pension plan. A DC pension plan's concept is similar to an individual's own Registered Retirement Savings Plan (RRSP). With a DC plan, the amount the employee and the employer contribute to the plan is specified, and contributions are paid into an individual account for each member. These contributions are invested, and the returns on the investment (which may be positive or negative) are credited (or debited) to the individual's account. The employee's eventual retirement benefit is dependent on how the investment portfolio performs; this will be used to determine how much the individual will receive at retirement and how long pension benefits may last.

Contribution Rate Increases to be Implemented Over a Three-Year Period

The stability and long-term sustainability of the Healthcare Employees' Pension Plan (HEPP) has been and continues to be a critical focus for the HEPP Board of Trustees and management of HEB Manitoba.

After careful consideration, the HEPP Board recommended a 1.1% contribution rate increase over a three-year period as outlined in the *HEPP Contribution Rate Increase Increment Table* below. The Pension Plan Settlors (the parties to the HEPP Trust Agreement, also referred to as Signatory Boards and Unions) who must unanimously approve the pension contribution rate increase have ratified the Board's recommendation.

HEPP CONTRIBUTION RATE INCREASE INCREMENT TABLE

Increase Effective Date	Participating Employer	Member
January 1, 2011 (first full pay period)	1.0%	Nil
April 1, 2012 (first full pay period)	Nil	0.8%
April 1, 2013 (first full pay period)	0.1%	0.3%
Total Contribution Rate Increase	**1.1%**	**1.1%**

Please note, the contribution rate increases will be applicable to all HEPP members regardless of position or union affiliation. As such, all employers participating in the Pension Plan will be required to administer the initial increase in contribution rates for all employees who are members of the Plan effective the first full pay period after January 1, 2011.

Please also note that the funding source for the incremental increases (member versus participating employer) varies during the three-year implementation period. The participating employer pays for the full incremental increase of 1.0% in 2011, and the member pays for the full incremental increase of 0.8% in 2012.

Effective April 1, 2013, once all incremental increases have occurred, the Plan reverts to its original matching formula in which the pension contribution rate is the same for both the participating employer and member (7.9% up to the YMPE and 9.5% for earnings in excess of the YMPE).

The contribution rates over the three-year implementation period are outlined in the *HEPP Contribution Rates Under (<) and Over (>) the YMPE* table below.

HEPP CONTRIBUTION RATES UNDER (<) AND OVER (>) THE YMPE*

Effective Date	Participating Employer		Member	
	<YMPE	>YMPE	<YMPE	>YMPE
January 1, 2011 (first full pay period)	7.8%	9.4%	6.8%	8.4%
April 1, 2012 (first full pay period)	7.8%	9.4%	7.6%	9.2%
April 1, 2013 (first full pay period)	7.9%	9.5%	7.9%	9.5%

*Year's Maximum Pensionable Earnings under the Canada Pension Plan

COLA Fund to be Established

The Healthcare Employees' Pension Plan (HEPP) Text provides for the payment of Cost of Living Adjustment (COLA) increases to retired Plan members on an ad hoc basis, provided there is sufficient surplus available to fund this benefit. This means annual COLA increases are not guaranteed, but may be paid when funds are available.

As a result of recent negotiations, a separate COLA Fund will be established to provide COLAs to members of the Pension Plan.

While the model and related administrative processes for the new COLA Fund will be developed over the next three years, the following preliminary information is available:

- Funding of the COLA account will start on April 1, 2014, with a percentage of funding coming from members and a percentage of funding coming from employers.
- The earliest date that a COLA may be granted is January 1, 2018.
- The COLA will continue to be paid on an ad hoc basis, which means it will only be granted if the COLA account has sufficient funds available to make such a payment.
- If the COLA is granted, the COLA Fund is intended to provide a COLA payment to all members in receipt of a pension effective the date the payment is determined to be payable.

Additional information will be provided as the model is developed.

Solvency Exemption Granted

The Pension Benefits Act of Manitoba requires that a registered pension plan conduct two types of actuarial valuations at least once every three years: a going-concern valuation and a solvency valuation.

The Going-Concern Valuation

The going-concern valuation is based on the assumption that a pension plan will carry on indefinitely and determines the contribution requirements that must be made to the plan over the long-term to meet its pension obligations. Should the plan's going-concern liabilities be greater than its assets, the going-concern deficiency must be funded over a 15-year period.

The Solvency Valuation

The solvency valuation is based on the assumption that a pension plan stops operating on the date the valuation is performed and assesses whether or not the plan has sufficient assets to provide for all accrued benefits at the valuation date. Should the plan's solvency liabilities be greater than its assets, the solvency deficiency must be funded over a five-year period.

