

Wabush Mines Defined Benefit Plan Wind-Up



Non-Retired Newfoundland and Labrador Member Information Session

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Business. Needs. People.

Audience

- Non-retired **Newfoundland and Labrador** members of the:
 - Contributory Pension Plan for Salaried Employees of Wabush Mines, Cliffs Mining Company, Managing Agent, Arnaud Railway Company and Wabush Lake Railway Company, Limited (“Salaried Plan”)
- **OR**
 - Pension Plan for Bargaining Unit Employees of Wabush Mines, Cliffs Mining Company, Managing Agent, Arnaud Railway Company and Wabush Lake Railway Company, Limited (“Bargaining Plan”)
 - Not receiving a pension as of December 16, 2015
- Family members and financial representatives

Separate meetings for retired members

Agenda

- Background
- Settlement Options
- Making Your Election
- Election Statement Package
 - Final Settlement
- Funded Position
- Other Issues

We have made best efforts to be accurate and this presentation is based on the best available information. As this information is updated, the final situation may vary from what is presented. In the event of any discrepancies with the Plan text or law, the Plan text or law shall prevail.



Background

Background – Wind-up

- Company filed for creditor protection (CCAA) in May 2015
- Pension Plan wind-up declared on December 16, 2015
- Wind-up is the process of ensuring that pensions in pay continue to be paid at the level supported by the plan assets and that entitlements of all members are settled
 - When assets are transferred and all obligations are settled the plan ceases to exist
- Morneau Shepell was chosen by the NFLD regulator as the replacement Plan Administrator on March 30, 2016

Background – Wind-Up Almost Complete

- Notice and FAQ sent to members in June of 2016; member meetings in July of 2016
- Data Confirmation Statement sent to all members in November 2016
- Implemented new investment strategy to reduce likelihood of changes in the wind-up shortfall (the deficit)
- Preliminary wind-up reports filed December 2016
- Final wind-up reports filed December 2017 – approved March 2018

Background – Wind-Up Almost Complete

- Election Packages sent to all non-retired members and retired members under Quebec jurisdiction in April 2018
- **Election Statement must be completed and returned by June 5, 2018**
- Letters sent to all retired members under Newfoundland and Labrador jurisdiction in April 2018 (no election required)
- If recovery under CCAA anticipated to take some time, settlement planned to occur in July 2018 with CCAA monies distributed at a later date
- If recovery under CCAA anticipated to occur soon, settlement may be delayed by a few months



Settlement Options

Settlement Options

Option 1: Transfer Option (Commutated Value Option)

Option 2: Annuity Purchase Option



Options are detailed in Form 4
of your election package



Your election has no financial impact on us or the rest of the plan

Note: Newfoundland and Labrador members who started their pension after December 16, 2015 have already elected settlement option



Settlement Options – Commuted Value

Settlement Options – Commuted Value

- The Commuted Value is the present value of a member's future stream of pension and bridge benefits taking into account interest and life expectancy
 - How much money you would have to invest today to pay for your expected future monthly pension

Settlement Options – Commuted Value

- One time lump–sum transfer
- Generally locked-in – not accessible until age 55
 - Transferable to:
 - A Locked-In Retirement Account (LIRA)
 - A Life Income Fund (LIF)
 - Another pension plan
- Tax sheltered* and no impact on RRSP room

