SunHills Mining Ltd Partnership
Pension Plan for the Hourly Employees at the Highvale Mine (the "Plan")
Frequently Asked Questions (FAQs)

Plan "basics"

What is a defined benefit (DB) pension plan?

A type of plan where the pension amount is defined for the member's retirement and is based on a specific formula. The contributions required to achieve this retirement benefit change and can be volatile. This is different from a defined contribution (DC) pension plan where the contributions are defined and the unknown is the benefit as of retirement.

As a new employee when am I eligible for the pension plan?

New employees are enrolled in the pension plan after completion of 30 calendar days of employment.

What is the current DB formula for my retirement benefit?

The current formula is 1.1% of your highest average earnings times credited service after Dec 31/87, (different formula for service pre-1987). The highest average earnings are over any 60 consecutive months.

What earnings are pensionable?

Pensionable earnings are defined as regular earnings, overtime, and premiums. They exclude: severance, clothing allowance, bonus payments, life insurance taxable benefit, vacation payouts, etc.

What service is my pension benefit calculated on?

You receive service for each full month of work. Regular paid time taken like, vacation days, sick days, etc. would not impact your accrual of service but some unpaid leave of absences, for example, would. You would continue to accrue service while on approved unpaid leaves for: long term disability (to a maximum of three consecutive years), workers compensation (WCB), maternity leave, and paternity leave. Your earnings during these unpaid leaves would be deemed as your pre- leave regular earnings.

How do I make changes to my beneficiary or changes to my marital status?

You can contact HR to complete the necessary form to change your beneficiary information. If you are going through a divorce you should contact HR, and also provide a copy of the divorce document if finalized.

When do I know what my current benefit is?

Statements are provided to active employees each year in June for benefits as of December 31st of the previous year. These statements provide an estimate of your current pension payable at retirement, if you were to terminate as of December 31st, and also includes the latest valuation or financial information. The statements also reflect your current spouse and beneficiaries.

Retirement

When is the earliest I can retire?

You may retire as early as age 55, but this may be subject to an early retirement reduction.

When can I retire unreduced?

Your pension is unreduced on your normal retirement date, which is the first of the month following your 65th birthday. For an early unreduced pension benefit prior to age 65, you must have reached age 60 and have at least 20 years of continuous service as of your retirement. If you retire or terminate prior to achieving the age 60 and 20 years' service, your benefit is reduced from age 65.

If I leave before age 60 with 20 years of continuous service, can I defer my pension to age 60 and retire unreduced?

No. The 60/20 unreduced retirement is available only for those retiring from active employment. Anyone who leaves employment prior to attaining both age and service will be subject to the reduction from age 65 (unless they are over age 65). You can defer your pension commencement to age 65, to receive an unreduced pension. Example if you had 25 years and were age 58 and retired, your pension would be reduced, unless you deferred up to age 65.

Why would I keep working after I am eligible for an unreduced pension?

The decision to retire should depend on many factors, primarily your financial preparedness for retirement. The income you receive from your pension is unlikely to be as much as your regular income from your employment, so all factors would have to be accounted for, not only whether you can retire unreduced when making retirement choices.

How is the reduction calculated?

Your normal retirement date is the first of the month following your 65th birthday. If you wish to retire earlier and you have not reached age 60 with 20 years of continuous service, then your pension will be recalculated to account for paying you for a longer time-period than expected.

The reduced pension is calculated so that it has the same value as the unreduced pension starting at age 65, this means it is cost neutral to the Plan (actuarial equivalent). The calculations are based on the same assumptions used for the plan valuations, which will change over time (example interest rate, mortality table, etc.). Therefore, it is difficult to estimate reductions that will apply in the future and are specific to each member.

Forms of Pension payment from the plan at retirement

What are the various forms of pension that I can elect when I retire and what do they mean?

The normal form of pension payment is a monthly pension guaranteed to pay for the member's life or at least 60 monthly payments. Other optional forms are available and are calculated to have the equivalent value from the normal form but accounting for the member's age, spouse's age (if applicable), current mortality rates, and discount rates. The pension benefit is adjusted for the option selected so that it is cost neutral to the Plan.

