The Machinists Pension Plan Lodge 692
2021 Year in Review

Published June 2022

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

A message from the Chair of the Board of Trustees

Dear plan member,

A year ago, we were all managing through another wave of COVID-19 and its Delta and Omicron variants.

Despite challenges such as COVID-19 variants' rising infection rates, supply chain disruptions and historically high inflation, the year 2021 proved to be another solid year for stock markets. In 2021, the economic growth was stronger than anticipated, stock market returns were higher than predicted and the market correction anticipated by many never appeared.

One of the biggest stories of the year was the rise in inflation. Inflation picked up sharply because of high consumer demand, higher commodity prices and disrupted supply chains adding pressure to consumer goods' prices. The trend continues into 2022, with annual inflation in Canada reaching highest levels since 1991. Many believe that the drivers for today's inflation, such as supply chain issues and gas prices, are transitory and the spikes in inflation will likely be shorter lived than the jumps we witnessed in the 1970s and 1980s when interest rates spun out of control.

With the pandemic and its effects lessening, the outlook for the future remains positive as Canada and the rest of the world move towards normality. However, the road may not be smooth as the beginning of 2022 has shown; this year may prove to be another challenging year as we face the aftermath of the pandemic and geopolitical tensions such as the Russia-Ukraine war. Please rest assured that the Board of Trustees (Board) is focused on making sure your Pension Plan is well positioned to withstand these challenges. Here's how we deliver on this promise:

- We conduct an actuarial valuation of the Plan on a regular basis. Last year, an actuarial valuation as at December 31, 2020 was completed and showed a funded ratio of 113%. The Plan is well funded and in an excess position.
- The Plan's investments are broadly diversified across various investment types. This provides a downside protection against market volatility.
- On a regular basis, we monitor the performance of the fund managers relative to the market and other criteria set in the Plan's Statement of Investment Policy, and make adjustments if necessary. In 2021, the Trustees continued to take steps to improve the Plan's risk-return profile, increasing the allocation to infrastructure and adding private debt while reducing exposure to long-term bonds and Canadian equities. Further, to take advantage of an opportunity to save on investment fees, we combined the two non-North American equity mandates into one and placed the investments in a new fund.

The Board continues to closely monitor the Pension Plan and its operations. Like many entities, we are working on a plan to resume our business in person. Our Plan Administrator, D.A. Townley, is currently in the process of returning to their offices. If you need assistance, please continue to contact them via email at **pensions2@datownley.com** until this transition is completed.

In closing, on behalf of the Board, I wish to thank the plan members, our advisors and service providers for their collaboration and service during these unprecedented times.

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

Your Pension Plan

Plan Expenses **0.37%**

$274.1M Plan Assets (Net)

Investment Earnings

Year	Earnings
2021	$28.4M
2020	$15.2M

Rate of Return **8.9%**

3,717 Total Pension Plan Members

Contributions **$14M**

47 Participating Employers

Benefit Payments **$9.7M**

$31.7M Net Increase in Assets

Canada Pension Plan Expansion

The foundation for an expanded Canada Pension Plan (CPP) was laid in 2016. The objective of an expanded CPP is to provide increased savings and better benefits for Canadian workers. To achieve this objective, the Federal and Provincial Ministers took a two-pronged approach:

a. the ultimate benefit would increase from 25% of pensionable earnings to 33.33% for workers aged 65 and older after a full working career; and

b. the earnings ceiling for contributions and benefits (the Year's Maximum Pensionable Earnings or YMPE) would ultimately increase by 14%.

These enhancements would be funded by increased employer and worker contributions.

To implement these enhancements, the government also introduced a seven-year phase-in period, commencing in 2019. Now that six years has passed since the foundation was laid, let's review where we are at with the plans for an expanded CPP.

Status to-date

Prior to January 1, 2019, the employer and worker contribution rates were set at 4.95% each. Effective January 1, 2019, the contribution rates gradually increased to reach 5.70% in 2022. The last increase is scheduled for 2023 at which point the contribution rates will reach 5.95%, and the planned rate increase will be fully phased in.