The HEB Manitoba Pension Plan is a multi-employer pension plan (MEPP) that is linked to the public sector. Both members and participating healthcare employers contribute to the Plan, and unlike private sector pension plans, it is unlikely that all healthcare employers who participate in the HEB Manitoba Pension Plan will cease to operate at the same time. This provides stability and security for members, and consequently, the pension obligations of the Plan can be effectively secured by going-concern funding.

In July 2010, HEB Manitoba sent a *Solvency Exemption Notification* to members. The Notice provided information regarding the Healthcare Employees' Pension Plan (HEPP) Board of Trustee's decision to seek exemption from the solvency funding and transfer deficiency provisions of *The Pension Benefits Act* of Manitoba.

HEB Manitoba has now completed the solvency exemption application process, and has been granted exemption for the solvency funding and transfer deficiency provisions.

The solvency exemption does not remove the Board of Trustees' continued responsibility and duty to monitor the ongoing sustainability of the Plan and to assess whether contribution rate increases and/or benefit reductions are required.

The election to exempt the Plan from the solvency funding requirements is not revocable.

Changes to the Buyback Policy Effective January 1, 2011

To provide members with greater flexibility when considering purchasing missed periods of pensionable service under the HEB Manitoba Pension Plan, a new buyback policy will be introduced, effective January 1, 2011.

What are the Changes to the Buyback Policy?

The buyback policy now offers two types of buybacks. A *Current Service Buyback* allows a member to elect to purchase credited service **within six months** of returning from an approved LOA. A *Past Service Buyback* allows a member to elect to purchase a period of missed credited service **at any time** throughout their career, up to their retirement. The new buyback policy allows members to buy back service when it is convenient and financially feasible for them.

CURRENT SERVICE BUYBACKS

Current Service Buybacks provide members with a one-time option to purchase missed periods of pensionable service **within the first six months** of returning to work from an approved unpaid LOA. The member will pay both the employee and employer contributions plus interest for most unpaid LOAs.

Members must request *Current Service Buyback* information and elect to purchase the pensionable service within six months of returning to work from an unpaid LOA. If the member elects to purchase the service within the six month period, the buyback amount will be based on the salary and contribution rate in effect at the start of the unpaid LOA.

Members who do not elect to purchase the service within six months of returning to work may still buyback the service at a later date; however, it will be considered a *Past Service Buyback* and the member will be required to pay the full actuarial cost, as the buyback amount will be actuarially determined.

PAST SERVICE BUYBACKS

Past Service Buybacks provide members with an opportunity to purchase periods of missed pensionable service **at anytime prior to retirement** or termination of employment. This provides flexibility for members to purchase service when it is financially feasible for them. For *Current Service Buybacks,* members must purchase service within six months of returning from an unpaid LOA, which is often not financially feasible.

The cost of purchasing past pensionable service is actuarially determined and based on the member's salary and age at the date the buyback information is requested. After receiving the cost of the buyback, the member will be required to complete and return a payment schedule form with the applicable partial or full payment. The payment schedule form must be returned to HEB Manitoba within 60 days of the date of the covering letter.

If the member does not return this information and payment within 60 days of the date of the covering letter, the buyback offer will expire. The member may request the buyback information at a later date; however, the buyback amount will be recalculated based on the member's salary and age at the time the buyback information is requested, and therefore may be substantially higher.

What was the Previous Buyback Policy?

The previous buyback policy provided members with the option of purchasing pensionable service at two specific times during their career: prior to taking an approved unpaid leave of absence (LOA), and at retirement.

For a buyback while on an unpaid LOA, the member must have elected to purchase the service prior to the start of the unpaid LOA. The cost of buying back the service was based on the member's salary and the pension contribution rate in effect at the LOA start date. For most unpaid LOAs, the member was required to pay both the employee and employer contributions plus interest.

Members who did not purchase the pensionable service during (or in some situations directly after) the unpaid LOA did not have another opportunity to purchase the service until their retirement.

At retirement, the cost of buying back the credited service was actuarially determined based on the member's salary and age at that time. The member paid the total cost of purchasing the additional service with interest.

For further information on buying back pensionable service, please refer to the Pension section of our website at www.hebmanitoba.ca.

Bill 10: Amendments to Pension Legislation Introduced

In March 2010, major amendments to The Pension Benefits Act and Regulations of Manitoba were announced. The majority of these amendments became effective May 31, 2010 and affect all members of registered pension plans in Manitoba.

