

IWA - FOREST INDUSTRY PENSION PLAN



ANNUAL REPORT 2010



IMAGE E-02892 COURTESY OF
ROYAL BC MUSEUM, BC ARCHIVES [ca. Nov 1943]



IWA - FOREST INDUSTRY PENSION PLAN
Suite 150 - 2955 Virtual Way
Vancouver BC V5M 4X6

Main Switchboard: 604-433-6310
Toll Free in BC: 1-800-663-4384
Pension Information: 604-433-5862
Pension Toll Free: 1-800-913-0022
Facsimile: 604-433-0518

Website: www.iwafibp.ca

BLACK & WHITE COVER IMAGES:

COURTESY OF THE CITY OF VANCOUVER ARCHIVES

IMAGE - CVA 99-2658, STUART THOMPSON [ca. AUG 21, 1932]

IMAGE - CVA 371-2552, [ca. 1900]

IMAGE - LOG P55, [ca. 1899]

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MESSAGE FROM THE TRUSTEES

The Trustees of the IWA - Forest Industry Pension Plan are pleased to present our Annual Report to Plan members for the year ending December 31, 2010.

For the second straight year the Plan achieved solid investment returns, earning 10.1%, narrowly missing the benchmark of 10.3%. These returns were achieved against a backdrop of continued volatility and uncertainty in global markets. The Plan increased its net assets by over \$110 million in 2010 and ended the year with net assets of \$2,867,886,359.

As always, we continue to emphasize that the Plan invests for the long term, not for year over year results. Pension contributions made today may fund benefits paid out over 30 to 40 years. During the last decade, the Plan's annualized rate of return was 6.2%, a value added of 1.2% over and above the 10-year annualized benchmark. Over a 32 year stretch, the Plan's return has averaged 9.9%. Our continued strategy of investing for the longer term in high-quality assets with an appropriate level of risk, helped net assets increase by over \$789 million in the last 10 years alone.

Despite significant investment returns in 2009 (17.1%) and 2010 (10.1%), the Plan's funding challenges remain, as they do with many other pension plans. Low interest rates, historically low contributory hours, higher than usual numbers of early retirements, increases in life expectancy and investment losses in 2008 (as experienced by virtually all plans) have combined to cause our Plan's funding shortfall.

In accordance with legislation, an actuarial valuation of the Plan must be done every three years. Our last filed actuarial valuation, dated December 31, 2009, revealed a solvency shortfall of \$805.9 million. On a solvency basis, as at December 31, 2009, the Plan was 74% funded, compared to 94% in 2006. On a going concern basis however, the Plan was 94% funded.

Solvency shortfalls are normally required to be funded within five years; therefore the Board of Trustees spent considerable time and effort reviewing options regarding how the shortfall might be addressed. Those options included but were not limited to: increasing contributions, decreasing benefits or seeking solvency relief under the current three-year moratorium offered under the *Regulations* to the *BC Pension Benefits Standards Act*. The Board chose to seek solvency relief. The Board will continue to monitor the funding position of the Plan and will file another actuarial valuation on December 31, 2012. Please refer to pages 15 and 16 for a more detailed explanation of the Plan's funding position.

Although historically low contributions in the last few years have challenged the Plan's financial growth, the potential for a strong and sustained recovery in the forest industry remains hopeful. This past year saw a slight increase in contributions to the Plan, the first increase in 6 years. Increasing global demand for BC's lumber products and modest signs of recovery in the US housing market are optimistic indicators of a fragile recovery in the forest industry.

The decisions taken by the Trustees have been carefully considered and balance the need to be aware of the challenging economic and business environment in the short term with the longer term potential for improvement in these sectors. In fact, we have seen significant recovery in the financial markets in the last two years and the returns experienced by the Plan in 2009 and 2010 have helped to offset the damage of the negative returns in 2008. The decisions the Trustees have made are intended to ensure the security and affordability of benefits to current and future generations alike.

As an aside, it is interesting to note that in these troubled times, when traditional practices in the pension industry are being questioned, multi-employer pension plans, like ours, are being heralded as one of the better options for all employers and employees to consider. Some of the benefits of these Plans can be employee mobility between employers, reduced administrative costs, shared responsibility for funding and governance.

Our priorities for the year ahead will be to build on the strength of our Plan and take advantage of investment opportunities that continue to create long-term value for the Fund. The Trustees are confident that the Plan is well positioned for stability and sustainable growth in the future.



TOM GETZIE, CO-CHAIR



BOB MATTERS, CO-CHAIR

PROFILE

The IWA – Forest Industry Pension Plan (the “Plan”) was established in 1973 pursuant to negotiations between the I.W.A. and Forest Industry employers, to provide benefits for workers in the forest industry. In 1978 the Coast, Southern Interior and Northern Interior regional pension plans were merged to create the current Plan. In September of 2004, the I.W.A. merged with the United Steelworkers (“USW”) and now the forest industry employees are members of the USW. Today our Plan serves over 70,000 current and retired members in the industry.

The Plan provides two major services: It acts as benefit administrator by collecting contributions and administering payment of benefits, and it also serves as the investment manager of the Plan’s assets (the “Pension Fund”).

ADMINISTRATIVE FUNCTIONS:

- ▶ Employer enrolment and collection of information.
- ▶ Collection of contributions from both participating employers and Plan members.
- ▶ Benefit calculations and processing.
- ▶ Providing information to members, union locals and participating employers on pension benefits.
- ▶ Payment of benefits.
- ▶ Filing of appropriate documentation for tax and pension regulatory purposes.

INVESTMENT FUNCTIONS:

- ▶ Evaluate risk and return opportunities between the Plan’s assets and liabilities.
- ▶ Establish and recommend appropriate investment mix and long-term investment benchmarks.
- ▶ Use investment policy to review and monitor independent investment manager performance and make changes as appropriate.
- ▶ Use independent custodian for safekeeping of Plan assets.
- ▶ Use staff and independent consultants to review Plan investment strategies and ensure compliance with Plan policies and regulatory compliance.

The Plan employs approximately 40 employees at our offices in Vancouver, B.C. and is governed by the provisions of the *Pension Benefits Standards Act of British Columbia*.

A BRIEF REVIEW OF 2010

MEMBER SERVICES

- ▶ There were 14,428 active members in the Plan as at December 31, 2010.
- ▶ There were 31,102 inactive members in the Plan as at December 31, 2010.
- ▶ 1,058 members retired in 2010.
- ▶ A total of 24,845 retirees and beneficiaries received monthly pensions totalling in excess of \$203,158,157 for 2010.
- ▶ 2,927 members broke service at the end of 2010.
- ▶ The average monthly pension payment for 2010 was \$678.26.
- ▶ Over 270 beneficiary claims were processed.
- ▶ Over 22,868 telephone calls were received in member services.
- ▶ 8 retirement seminars were conducted across British Columbia.
- ▶ 477 personal interview sessions were conducted with our pension counsellors at our offices in Vancouver.
- ▶ Over 1,637 estimates were provided to our membership.
- ▶ Our website reported over 363,000 hits by year end 2010, with 9,390 visitors.

PLAN HIGHLIGHTS

- ▶ There are currently 403 participating employers in the Plan; 26 employers began participating in the year 2010.
- ▶ Approximately \$50.0 million was contributed to the Plan by participating employers and \$30.1 million by employees.
- ▶ There were 2,490 commuted value withdrawals from the Pension Fund at a value of \$40.3 million.
- ▶ As of December 31, 2009 (the last filed actuarial valuation), there was a solvency liability of \$3.719 billion, and a solvency ratio of 74%.
- ▶ As of December 31, 2009 (the last filed actuarial valuation), there was a going concern liability of \$3.079 billion, and a funded ratio of 94%.
- ▶ Employee and employer contribution levels remained at \$1.625 and \$2.675 per hour respectively for the majority of participating employers.
- ▶ Our Board of Trustees met 5 times during the calendar year.
- ▶ 18.5 million hours were reported for 2010 (2009 had 15.9 million hours).
- ▶ Payments to retired members and beneficiaries increased by \$24.1 million from 2009.

INVESTMENT HIGHLIGHTS

- ▶ The market value of the Fund increased from \$2.76 billion to \$2.87 billion at year-end.
- ▶ The annual rate of return on investments was 10.1%.

PENSION PLAN GOVERNANCE

OVERVIEW

A 16 member Board of Trustees equally representing both the United Steelworkers and the Forest Industry employers oversees the administration of the Plan. The Plan's sponsors are responsible for appointing the Trustees to operate the Plan and manage the Fund in the long-term interest of the Plan membership.

The appointed Trustees are responsible for determining Plan benefit levels and Plan design. They acquire and manage the services of the administrator, actuary, auditor, legal counsel, investment managers and custodian in order to ensure the security of the Pension Fund and competent administration of members' pensions. The Plan is provincially regulated and governed by the provisions of the *Pension Benefits Standards Act of British Columbia*.

GOVERNANCE PRACTICES

The role of a Trustee is complex and good governance practices are necessary to ensure the Plan's goals are achieved. Pension plan governance refers to the structure and processes adopted by the Board of Trustees for overseeing, managing and administering the Plan. The objective of good governance is to optimize the Plan's performance while ensuring that the Plan is able to meet its obligations to its members and beneficiaries.

The Trustees of the Plan are required to act independently of the United Steelworkers and Forest Industry participating employers to make decisions in the best interest of our Plan members and beneficiaries. Through its ongoing commitment to good governance practices the Board has strategies in place to provide guidance, measure effectiveness and ensure accountability and transparency.