To offset the impact of higher CPP contributions on low-income workers, the Working Income Tax Benefit has been increased

What's coming

Currently, contributions and benefits are based on earnings up to a limit known as the Yearly Maximum Pensionable Earnings (YMPE). Starting on January 1, 2024, a new tier of earnings called the Yearly **Additional** Maximum Pensionable Earnings (YAMPE) will be introduced.

As things currently stand, you and your employer make contributions on your earnings up to the YMPE (2022 YMPE is $64,900) and you earn benefits on your earnings up to the YMPE. Once the new tier of earnings (i.e., the YAMPE) is introduced, if your earnings exceed the old YMPE limit, you will be able to earn benefits on your earnings up to the new and higher YAMPE limit.

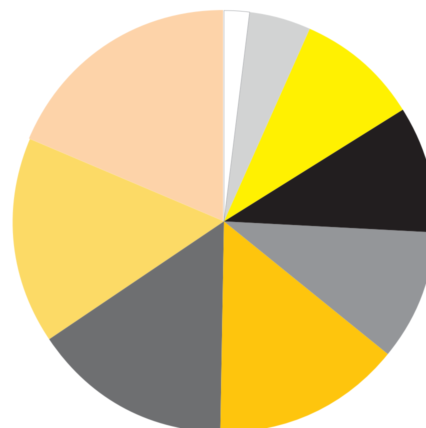
The ultimate YAMPE will be 14% higher than the YMPE. This is done in two steps: an increase of 7% in 2024 and an increase of 14% in 2025. To earn benefits on this new tier, you and your employer must each contribute 4% of your earnings between the YMPE and the YAMPE.

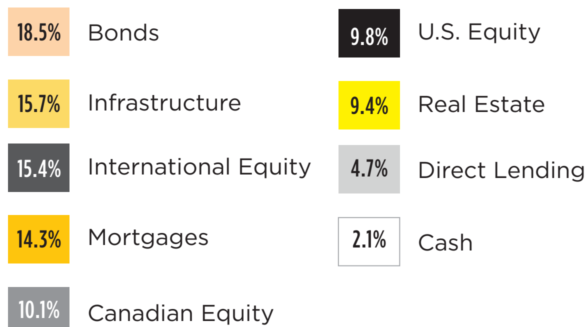
Putting it all together

- In 2023, the contribution rates will increase to 5.95% of earnings up to the YMPE. Your contributions continue to qualify for a CPP tax credit.
- Commencing in 2024, if your earnings are higher than the YMPE, you and your employer will be required to contribute an additional 4% of earnings between YMPE and the new limit of YAMPE. Your enhanced contributions are tax deductible.
- The CPP enhancements benefit all workers through increased savings and increased employer provided benefits. The impact is strongest for those workers without a workplace pension plan.
- The enhancements to CPP are for future service only and will not impact current retirees.
- The benefits will gradually reach 33% of pensionable earnings by the time expanded CPP is fully matured.
- The expanded CPP will fully mature in 2065-2070 (seven years of phase-in starting in 2019 plus 40 years of service). Today's young workers are the first generation that will realize the full benefits of these enhancements. The mid-career generation will reap partial benefits and the late career generation will benefit the least. Remember that those without a workplace plan stand to gain the most.

The Machinists Pension Plan Lodge 692 Asset Allocation

For the period ending December 31, 2021





Source: George & Bell Investment Performance Report

Actuarial Valuation Report as at December 31, 2020

The Plan's Actuary carried out an actuarial valuation of the Plan as at December 31, 2020 to assess the financial position of the Plan.

The actuarial valuation assessed the Plan's two benefit provisions:

- the defined contribution provision, mainly for members who are accumulating contributions in their accounts and have not yet commenced a pension benefit; and
- the target benefit provision, mainly for pensioners who have converted their defined contribution balances into a target lifetime pension.

