Co-op Atlantic Employees Pension Plan Wind-Up Information Session

WELCOME
Agenda

- Plan Administrator
- Past Timelines
- Wind-up report update
- Wind-up statements and options
- APA Working Group update
- Timelines for pension settlement
- Questions
• **Administrator** of the Pension Plan
  • Appointed by the Superintendent of Pensions
  • Responsible for Plan governance and operations
  • Operate based on Plan rules, pension and tax legislation
  • Assert Plan rights as major creditor under CCAA proceedings

• Objective to obtain the best possible outcome for Plan members under the circumstances
Plan Administrator role

- Inform members and answer questions
- Gather, verify and maintain member data
- Make policy decisions for Plan investments
- Hire and oversee service providers (investment managers)
- Communicate with regulators
  - Valuation reports
  - Filing forms
- Prepare calculations and wind-up packages
- Authorize benefit payments
- Conduct annuity purchase
- Regular communication with Superintendent of Pensions
Key Service Providers

- **CIBC Mellon**: custodian
  - Holds the assets
  - Makes pension payments
  - Maintain payment instructions
  - Makes lump sum payments as authorized
  - Provides income tax reporting

- **TD Asset Management**: investment manager
  - Mandated to protect the Plan’s funded status
  - Significant fee savings

- **Stikeman Elliott**: legal advisor
  - Legal support for a highly complex wind-up
Plan expenses

- Eckler reviews service provider invoices
- Superintendent reviews and approves Eckler and legal invoices
- Expenses impacted by wind-up complexity and challenges
- Standard industry practice for appointed Administrator
Past timeline (2015-2016)

- Co-op Atlantic enters CCAA: June 25, 2015
- Eckler appointed Administrator (and Pension Notice 1): June 30, 2015
- Superintendent gives direction to operate as DB Plan: July 17, 2015
- Superintendent orders partial wind-up as at June 20, 2015: July 17, 2015
- Eckler prepares required DB valuation reporting: 2015/2016
- Plan files significant claim in CCAA proceedings: 2015
- Superintendent orders full wind-up December 31, 2015: January 2016
- Superintendent directs 68% pensions reduced effective May 1, 2016: March 2016
- CCAA Pension Settlement: April 2016
- Town Hall in Moncton: May 2016
- CCAA Finalization of Plan of Arrangement: October 2016
- APA Working Group established: October 2016
- Plan receives CCAA Proceeds: May, Nov, 2016

See Pension Notices 1-7 for details
<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>Superintendent provides final direction on Plan terms and single wind up date</td>
<td>March 2017</td>
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<tr>
<td>Eckler prepares and files the wind-up report</td>
<td>June 30, 2017</td>
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<tr>
<td>Superintendent of Pensions approves wind-up report</td>
<td>August 31, 2017</td>
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<td>Wind-up statements and election of option forms provided to actives</td>
<td>October 2017</td>
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<tr>
<td>Wind-up statements provided to pensioners</td>
<td>November 2017</td>
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<tr>
<td>Start Processing of Transfers</td>
<td>November 2017</td>
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<tr>
<td>Member Town Hall Meetings</td>
<td>November 16, 2017</td>
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See Pension Notices 8-10 for details
Wind-up report update

- Based on final Plan provisions
  - Directed by the Superintendent (treat as defined benefit plan changes)
- Based on total Plan assets
  - Includes recoveries from CCAA
- Determined wind-up funded status
  - Compared assets to settlement liabilities
- Proposed benefit reductions and asset allocations (based on the Pension Benefits Act requirements)
- Report approved by the Superintendent of Pensions on August 31, 2017
What are settlement liabilities?

- Pensioners and members who elect pensions:
  - Cost of buying annuities based on a competitive tender of Canadian life insurers

- Members who are eligible and elect lump sum transfers:
  - The lump sum transfer value calculated in accordance with pension benefits legislation and actuarial standards

- Both calculations are directly impacted by interest rates
Who is affected by Plan wind-up?

