The Northwest News

Newsletter of DL250 May 2012

Special Edition:

Retirement Options for BC Machinists

For a long part of our working lives, our retirement seems distant and remote. But as we pass our 50th birthday, it is suddenly crowding in with little time to prepare.

The truth about retirement is, the sooner we start preparing, the easier it is to be prepared when the great day of our retirement come.

Government retirement benefits may keep us from eating pet food but that level of income closes off many avenues we are finally free to pursue after retirement. Travel can become an unaffordable luxury. We may be unable to assist our children and grandchildren. And then there are the expenses of life like house and car repairs, not to mention drug and dental costs no longer covered by our workplace benefits.

With the economy so unpredictable, it is hard to save for retirement. One bad day on the stock market could wipe years of savings or we can play it safe with bonds but they pay less than the rate of inflation, eroding our savings year after year.

Unions are composed of workers, with a common interest, banded together for the good of all. The Machinist Pension Plan was established in BC so our Members can make the best of this bad situation where we save for retirement in a sea of financial sharks. We have this non-profit pension plan where we do our best to maximize our savings opportunities and minimize our risk.

These pages will shed some light on our options

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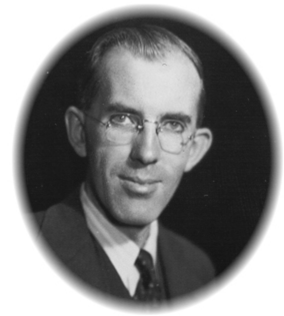
Pension Reform Is Needed
But Workers and Corporations See Two Different Solutions

Everyone can agree on one thing. Many corporate pension plan do not have enough money invested to guarantee adequate payments to retirees. In the past era of 12% returns, many corporations did not put contributions into company pension plans as the growth of the funds was sufficient to cover the needs of the retirees. But when the markets took losses, companies claimed they were broke and unable to make up shortfalls. And if companies made staffing cuts, they raided their pension plans for surplus money no longer needed to meet the needs of a smaller number of retirees. Unions fought in court but lost.



Stanley Knowles,
NDP MP
was instrumental
in the creation of
the Canada Pension Plan
in 1966

The corporate solution is to convert pension plans from defined benefits to defined contributions. In other words, they would only have an obligation to put in so much money per hour but no obligation to how much a pension cheque would be. This has been one of the biggest sources of conflict in labour relations. Look at the lock out at Cat's EMD in London, the nickel mines in Sudbury and the steel mills of Hamilton. Stripping pensions was and is a leading issue. In the airline industry, this issue also is front and centre.

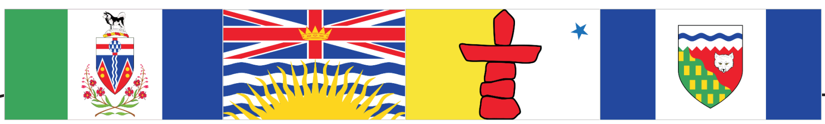
Workers need dependable and predictable income in their retirement.

The Canadian Labour Congress initiative to increase the Canada Pension Plan (see page 8) goes some way to address the issue but private savings are still essential to a comfortable retirement. Most of us do not have a company pension plan so we need an alternative.

The Machinist Pension Plan is our way of helping make retirement a reward and not a condemnation to poverty.

It is a defined contribution plan but it is not dependent on the financial health of one employer and it maximizes the return on our savings by pursuing an intelligent investment strategy of buying undervalued stocks and holding them for the long term.

By sticking together, we Machinists can make the best of a poor situation



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Retirement Income - *Where Will It Come From?*

The retirement income system in Canada rests on Three Pillars:

- Universal Government Benefits for Seniors
- The Canada Pension Plan
- Employment Pension Plans and Individual Retirement Savings

Pillar One

Universal Old Age Security (OAS)
$540.12 / month payable at 65, if born on or before March 31, 1958, otherwise at 67
Guaranteed Income Supplement (GIS)
This benefit is based on other income excluding OAS, GIS and SPA
The benefit is reduced on a sliding scale, with a maximum income above which no GIS is paid.