A guarantee period is a minimum timeframe where the pension benefit would be paid if the member were to pass away (e.g. 60 monthly payments for the normal form). Other optional forms for members to elect:

Lifetime – no guarantee
Lifetime – 60-month guarantee (normal form)
Lifetime – 120-month guarantee
Lifetime – 180-month guarantee
Joint & Survivor 60% - no guarantee
Joint & Survivor 60% - 60-month guarantee
Joint & Survivor 60% - 120-month guarantee
Joint & Survivor 60% - 180-month guarantee
Joint & Survivor 100% - no guarantee
Joint & Survivor 100% - 60-month guarantee
Joint & Survivor 100% - 120-month guarantee
Joint & Survivor 100% - 180-month guarantee

What is a Joint & Survivor pension?

It is an optional form of pension that is payable in full for your lifetime and upon your death, your spouse receives a percentage of the amount depending on the option you elect (e.g. 60% if you elect Joint & Survivor 60%). If your spouse passes away first, your pension is not impacted but would end as of your passing. If you have a spouse, you are *required* to elect a Joint & Survivor pension, unless they waive their rights to the survivor pension by signing the appropriate spousal waiver forms.

It's my pension, why do I have to take a Joint & Survivor pension?

Under Alberta pension legislation, if you have a pension partner, you are required to take a pension which provides a benefit to your spouse of at least 60% upon your death. If your spouse wishes to waive their right to a survivor pension, they would have to complete the appropriate spousal waiver form.

Who is my pension partner/spouse?

Your pension partner/spouse, under Alberta pension legislation, is:

1. The person you are legally married to and have not been living separate and apart for a continuous period of more than 3 years; or
2. The person you have been living with in a marriage-like relationship for a continuous period of at least 3 years; or
3. The person you have been living with in a marriage-like relationship of some permanence, if there is a child of the relationship (by birth or adoption).

I separated from my spouse after I retired and now have a new spouse, how do I change my beneficiary?

Your spouse at retirement remains eligible for any survivor pension payable upon your death, unless documents, including a valid Matrimonial Property Order, are provided, signed by the two parties, separating the pension benefits. You should contact the plan administrator for further information if you are going through a separation or divorce.

Once I elect my option, can I change it?

No, once your pension payments have commenced you are locked in to your choice. The one exception, as noted above, is if you separate from your spouse following your retirement, and a valid Matrimonial Property Order requires the form to be adjusted. You should ensure that the order is provided to the plan administrator as soon as possible to ensure compliance with the Order.

How does my spouse's age impact my pension options?

Your spouse's age does not impact your normal form of pension, but it does impact any of the Joint & Survivor pension options - the pensions payable for both you and your spouse's lifetimes. For example, the younger your spouse, the lower your Joint & Survivor pension amounts as the benefit is paid over both lifetimes.

<u>Termination</u>

What are my options if I leave the company prior to retiring?

You can elect to defer your pension commencement and leave the funds in the pension Trust, or you can elect to take a commuted value/lump sum payment and transfer the funds out of the pension Trust. If you elected to defer, you could choose to retire any time after age 55 (subject to reduction prior for retiring prior to 65).

What if I die prior to retiring?

Your spouse, or if you have no spouse, your beneficiary (or estate) will receive the commuted value of the benefit you had earned, calculated assuming you had terminated or retired on your date of death.

What is a commuted value? How is my commuted value calculated?

The commuted value is the present value of the pension payments that you would otherwise be expected to receive (calculated based on actuarial assumptions). Significant factors that impact the commuted value are your age, discount rates, and mortality rates.

A commuted value is paid into a locked-in account, though CRA limits the amounts that maybe transferred and a portion may be paid as cash, less withholding taxes.

What are the advantages and disadvantages of electing a lifetime pension or electing a commuted value payment?