- ▶ **Committee Terms of Reference:** Reviewed and accepted guidelines for Trustee and staff roles and responsibilities as related to investment, administration, actuarial and audit issues.
- ▶ **Committee Structure:** Committees created to focus on the different roles and responsibilities of Board Trustees. Each committee meets anywhere from one to four times per year. Ad hoc committees, to deal with short term specific issues, are established on an as needed basis.
- ▶ **Code of Conduct Policy:** Developed to articulate and sustain a governance and corporate culture that reflects the Board's principles and values, and to ensure that Trustees have a full understanding of these principles and values.
- ▶ **Board Education and Qualification:** Orientation and external training for new and existing Trustees to educate and assist them in carrying out their governance responsibilities. Comprehensive Trustee Governance Manual designed to assist Board members on current training requirements and standards of practice.
- ▶ **Board Effectiveness Assessment Process:** Self-assessment process required annually which is designed to provide Trustees with an opportunity to examine how the Board is operating and to make suggestions for improvement.
- ▶ **Communication:** The Board communicates to the union, participating employers and membership regularly through audited financial statements, actuarial valuations, this report, annual statements issued to members, our website, on site seminars and through our member services via local and toll free phone lines.

PENSION PLAN GOVERNANCE

BOARD COMMITTEES

The committees are made up of Trustees with equal representation from participating Forest Industry employers and the United Steelworkers.

Audit Committee

The Audit Committee assists in the supervision of the Plan's internal operations, reviews the audited financial reports, meets with external auditors and ensures information disclosure, accuracy and efficiency thereby building confidence with Plan members, Plan sponsors and regulators.

Investment Committee

The Investment Committee oversees the investment of the Pension Fund. It reviews and advises the Trustees as to selection of investment managers, matters of investment policy, Pension Fund asset management and any other matters relating to the investment and management of the Pension Fund.

Governance Committee

The Governance Committee reviews the system of governance including the mandates for the Board and committees, best practices for Plan governance and the effectiveness of the Board and its committees.

Human Resources & Compensation Committee

The Human Resources & Compensation Committee establishes compensation, including compensation policies and strategies for the General Manager and the Director of Investments as well as compensation policies and strategies for employees excluded from the bargaining unit. It also reviews labour relations, strategy, succession planning and key employee development.

BOARD CHANGES

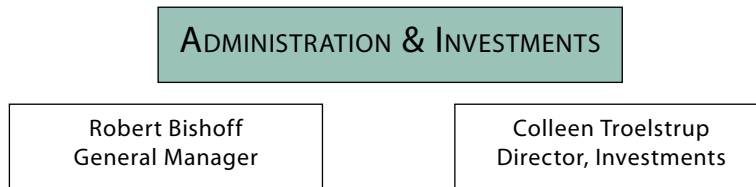
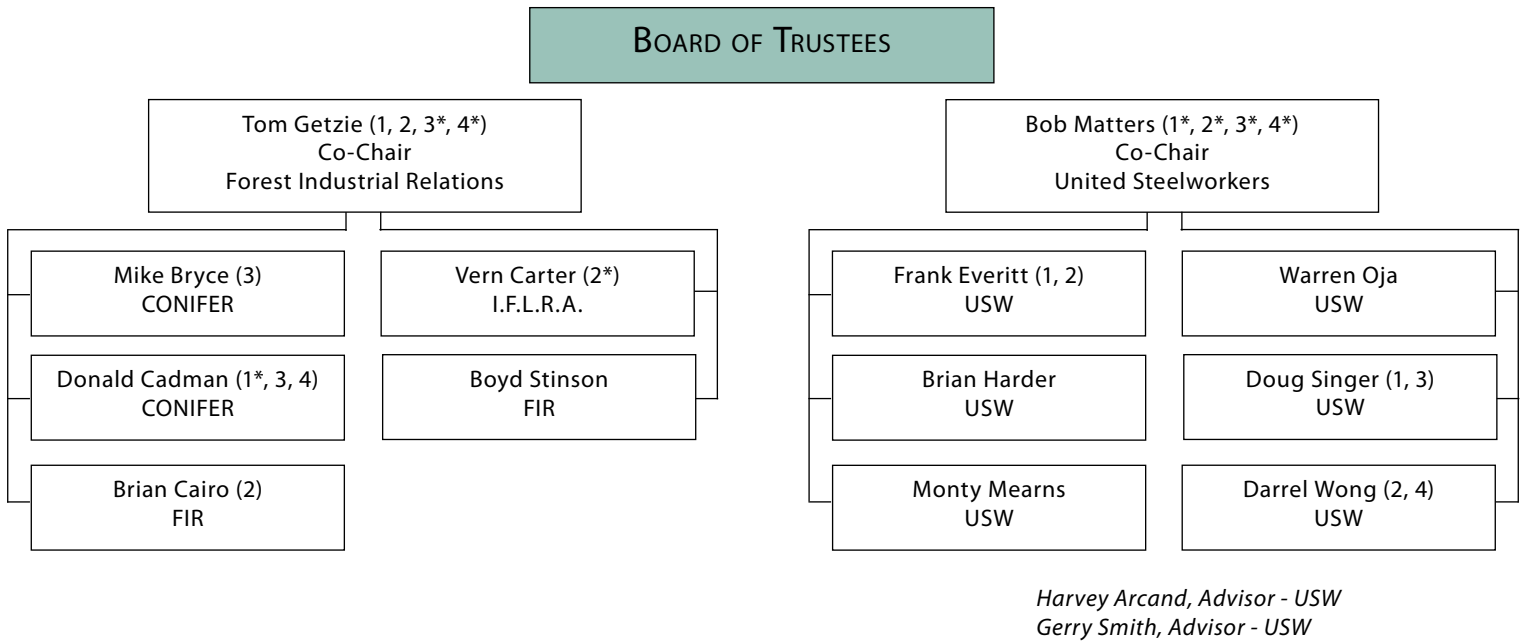
There were a few changes to the members of the Board of Trustees in 2010:

Retired: Norman Chow, I.F.L.R.A.
Terry Lineker, FIR
Bill Routley, USW

New Members: Boyd Stinson, FIR

GOVERNANCE STRUCTURE

IWA - FOREST INDUSTRY PENSION PLAN



TRUST FUND CUSTODIAN	PLAN ACTUARY	AUDITORS
RBC DEXIA INVESTOR SERVICES	TOWERS WATSON	GRANT THORNTON LLP

EXTERNAL LEGAL COUNSEL	INVESTMENT CONSULTANT
LAWSON LUNDELL LLP	MERCER (CANADA) LIMITED

- | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Audit Committee
1* Audit Committee Co-Chair
2 Investment Committee
2* Investment Committee Co-Chair
3 Governance Committee
3* Governance Committee Co-Chair
4 Human Resources & Compensation Committee
4* Human Resources & Compensation Committee Co-Chair |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Appointing Organizations:

I.F.L.R.A.	Interior Forest Labour Relations Association
CONIFER	Council on Northern Interior Forest Employment Relations
FIR	Forest Industrial Relations
USW	United Steelworkers

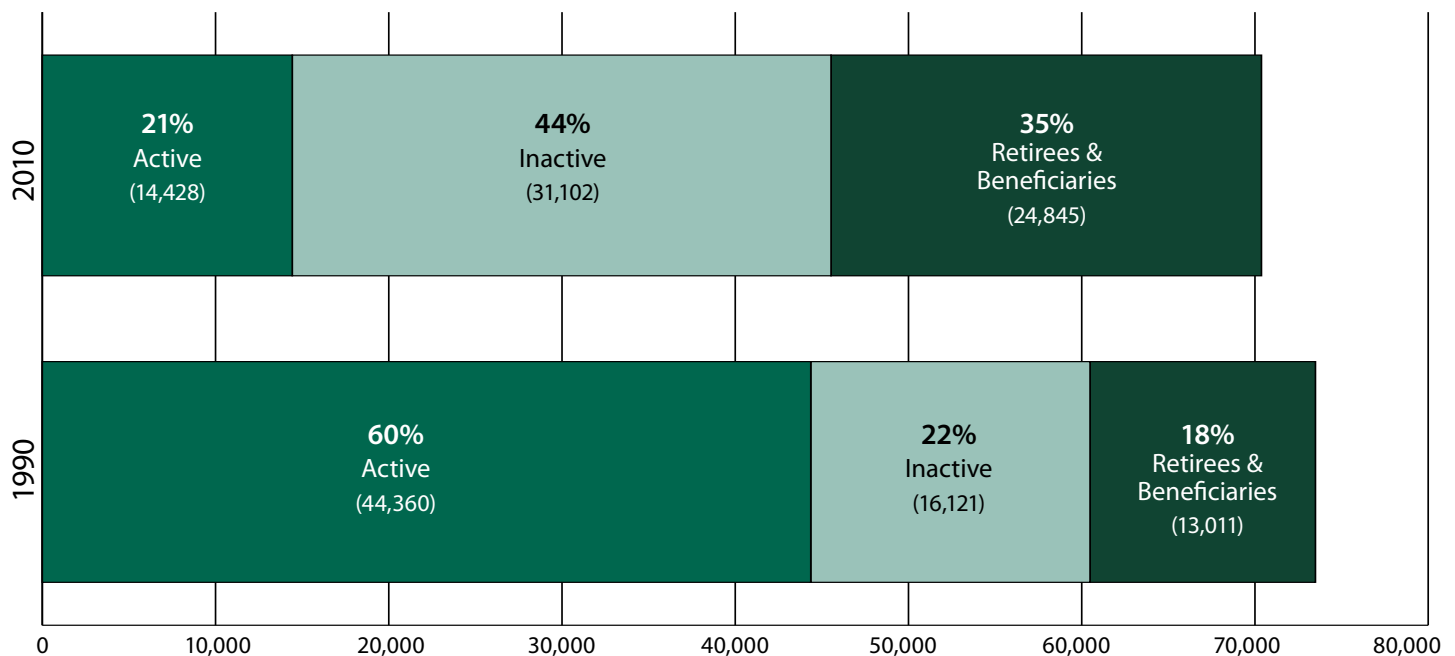
MEMBERSHIP

The Plan holds the pension assets of over 70,000 members, from 403 participating employers and is considered the largest private sector pension plan in British Columbia.

