

Wabush Mines Salaried Plan Defined Benefit Plan Wind-Up



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July 26, 27, 2016



Health • Benefits • Employee Assistance • Retirement

Business. Needs. People.

Topics

- Background
- How the Wind-Up Impacts You
- Defined Benefit (DB) Plan's Financial Position
- General Updates
- Next Steps

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.

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Background

A Plan wind-up is the orderly payout of Plan assets and settlement of obligations

- Plan wind-up declared on December 16, 2015
- Wabush Mines will no longer exist to oversee the operation of the Plan
- Wind-up is the process of ensuring that pensions in pay continue to be paid and that entitlements of non-retired members are settled
- When assets are transferred and all obligations are settled the plan ceases to exist
- **Monthly pensions continue to be paid throughout and after wind-up process**

Morneau Shepell was appointed Plan Administrator on March 30, 2016

- Concern from NL regulator that prior Plan Administrator (Wabush Mines) was not taking sufficient action to wind-up the plan
- At the same time, prior Plan Administrator informed the regulator that they no longer had the resources to carry out Administrator functions
- The CCAA process created a conflict of interest for Wabush Mines
- NL regulator made a decision to remove Wabush Mines as Plan Administrator and requested proposals from various firms to select a replacement Plan Administrator
- Morneau Shepell was chosen by the NL regulator as the replacement Plan Administrator

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Morneau Shepell is a Canadian-based firm

- We provide human resource consulting including pension, actuarial, administration and investment consulting services
- We have one of the largest pension consulting practices in Canada and have offices located across the country
- We have more experience than any other firm in Canada dealing with the unique challenges involved with a plan wind-up (e.g. Nortel, Fraser Papers, NewPage Port Hawkesbury, Aleris Aluminum, Davie Industries, Algoma, Stelco)

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Morneau Shepell as the Plan Administrator has a fiduciary duty to plan members

- Independent of Wabush Mines, CMC, Regulators, CCAA Monitor, Investment Manager(s), Custodian, and Prior Service Providers
- Work with all parties to ensure best overall outcome for Plan members
- Must administer the Plan according to Plan text, pension benefits legislation, and the *Income Tax Act*
- Conduct independent review of historical administration, funding and interpretation of Plan to ensure appropriate administration of benefits

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Plan Administrator has many responsibilities

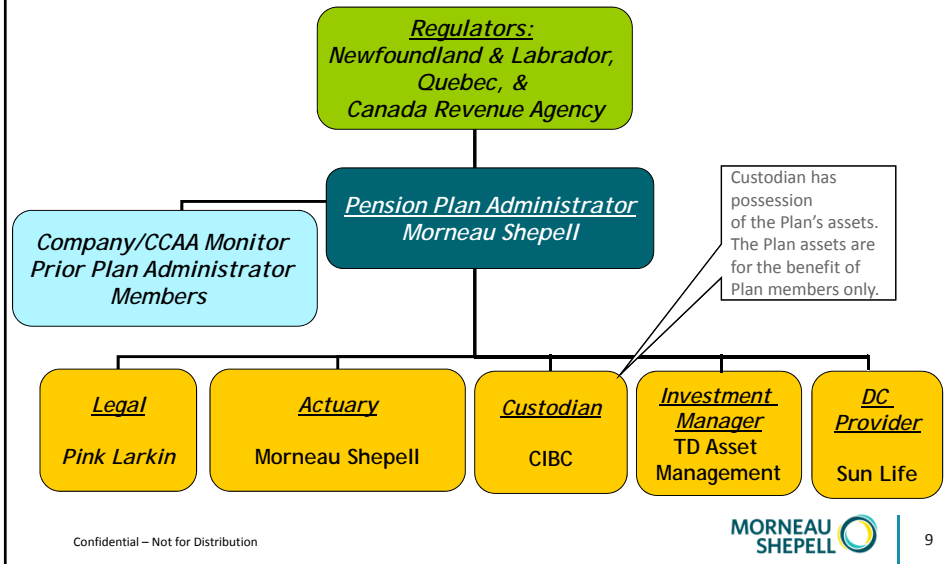
- Keep members informed and answer member questions
- Maintain and verify member data
- Provide calculations and packages to members
- Make asset mix decisions for DB plan investments
- Submit information and communicate with regulators
 - Valuation report
 - Filing forms
- Authorize benefit payments and annuity purchases
- Investigate and resolve issues
- Hire and oversee other service providers

