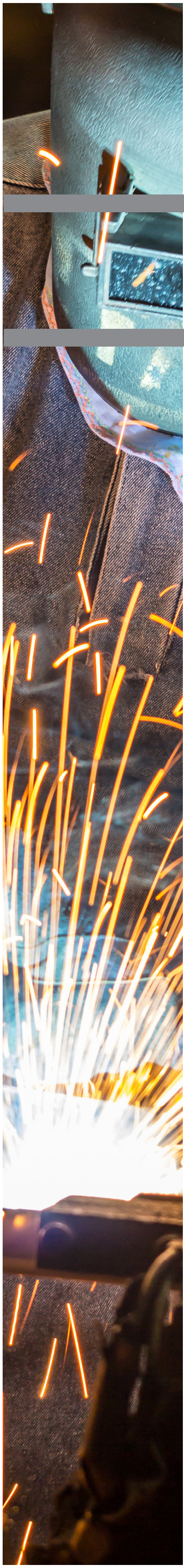

The Machinists Pension Plan Lodge 692 2020 Year in Review

Published June 2021

Member Portal: **https://datownley.ollieportal.co**

A message from the Chair of Board of Trustees

Dear plan member,

It has been over a year since the World Health Organization declared that COVID-19 was a global pandemic. Although the development and roll out of effective vaccines paint a more positive outlook for the future, the pace and scale of a sustained global economic recovery remain uncertain. I offer you reassurance that the Board of Trustees (Board) has been working hard and will continue to do so in order to lead the Plan through these challenging times.

Lessons Learned

In this newsletter, under the article "Financial Markets – Unprecedented Times", we provide you with an overview of the financial markets in 2020 and an outlook for 2021. The experience of financial markets in 2020 has taught us two lessons.

The first lesson is that the stock market is quite resilient, as businesses learn to adapt and make money during harsh economic times. The second lesson is that market performance is not always tied to economic performance. During the pandemic, despite a declining economy, rising unemployment rates and financial hardship faced by workers and some businesses, the stock markets surged.

Your Plan is Resilient

With the message of market resilience in mind, let's look at why your plan is well positioned to withstand the uncertainty that still looms due to the pandemic.

- **Diversification** — The Plan's investments are broadly diversified. Investments are split between a wide variety of investment types, sectors and geographies. Since not all investments react the same way to adverse market events, when one type of investment, sector or country does not perform well, the effect can often be offset by positive returns earned by other investments in the portfolio.
- **Long-term approach** — The Board takes a long-term approach to investing. While the Plan may or may not achieve its return objective in a given year, it is performance over a longer period that matters. After all, pension benefits are long term in nature.
- **Risk Management** — The pandemic has taught us that the worst-case scenario is possible and that we need to be prepared for it. The Board has a robust risk management process in place. In consultation with an investment specialist, the Board regularly conducts asset mix studies to review the Plan's investment exposures and make adjustments, as appropriate, to reduce the Plan's investment risk while maintaining or improving expected returns.

We Continue to Serve You

In the past year, we all have learned to carry on with our work while staying safe. Like so many other businesses, the Plan Administrator, D.A. Townley, has closed their physical offices and the staff are working remotely. This will affect how quickly the D.A. Townley

Your Pension Plan

Plan Expenses **0.38%**

$242.4M Plan Assets (Net)

Investment Earnings

2020	$15.2M
2019	$27.3M

Rate of Return **5.9%**

3,539 Total Pension Plan Members

Contributions **$13.5M**

45 Participating Employers

Benefit Payments **$8.6M**

$19.2M Net Increase in Assets

staff can respond to requests and answer calls. In-person consultations have been cancelled to protect everyone's health. If you need assistance, please contact them via email at **pensions2@datownley.com**.

The Board is also practicing physical distancing and is conducting board business through digital channels. We have been monitoring the Plan and its operations even more closely than usual and plan to do so for the foreseeable future.

We Are Committed to You

The Board is committed to keeping you updated on matters related to your pension. You can count on us to look after your pension.

On behalf of the Board of Trustees, I want to thank the plan members for their service during these unprecedented times. Please stay safe and continue to do your part in following public health guidelines, as Canada moves towards a post-vaccine era.