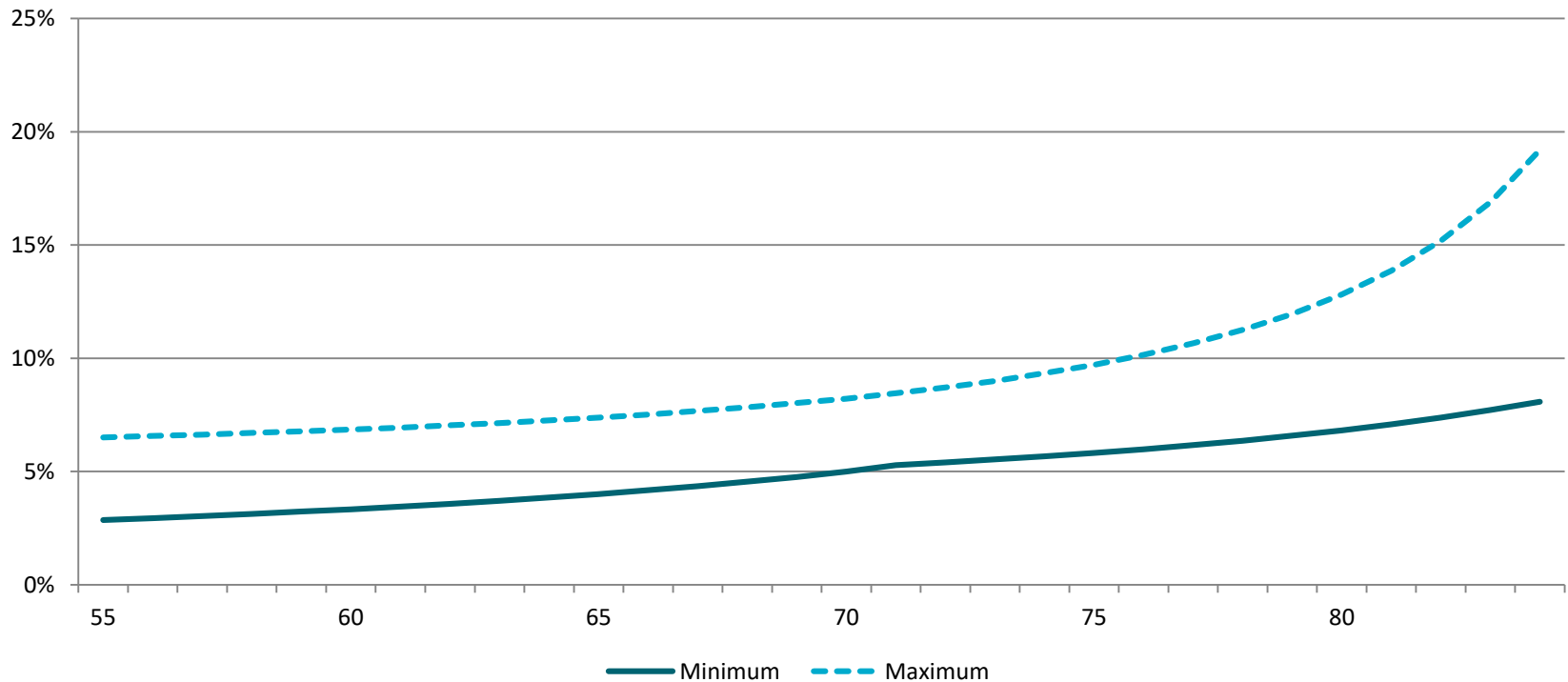
**Some members may have a portion of their lump-sum transfer paid in cash, less withholding taxes
(more detail to follow)*

Settlement Options – Commuted Value

- If transfer to a LIF there are minimum and maximum withdrawals permitted each year (as a % of start of year account balance)
 - Current minimum: 2.9% at age 55 to 20% at age 95
 - Current maximum: 6.5% at age 55 to 100% at age 89

Settlement Options – Commuted Value

LIF Withdrawal Rates 2018



**Maximum withdrawal rates may vary by jurisdiction.*

Talk to your financial advisor about additional rules. Minimum and maximum withdrawal rates subject to change.

Settlement Options – Commuted Value

- If transfer to a LIRA:
 - After transfer to LIRA and before retirement:
 - Member responsible for making investment decisions
 - Similar to a Defined Contribution (“DC”) Plan or RRSP/RRIF
 - At retirement, there are two options:
 - Transfer to a LIF
 - Purchase an annuity on your own

Settlement Options – Commuted Value

- May be required to take a portion of your payment in cash
 - if applicable, this is noted on your election package
 - Income Tax Act only allows transfers up to a certain limit based on your pension and age
 - Taxable - Taxes are withheld at time of payment but additional taxes may be payable at time of income tax filing
 - If you have RRSP room available, can transfer some to your RRSP
 - Requires a copy of notice of assessment and letter indicating RRSP room still exists



