Staying the course

Report to the members

The Board of Trustees 2006/2007 Report

Carpentry Workers'
Benefit and
Pension Plans of BC

Progress toward recovery continuing on pace

The Board of Trustees of our Carpentry Workers' Pension Plan continues to closely follow the recovery plan that was put in place several years ago to fix a Plan that was underfunded and performing well below expectations at that time. The 2006-07 Plan year was another solid one for the recovery plan and our Pension Plan in general.

Pension Plan Assets

We are once again pleased to report that the Pension Plan experienced strong investment performance in the 2006-07 plan year. The following table shows the investments return for the Plan over the past four years:

Investment Returns for Carpentry Workers' Pension Plan				
2006-07	2005-06	2004-05	2003-04	Average return from 2003 to 2007
15.5%	6.1%%	15.3%	10.9%	11.9%

As you can see in the table above we were able to achieve a 15.5% return on the Plan's investments in 2006-07 and an average return of almost 12% over the past four years.

Attached are unaudited financial statements for the pension plan as at June 30, 2006. While financial statement for the June 30, 2007 plan year is not yet available some highlights of the 2007 year are:

- $5,929,532 in contributions were received
- $16,546,140 in benefit payments were made
- Total assets increased by $15 million between June 2006 and June 2007.

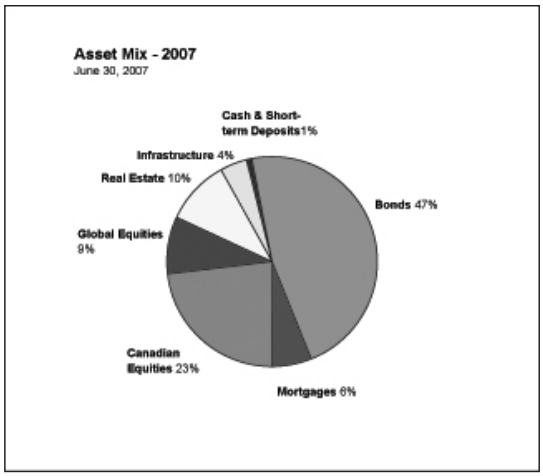
Even with the Plan's positive investment returns and asset growth over the past few years, the Trustees have looked for ways to maximize the Plan's overall performance and results. For example, after a lengthy review process that looked for ways to further reduce risk, three major changes were made to the investment strategy:

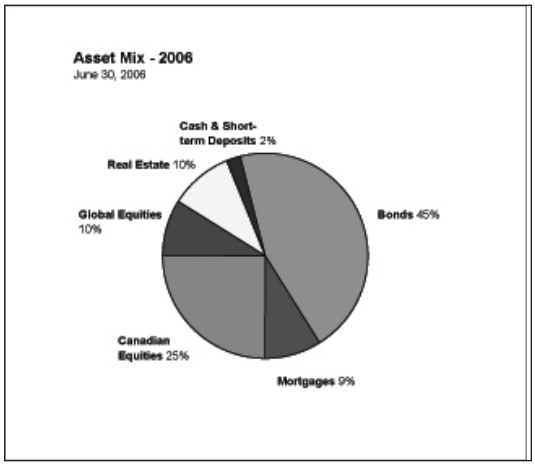
- An investment in infrastructure was initiated: the portfolio will be managed by a firm called Macquarie. The portfolio will hold infrastructure assets (such as toll roads, water, gas and electricity distribution networks, shipping terminals, etc.) in Europe and North America and is intended to provide long-term returns that help the plan's assets grow more than the growth of the liabilities.

- Part of the existing bond portfolio was changed to incorporate other capabilities of the existing bond manager (Connor, Clark & Lunn Investment Management) and the capabilities of another firm called Northwater Capital Management. Both of these portfolios are meant to add returns that over the long-term add value in both strong and weak equity markets and will also help the plan's assets grow more than the growth of the liabilities.

- Two equity managers who had been underperforming their respective benchmarks for a protracted period of time, McLean Budden and Putnam, were replaced by Leith Wheeler for the Canadian Equity and Spruce Grove (through an arrangement with Leith Wheeler) for the Global Equities. A thorough search process was conducted and the firms were chosen for their demonstrated the ability to generate strong returns but also had historical results which infrequently lost money, i.e. had low risk. This last characteristic was particularly important to the Trustees.