Yours truly,

B. Cordell Draayers, Chair
The Machinists Pension Plan Lodge 692 Board of Trustees

The Machinists Pension Plan Lodge 692 Asset Allocation

For the period ending December 31, 2020

26.5%	Bonds
16.2%	International Equity
13.7%	Mortgages
12.7%	Canadian Equity
10.2%	U.S. Equity
9.6%	Infrastructure
9.0%	Real Estate
2.1%	Cash

Source: George & Bell Investment Performance Report

Trustees

The Board of Trustees met twice in 2020 on May 26 and October 2nd.

Questions? Contact Us

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Personal Savings – The Third Pillar

Your income during retirement will typically come from three sources, known as the "three pillars" of Canada's retirement income system:

1. Government sponsored plans such as the Canada Pension Plan and Old Age Security;
2. Workplace pension plans; and
3. Personal savings

As individuals, we need to take charge of our retirement by saving for it and that's where the third pillar comes in. Savings in the personal arena can be categorized into two main categories: registered savings, and other.

Registered Savings

These are savings in vehicles registered under the Income Tax Act (thus the name registered), such as a Registered Retirement Savings Plan (RRSP), or a Tax-Free Savings Account (TFSA). Registered savings receive preferential tax treatment compared to other types of savings.

Other Savings

All other personal savings fall into this category. An example is a regular investment account with your financial institution, where you save with after-tax money and the income you receive from your investment is taxed every year.

Let's take a quick look at each vehicle.

RRSP

In Canada, an RRSP is considered the most tax effective personal retirement savings vehicle available to individuals. There are four main advantages to saving in an RRSP account compared to saving in a regular investment account. These are:

- **Tax deduction** – Your contributions are tax deductible. That is, your taxable income is reduced by the amount you contribute, up to the allowable maximum. In effect, you save with before-tax dollars.
- **Tax deferred growth** – All investments in your RRSP account grow tax deferred. In other words, any profits made on investments in your RRSP in the form of interest, dividends or capital gains are not taxed until withdrawn. Therefore, your money grows faster.
- **Lower overall taxes** – Withdrawals from an RRSP are taxed, but if you leave such withdrawals to your retirement years, you will probably be in a lower tax bracket than compared to your working years. The funds withdrawn will benefit from this lower tax rate and you will pay less tax overall.
- **Income splitting** – Through a spousal/common law partner RRSP, the higher income partner may split income with the lower income partner, thereby benefiting from a lower tax rate at time of withdrawal.

Each year, the Canada Revenue Agency (CRA) determines your deductible RRSP contribution room and reports it on your Notice of Assessment. You can carry forward your unused RRSP contribution room until age 71.

In the year in which you turn age 71, you must transfer your RRSP assets to a Registered Retirement Income Fund (RRIF) and pay taxes on the periodic amounts withdrawn, or use the funds in your RRSP to buy an annuity.

TIP

Plan to use your unused RRSP contribution room in taxation years where you expect to have high income.

TFSA

A TFSA is a flexible savings account which may be used for general purposes. It complements an RRSP. While contributions to a TFSA are not tax deductible, the investment income earned is tax-free. The term “tax-free” applies only to the investment component of your savings since the contributions are made with after-tax dollars. Withdrawals from a TFSA are not taxed.

Each year, the CRA determines your allowable TFSA contribution room and reports it on your Notice of Assessment. Any amount withdrawn from a TFSA creates additional contribution room in the next taxation year following the withdrawal. Unlike an RRSP, there is no maximum age for contributions and no mandatory withdrawal age.

The following table illustrates the annual contribution limit and the cumulative limit since inception.

Year(s)	TFSA Annual Limit	Cumulative TFSA Limit
2009-2012	$5,000	$20,000
2013-2014	$5,500	$31,000
2015	$10,000	$41,000
2016-2018	$5,500	$57,500
2019-2021	$6,000	$75,500

TIP

The optimal time to withdraw from a TFSA is late December as the withdrawal creates additional room in the taxation year that immediately follows.

RRSP or TFSA?