Settlement Options – Annuity Purchase

Annuity Purchase

- Enables member to retain a monthly pension payable for life and a bridge payment, if applicable
 - The pension plan transfers a lump sum to the insurance company and the insurance company takes over all future pension / bridge payments
- Quotes will be requested from major Canadian insurance companies
- The insurance company is selected based on competitive bids and taking into consideration the stability of the organization and the services available

Annuity Purchase Based on Same Terms and Conditions as Plan Pension

- Same terms and conditions as the Plan
 - Retirement dates (earliest unreduced shown on form 1)
 - Retirement reductions (form 5)
 - Available forms of pension (guarantee, survivor benefits)(form 5)
 - Pre-retirement death benefit (form 5)
- Contact insurance company when ready to retire
 - You will be provided contact information
- Monthly pensions paid through annuity are taxable as income and eligible for income splitting (same as payments from Plan)

Annuity is Insured

- Insurance company annuities are protected by Assuris
 - Assuris is a non-profit organization funded by the life insurance industry and endorsed by government
 - If an insurance company fails, Assuris provides protection for the greater of \$2,000 per month or 85% of the monthly pension in pay
 - For individuals with monthly pensions in excess of \$2,000 per month, we will purchase your annuity from more than one insurance company to provide full protection
 - If your pension is purchased with more than one insurer, you will deal only with the main insurer who will coordinate on your behalf with the other insurers



Making your election

Making Your Election

- Likely one of the biggest financial decisions of your life
 - We cannot offer financial advice - we can help provide you sufficient information to make an informed decision
- Please review *Comparison of Annuity Purchase Option and Commuted Value Option* sheet
- Request financial advice from a trusted source
 - Consult your spouse, family, trusted advisor
 - Discuss pros and cons for your situation
 - Discuss and understand fees
 - Get cash flow projections (related to transfer value) under various scenarios (optimistic, pessimistic, etc.)

Making Your Election – Commuted Value – Things to Consider

- Investment Control
 - Investment decisions now your responsibility. Should investments do poorly income will decrease and vice versa (more risk of volatility)
- More flexibility
 - Provided by cash payment, if applicable, and member's choice (subject to min/max) of timing and amount of withdrawals
 - Could purchase annuity in the future (cost unknown)
 - Possible unlocking based on financial hardship
- Death benefit
 - Full account balance to beneficiary (no guaranteed income for spouse)
 - Beneficiary (spouse) becomes responsible for investment decisions

Making Your Election – Commuted Value – Things to Consider

- Longevity risk (outliving your money)
 - Male age 65, on average, lives to about 86
 - Female age 65, on average, lives to about 88
 - Could decide to purchase annuity later (at future rates)
- Fees
- Cash payment (for some members)
 - Provides current income at cost of future income
 - Potential additional taxes payable
 - Impact on Employment Insurance / CPP disability benefits
- Pension Adjustment Reversal (PAR) will be calculated and will restore RRSP contribution room if total payment less than historical Pension Adjustments

Making Your Election – Annuity Purchase – Things to Consider

- Investment Control
 - No Investment decisions to make
 - Do not benefit/suffer from strong/weak market performance
- No flexibility, but security
 - Monthly payments at a fixed predetermined amount
- Death benefit
 - Pre-retirement – According to plan terms
 - Post-retirement – According to form of pension you select at retirement

Making Your Election – Annuity Purchase – Things to Consider

- Longevity risk
 - Payments continue for your lifetime
 - If you elect a joint and survivor form of pension at retirement, payments continue for spouse's lifetime after your death
- No Fees
- Retirement Date
 - Start your pension on your unreduced retirement date
 - If you start receiving a pension after your unreduced retirement date you are leaving money on the table
- Irreversible – cannot convert to a lump sum at a later date

Making Your Election

Transfer Option*	Annuity Purchase Option
You are comfortable making investment decisions	You do not want to have to make investment decisions
You are comfortable with fluctuating income	You want to have a pre-determined monthly income
You have a shortened life expectancy	You are concerned about outliving your money
You have other annuity type income and wish to diversify	You have other RRSP type income and wish to diversify
Your spouse is comfortable with investment decisions and fluctuating income	After your death your spouse wants to have a pre-determined monthly income
If a cash payment is available, you want the flexibility this offers	If a cash payment is available, you do not want to pay the one-time taxes associated with the transfer option