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We work with many third parties to administer the Plan



Morneau Shepell does not:

- Hold Plan assets
- Pick individual stocks or bonds for investments purposes
- Have information on life insurance, health benefits, or supplementary pensions
- Maintain records for defined contribution provision
- Market any other service directly to Plan members
- Make tax rules or pension law

Plan Administrator and all service providers are normally paid from the Plan

- Morneau Shepell reviews service provider invoices
- Morneau Shepell invoices are provided to NL Superintendent of Pensions for oversight
- Actual cost to administer Plan wind-up will depend on course of action and time spent
- Above are standard industry practice in similar situations
- We are in the process of requesting that Plan Administration costs be paid from the Wabush Mines CCAA proceedings
- As Plan Administrator, we do not receive commission or income from any other source for our services

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How the Wind-Up Impacts You (Defined Benefit Provision Only)



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Due to the DB Plan's under funded status, members will not receive full benefit promise

- Pension benefits in pay for members already reduced to the previously estimated funded percentage of 75%
- There will be adjustments up or down depending on the final wind-up position at the date of settlement

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Pensions in pay will continue to be paid on a monthly basis through an annuity purchase

- Plan assets for pensioners/survivors are transferred to an insurance company (or possibly Retraite Quebec for Quebec members) who takes over responsibility for payment of monthly pensions
 - Pensions paid from Insurance companies guaranteed by ASSURIS
- Pensioners/survivors continue to be paid on the same terms (guarantee period, survivor benefits, monthly payments) but subject to the Plan's funded percentage
- There will likely be a final adjustment in respect of pension amounts at the settlement date to ensure that all Plan members are treated fairly

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Non-Retired Members may receive a lump sum transfer at time of settlement

- Commuted Value Transfer to a locked-in financial vehicle
 - The Commuted Value is a one-time payment equal to the present value of a member's future stream of pension 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
 - Amount transferred = Commuted Value x Funded Percentage
 - NOTE: Part of Commuted Value may have to be paid in cash due to Tax Act limits. Any portion paid in cash would not be locked-in
- Newfoundland members will also have the option to retain a monthly pension paid by an insurance company ("Annuity Purchase") starting after age 55

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You may start receiving a monthly pension before final settlement:

- Must be eligible to retire under plan terms
- If you are in the NL jurisdiction, you will also have to elect how you wish to receive your final settlement at the time you start your pension
- If you are in the Quebec jurisdiction, regardless of whether you start a pension before settlement, you will receive a Commuted Value at the time of settlement
- Your Commuted Value payable at settlement will be reduced by any pension benefits received
- Please contact Morneau Shepell if you wish to start your pension

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Defined Benefit (DB) Plan's Financial Position

For the DB portion of the plan, the liabilities represent the present value of the benefit promises to all members

- The benefit promise is a defined amount of pension benefit ("defined benefit") payable under the Plan terms based on service, earnings (in some plans), termination/retirement age
 - The benefit promise is independent of available assets
- The "liabilities" of the Plan is the cost to settle the full benefit promise to all members
 - The sum of all members' Annuity Purchase cost or Commuted Value transfer (before adjusting for funded percentage)
 - Amounts always changing based on market conditions

In a DB plan, the liabilities are not usually equal to plan assets

- Plan sponsor must contribute to fund benefit promise in accordance with pension law
 - In some plans, contributions also made by members
- Monies are deposited into a pooled trust account for investment
 - Pensions, termination, death benefits, and plan expenses are paid from the account
 - There are no accounts set up for individual members
- Funded Percentage = $\frac{\text{DB Assets}}{\text{DB Liabilities}}$

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For the DB portion of the Plan, the funded percentage is estimated to be 75.6%