The charts below show how the mix of assets was fine tuned this year.

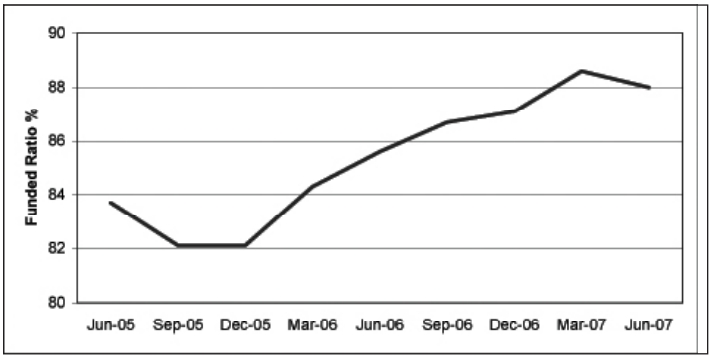




Funded Status

Another important measure of the Plan's financial health is its "funded status" (i.e., a measure of the Plan's ability to pay out all benefits earned immediately). The Plan's current funded status is 88% and continues to trend up, which is a vast improvement over our position six or seven years ago.

The following graph shows the rate of improvement in the plan's funded status between June 2005 and June 2007:



Other Developments

Other developments during the 2007 plan year include:

- One area the trustees are monitoring closely is contributory hours. Over the last three years, the total number of hours work (and therefore pension contributions have been made) have been decreasing. A steady stream of contributory hours is important for long term planning. The Trustees will continue to monitor this closely.

- Active members elected to increase their contribution rate over a four-year period, starting with a 50 cent per hour increase in May 2007. Increases will total $1.75 per hour over the next four years.

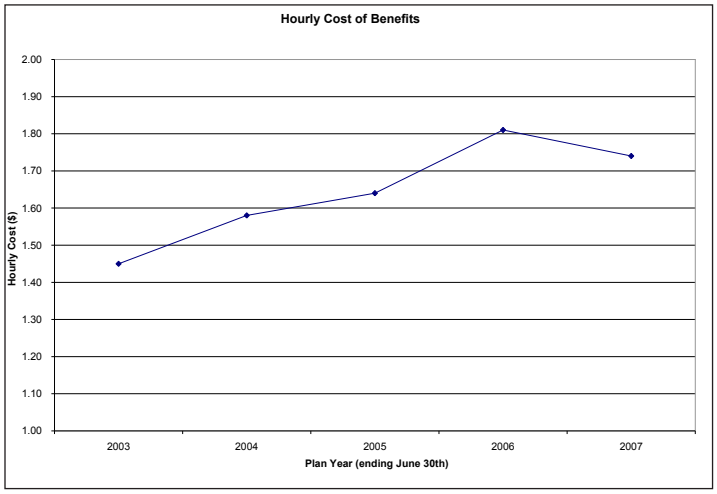
- The plan received notice that effective July 1, 2007 the Millwrights have elected to cease contributions to the pension plan. The plan's policy for handling withdrawing groups is to have the plan actuary determine the financial impact of the withdrawal and make recommendations to the Trustees on what adjustments (if any) are required to the benefits of the withdrawing group to ensure the withdrawal does not negatively impact remaining members.

Benefit Plan – facing rising costs

The cost to provide benefits is steadily on the rise. Although the overall expense for 2007 may appear to be steady, we are covering fewer members each year – so the actual per member cost is increasing. And while the recent contribution rate increase will maintain the current level of benefits, without higher contribution we are unable to raise benefit limits or add new coverage.

Increasing hourly cost experience

One measure of how much costs are increasing or decreasing is to look at the hourly cost experience – by dividing the overall benefit payments and administration costs by the hour bank drawdown we obtain the hourly cost of actually providing the benefit to each member. This cost continues to increase steadily. Without the sharp decrease in administration costs the hourly rate would now be $1.86 per hour.



Administrative improvements enabled cost savings

The trustees are pleased to report that the administration of the plan has been streamlined, resulting not only in a cost savings of $250,000 but in more effective delivery of member services. Over the past two years, the number of permanent staff has been cut in half and we have not hired temporary staff, as was so common in the past. The plan year ended June 30, 2007 is the first full year to reflect the impact of the changes.