**You or your surviving spouse could decide to purchase an individual annuity later (at future rates)*



Election statement package

Election Statement Package

- Differ by circumstance
 - “Standard”
 - Small benefit
 - Retired post December 16, 2015
 - Already made election

Note: No election package for pre December 16, 2015 retired members/survivors

Election Statement Package

- Form 4 – Wind-Up Election Statement
 - Most important form
 - This is where you make your election
 - Shows benefits based on funded percentage at Dec 16, 2015 (will be revised at settlement date)
- YOU NEED TO:
 - Select Pension Entitlement option
 - Transfer value or annuity purchase
 - Complete certification section
 - Signature / address / date / phone number

Election Statement Package

- Form 4 – Wind-Up Election Statement
 - **Must be returned by June 5, 2018!!!**
 - If you do not return the form by June 5, 2018 you will be defaulted as per your statement
 - For most members: Annuity Purchase Option
 - Election cannot be changed after June 5, 2018

Election Statement Package – Form 4

TERMINATION STATEMENT (DB PROVISION ONLY*)

FORM 4

Election Form

Pension Plan for Bargaining Unit Employees of Wabush Mines, Cliffs Mining Company, Managing Agent, Arnaud Railway Company, and Wabush Lake Railway Company, Limited (the "Plan")

*You will receive a separate election form directly from Sun Life Financial in respect of your Defined Contribution Provision entitlement, if any.

Statement for:

XXX

Please choose one option below :

☐ 1. Transfer of Commuted Value Option (as of December 16, 2015)

A lump sum transfer of \$ XXX¹ to a Locked-in Retirement Account (LIRA) or Life Income Fund (LIF) or Locked-in Retirement Income Fund (LRIF), or to the registered pension plan of a new employer (if your new plan allows);

☐ 2. Annuity Purchase Option

A deferred monthly lifetime pension of \$ XXX¹ starting at any time between your Unreduced Retirement Date and your Normal Retirement Date. Your lifetime pension will be paid by an insurance company, with the same terms and conditions as provided by the Plan. Please see Form 2 and Form 5 for additional details on your lifetime pension.

You may start your pension anytime after your Early Retirement Date, however your lifetime pension will be reduced in accordance with Plan terms.

¹ These amounts are based on the Plan Funded Percentage of 82.0% (the estimated funded percentage of the Plan at the termination date). These amounts will be adjusted once the Plan Funded Percentage is finalized and may be higher or lower. The amount specified in option 1 above will accrue interest from December 16, 2015 until the month of payment and may be reduced by interest adjusted amounts of any advance payments received between December 16, 2015 and the date of settlement.

Certification By Member

I fully understand my rights and options under the Plan and I have made an election on this form. I also certify that my personal data shown on Form 1 is correct and acknowledge I am **not** entitled to any further benefits under the DB Provision of the Plan beyond what is shown on this form.

Please confirm your mailing address:

Signature of member

Date

Signature of witness

Date

Member's SIN

Phone Number

Election Statement Package

- Form 1 – Personal Information
 - Confirmed in November of 2016
 - Includes your unreduced retirement date
- Form 2 – Vested Entitlement
 - Details on form and amount of pension
- Form 3 – Assumptions used to calculate commuted value
- Form 5 – Additional Information (for annuity purchase option)
 - Early retirement reductions / pre-retirement death benefits / forms of pension
- Form 6 – Comparison of Annuity Purchase Option and Commuted Value Option
- Form 7 - Checklist

Election Statement Package

- Other forms / requirements
 - T2151 / Locking-in agreement
 - Required for transfer option only
 - 2nd T2151 required if having excess transferred to a RRSP
 - Spousal waiver
 - Only required if electing transfer option and transferring to a LIF
 - Void cheque
 - for direct deposit if receiving any cash (otherwise cheque issued)
 - Proof of age (if not already provided)
 - Birth certificate, passport, baptismal certificate, driver's license
 - Copy only

Election Statement Package – Form 7

TERMINATION STATEMENT (DB PROVISION ONLY)

FORM 7

Instructions and Checklist

As a result of the wind-up of the Pension Plan for Bargaining Unit Employees of Wabush Mines, Cliffs Mining Company, Managing Agent, Arnaud Railway Company, and Wabush Lake Railway Company, Limited, you must decide what to do with your pension benefits. Please complete Form 4 and any Additional Forms (as required) and return them to Morneau Shepell. Documents must be returned before June 5, 2018. **Please return your completed forms in the enclosed return envelope to:**

Morneau Shepell Ltd.
7071 Bayers Road, Suite 3007
Halifax, NS B3L 2C2

Alternatively, you can email your completed forms to WabushBargaining@morneaushepell.com or fax them to 1-902-420-1932.