<table>
<thead>
<tr>
<th>As at May 31, 2017</th>
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<tbody>
<tr>
<td>Pensioners – currently receiving a pension</td>
<td>501</td>
</tr>
<tr>
<td>(~$6 million per year in lifetime pensions as of May 31, 2017)</td>
<td></td>
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<tr>
<td>Active members – terminated or deemed terminated</td>
<td>550</td>
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<tr>
<td>Deferred members – already terminated</td>
<td>193</td>
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<tr>
<td>Other members with various entitlements</td>
<td>112</td>
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<td>(includes non-vested refunds, solvency holdbacks, etc.)</td>
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<td>Total members affected by the wind-up</td>
<td>1,356</td>
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- ~75% in New Brunswick
- ~25% in NS, PEI, NL and Manitoba
Funded status update

- 71.5% funded status on wind-up (estimated May 31, 2017)
- $63 million shortfall (unfunded liability)
  - Assets = $158.6 million
  - Liabilities = $221.6 million
- Decline in interest rates drove increase in liabilities (reviewed in May 2016 Town Hall)
Method of reduction (proportionate)

- **71.5% payout level** (across the board) for all pensions based on estimated funded status as of Dec. 31, 2015
  - Minimum pension = member contributions + interest
- All eligible members receive the same **proportion** of their **pension amount**
- **71.5% is latest estimate**
  - Final amount to be determined
  - May be adjusted up or down
Treatment of pensions in payment

• **Pensioners received 100% from Jan. 1 to Apr. 1, 2016**
  • Reduced to 68% on May 1, 2016
  • New pensions that have started after May 1, 2016 also paid at 68%

• **Pensioner final adjustments**
  • Overpayments and/or underpayments relative to final payout (estimated to be 71.5%) to be recovered through adjustments at final annuity settlement
Assets as of May 31, 2017 = $158.6 million – allocated to
- Pensioner entitlements ~ $96 million
- Non retired entitlements ~ $62.6 million
  - Other expected to elect a pension ~$14 million

Expected settlement as of May 31, 2017
- $110 million via annuity purchase
- $48.6 million via lump sum transfers
Will final payout level be 71.5%?

- Actual settlement will be based on the following factors:
  - **Actual annuity pricing versus estimated**
  - Interest rate changes will *not* materially impact settlement
  - Pensioner mortality experience up to final settlement
  - Actual elections of pensions versus lump sums
  - Actual wind-up expenses relative to reserves held
  - Other miscellaneous, such as data changes
Member settlement

• Members currently receiving a monthly pension:
  • Annuity purchase from an insurance company

• Members who have not started to receive a pension:
  • Elect a monthly pension settled through annuity purchase, starting any time after age 55
  • Elect to transfer the lump sum value
Pensioners

- Wind-up statement sets out your current pension amounts and form of pension
- No action required other than to update any personal information that may have changed

- 68% interim payout level will not be revised until final settlement
Individual wind-up statement package

• All others
  • Wind-up statement and election of option form

• Contact Eckler if questions, clarifications or changes to information
  • We will be here tomorrow to assist with any individual questions

• Consult a financial advisor for assistance with your election

• Elect an option and return before March 31, 2018!
  • Complete all required forms
Options for Non-Pensioners

- Three main groups of Plan members
  - “Small” benefits
  - Not eligible to start pension immediately (under age 55)
  - Eligible to start pension immediately (age 55 or more)
“Small” benefits

- Typically members with short participation in the Plan
  - “Small” benefit definition varies by province of employment (and age for New Brunswick members)

- Options:
  - Cash transfer (taxable)
  - Transfer to an RRSP (tax-free transfer)
  - Combination of cash and RRSP transfer
Not eligible for an immediate pension

• Members under age 55 cannot start pension yet

• Options:
  • Transfer lump sum value of pension
  • Elect a deferred pension
    • Monthly income at a later date
    • Can start pension any time after age 55
      (subject to Plan early retirement reductions)
Eligible for an immediate pension