For a Life time pension, the advantages are:
- greater tax sheltering, as the cash portion of the commuted value is taxed upon receipt
- no risks associated with the member or spouse outliving their savings
- no administration fees or investment manager fund fees
- all investment risk is borne by the plan, so poor investment returns do not impact the pension amount received

For a commuted value payment, the advantages are:
- more member flexibility in how retirement income is received
- if willing to assume investment risks, the excess returns can provide greater lifetime payments
- the remaining value upon you and, if applicable, your spouse's death, can be left to beneficiaries
- no risk associated with viability of the plan sponsor

When I left the Plan, I was owed a commuted value of $500,000, but now I have returned my forms 9 months later and the amount I am being paid has decreased. How can that happen?

Alberta pension rules state that the commuted value is required to be recalculated if the transfer is made more than 180 days after the calculation date. The calculation date is stated on the option forms and we ask that you return the forms within 3 months to avoid the chance of a recalculation. Recalculated benefits could go up or down dependent upon assumptions in place at the time of calculation.

What does locked-in mean? Why is some of my money locked?

Pension plans are intended to provide retirement income. Plan members can transfer their entitlement out of a pension plan, but regulators have imposed rules on how that transferred money can be used. Typically, a significant portion of your pension payout will be locked-in. This means you cannot begin to receive that money until sometime after you turn 50 (but it must be started no later than the year you turn 71). Once you elect to begin receiving your funds, Alberta legislates the minimum and maximum amounts that can be received each year. In Alberta you can unlock 50% of your locked in account upon election to begin receiving your funds. For further information about the 50% unlocking and accessing pension funds in Alberta you should go to their site at Alberta Finance (www.finance.alberta.ca - Pension Information).

How much do I get taxed on the cash portion of my payout? How do I minimize the tax hit?

If you elect the commuted payout, most people receive a significant cash portion and this is typically subject to a 30% tax withholding. When filing your annual income taxes, the cash received will be accounted for as income and the tax withheld will be accounted for as income tax payments already made. If you have RRSP contribution room available, you can have some or all of the cash portion transferred directly to your RRSP - deferring your taxes on that income into the future. You would receive a T4A for the cash portion (even if transferred into a RRSP) and you would receive a RRSP contribution slip from the financial institution that the RRSP is setup with.

Plan funding

How does the Plan's funded status get measured?

The Plan's funding is measured on two different bases. The going concern test assumes that the Plan continues indefinitely and the solvency assumes that the Plan is closed as of the date of the valuation. Going concern results tend to be more consistent whereas solvency results vary significantly based upon economic conditions at the time of measurement. The measurements are conducted by our actuarial firm, Aon. Formal valuations are required at least once every three years, though the Company continuously monitors the funded position.

How are company contributions calculated?

The company contributions are based on the last valuation results and deposit of these contributions is reviewed by Alberta Finance and also monitored by our Trust account holder.

If people keep leaving the Plan and taking their commuted value, how does that impact the security of my pension benefit?

Transferring the commuted value out of the Plan does impact the funding of the Plan; however, the Company is required to fund additional contributions when the plan is underfunded (based on the last valuation results). This reduces the impact on the Plan.

How does the plan funding change so much each valuation – example underfunded after being fully funded before?

The assumptions that are used to value the plan are continuously updated to reflect changing experience and market expectations, so each time the plan is valued the yardstick has changed. This can result in significant swings in the funded position. The reason for conducting these valuations is to continuously update the Company and the regulators on how the plan is doing, and how much the Company should contribute to target the 100% funding at that point in time.

Plan Governance and Compliance

What is the company pension governance objectives?

To deliver the pension promise, achieve legislative compliance, effective decision making with clear accountabilities, and demonstrating prudence and diligence. TransAlta Corporation and SunHills Mining Ltd Partnership are committed to fulfilling all respective obligations to our plan participants, and specifically ensuring funding requirements are met.

What happens once the SunHills mine is shut down to my pension? What risk is there to my pension?

The Pension Trust is held separately from the SunHills or TransAlta bank accounts and the plan members are the beneficiaries of the Trust. The retirees will continue to receive their monthly pension payments until the later of their passing or their spouses passing, depending on the option they elected.

Any deferred or terminated members pension benefit will remain in the Trust until their retirement or benefit payment.

Contacts:

Who should I contact with questions or updates?

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