Defined Benefit Portion of Plan Only	December 16, 2015
Market Value of Assets	83,100,000
Estimated Cost to Wind-Up Plan	(500,000)
(A) Available Assets for Wind-Up	82,600,000
Estimated Plan Liabilities for Non-Retired Members	21,600,000
Estimated Plan Liabilities for Retired Members	87,700,000
(B) Total Estimated Plan Liabilities	109,300,000
Funded Percentage (A) / (B)	75.6%

The Defined Contribution portion of the plan (Sunlife balance) is 100% funded

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Funded percentage is best estimate at this time and may change by the time of payout

- Calculations performed by Morneau Shepell based on data provided by prior Plan Administrator
- Funded percentage may change slightly due to
 - Changes in member data or situation (e.g., deaths)
 - Outcome of legal issues / interpretations
 - Investment returns between wind-up date and settlement date
 - Cost to purchase annuities at settlement date
 - Plan expenses
 - Monies received through CCAA / other sources

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How did our DB Plan get so underfunded?

- All DB plans have seen increases in liabilities due to low interest rates and longer life expectancies
- Plan was permitted to pay 100% of monthly pension benefits while it was underfunded (prior to plan wind-up), however this further reduces the funded percentage; example:
 - Initial position - assets: 80, liabilities: 100
 - 80% (80/100) Funded Ratio
 - Payout of 20 results in assets of 60, liabilities of 80
 - 75% (60/80) Funded Ratio
- Company has 5-15 years to fund plan shortfalls

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Did anyone mismanage our DB Plan?

- No, most Canadian pension plans have had large drops in their wind-up position over the last number of years
- Many defined benefit pension plans are not fully funded in the event of a wind-up
- Based on review to date, historical company contributions appear to have been made as required, Plan expenses are reasonable, and no reason to believe that pension monies were diverted from the pension fund

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General Updates



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We have also been working on other aspects of the wind-up

- Setup call line and e-mail address
- Working with prior plan administrator to transition data, files, and documents from company to Morneau Shepell
- Mail out to plan members
- Review and confirm understanding of Plan terms and application of unique situations
- Review sample historical administration calculations
- Review historical valuation reports and company contributions

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We have also been working on other aspects of the wind-up

- Working with regulator to provide flexibility to plan members
- Requested sample annuity quotes to get best estimate of wind-up position
- Reviewing data and calculations on wind-up position
- Discussions with CCAA Monitor to gather and provide information
- Ongoing oversight of monthly pension payouts
- Discussions with regulator on various issues

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We are implementing a strategy to maintain a stable funded percentage

- Plan Investments previously moved to 100% general fixed income investments in September 2015
- We have interviewed managers and hired TD Asset Management to implement a plan specific fixed income investment strategy
- In addition to providing a more stable funded percentage, it reduces costs by about \$40,000 per year

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Is Cliffs Mining Company (CMC) an employer under the Plan terms and are they required to contribute to the plan?

- If CMC is considered an employer under the Plan terms, they may be required by law to make contributions to the Plan as they are not part of the CCAA proceedings
- We have asked the Plan's legal counsel, Pink Larkin, to provide a legal opinion on this issue
- If the opinion suggests that the Plan should pursue funding from CMC, we will work together with regulator and other legal representatives to ensure the best outcome for plan members

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Next Steps

Lots of work to be done before benefits are paid out...

Item	Anticipated Completion Period
Submit pension plan claim for CCAA purposes	Q3 2016
Submit Plan Wind-Up valuation report to regulators	Q3 2016
Data confirmations to member regarding pension data	Q3 2016
Legal Opinion on CMC as Employer (and follow-up action if necessary)	Q4 2016
Provide election/information packages to non-retired members	2017 ?
Member meeting to provide update and discuss payout options	2017 ?
Purchase annuities and transfer member entitlements (Final Settlement)	2017 ?
Locate members with unknown addresses and residual issues	???



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Questions on Material Presented?
Any Issues/Requests to Bring Forward to Regulator?

MORNEAU SHEPELL 
MENTAL HEALTH PARTNER



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Presentation will be posted to:
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