	Single, divorced or widowed		
benefit (monthly)	$0 /month	↗	$732.36
income (yearly)	$16,368	↘	$0
	Married		
benefit (monthly)	$0 /month	↗	$485.61
income (yearly)	$21,648	↘	$0

Spouses Allowance (SPA) (OAS + GIS)
SPA is a bridge for partners (aged 60 to 64) of retirees while waiting to receive OAS

benefit	(monthly)	$0 / month	↗	$1025.73
income	(yearly)	$39,264	↘	$0

Pillar Two

Canada Pension Plan (CPP)

CPP is based on previous yearly incomes. The maximum yearly contribution is 4.95% of the first $50,100 ($2,306.70 per year) in 2012. Your employer makes an equivalent contribution.

The maximum benefit in 2012 is $986.67 per month with Canadians collecting an average payment of $527.96.

The CPP is indexed to the Consumer Price Index.

You may opt to start to receive your CPP as early as 60 and as late as 70 years old.

- For each month before your 65th birthday, your monthly amount will decrease by 0.6% to a maximum of 36% for a person who retires at 60.
- Each month after your 65th birthday will increase the monthly amount by 0.7% to a maximum of 42% if you delay benefits until you are 70 years old.

Pillar Three

Pension Plans

- ☑ Pension Plans can be Employer, Union or Multi-employer.
- ☑ A Defined Contribution (DC) pension has a set contribution by the employer to an employee account
- ☑ A Defined Benefit (DB) pension has a set benefit based on years of service
- ☑ A Hybrid pension has aspects of both DB and DC pensions
- ☑ Employer pensions are dependent on the health of the sponsoring employer. Many bankrupt companies, such as Nortel, have reneged on promised benefits.
- ☑ A Union pension is dependent on sound investment and sustainable benefit levels.
- ☑ A multi-employer pension administers for many employers, allowing small companies to offer pensions. The plan is independent of the employers and needs prudent management of funds and benefits.
- ☑ No benefits are cast in stone. A plan may increase benefits if returns on investment are good and reduce benefits if the assets of the plan are hit in a recession.
- ☑ All registered pension plans are supervised by the Commissioner of Pensions who makes sure pension can pay the retirees' pensions. If a plan asset's slip below 100% of the funds needed to pay out all obligations, the Commissioner of Pensions will order remedial action either by reducing benefits or increasing contributions.
- ☑ Likewise if the funds of a plan grow too great, the plan will be required to reduce contributions or increase benefits. A company plan will always do the former whereas a Union plan often increases benefits.

Registered Retirement Savings Plans

- ☑ RRSP savings are the most common form of personal retirement savings.
- ☑ A maximum of $22,970 per year can be contributed in 2012. You accumulate unused contributions amounts and may top up at any time.
- ☑ Money going in is not taxed but withdrawals are.
- ☑ RRSPs have two major drawbacks:
  - ➢ The value of your savings is subject to the economy, stock market and interest rates.
  - ➢ The banks take an average of 2 ½% of an RRSPs funds each year. That is 2.5% each year subtracted from the growth of the fund.

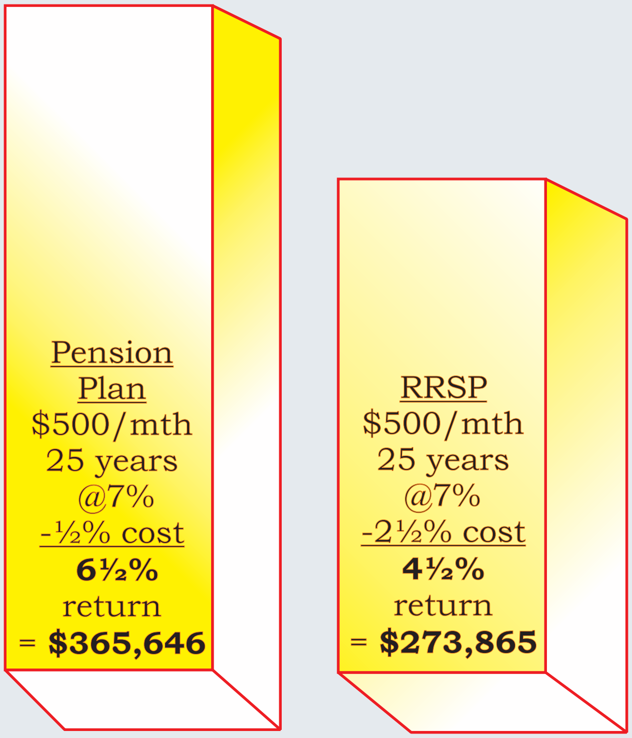
A pension typically has a cost of 0.5% thereby earning 2% more in growth per year over a RRSP.