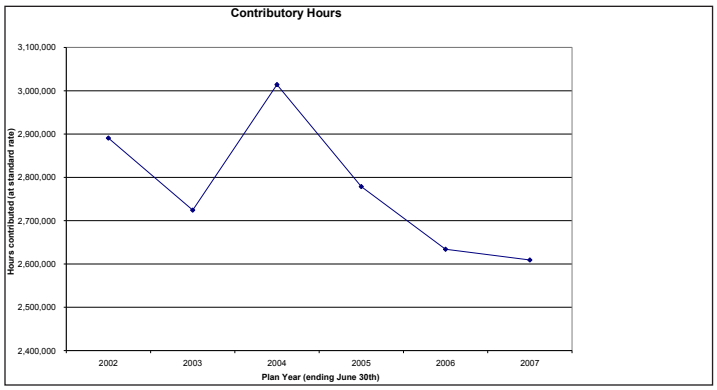
We continue to process everything except extended health and wage indemnity claims in house and we are very pleased to report that the turn around time is now consistently less than two weeks, and usually less than one week! The member files established three years ago have enables us to have better member information and also to maintain member history. This has resulted in more effecient service because we have access to all previous member dealings with the plan.

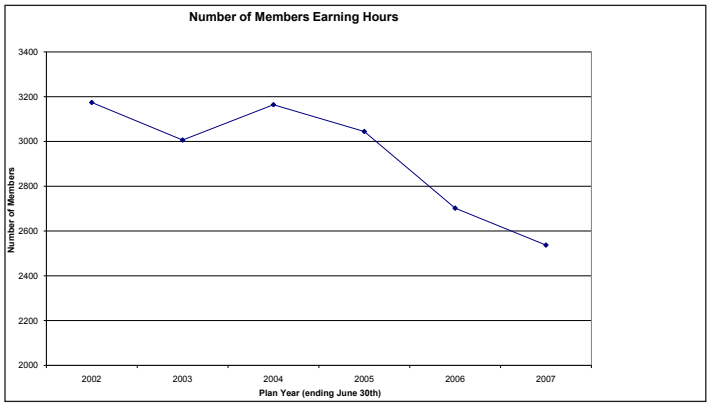
The trustees want to thank the administrative staff for their dedication to member service and their continued efforts to find better ways to help members.

Contributory hours decreased

Contributory hours, along with the number of members actually earning any hours, have decreased in each

plan year since the highs reached in 2004. The drop in hours means a lot fewer members are covered, and of those who could be eligible for coverage only two thirds earn the 100 hours per month to maintain coverage.





The contribution increase maintains plan

The Benefit Plan recently received a contribution rate increase of $0.165 per hour which brings the hourly rate to $1.71. Given a drawdown of only 100 hours, we continue to have one of the lowest monthly contributions in the industry. The plan will not receive any other increases over the life of the current contract which runs to 2010.

The contribution increase, combined with careful management, will maintain all of the benefits members currently receive, despite continually rising costs. While the overall inflation rate in Canada has held below 3% for many years, the same cannot be said for health care costs which have been rising at an average rate of 8 to 10% each year. In order to meet what are likely to be increasing financial demands in the coming years, the plan must build up reserves. (The increase in the "unallocated net assets available for benefits" shown on the financial statements would better be called "the reverses to cover the cost increases through the rest of this contract.")

Reserve funds will be needed to pay the cost of benefits in the years where no contribution rate increases are scheduled. The trustees are very conscious of the fact that if the reserve is mishandled the plan could once again be faced with cutting benefits.

The trustees would like to look at increasing the maximum claimable for benefits, such as dental and optical -- these have not changed in more than 10 years, and are also eroded by inflation each year. They would like to look at adding new benefits or providing MSP. Unfortunately, they cannot. The reality is that all changes cost money and a $0.165 increase in seven years (the last increase was in 2003) does not allow for any benefit improvements.

Future editions of Our Plan newsletter will discuss possible options for the plan. We will detail the pros and cons of each option, including the ones we currently offer, and we will outline what each change would cost plan members. (For example, we would explain all of the pros and cons of adding MSP coverage for active members, i.e. would this be the most effective use of their dollars given that the plan would have to match the amount they pay as a government requirement and this creates a taxable benefit.)

It is important to explore these issues and options with members and our Board of Trustees is looking forward to beginning this discussion in the coming months.