	2010	2009	2008
Active Members	14,428	16,439	21,361
Inactive Members	31,102	31,187	29,645
Retired Members and Beneficiaries	24,845	24,399	22,712
Market Value of Funds (millions)	\$2,867.9	\$2,757.7	\$2,513.2
Employer Contributions (millions)	\$50.0	\$41.7	\$57.9
Employee Contributions (millions)	\$30.1	\$26.0	\$31.7
Retirement Benefits Paid (millions)	\$243.5	\$219.4	\$172.1
Value of Members Accounts transferred out of Plan (millions)	\$40.3	\$29.1	\$26.2
Annual Administrative Cost per Member (excludes investment cost)	\$56.60	\$60.83	\$57.30

The annual administrative cost per member decreased to \$56.60 last year. This cost continues to remain relatively stable, averaging \$55.88 per member over the last 5 years.

MEMBERSHIP BREAKDOWN 2010 AND 1990



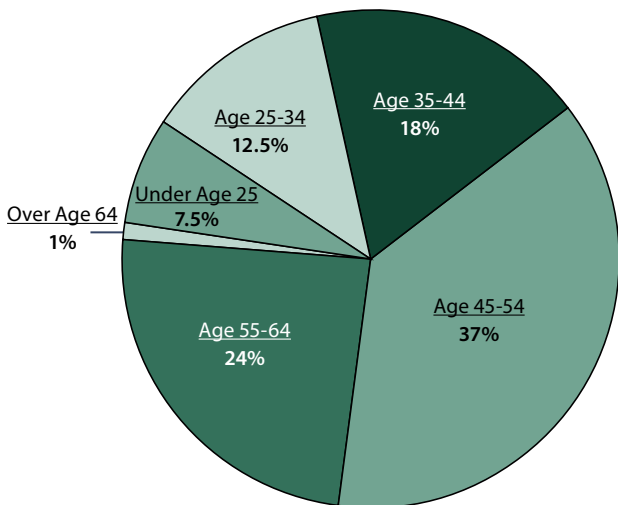
The number of pensioners has nearly doubled in the past 20 years, while the number of active members declined by 65% - in part due to greater global competition, the rapid pace of technological change and automation within the forest industry. The market value of the Fund in this same period, however, has grown from \$681 million in 1990 to \$2.87 billion in 2010 - a growth of over 320%. This is significant because as a mature pension plan, investment returns become more important to the future growth of the Pension Fund than contributions.

MEMBERSHIP

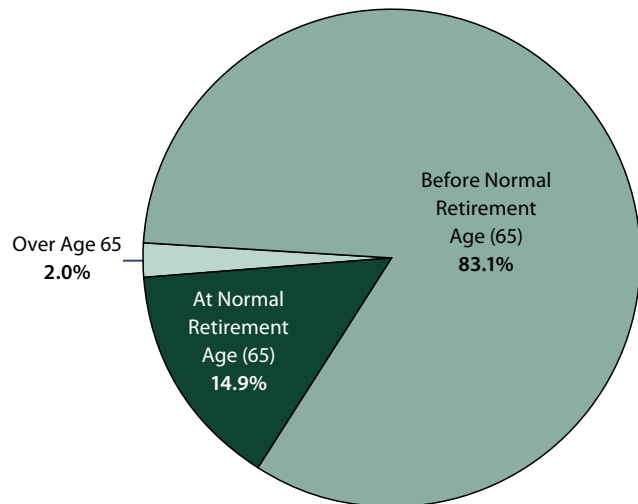
ACTIVE MEMBER PROFILE

The statistics over the last 20 years show a slight trend towards aging workers in the forest industry. The average age of a worker in the forest industry was 46.0 on December 31, 2010, up from 38.7 in 1990.

ACTIVE MEMBERS BY AGE - 2010



AGE AT RETIREMENT (OVER LAST 5 YEARS)



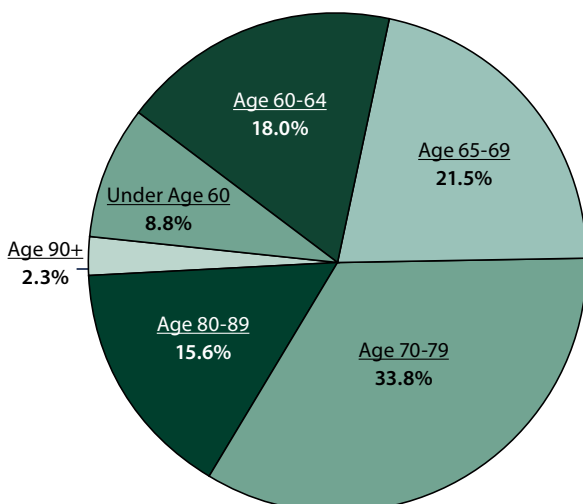
Members are retiring earlier and living longer than they did 20 years ago. From 1986 to 1990 the average age of retirement was 61.6 with an average life expectancy of 18.5 years. The average age at retirement over the last 5 years was 60.4 with an average life expectancy of 21.9 years.

RETIRED MEMBER PROFILE

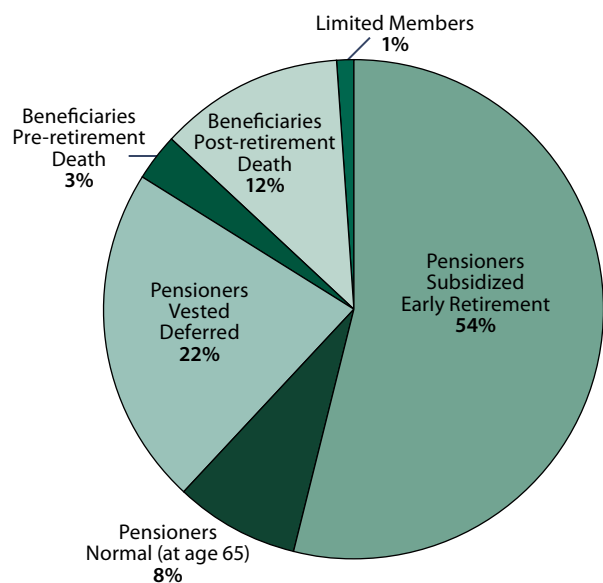
The average age of a pensioner in the Plan has risen from 68.7 in 1990 to 71.3 in 2010; an increase of nearly 4% over the past 20 years.

There are more than 3,700 pensioners over the age of 80, with approximately 480 being over the age of 90.

PENSIONERS BY AGE - 2010



FORMS OF PENSION



54% of our pensioners are receiving subsidized early retirement pensions.

Survivor benefits make up over 15% of our pensions in payment (both "pre" and "post" retirement beneficiaries).

MEMBERSHIP

HISTORICAL MEMBERSHIP TRENDS

The number of active Plan members in the forest industry has declined considerably over the past twenty years in response to greater global competition, the rapid pace of technological change, automation within the forest industry and environmental concerns. This decline has in turn led to an increase in our inactive membership and pensioners.

HISTORICAL MEMBERSHIP TRENDS (2000 - 2010)