TFSA - Tax Free Savings Accounts

- ☑ TFSA program allows a maximum investment of $5,000 per year.
- ☑ Unlike RRSPs, money going in is taxed; money coming out is not.
- ☑ This is an ideal savings plan for low income earners whose income tax rate is low.
- ☑ It is also a place to save if the RRSP contributions are maxed out for the year.

RRIF - Registered Retirement Income Funds

- ☑ All RRSPs must be cashed out or converted to RRIF by age 71.
- ☑ Otherwise taxes on entire balance become payable.
- ☑ The return on a RRIF is dependent on interest rates or investment depending on which flavour you choose.
  It is subject to fees like RRSPs.
- ☑ You are required to withdraw a minimum each month but may draw more up to a set limit.
- ☑ All withdrawals are subject to taxation.
- ☑ Retirees can outlive their RRIF money and be reduced to poverty.



}$91,781 more with a pension

If two people each saved $500 / mo. for 25 years with an average return on investment of 7%

A Pension could accrue **$365k**

A RRSP, with higher service fees, would come up to $273k..... over $90,000 less!

Vesting

- ☑ Vesting is the number of years required to become a full member of a plan.
- ☑ Pension members always will receive credit for personal contributions.
- ☑ Company contributions are only locked in once vested.
- ☑ The vesting period is currently 2 years in British Columbia but legislation has been introduced to remove the vesting period completely.
- ☑ The Machinists Pension plan currently requires 350 hours in two consecutive years to vest.

Vesting Example: A worker joins the Machinist Pension Plan in October 2012

Month	Days Worked	Paid Statutory	Paid Vacation	Hours	Notes
October	21	Thanksgiving	none	176	missed one day
November	21	Remembrance	none	176	no days missed
December	14.75	Christmas Day	4 days	166 = 518/year	left 2 hours early
January	22	New Years Day	none	184	
February	19	Family Day	none	160	
March	1			8 = 350/year	***Vested!***

Lodge 692 Machinists Pension Plan

The 692 Machinists Pension Plan was created in British Columbia in 1975 for LL692
In 2011, the plan was opened up to all Machinists in BC

- ☑ Each Member has a dollar account in his name which is used to calculate his/her pension at retirement. The account is a sum of the contributions of employer and employee as defined by the Collective Agreement plus any voluntary contributions made by the Member. Each year, the growth of the Plan is applied as a percentage of the Member account.
- ☑ Upon retirement a monthly pension is paid, avoiding the need to roll over RRSPs into a fee-based Register Retirement Income Fund (RRIF).
- ☑ Your pension will be paid as long as you or your spouse is alive. There is no danger you will run out of savings during your retirement; *a calamity which can happen to those who must convert their RRSP money into a RRIF at retirement.*
- ☑ The Plan uses a professional money manager, Leith Wheeler, and has enjoyed average annual returns of over 8% over the last 20 years.
- ☑ The assets of the plan have grown since 1988 from a little over $10,000,000 to over $95,000,000 today.
- ☑ The plan is on sound financial footing and can continue to serve Machinists as long as the need is there.