In deciding between an RRSP or a TFSA, you need to consider two factors: the purpose of savings and your marginal tax rate now and at the time of withdrawal.

If you are saving for the short term and you plan to withdraw the funds before retirement, then the TFSA is generally the better option. RRSP withdrawals cannot be recontributed, while TFSA withdrawals can. The only exception to this is that you can borrow from your RRSP to finance your first home or to pay for education. If you plan to do this, check out the limits and the rules first.

If you just want to maximize your retirement savings, then use both vehicles to the maximum extent you can: the RRSP first, then the TFSA.

As for your marginal tax rate, if you are in a higher tax bracket now than you expect to be in retirement, then you may prefer an RRSP. Your contributions to an RRSP are tax deductible at your current higher tax rate, and any withdrawals made at retirement will be taxed at a lower rate.

If you expect your tax rate not to change or be higher once retired, then a TFSA is probably a better option for you.

TIP

What is important is that you take advantage of one or both of the RRSP or TFSA to the maximum extent you can, and the earlier the better. The tax-free build up of investment income means that either option will outperform all other personal savings vehicles.

Non-Registered or “Other” Savings

Personal savings held in vehicles other than RRSPs or TFSAs are referred to as non-registered or “other” savings. In a non-registered environment, savings are made with after-tax dollars and the return is taxed as income. The level of taxation of income is dependent on the type of return earned.

There are three main types of return:

- **Interest** – in an interest-bearing investment, the interest earned is fully taxable as income. Examples of such investments are Guaranteed Investment Certificates (GIC), Treasury Bills, Canada Savings Bonds, term deposits, corporate bonds and interest paying saving accounts.
- **Dividends** – Canadian companies may distribute a share of their after-tax profits as eligible dividends to their shareholders. Examples of dividend paying investments are stocks and mutual funds. Dividend income receives a federal and a provincial tax credit and is taxed at lower rates compared to interest income. The preferential tax treatment does not extend to dividends paid by foreign companies.
- **Capital Gains** – A capital gain (loss) is the gain (loss) realized from the sale of an asset such as stocks, mutual funds and real estate other than your principal residence. In Canada, only 50% of capital gains is taxed. Similarly, only 50% of a capital loss may be used to offset taxable capital gains. Because only 50% of the gain is taxable, less tax is paid on capital gains than on income such as interest.

TIP

Invest in interest bearing instruments inside your RRSP or TFSA since interest income is fully taxable.

Final Thoughts

This article discusses the types of personal savings vehicles available and their tax treatment. Depending on your circumstances, you may wish to discuss the options with a professional tax advisor. Once you decide on the vehicle, you need to figure out how to invest your money inside that vehicle. Depending on your level of investment knowledge and your interest in managing your money, you may wish to engage a professional advisor, do it yourself, or a combination of both.

Financial Markets — Unprecedented Times 2020 Overview and Where We Are Now

2020 — A Year Like No Other

At the onset of the global COVID-19 pandemic in the spring of 2020, global economic activity came to a halt and markets experienced one of the fastest downward slides in history, falling over 30% in just a few weeks.

What few may have guessed at that time is that during the remainder of the year, despite the pandemic continuing to cause hardship for people and businesses everywhere, the markets would recover, and in several regions reach all-time highs by the end of that same year. The recovery was helped by extensive fiscal stimulus, ultra-low interest rates, optimism about vaccines as well as hope for less political volatility with the conclusion of the US Presidential election and Brexit negotiations.

So despite the challenges, 2020 ended with generally positive, and in some cases strongly positive, equity market returns (although some European markets did not fare as well). And it was not just stock markets that exceeded expectations in 2020: as a result of the significant drop in interest rates, bonds produced strong returns as well.

The volatility (ups and downs in the markets) experienced over the year was a great test of investor comfort levels in holding 'risky' assets and managing through volatility. The year was also a prime example of how a well-diversified portfolio, long-term view, and disciplined approach can minimize volatility and keep an investment portfolio on track. Your pension plan is managed with all of these items top-of-mind, and successfully finished the year on a positive note.