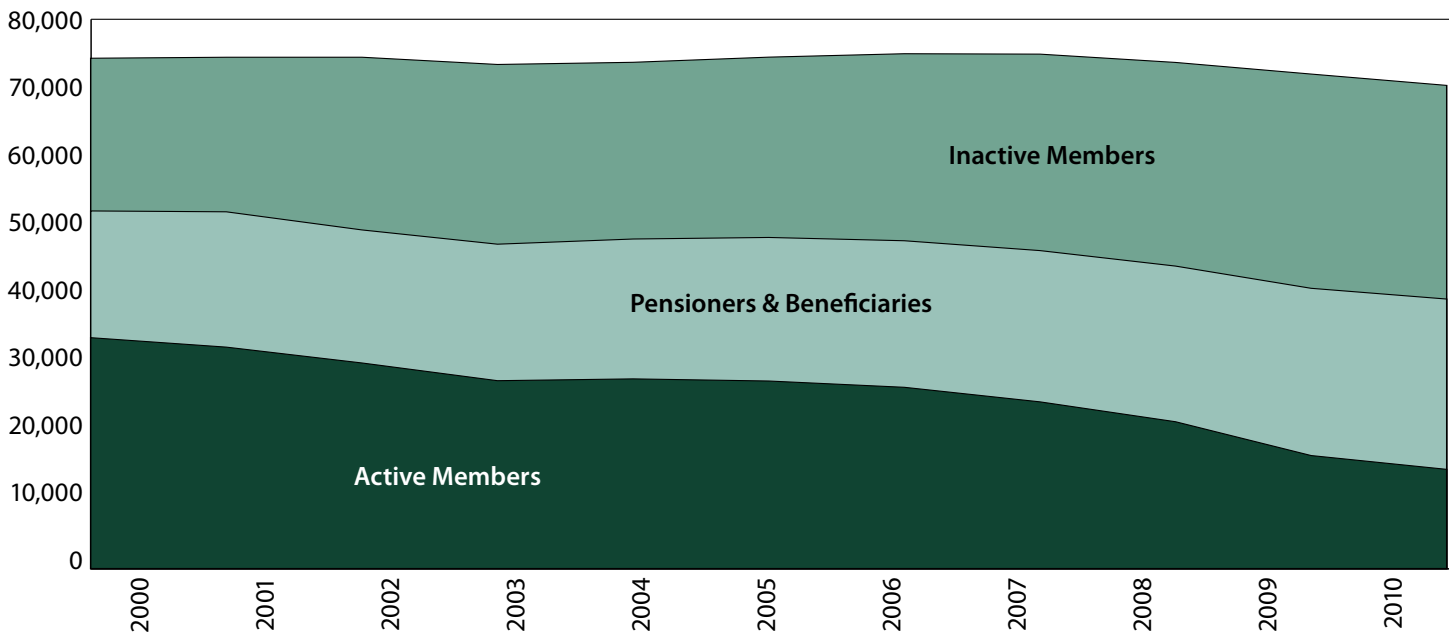
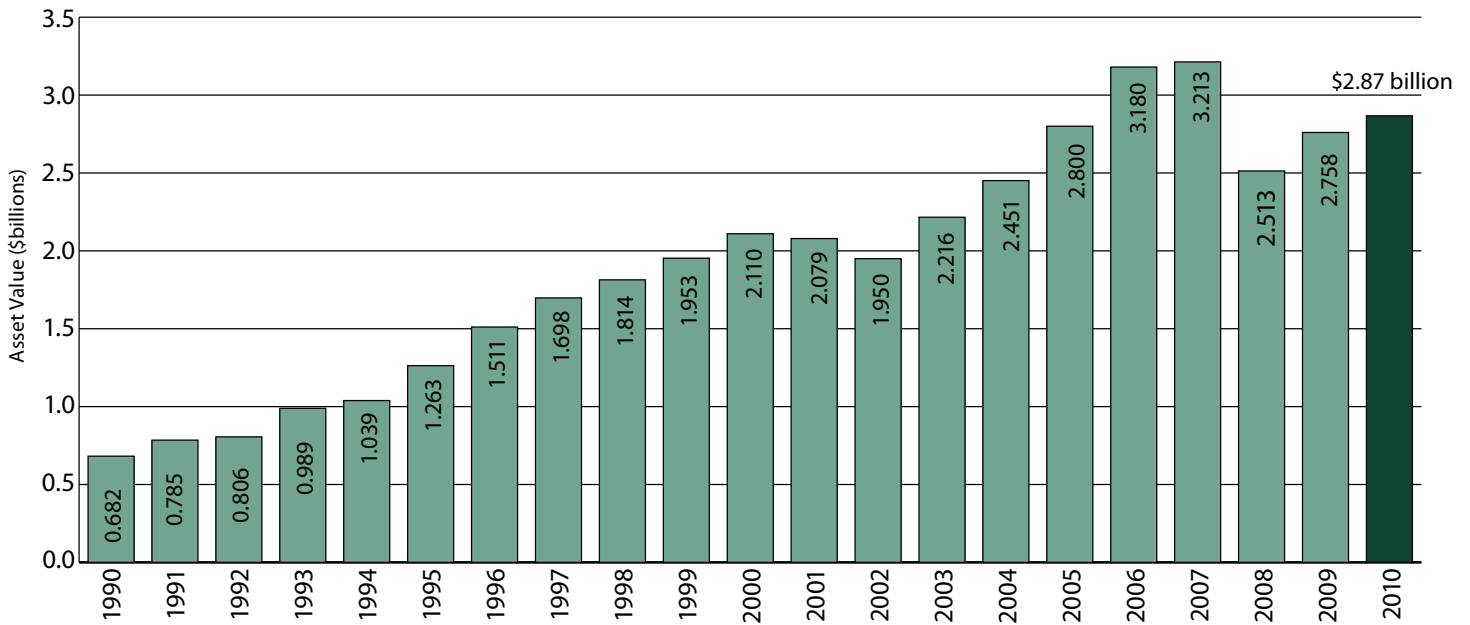


IMAGE B-05201 COURTESY OF ROYAL BC MUSEUM, BC ARCHIVES [CA. 1910]

ASSETS IN THE PENSION FUND

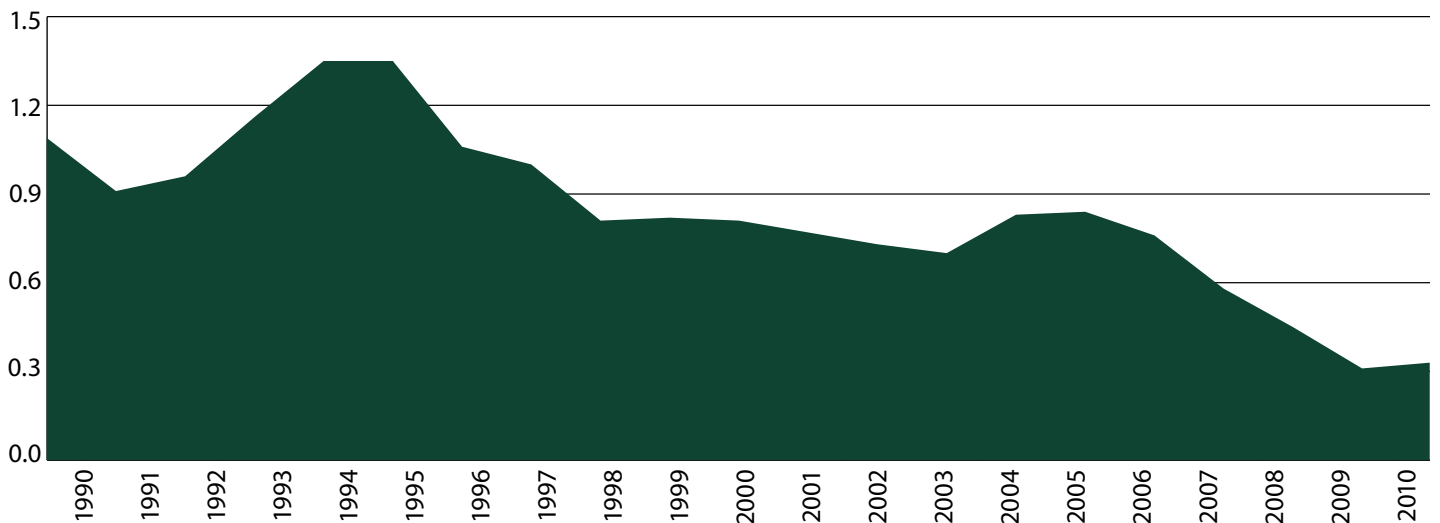
The Pension Fund grew to \$2.87 billion at the end of 2010 from just \$58 million in 1977. After a volatile start to 2010, markets recovered in the second half and ended the year with solid gains. The Pension Fund is balanced and broadly diversified. Balance and diversification across asset classes, regions and currencies is the key to weathering the ups and downs like investors experienced in recent years. Further, it is important to keep in mind that long-term performance is most significant for pension plans because they pay benefits to members over very long periods of time. Be assured that the Plan's investment policies are sound and the Plan's trustees, staff and investment managers continue to work diligently to ensure the Plan's long-term investment objectives are met.

MARKET VALUE ASSET GROWTH (20 YEARS)



Contributions from both members and employers add to Plan assets, as do investment returns. As the Plan matures, however, contributions are expected to make up less of total cash inflows while investment returns will make up relatively more. While hourly contributions have risen over the past 20 years, total contributions have declined as hours worked decline. This means that over time the Plan has become more reliant on investment returns. During 2010, however, there was a small increase in contributions to the Plan as the number of hours worked improved slightly. The graph below shows the downward trend of contributions relative to pension payments:

RATIO OF CONTRIBUTIONS TO PENSION PAYMENTS (20 YEARS)



ASSET MIX

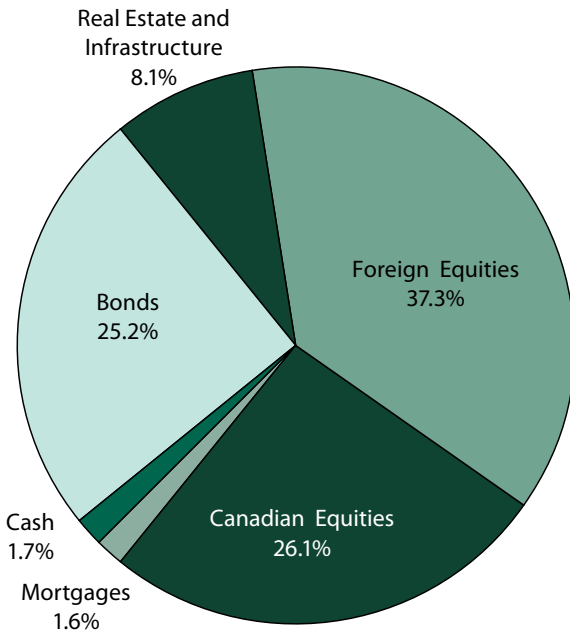
The Plan's long-term asset mix is set as a result of the evaluation of the Plan's liability structure (the payment schedule of pension benefits over time) and the funding of the Plan (expected contributions plus investment returns). The final asset mix is the "best" trade-off of risk and return that comes from evaluating the many possible outcomes and risks associated with investments. Consequently, the Plan's investments are diversified across asset class, region and currency in stocks, bonds and real estate. Professional staff and investment managers manage these investments and regularly report on their activities to the Plan's Investment Committee.