On a going concern basis, the valuation revealed a surplus of $28 million. The going concern valuation assumes that the Plan continues indefinitely. The Plan's "surplus" means that the assets in the Plan are $28 million more than the amount that is expected to be needed to pay all members the benefits they had earned up to the valuation date. Furthermore, the Plan's target benefit funded ratio is 100%.

Based on B.C. pension legislation, the Plan must also include a buffer to protect itself in bad years called a "provision for adverse deviation" (PfAD). This PfAD, 29.0% at the valuation date, must be accumulated on the Plan's actuarial liabilities before benefits can be improved.

After accounting for this PfAD, the Plan's "surplus" is $7.0 million. The surplus may be used for benefit improvements or used as an additional buffer against negative future experience. The Trustees decided that the surplus will remain in the Plan as a protection against future contingencies such as investment returns being less favourable than expected.

In addition to ensuring the Plan is well funded for service earned up to the valuation date, the Trustees must also look at future costs. Given that all future benefits are earned on a defined contribution basis, the expected negotiated contributions of $9.8 million will satisfy the contributions required under pension legislation in British Columbia.

As at December 31, 2020, the Plan is in a strong financial position. The next valuation is due no later than December 31, 2023. Emerging experience differing from the assumptions used in the December 31, 2020 valuation will be revealed by the next valuation and may impact the financial position of the Plan in the future.

Your Health Benefit Plan — Filing Claims

As a member of the Health Benefit Plan, you are eligible to receive certain benefits as outlined in your Health Benefit Booklet.

You can file claims in two ways:

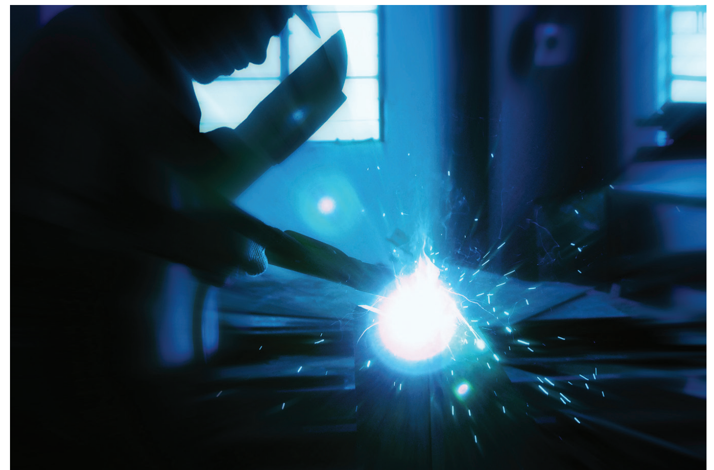
Pay Direct — By using your D.A. Townley Member ID card, some service providers can submit claims on your behalf and receive reimbursement directly. Prescription drugs and dental services are the most common types of benefits reimbursed through pay direct.

The pay direct facility also exists for paramedical benefits and vision care benefits covered by the Plan. Paramedical practitioners such as physiotherapists, chiropractors, and registered massage therapists, and vision care providers such as optometrists and participating optical stores who are part of the D.A. Townley Pay Direct Provider Network, can use your ID card to file claims electronically on your behalf and receive reimbursement directly. Refer to your Health Benefit Booklet to determine which paramedical services are covered and discuss the pay direct facility with your practitioner.

Claim forms — For all other benefits, or if your medical practitioner does not participate in the Pay Direct Provider Network, you can submit your claim online to the Plan Administrator, D.A. Townley, using the website or the mobile app.

And remember, if you sign up for Direct Deposit, you will be reimbursed faster as your money will be directly deposited into your account.

Not yet registered for My Claims? Have your Member ID card ready and go to the D.A. Townley website at **https://www.datownley.com/myclaims/my-claims/**



Questions? Contact Us

4250 Canada Way, Burnaby BC V5G 4W6

pensions2@datownley.com

T (604) 299.7482 or 1 (800) 663.1356

F (604) 299.8136

Trustees

The Board of Trustees met three times in 2021, on March 10, May 27 and September 20.