HIGHLIGHTS OF THE BILL 10 AMENDMENTS

	Former Provisions
Entitlement to Employer's Matching Contribution (Vesting)	• Members required a minimum of two years of employment service to be entitled to the employer's share of pension contributions upon termination, retirement or death. • Members terminating with less than two years of employment service were only entitled to a refund of their own pension contributions plus applicable interest.
Benefit Payable From a Pension Plan When Under a Prescribed Amount (Small Benefit Commutation Rule)	• If the amount of the annual pension payable at termination, retirement or death is less than 4% of the Year's Maximum Pensionable Earnings (YMPE), your benefit payment is not locked in and may be transferred to an RRSP or paid out in cash less income taxes.
Waiving Death Benefits	• Members with a spouse/common-law partner were required to name their spouse/common-law partner as beneficiary for pension benefits earned on or after January 1, 1985.
Marriage/Common-law Relationship Break-Up	• It was mandatory to divide the pension benefit between the member and former spouse/common-law partner upon the break-up of a marriage/common-law relationship.
Joint Pension Entitlement or Survivor Benefit on Pre-retirement Death of a Member	• If a couple were married or in a common-law relationship, but living separate and apart due to a relationship breakdown, the former spouse/common-law partner of the member was entitled to a joint pension or pre-retirement survivor death benefit.
Shortened Life Expectancy	• For shortened life expectancy the payment of the commuted value (the lump sum present value) of the pension benefit was permitted provided it met with the requirements of the *Income Tax Act* and *The Pension Benefits Act*.

The amendments include a number of new requirements which impact vesting rules; death and survivor benefits; marriage/common-law relationship break-up provisions; communications to members; and several other provisions.

New Provisions (Bill 10)
• No minimum employment service is required for members to be entitled to the Employers share of pension contributions upon termination, retirement or death. • A member is immediately vested for all pension benefits earned retroactive to July 1, 1976. This means if you were a member of the Pension Plan on May 31, 2010 or later, any benefit payment payable to you would be based on the Pension Plan formula, which includes the **value** of the employee and employer pension contributions (subject to the small benefit commutation rule below).
• The small benefit commutation test now includes an additional 20% test. For example, in 2010, if either: a) the commuted value (the lump sum present value) of the pension benefit is less than $9,440 (20% of the 2010 YMPE of $47,200), or b) the monthly pension is less than $157.33 per month (4% of the annual YMPE divided by 12), the benefit may be transferred to an RRSP or taken as cash, less income taxes.
• Members may now designate a beneficiary other than the spouse/common-law partner provided that the spouse/common-law partner waives their entitlement to the survivor benefit. • The waiver may be revoked at any time prior to retirement as long as both the member and the spouse/common-law partner agree to do so.
• The Act now permits: - a division of the pension benefit when required by a court of another Canadian jurisdiction (outside Manitoba). - the former common-law partner who is not eligible to apply for an order under *The Family Property Act* of Manitoba, to apply to the Court of Queen's Bench for an order requiring the pension benefit to be divided. - the former spouse/common-law partner to, upon the death of the member, waive their entitlement to the pension benefit. • In addition, the formula used to determine the pension benefit earned during the period of marriage/common-law relationship is now more clearly defined.
• A spouse/common-law partner is only entitled to a joint life pension or a pre-retirement survivor death benefit if they are living with the member when the pension starts or if applicable at the time of the member's death. Note: A spouse/common-law partner who is living apart from the member at the time a member dies or retires is still entitled to their share of the pension benefit; however, the pension benefit would be paid as a lump sum (not as a monthly pension), and based on legislative rules pertaining to the division of pension benefits upon the breakdown of a relationship.
• The legislative requirements have been clarified in the Act. A member who has a shortened life expectancy of less than two years due to a terminal illness or disability may receive the commuted value of the pension benefit. • Members must provide written notice to the Plan, and a written statement by a physician licensed to practice in Canada must also be provided. If the member is married or in a common-law relationship, the spouse/common-law partner must agree to the payment of the commuted value of the pension benefit.

Contact Information Changes

Has your contact information changed? If information such as your name, address, or telephone number has changed, please be sure to notify both your employer representative at your facility/RHA, and HEB Manitoba.

As HEB Manitoba cannot accept contact information changes by e-mail, please send your request in writing to:

HEB Manitoba
Attention: Member Records
900-200 Graham Avenue
Winnipeg MB R3C 4L5

Please ensure your request:

- Is dated and signed,
- Includes your first name, last name, and HEB Manitoba ID number, and
- States your previous and new contact information.

Please contact us if you do not have a record of your HEB Manitoba ID number.

PM# 40064761

RETURN UNDELIVERABLE CANADIAN ADDRESSES TO:

HEB MANITOBA
900-200 GRAHAM AVE
WINNIPEG MB R3C 4L5

We Appreciate Your Questions and Feedback

PlanTalk is based on an overview of HEB Manitoba Plans. Not all employers participate in all of the Plans offered. If you have questions or comments about the information provided in PlanTalk, please contact us at:

Mail: PlanTalk
HEB Manitoba
900-200 Graham Avenue
Winnipeg MB R3C 4L5

Phone: (204) 942-6591 or toll-free (outside Winnipeg) 1-888-842-4233
Fax: (204) 943-3862
E-mail: info@hebmanitoba.ca
Website: www.hebmanitoba.ca