The Plan's equity portfolio is further diversified according to investment style by using managers who follow value, growth and core investment styles. Overall, the Plan's equity portfolio is managed with a value bias. The value style of investing tends to provide the portfolio with better protection when markets are not performing well while producing attractive returns over the longer-term.

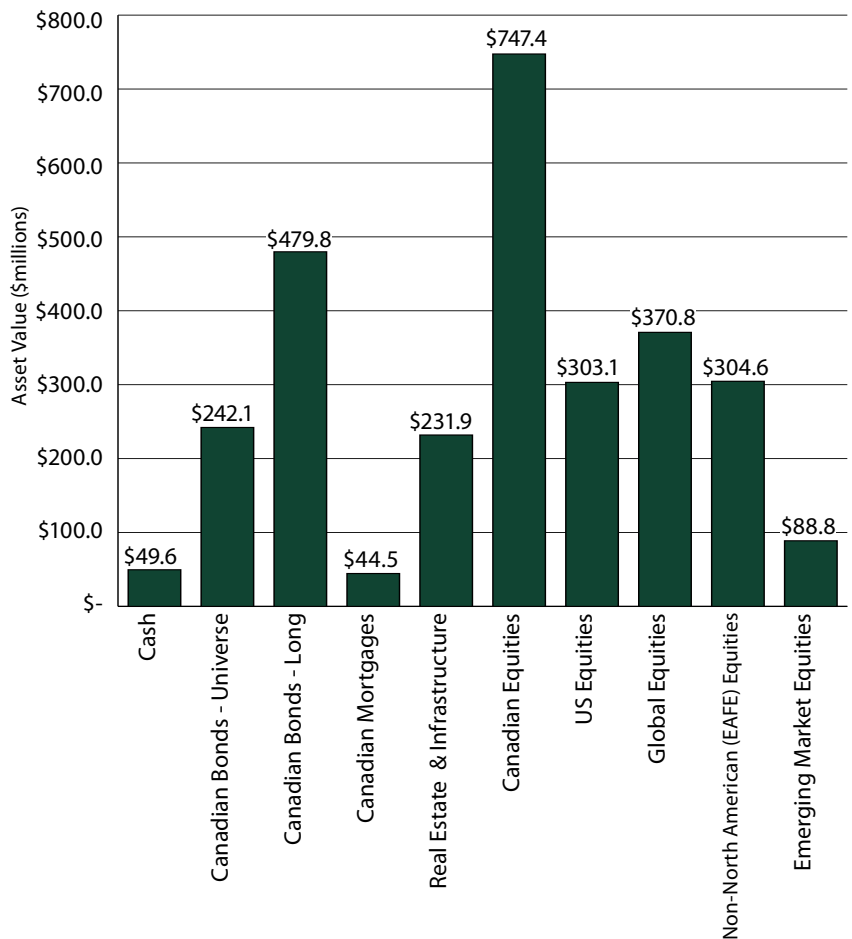
The Plan's asset mix as at year-end 2010 was as follows:

ASSET DIVERSIFICATION AS AT DECEMBER 31, 2010

ASSET ALLOCATION



ASSET CLASS VALUE



RATES OF RETURN AND BENCHMARKS

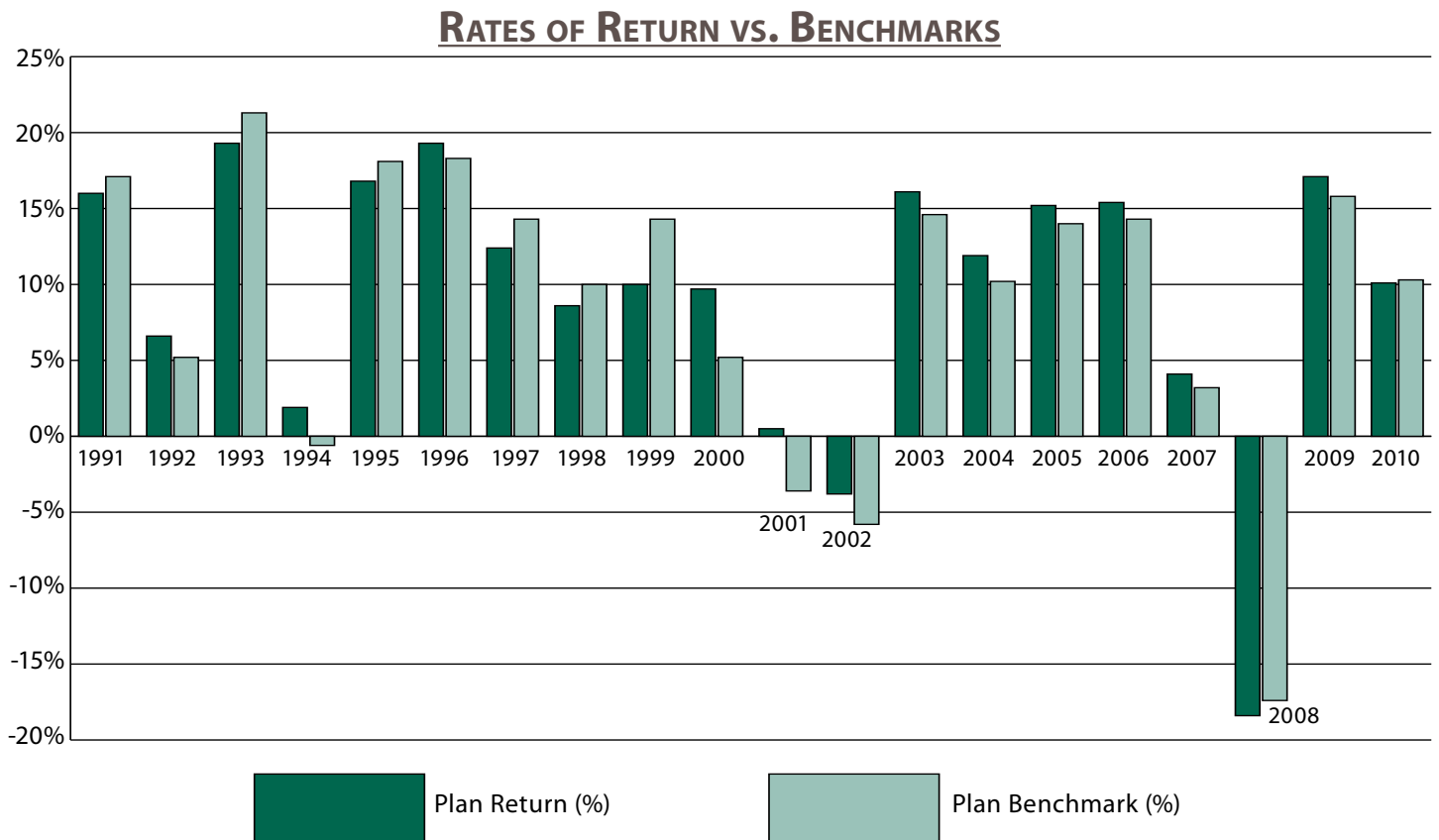
A benchmark is a standard for comparison. At the investment manager or asset class level, it is an index chosen because it best reflects the risk and return of a particular investment approach. A benchmark helps answer the basic question of “How are the Plan’s investments performing?”

The total Plan benchmark is a weighted combination of the individual benchmarks of each asset class. The weighting reflects the Plan’s long-term allocation to each asset class.

For the year ended December 31, 2010, the Plan’s return was 10.1% against the benchmark of 10.3%. Plan returns have been positive in 28 of the last 32 years. Further, Plan returns have beat the benchmark in 12 of the last 20 years.

Market performance in 2008 and 2009 has reminded all investors that any one year is unpredictable and can be volatile. It is important to keep in mind that long-term performance is most significant for a pension plan because benefits are paid to members over very long periods of time. Over the last ten years, for example, the Plan’s investment returns have averaged 6.2% versus a benchmark of 5.0%. During that ten year period, however, returns reached as high as 17.1% and as low as -18.4%.