Plan History

1988	10.00%	1996	15.75%	2004	12.75%
1989	11.50%	1997	17.00%	2005	10.25%
1990	-2.90%	1998	6.50%	2006	14.25%
1991	19.50%	1999	3.50%	2007	0.50%
1992	8.50 %	2000	10.25%	2008	-16.00%
1993	25.00 %	2001	4.50%	2009	16.00%
1994	0.00 %	2002	2.00%	2010	10.75%
1995	13.20 %	2003	13.75%	2011	(estimate) 0.50%

Average Yearly Return Over 24 Years:

more than 8%!

The I.A.M. Labour-Management Pension Fund (Canada)

The I.A.M. Labour-Management Pension Fund (Canada) is dedicated to preserving, enhancing and delivering pension benefits for its membership and providing information for retirement planning and decision-making.

- ☑ IAM Labour-Management Pension Fund (Canada) was established as a result of collective bargaining between employers and various Canadian Lodges of the International Association of Machinists and Aerospace Workers.

- ☑ The Plan is managed by a joint Board of Trustees on which the union and the employers are equally represented. The Trustees are responsible for the overall operation of the Plan. They serve without compensation.

- ☑ The Plan is financed entirely by contributions from employers and investment income. Employer contributions are deposited in a trust fund held by a trust company. The Trustees have hired professional money managers to invest the Plan's assets.

- ☑ This Pension Plan is a hybrid Defined Contribution / Defined Benefit Plan. Contributions are set in the Collective Agreement. Only employer contributions are accepted. Individual members may not contribute. Benefits are determined by the size of the contribution multiplied by the number of years in the Plan.

I.A.M. Labour-Management Pension Fund (Canada) - *Effective January 1, 2011*

Sample Contribution Rate		Monthly Pension Benefit Accrued Per 12 months of Future Service Credit
Per Hour	Per 40 Hour Week	
$1.00	$40.00	$40.00
$1.50	$60.00	$60.00
$2.00	$80.00	$80.00
$3.00	$120.00	$120.00
$4.00	$160.00	$160.00

Example: A Member worked for 10 years with a contribution rate of $2.00 per hour, 10 years with a contribution rate of $3.00 per hour and 10 years with a contribution rate of $4.00 per hour. At 65, the Member can draw a pension of 10 X $80 + 10 X $120 + 10 X $160 = $3600 per month

Canadian Labour Congress

Grow the CPP - *A better way to save*

The Canadian Labour Congress propose a doubling of Canada Pension Plan (CPP) benefits to ensure a better minimum pension for all Canadians. This would be financed through a modest and gradual increase in contributions over seven years, following the pattern set by CPP reforms in the 1990s.

Labour's plan to double future CPP benefits can be paid for by increasing what workers currently save through CPP contributions by 0.43% of pensionable earnings each year for 7 years.

These increased contributions would effectively double the average earnings replaced by CPP pension benefits, to a maximum (in 2010 dollars) of $1,868 per month.

Some might be surprised that we can finance a future doubling of CPP pension benefits by saving less than 3% more of our salaries. This is because the CPP structure is so cost-efficient. It is possible to achieve more with less.

Our plan offers a better minimum pension to everyone. CPP benefits are indexed, secure, and portable across jobs. Workers wouldn't fear losing their pensions given the misdeeds of Bay Street and Wall Street.

This reform will benefit young workers the most, as they would pay higher CPP contributions over the rest of their worklives. That's why our plan for the CPP is about preparing for the future, so the next generation of workers can count on a dignified retirement.

Why This is a Good Idea

Canadians would have more pension security: They would no longer fear losing their pension savings to higher inflation, stock market shenanigans, or the loss of employment.

This is a pan-Canadian solution to a pan-Canadian problem: Some provinces have suggested their own solutions to address pension concerns, but these initiatives won't suffice. Worker mobility between provinces is a major concern, and the CPP's scope is capable of dealing with this issue. The CPP's framework can't be matched by any provincial or regional solution.

This prepares us for the future: Young and future workers would benefit the most from CPP expansion given they would make more CPP contributions at a higher rate. In this way, expanding the CPP is about preparing for the future, and leaving behind a better system for our kids.

for more information please visit
http://www.canadianlabour.ca/action-center/retirement-security-everyone/retirement-security-reform-1-double-cpp-benefits