☒ Termination Statement and Submission of Information

- ☐ I have thoroughly read and reviewed and understand all sections of this package.
- ☐ I have verified my personal data in Form 1.
- ☐ I have enclosed an applicable agreement/court order if there is an assignment of pension entitlement to my former spouse.
- ☐ I have made an election on Form 4.
- ☐ I have signed and dated Form 4, and included my address, phone number, and Social Insurance Number, in the appropriate spaces.
- ☐ A witness has certified this signature.
- ☐ I have kept a copy of this Termination Statement for my files.

☐

Additional Forms

- ☐ Request for transfer from a registered pension plan: I have completed this form if I elect a transfer option (Option 1) and part or all of my benefit is required to be locked-in. This form has been signed by me and my financial institution.
- ☐ Newfoundland and Labrador form 3: I have completed this form if I chose to transfer a locked-in amount to a LIF or LRIF.
- ☐ I have provided a void cheque for direct deposit of any cash payments I am entitled to.

Election Statement Package – Final Settlement

- Final Settlement occurs at the same time for everyone
 - Transfers, cash payments, annuity purchase
 - Ease of administration and ability to determine final adjustment for all members
- If recovery under CCAA anticipated to take some time, settlement planned to occur in July 2018 with CCAA monies distributed at a later date
- If recovery under CCAA anticipated to occur soon, settlement may be delayed by a few months



Funded Position

Funded Position – Salaried Plan

Wind-Up Funded Position (millions)		
	Dec 16, 2015	Dec 31, 2017 (Approx.)
Assets	\$82	\$78
Liabilities	<u>109</u>	<u>103</u>
Surplus / (Shortfall)	\$(27)	\$(25)
Funded Percentage	75%	76%

- Figures shown are before any recovery under CCAA
- Separate accounting for Newfoundland and Labrador, federal, Quebec retired members, and Quebec non-retired members
 - Final funded percentage may differ slightly for each account

Funded Position – Bargaining Plan

Wind-Up Funded Position (millions)		
	Dec 16, 2015	Dec 31, 2017 (Approx.)
Assets	\$131	\$119
Liabilities	<u>159</u>	<u>147</u>
Surplus / (Shortfall)	\$(28)	\$(28)
Funded Percentage	82%	81%

- Figures shown are before any recovery under CCAA
- Separate accounting for Newfoundland and Labrador, federal, Quebec retired members, and Quebec non-retired members
 - Final funded percentage may differ slightly for each account

Funded Position – Final

- The final funded percentage at the time of benefit settlement will depend primarily on:
 - Recovery from CCAA
 - Cost to purchase annuities from an insurance company to settle benefits
 - Investment return on assets
 - Membership experience
 - Non-retired member's pension entitlement elections (lump sum transfer versus annuity purchase)



Other Issues

Other Issues – DC Plan

- DC Plan
 - If you have a remaining DC entitlement you should have received a separate election package from Sun Life

Other Issues - CCAA

- CCAA court proceedings will result in liquidation of employer remaining assets
- Pension plan deficit is claimed as outstanding employer debt under CCAA proceedings
 - Final windup reports showed actual deficit of \$27.3 Million for Salaried Plan and \$28.7 Million for Bargaining Plan as of December 16, 2015
- Ongoing discussions to resolve the CCAA claim and legal questions/proceedings both in court and outside of court
- Any funds received from the CCAA proceedings will be distributed to plan members (in the same manner as original distribution)



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Thank you!

1-855-465-5266 (toll free)

WabushSalaried@morneaushepell.com

1-855-649-8648 (toll free)

WabushBargaining@morneaushepell.com

General information is available at:

www.pensionwindups.morneaushepell.com