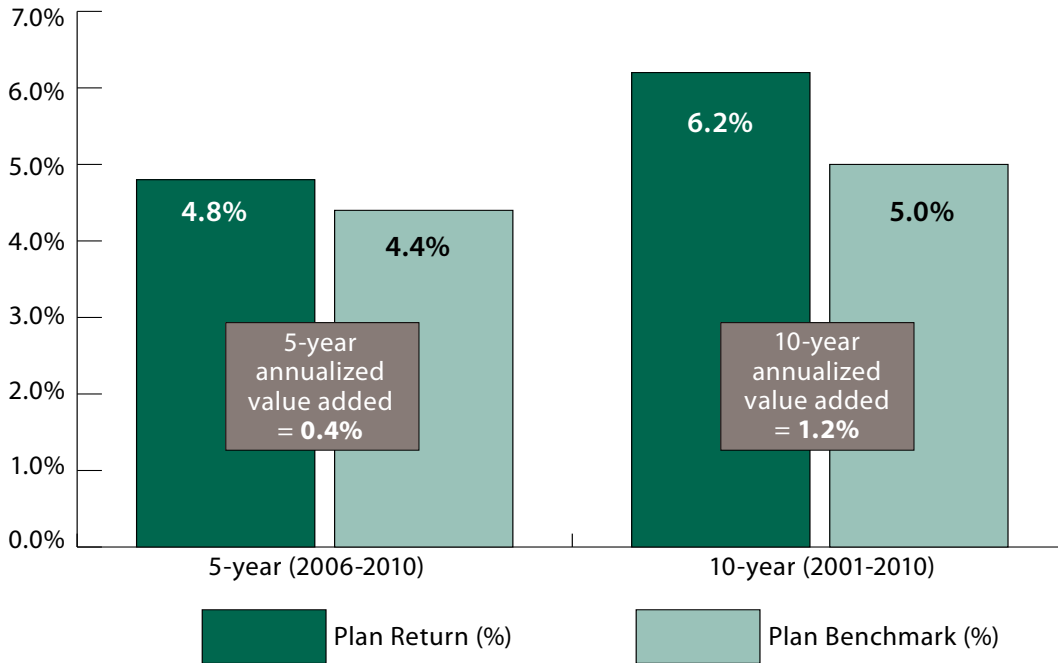
The Plan’s investment returns need to be interpreted with care. Plan performance should not be evaluated over short-term periods. Annual review periods are too short and are included to demonstrate how short-term results can be very volatile. This is especially important as the Plan has and will continue to experience both strong and weak market environments over time. The chart below shows actual annual rates of return for the Plan and the Plan’s benchmark since 1991:



RATES OF RETURN AND BENCHMARKS

The Board regularly monitors the Plan's assets, liabilities, investment policies and returns. Although short-term performance is important, our funding objective is long-term; to deliver pension benefits to members over decades. The chart below provides a relevant comparison of results over five and ten year periods:

RATES OF RETURN VS. BENCHMARK (ANNUALIZED)



Achieving performance above the benchmark of 0.5% is significant and difficult for many pension plans to accomplish. The Plan beat the benchmark by 1.2% over the last ten years. Over time, value-added performance accumulates like compound interest and can be a significant contributor to the Plan's performance.

INVESTMENT MANAGERS AS AT DECEMBER 31, 2010

Manager	Mandate	% of Assets Managed
TD Asset Management	Canadian Equities	11.8%
Phillips Hager & North	Canadian Equities	8.9%
Beutel Goodman	Canadian Equities	5.4%
TD Asset Management	Canadian Bonds	12.1%
Phillips Hager & North	Canadian Bonds	10.3%
Beutel Goodman	Canadian Bonds	4.4%
Aronson + Johnson + Oritz	US Equities	5.4%
JP Morgan Asset Management	US Equities	5.2%
Alliance Bernstein	Global Equities	8.7%
Capital Guardian	Global Equities	4.3%
Oechsle	Non-North American (EAFE) Equities	5.3%
Sprucegrove	Non-North American (EAFE) Equities	5.3%
Capital Guardian	Emerging Market Equities	3.1%
Various	Real Estate and Infrastructure	8.1%
Internal	Cash	1.7%

TOP TEN HOLDINGS AS AT DECEMBER 31, 2010

	Security Issuer	Type of Security	Holding as a % of Total Assets
1	Concert Real Estate Corporation	Real Estate	2.1%
2	Toronto Dominion Bank	Canadian Bank Stock	1.6%
3	Royal Bank of Canada	Canadian Bank Stock	1.4%
4	Canadian Government	Canadian Government Bond - 4% Coupon Maturity June 1, 2041	1.0%
5	Suncor Energy Corporation	Canadian Energy Company Stock	1.0%
6	Ontario Government	Provincial Government Bond - 7.6% Coupon Maturity June 2, 2027	1.0%
7	Bank of Nova Scotia	Canadian Bank Stock	1.0%
8	Canadian Government	Canadian Government Bond - 5% Coupon Maturity June 1, 2037	0.8%
9	Canadian Imperial Bank of Commerce	Canadian Bank Stock	0.8%
10	Canadian National Resources Corporation	Canadian Energy Company Stock	0.8%

PLAN'S FINANCIAL POSITION

GOING CONCERN ACTUARIAL LIABILITY

Going concern is an actuarial method used to measure Plan funding which assumes an entity remains in existence for the foreseeable future. The going concern actuarial liability provides an estimate of the obligations of the Plan, assuming that the Plan continues indefinitely.

The assumptions used to determine the going concern actuarial liability are the best estimate of each assumption, including a margin for adverse deviation. These assumptions change over time as economic conditions change. Each year, ongoing pension accruals add to the Plan's liabilities and benefits paid reduce the Plan's assets, while potential investment returns and contributions add to the Plan's assets.

In accordance with the *Pension Benefits Standards Act of British Columbia* and the *Income Tax Act (Canada)* and *Regulations*, an actuarial valuation is required to be filed at least every three years to estimate the Plan's surplus or deficit, and to determine the Plan's funding requirement. The last filed actuarial valuation as at December 31, 2009, disclosed actuarial assets of \$2,896,004,000 with accrued pension liabilities of \$3,079,486,000, resulting in a net unfunded liability of \$183,482,000.

A key actuarial assumption included in this valuation is an assumed long-term investment return of 6.75% per year. When the going concern actuarial liability is larger than the Plan's actuarial value of assets, the shortfall must be paid into the Plan over a period not exceeding 15 years.

The ratio of the Plan's market value of assets to its actuarial liability was estimated at 94% at December 31, 2009, down from 103.6% three years earlier. Based on the going concern actuarial valuation, the Plan meets the funding requirement of the *British Columbia Pension Benefits Standards Act* and its *Regulations*.

HISTORICAL FUNDED RATIO

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2009
60.2	55.6	61.8	61.5	65.5	61.0	63.0	68.0	76.4	82.1	88.0	91.0	92.0	94.2	95.0	84.0	85.6	87.7	96.5	103.6	94.0

PLAN'S FINANCIAL POSITION

SOLVENCY LIABILITY

Solvency is the ability of a plan to pay its obligations assuming that the plan is wound up on the date of the valuation. The *Pension Benefits Standards Act of British Columbia* regulates pension plans for solvency requirements. "Solvency valuations" are filed every three years with the *Financial Institutions Commission of BC*.

As of the last filed actuarial valuation, December 31, 2009, the ratio of the Plan's market value of assets to solvency liabilities was estimated at 74.0% at year-end, down from 94% three years earlier. This solvency ratio indicates that the Plan currently does not have sufficient assets to cover all the benefits that had been promised as of that date. In situations where the negotiated contributions are not sufficient to make the Plan solvent, the *Act* requires that the Trustees take action to safeguard the pension security of all Plan members.

Interest rates are a key assumption used to calculate solvency liability. The interest rate is determined based on yields on long-term bonds and is mandated by the government and the actuarial profession. The Trustees have no control over the selection of this assumption. When the interest rate declines, the solvency liability increases. Conversely, when the interest rate rises, the solvency liability decreases. From 2000 to 2009 the interest rate declined by 1.75%, from 6.25% to 4.5%. This decline in long-term interest rates has increased the solvency liability by nearly \$1 billion.

In conjunction with the historically low interest rates, many other factors have combined to cause our funding shortfall: the market downturn in 2008, recent market conditions in the forest industry, increases in life expectancy and increases in early retirement. In recognition of the difficulties these factors have caused to most pension plans, the *Regulations to the BC Pension Benefits Standards Act* were amended to provide multi-employer negotiated cost plans in BC the opportunity to file for a three-year moratorium on solvency requirements.

Because the solvency level is below 100 percent and the *Regulations* require solvency shortfalls to be funded within five years, the Board of Trustees spent considerable time and effort considering options regarding how the shortfall might be addressed. Those options included, but were not limited to: seeking an increase in contributions, reducing benefits, or seeking solvency relief under the current three-year moratorium offered under the *Regulations*. The Board chose to seek solvency relief.

The Superintendent of Pensions (the "Superintendent") has granted the Plan's request to temporarily suspend solvency payments required under *Section 35(3)(c)* of the *Regulations*. The Plan is required to prepare an actuarial valuation effective the end of the suspension period, which is December 31, 2012. If at that date the actuarial valuation indicates that a solvency deficiency still exists, the Trustees will be required to notify the Superintendent of the steps that will be taken to meet the funding requirements of the *Regulations*. In the interim, the Superintendent requires annual funding updates and the legislation requires that there be no benefit improvements during the solvency moratorium period.