2021 Trustees

B. Cordell Draayers (Chair)
Reo Elkin
Roland Sturt-Smith
Gordon Veller

Income Splitting — A Tax Strategy

What is Income Splitting?

Income Splitting is a tax strategy used to reduce the amount of income tax that a family pays, by shifting income from a high-income earner to a lower income earner. For it to be effective, family members need to be in different tax brackets.

Who Can I Split Income With?

The answer depends on the type of income eligible for splitting. For example, eligible pension income can be split only with your spouse. There are, however, opportunities available to shift income to other members of your family, such as your children.

How Do I Split Income with My Spouse?

The most common type of income splitting is between spouses. Here are the types of opportunities available for spouses or common-law partners:

- Sharing of your pension from Canada Pension Plan (CPP)

  If you are receiving your CPP pension or are eligible to begin receiving it, you can apply to Service Canada and request that your CPP pension be shared with your spouse. Sharing of CPP pension between spouses will be done at source by Service Canada.

- Spousal RRSPs

  This is the oldest and most common method of income splitting between spouses. A Spousal RRSP is a special type of RRSP. Here's how it works:

CONTRIBUTOR	**Higher Income Spouse**
ANNUITANT	**Lower Income Spouse**
TAX DEDUCTION	**Claimed By Higher Income Spouse**
TAX ON INCOME	**Paid by lower income spouse, subject to certain conditions (3 year attribution rule)**
IMPACT	**Income splitting at source and lower overall taxes**

- Eligible Pension Income

  Income that is eligible for a pension income tax credit may be split between you and your spouse. Unlike CPP pension sharing, where your CPP pension is first shared and then paid out, eligible pension income is split with your spouse at the time of filing your respective income tax returns, after you have received the income.

The following rules apply:

1. Lifetime pension payments you receive from the Pension Plan may be split with your spouse.
2. If you transfer your savings under the Pension Plan to a Life Income Fund or use them towards a purchase of an annuity, the income you receive from the Life Income Fund or the annuity may be split with your spouse after you attain age 65.
3. Other eligible pension income such as payments from a Registered Retirement Income Fund or annuity payments from an RRSP may be split with your spouse after you attain age 65.
4. You can allocate up to 50% of your eligible pension income to your spouse.
5. You and your spouse must jointly complete Form *T1032 Joint Election to Split Pension Income* and submit it to Canada Revenue Agency along with your respective income tax returns.

Splitting your eligible pension income with your spouse allows each of you to claim the $2,000 pension income tax credit. Income splitting may also eliminate or reduce the claw back on your Old Age Security pension, if one of you is subject to the claw back.

How Do I Split Income with My Children?

There are certain types of income which may be shifted from parent to child. You may already be doing this without realizing that it is called "income splitting."

- Registered Education Savings Plans (RESPs)

  This is the most common type of income splitting between parents and children. RESPs are used to finance the higher education of children. The parent makes contributions to the RESP and government grants (within a limit) are paid to the RESP. Contributions are not tax deductible and as long as the investment income earned stays in the RESP, it is not taxable. Once withdrawn however, the investment income earned is taxed at the student's tax rate which is much lower than the parent's tax rate.

- Monetary gifts to children under 18 years of age

  If you invest an amount on behalf of a child and it generates future capital gains, the capital gains are considered taxable income for the child. If the investment earns interest or dividends, it is considered taxable income for you.

- Monetary gifts to children over 18 years of age

  Any return generated by a gift to an adult child is taxable for the adult child.

- Tax Free Savings Accounts (TFSAs)

  Contributions to a TFSA are made with after-tax income and the investment returns earned are not taxable. Therefore, it doesn't matter who earned the income — you can give your lower income spouse or adult children money to invest in their TFSA.

Income splitting strategies should be carefully considered. Speak to your financial advisor or a tax specialist to determine if income splitting is right for you.