Early 2021 — Stock Market vs. Interest Rates

As the new year began, with the global economy appearing to stabilize, there was optimism in the air. The first quarter brought more positive equity returns, particularly in Canada, with a continued shift towards cyclical and beaten down sectors that should benefit from the economic recovery. Looking over the one-year period ending March 31, 2021, the Canadian equity market was up 44% and the broad US equity market was up 38%!

However, improving economic growth prospects have also driven inflation expectations and interest rates higher so far this year. From a consumer perspective, higher interest rates are less than ideal, but from a pension plan perspective, those higher rates generally lower the cost of providing certain benefits, which we view as a positive development.

What lies ahead?

While some feel the economy has stabilized, others point out continued concerns and more uncertainty ahead, especially with a third wave of the pandemic, high unemployment, and lack of consistent fiscal and monetary approaches around the world.

At the same time, there are questions about what "normal" will look like going forward if the vaccination programs are successful, and whether the pandemic has led to fundamental changes in the economy and in general. Potential lower demand from consumers, from businesses for office and retail space, and shifts in real estate markets with demographic movement away from crowded cities could all have profound effects and are considerations for future investments.

The Board of Trustees, together with their advisors, continue to review the Plan's investment managers and monitor the investment strategy in order to keep your pension benefits secure into the future.

Mental Health During COVID-19

Throughout the pandemic, we have practiced physical distancing, washed our hands and sanitized, wore masks and followed the public health guidelines in order to safeguard our own and our family's physical health. But let's not forget that COVID-19 has also taken a toll on our collective mental health.

It is important that you look after your mental well being as well as your physical health. Here are some of the things you can do to shake off the COVID-19 blues:

- **Avoid burn out** — The volume, environment and the manner in which we work have all changed. Make sure this does not lead to a burn out. Set boundaries at work and take a mental health day every now and then to unwind.
- **Limit your screen time** — Every day, we face an array of bad news delivered through our TVs, laptops and smartphones. Unplug and give your brain some much needed down-time and instead engage with other people in your circle.
- **Get outdoors** — Spending time outdoors and connecting with nature, even if it is for 15 minutes, will improve your mood. Did you know that the Japanese practice of forest-bathing, or *shinrin-yoku*, is proven to reduce stress, anxiety and feelings of depression? Forest bathing involves simply going into the nature and being present with all five senses (cell phones, of course, are to be turned off!).
- **Eat healthy** — A healthy and balanced diet supports good mood, focus and better productivity.
- **Get enough sleep** — Sleep is the foundation for physical and mental well being; without it you will not be productive at work and may experience mood swings. If you struggle to get a good night's sleep, consider talking to your doctor before you resort to over-the-counter sleep medication.
- **Stay connected** — If you feel isolated, find new and safe ways to connect with friends and family. Build a circle of support, and reach out to those who may need your support.

Seek Help If You Need It!

If you can't shake off feeling isolated and depressed or are not sleeping and eating well, you may need extra support. There are a number of government sponsored resources available to you, such as:

Wellness Together Canada: **https://wellnesstogether.ca/en-CA/**

Government of Canada: Taking care of your mental and physical health during the pandemic **https://www.canada.ca/en/public-health/services/diseases/2019-novel-coronavirus-infection/mental-health.html**

You may also contact your EFAP provider for confidential support. You can access **https://www.workhealthlife.com** 24 hours a day, 7 days a week.

Get Your Claims Paid Faster

You won't be out-of-pocket for long with your new D.A.Townley Member ID card, which gives you access to fast, easy claims as well as instant claims reimbursements from hundreds of dentists, participating paramedical practitioners (e.g., registered massage therapists, chiropractors, and physiotherapists), optometrists and participating optical stores (according to plan rules and coverage) that are part of our Pay Direct Provider Network. Just present your ID card and they'll direct bill us for the service. If your practitioner is not yet a part of the network, you can submit your claim online using our new website and mobile app—see your claims history and entitlements with no more paper forms to complete or waiting for a cheque in the mail. If you've signed up for Direct Deposit, we can send your money directly to your bank account.

Not yet registered for My Claims? Have your Member ID card ready and go the D.A. Townley website at **https://www.datownley.com/myclaims**. Do it today!