HISTORICAL SOLVENCY RATIO

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2009
64.2	60.6	69.9	65.0	70.8	63.9	65.7	66.0	77.3	85.3	85.3	81.2	97.4	100.0	93.0	84.0	87.6	89.4	85.8	94.0	74.0

SUMMARIZED FINANCIAL STATEMENTS FOR 2010

IWA - FOREST INDUSTRY PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR MEMBERS

Year Ended	2010	2009
ASSETS		
Cash	\$ 31,345,083	\$ 26,550,085
Prepaid expenses	37,330	-
Contributions and other receivables	6,904,117	6,155,317
Investments	2,873,358,810	2,769,235,966
	2,911,645,340	2,801,941,368
LIABILITIES		
Payables and accruals	2,849,179	2,663,708
Commuted values payable	5,700,792	5,238,238
Mortgages payable	35,209,010	36,285,174
	43,758,981	44,187,120
Net assets available for members	\$ 2,867,886,359	\$ 2,757,754,248

SUMMARIZED FINANCIAL STATEMENTS FOR 2010

IWA - FOREST INDUSTRY PENSION PLAN

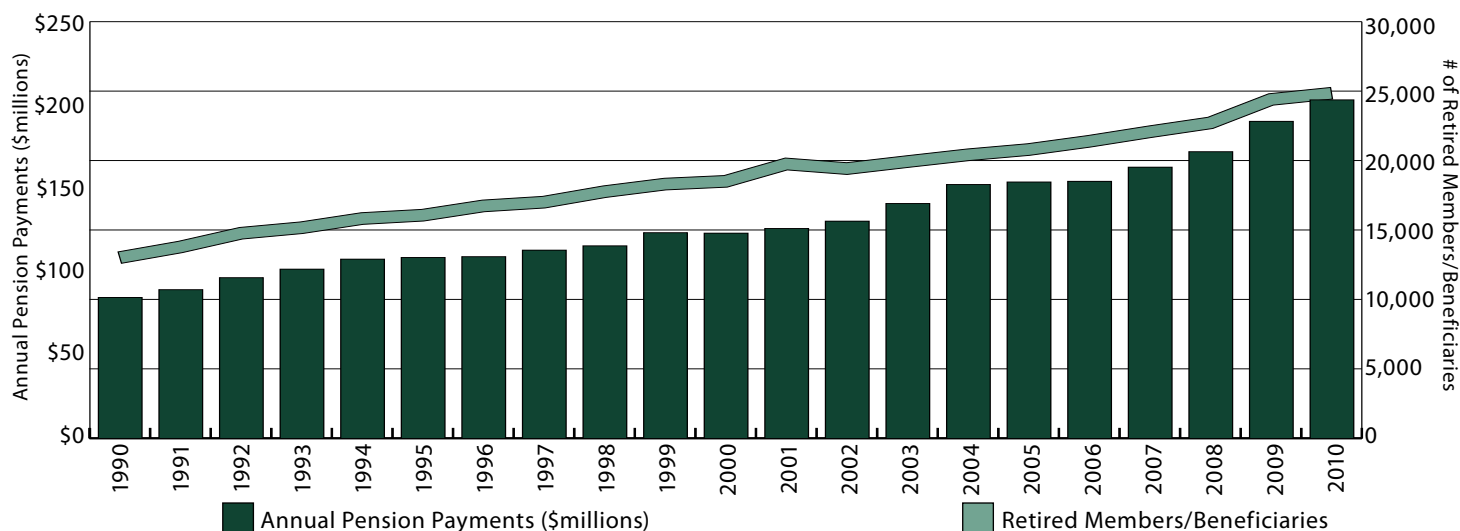
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR MEMBERS

Year Ended	2010	2009
REVENUE		
Investment Income	\$ 108,116,288	\$ 98,561,363
Gain (loss) on sale of investments	13,497,782	(59,520,551)
Unrealized gain on investments	163,201,974	367,940,542
	284,816,044	406,981,354
CONTRIBUTIONS		
Employer	49,980,860	41,742,509
Employee	30,083,387	26,023,256
	80,064,247	67,765,765
	364,880,291	474,747,119
EXPENSES		
Benefit payments	243,491,572	219,378,549
Administrative	3,451,677	3,991,548
Non-administrative	7,804,931	6,852,507
	254,748,180	230,222,604
Increase in net assets available for members	110,132,111	244,524,515
Net assets available for members		
Beginning of year	2,757,754,248	2,513,229,733
End of year	\$ 2,867,886,359	\$ 2,757,754,248

BENEFIT PAYMENTS

Benefits under the Plan, held in Trust, are provided from the Pension Fund. The Plan paid a total of \$243.5 million to members and beneficiaries in 2010. This number includes \$203.2 million to retired members and their beneficiaries and \$40.3 million in commuted value payments for inactive members under the age of 55 and death benefits paid on behalf of deceased Plan members.

PENSION PAYMENTS TO RETIRED MEMBERS AND THEIR BENEFICIARIES



OPERATING EXPENSES

In 2010, the IWA - Forest Industry Pension Plan had an administrative cost of \$56.60 per member. This number has remained relatively stable for the past 5 years as detailed in the next table. The Plan's total operating costs (including Investment and Custodial Fees) for 2010 totalled \$11,256,608.

	2010	2009	2008	2007	2006
Administrative Expenses	\$3,451,677	\$3,991,548	\$3,819,578	\$3,611,058	\$3,624,579
Actuarial & Consulting Fees	295,397	210,921	258,936	243,177	212,929
Audit & Accounting Fees	99,687	89,159	105,489	90,660	91,122
Legal Fees	60,867	14,334	19,641	22,278	12,992
Registration Fees	75,322	75,332	20,308	20,315	20,315
TOTAL ADMINISTRATIVE COST	\$3,982,950	\$4,381,294	\$4,223,952	\$3,978,488	\$3,961,937
Total Number of Members	70,375	72,025	73,718	74,926	76,991
Administrative Cost per Member	\$56.60	\$60.83	\$57.30	\$53.22	\$51.46

Each year, the Plan measures cost performance by using a pool of major Canadian pension plans to benchmark overall administrative cost per member. This pool covers over one million pension plan members. The recent average administrative cost for this pool was in excess of \$150 per member.

INVESTMENT & CUSTODIAL EXPENSES

The Investment Fees for 2010 totalled \$6,669,672. Custodial Fees for the year totalled \$603,986. This computes to 0.2536% of the Market Value of the Fund. Investment management fees can vary greatly and are a product of the size and type of asset being managed. Investment and Custodial Fees are usually calculated as an annual percentage of the average total net asset value of the fund. In some cases, additional investment manager fees are netted against asset values and performance based fees may be payable, and therefore are not included in the table below.

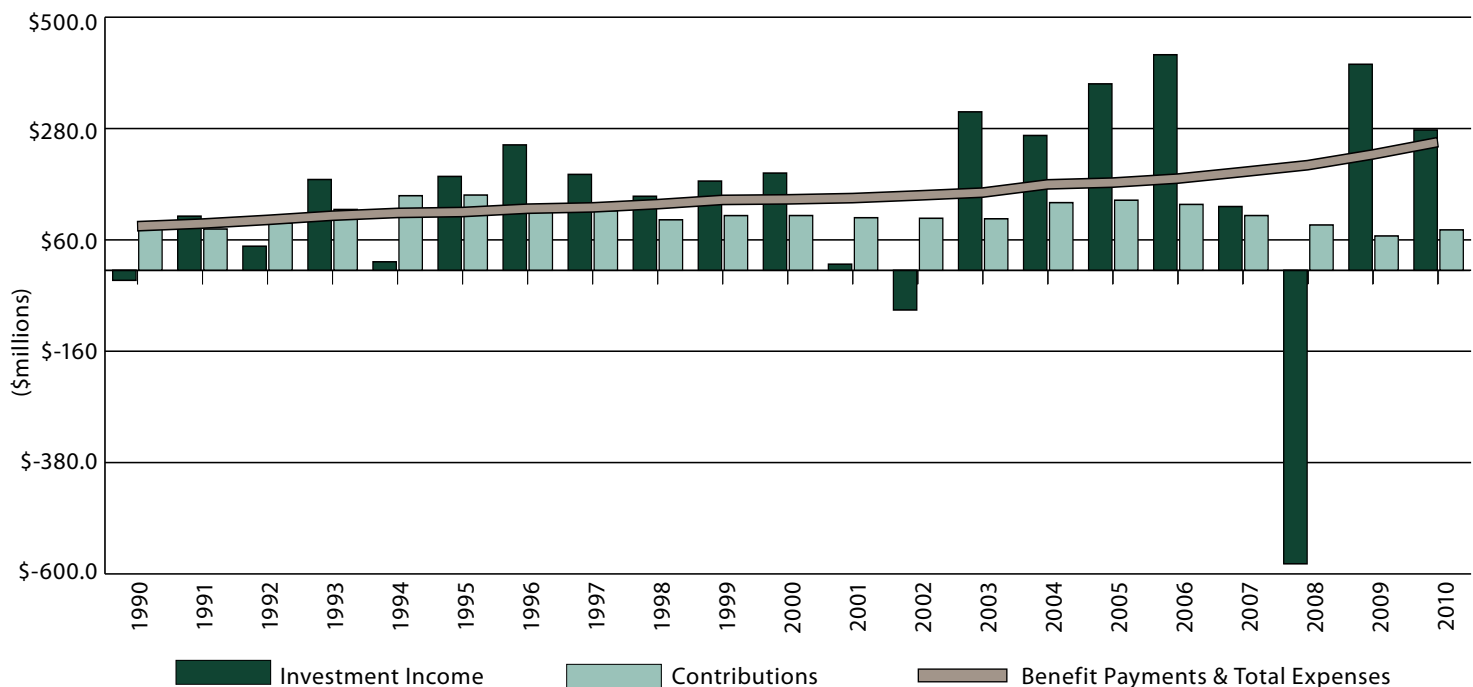
The following table illustrates the last five years of the Plan's Investment and Custodial Fees:

	2010	2009	2008	2007	2006
Investment Fees	\$6,669,672	\$5,851,323	\$5,950,940	\$6,171,084	\$5,722,314
Custodial Fees	\$603,986	611,438	525,181	556,902	541,647
TOTAL	\$7,273,658	\$6,462,761	\$6,476,121	\$6,727,986	\$6,236,961
Market Value of Fund	\$2,867,886,359	\$2,757,754,248	\$2,513,229,733	\$3,219,782,032	\$3,179,965,696
% of Market Value of Fund	0.2536%	0.2343%	0.2577%	0.2090%	0.1970%

ANNUAL CASH FLOW

The Plan had a total net income of \$364,880,291 in 2010, which includes an increase from employer and employee contributions of \$80,064,247 and an investment gain of \$284,816,044. The benefit payments and expenses totalled \$254,748,180. The value of the Pension Fund therefore increased by \$110,132,111 during 2010.