- Plan members age 55 and older
- Options:
  - Transfer lump sum value of pension
  - Elect a deferred pension
    - Monthly income at a later date
    - Can start pension any time after age 55 (subject to Plan early retirement reductions)
  - Elect to start pension immediately
    - Subject to Plan early retirement reductions (provided in wind-up statement)
    - Payable at interim 68% pension level (will be adjusted with annuity purchase)
Transfer options

- Lump sum value of pension entitlement
  - “locked in”
    - Must be used to provide lifetime income
    - Can’t receive it all at once
  - “excess contributions” are refunded
    - If member contributions more than 50% of the value of the pension, excess is refunded
  - Lump sum value will never be less than your contributions + interest
Transfer options

- Transfer your lump sum entitlement to:
  - Locked in Retirement Account (“LIRA”)
  - Life Income Fund (“LIF”)
  - Pension plan of new employer
    - If plan will accept transfer
    - Must agree to administer as a “locked-in” amount
  - Insurance company to buy an individual annuity
    - Annuity can’t be materially different from your pension
    - Discuss with Eckler if considering this option
Transfer options

- Options for “excess contributions”:
  - Refund in cash (taxable)
    - Only option if electing a deferred/immediate pension or annuity purchase
  - Transfer to an RRSP (tax free)
  - Transfer to new employer’s pension plan
Locked-in Retirement Account (LIRA)

- Also known as a “Locked in RRSP”
  - You direct investments
  - Cannot withdraw funds as cash – must provide a retirement income
  - Retirement income options:
    - Transfer to a Life Income Fund (LIF)
    - Transfer to insurance company to buy individual annuity
Life Income Fund (LIF)

- Locked-in RRIF (registered retirement income fund)
- You direct investments
- Monthly/annual withdrawals as income payments
  - Minimum and maximum amount each year (set by legislation – percentage of fund balance at end of previous year)
  - May be able to receive additional “temporary income” prior to age 65
  - Financial advisor can help you set appropriate withdrawal rate each year
Other considerations

• Tax rules limit amount that can be transferred from a defined benefit pension plan to a “money purchase arrangement” such as a LIRA
  • Excess over limit must be paid as taxable cash
    • You may be able to transfer to RRSP if you have contribution room
    • Contact Eckler to discuss
Other considerations

Following final transfer, Eckler will:

- Calculate any Pension Adjustment Reversals (PARs)
- Compare Pension Adjustments (PA) reported on T4 slip since 1990 to lump sum transfer
  - If the sum of the PAs is greater than total lump sum the difference will be reported to CRA as a PAR
  - PAR restores equal amount of RRSP contribution room
If you don’t return forms by March 31, 2018

- **Default election** if you do not return your forms
- Default will be:
  - “Small benefit” members – paid a refund as taxable cash
  - Other members – an annuity will be bought
The lump sum is the present value of your future pension payments

- Your pension entitlement under the Plan rules
- Prescribed by the Canadian Institute of Actuaries
- In accordance with pension legislation

Key assumptions:

- **Retirement age**: the age that maximizes your pension benefit
- **Life expectancy**: latest Canadian Pensioner Mortality tables
- **Interest rates**: current levels of interest rates (at Dec. 31, 2015)
Impact of interest rates on settlement amounts

- Interest rates directly impact cost to buy annuities and calculate lump sums
Impact of interest rates on lump sums

Example:

- Lump sum required to buy $1,000 monthly pension for 60 year-old (includes 10 year guarantee)

- Annuity purchase cost has increased by about 30% between 2009 and 2015
  - Interest rates
  - Longer life expectancy

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Rate</th>
<th>Lump-sum Value of $12,000 Annual Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>6%</td>
<td>$145,000</td>
</tr>
<tr>
<td>2009</td>
<td>4.5%</td>
<td>$175,000</td>
</tr>
<tr>
<td>2015</td>
<td>3%</td>
<td>$225,000</td>
</tr>
</tbody>
</table>
Annuity purchase

- Insurance company contract
  - Lump sum paid in exchange for guaranteed monthly payments
- Replaces a pension plan’s ability to pay with insurance company’s ability to pay
- Assuris
  - Insurance industry protection fund
  - Guarantees up to $2,000 per month or 85% of the promised benefit, whichever is greater
- Over 2/3rds of Plan estimated to be settled by annuity purchase
  - About $110 million of the Plan’s assets
How will annuity purchase work?