INVESTMENT INCOME & CONTRIBUTIONS VS. BENEFIT PAYMENTS & EXPENSES

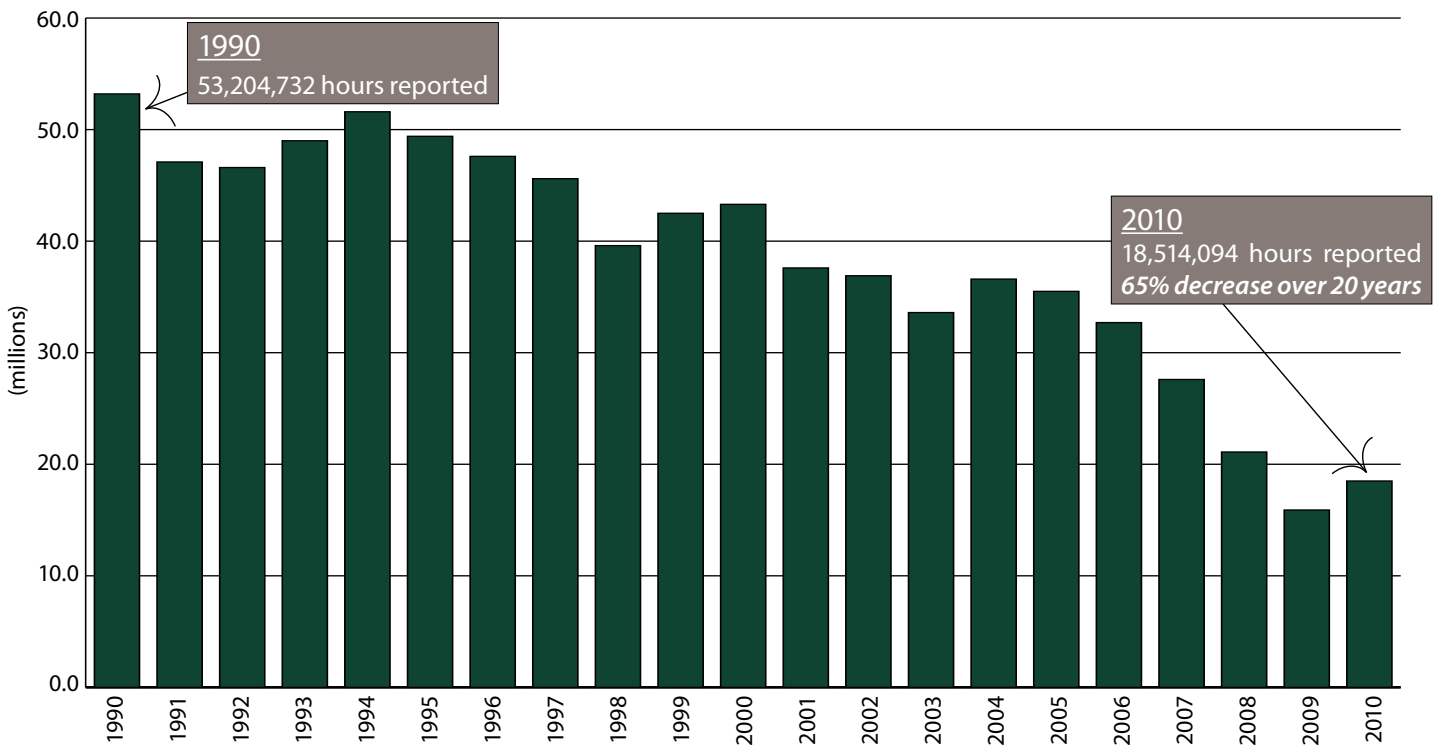


CONTRIBUTORY HOURS

The Plan had a total of 18,514,094 hours reported for 2010, an increase of 16% from 2009 (15,915,669 hours). This increase can be partially attributed to a rise in softwood lumber exports to China and a modest recovery in the US housing market.

The forest industry has however undergone many challenges in the last decade. The rapid pace of technological change, automation within the industry, the softwood lumber dispute and recent market conditions have been challenging for the industry, ultimately resulting in a steady decline in contributions over the last 10 years. As the industry is restructured, the hours reported have declined by approximately 56% since 2000.

CONTRIBUTORY HOURS REPORTED (20 YEARS)



GLOSSARY

Active Member - A member of a participating employer who maintains continuous employment. For the purpose of the Plan, continuous employment means that the member does not incur a break-in-service or maintains 350 qualifying hours, as defined by the Plan Text, in two consecutive calendar years.

Actuarial Liability - An estimate of the Plan's financial obligations, which uses actuarial assumptions (economic and demographic) and assumes that the Plan continues indefinitely.

Actuarial Valuation - Examination of a pension plan by an actuary to assess the solvency of the plan and determine the level of contributions required to maintain or improve its solvency (solvency valuation). Also included is a going concern valuation used to determine the value of a plan assuming it will continue to operate indefinitely as a going concern.

Actuarial Value of Assets - The theoretical value of the Plan assets as of a given date, determined by applying a set of actuarial assumptions (economic and demographic). The actuarial value of assets smooths the gains and losses of the market value of assets over a four-year period.

Actuary - A trained specialist in the pension field responsible for determining pension plan liabilities. In Canada, full professional recognition requires membership in the *Canadian Institute of Actuaries*.

Annuity - A series of equal payments made at intervals to an individual from a lump sum investment either for life or for a specified period of time.

Benchmark - An "Investment Benchmark" is the index representative of the asset class against which a portfolio manager's investment performance is evaluated.

Beneficiary - A person designated by a Plan member to receive benefits.

Board of Trustees or Trustees - Those persons appointed under the Trust Agreement acting as fiduciaries, holding the assets and administering the Plan for the members' and beneficiaries' benefit.

Bond - A certificate of debt issued by a government or corporation guaranteeing payment of the original investment plus interest by a specified future date. Also referred to as a fixed-interest security.

Commutated Value - The actuarial present value of the pension benefits to which a Plan member or former Plan member may be entitled to, calculated in accordance with the *Pension Benefits Standards Act of British Columbia* which takes into account several variables such as life expectancies and interest rates relevant at the time.

Custodian - A financial institution or trust company that holds in custody and for safekeeping, the securities and other assets of a trust fund.

Early Retirement - Retirement prior to a member's "normal" retirement date (65 years of age). Members of the IWA - Forest Industry Pension Plan can commence their pension anytime after age 55 with the appropriate actuarial reductions.

Emerging Markets - the financial markets of developing economies.

Equity or Equities - Refers to the ownership of property, usually in the form of common stocks, as opposed to fixed income bearing securities such as bonds or mortgages.

Going Concern - Refers to the assumption that the Plan will continue indefinitely, people will retire, terminate, and die in the normal patterns.

GLOSSARY

Inactive Member - Often referred to as “vested deferred” member. Member has a break-in-service or has failed to maintain 350 qualifying hours, as defined by the Plan Text, in two consecutive calendar years.

Investment Fee - The service fee of the investment managers. Varies depending on the size of the fund and rate of return.

Long Bonds - Bonds with a term to maturity of more than 10 years.

Market Value - The current price at which a security or commodity is trading as indicated by current market conditions.

Member Services - Plan staff available to members to answer questions and provide forms.

Normal Retirement Date - Age 65 is the normal age of retirement in this Plan. It is the age at which a Plan member can retire and receive full unreduced pension. However, because of a special Plan provision, active members can retire with a fully subsidized pension at age 60.

Pension Fund (“Fund”) - The account where monies received by the Trustees, including employer and employee contributions and investment income are held in Trust.

Plan Member (“Member”) - A person who has become covered by the Plan and continues to be covered under the Plan.

Plan Sponsor - Plan sponsor means an employer, association or any other entity providing a benefit plan. For this Plan, the Plan sponsors are the United Steelworkers and the employer associations: FIR, I.F.L.R.A., CONIFER and other independent employers.

Plan Text - The document which sets out the eligibility requirements to become a member of the Plan and the amount of benefits that will be paid to Plan members and beneficiaries.

Portfolio - A compilation of investments held by an institution or individual.

Solvency - The capacity of an entity to pay future benefits or claims that have been promised; calculated in terms of a specific date.

Solvency Valuation - The valuation of the liabilities and assets of a pension plan determined as if the plan had been wound up on the valuation date using methods and actuarial assumptions in accordance with generally accepted actuarial principles and practices appropriate for such determination.

Subsidized Early Retirement Reduction - A benefit that allows active members of the Plan to retire early with little or no reduction to their pension (55-59 marginal reduction, 60+ no reduction).

Trust - The property held by the Trustees for the benefit of another under a fiduciary relationship to be used only for the purposes set out in the Trust Agreement.

Trust Agreement - The agreement entered into by the union and employer association groups that established the Pension Trust and Pension Plan.

Wind Up / Wound Up - Discontinuation of a pension plan as regulated by law. The plan is essentially shut down as of a given date and the pensions are paid out according to the solvency calculated on the specific date.



IMAGE B-05200 COURTESY OF ROYAL BC MUSEUM, BC ARCHIVES [CA. 1910]



IWA - FOREST INDUSTRY PENSION PLAN
150 - 2955 Virtual Way
Vancouver BC V5M 4X6

Main Switchboard: 604-433-6310
Toll Free in BC: 1-800-663-4384
Pension Information: 604-433-5862
Pension Toll Free: 1-800-913-0022
Facsimile: 604-433-0518

Website: www.iwafibp.ca