- After March 31, 2018, all members who elect a pension will be included in a group annuity purchase.
- Canadian life insurance companies will be invited to submit a quote under a competitive process.
- Already engaging insurance companies in preliminary review of Plan profile.
- All current forms of pension payment will be maintained.
- Adjustments to pensions (under or over payments) will be included.
Why are lump sums being paid at 90%?

- Final payout level not be known until annuity purchase
- Normally annuities bought first, then lump sums settled
  - Would have to wait until after March 31, 2018 to process lump sum payments
- Decision to get most of funds in members hands now and settle the remainder after the annuity purchase
- Final payment will be based on final funded status and include interest at 2.1% after December 31, 2015
Timelines for pension settlement

• You have until March 31, 2018 to decide
  • Consult a financial advisor
  • Return all required forms, completed and signed
• Annuities to be purchased in April through June 2018
• Final settlement of lump sums shortly after
• PARs to follow creating additional RRSP room for some
Financial Advisor Considerations

• Advisors help with
  • Your election
    • Important decision and issues can be complex
  • Decision between pension and a lump sum transfer
  • Understanding what an annuity purchase is
  • Understanding of investment risk
  • Understanding of LIFs/RRIFs, etc.
  • Completing required forms

• Considerations
  • Credentials and experience
  • Fund and investment offerings
  • Understand fees
APA Working Group update

Members:

- Dan McArdle, Chair (retiree)
- Tony Baker, Vice-Chair (retiree)
- Terry Moore, Secretary (retiree)
- Wayne Hawkes (retiree)
- Robert Lemoine (retiree)
- Dave Kane (non-retiree)
- Carl Flanagan (union – UFCW)
- Patrick Rettig (union – Unifor)
- Shelley Melanson (non-retiree)
- Debbie Sampson (non-retiree)

Facilitated by Eckler and Stikeman Elliott

All volunteer group
APA Working Group update

• Mandate
  • Learn about the annuity purchase process
  • Explore alternatives to traditional annuities
  • Help advance preferred alternatives, in partnership with Plan members, other stakeholders and government

• Fundamental considerations
  • Any alternative would mean different risk/reward profile relative to annuity purchase
  • Any alternative would require legislative support
• Provided education on baseline or default approach of annuities (why and how)
• Reviewed options used in previous plan wind-ups and considered new options, including:
  • Lump sum transfers in lieu of pensions
  • Individual or group approach
  • Extended wind-up
  • Self-insured approach or shared risk plan
• Explored possibility of finding another pension plan to accept pensioners
Finding another Plan to accept pensioners

- Some plans would consider on a self-insured basis
  - Offered to set up a separate, self-insured division of their pension plan
  - Deemed to risky – due to lack of guarantee
- APA Priority Approach:
  - Find a plan to allow for a complete merger with no self-insuring
  - Provide a better pension than annuities at an acceptable level of risk compared to an insurance company
- Two candidates were explored:
  - One did not work out after much analysis
  - Other candidate is still a possibility
Requirements for transfer to another Plan

- Government regulations in multiple provinces
  - This is a challenge and takes time!

- Final agreement of receiving plan trustees
- Acceptable pricing and conditions for Co-op Atlantic pensioners
- Engagement and consent of Coop Atlantic pensioners
- Clock is ticking towards March 31, 2018
  - Timeline must be fair for those looking to receive their final transfers
- Continue to liaise with the Superintendent on timelines
Wind-up timelines (best estimate)

- Transfer settlement period at 90% Ongoing
- APA Working Group Ongoing
- Obtain all elections from members March 31, 2018
- Conduct annuity purchase April - June
- Confirm transfer instructions for final ~10% June – August
- Pay final ~10% August
- Prepare Pension Adjustment Reversals by November 30

- APA Working Group efforts may impact annuity purchase timing if there is a viable alternative
- If process is delayed, explore options to pay final 10% in a fair manner as agreed to by the Superintendent of Pensions