BAHAMAS HOTEL INDUSTRY MANAGEMENT PENSION FUND

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Dear Participant,

We, as the Board of Trustees of the Bahamas Hotel Industry Management Pension Fund, are responsible for monitoring the costs and actuarial status of the Pension Fund. To do this, we meet periodically with the Fund professional investment advisors and actuarial consultants to review the assets and the liabilities based on the plan of benefits, the working population of participants, and contributions from employers. The actuarial cost of the plan of benefits has increased to the point where there is an imbalance between employer contributions, currently paid at 6% of salary, and the amounts needed to pay for the benefits promised under the plan. The Trustees have adopted a plan change that will be effective the 1st of January 2020 to address this imbalance. This letter will explain the change.

Early Retirement Pension Reduction

Under the current Plan rules, a Participant who is at least age 55 and who has 15 or more Pension Credits can retire with an Early Retirement Pension. The Early Retirement Pension is calculated in the same manner as the Regular Pension but is reduced based on the Participant's age at the time he begins receiving payments. The reduction accounts for the fact that a Participant who retires prior to age 65 will receive a monthly pension benefit for a longer period of time. Under the current Plan rules, a Regular Pension is reduced by ¼% (0.0025) for each month that the early retirement date precedes a Participant's 65th birthday (up to a maximum of 60 months) plus ½% (0.005) for each month that the early retirement date precedes a participant's 60th birthday. For those participants who retire on an Early retirement Pension on or after 1 January 2020, the Regular Pension will be reduced by ½% (0.005) for each month that the early retirement date precedes a participant's 65th birthday.

Prior to the 1st of January 2020, a Participant who retired at age 55 had his Regular Pension reduced by 45%. This was calculated by a reduction of ¼% (0.0025) for the maximum 60 months that he was younger than age 65, or 60 times ¼% (15%), plus ½% (0.005) for the 60 months that he was younger than age 60, or 60 times ½% (30%). If this Participant retired at age 55 after the 1st of January 2020, his Regular Pension amount would be reduced by 60%, since he is 120 months younger than age 65 at the time of his early retirement. 120 months times ½% per month equals 60%.

> <u>For example:</u>
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> Let's say Mark wanted to retire on 1 November 2019 at age 59 with 24 Pension Credits, and his Final Average Salary is $40,000. His Regular Pension payable at age 65 or later would be calculated as 24 times 1.32% per Pension Credit, or 31.68% of his Final Average Salary. 31.68% of $40,000 is an annual pension of $12,672, or $1,056 per month. Since he is retiring on an Early Retirement Pension at age 59, his Regular Pension is reduced by 21%. He is 60 months maximum younger than age 65, so that is multiplied by ¼% per month. His reduction to age 60 is 15%. He is also 12 months younger than age 60, so 12 is multiplied by ½% per month. His reduction from age 60 to age 59 is 6%. Adding the 15% reduction to age 60 plus the 6% reduction to age 59 means that the pension is reduced 21% from age 65 to age 59. His Regular Pension amount of $1,056 is reduced by 21%, so he would have received $834.24 per month if he retired under the old rules on 1 November 2019 at age 59.

Under the new rules effective 1 January 2020, the reduction for early retirement is greater. Let's say Mark decided to work until he reaches age 61 on 1 November 2021. His new reduction is ½% for each month that he is younger than age 65 when he retires. In this case, is 48 months younger than age 65, so his Early Retirement Pension is reduced by 24%. Since he continued to work beyond 2019, let's assume that he earned an additional two Pension Credits and his Final Average Salary is now $41,000. His Regular Pension payable at age 65 or later would be calculated as 33% of his Final Average Salary, or an annual pension of $13,530. This means that his Regular Pension amount is $1,127.50 per month. Since he chose to retire on an Early Retirement Pension at age 61, is Regular Pension monthly amount will be reduced by 24%. So, is Early Retirement Pension under the new rules will be $856.90 per month starting on 1 November 2021.

We will continue to monitor the projected costs of the pension fund as compared to the contributions from employers. Our goal is to ensure that the fund will have enough assets to pay the promised retirement benefits over the lifetime of every retiree. Please remember that you can always supplement your retirement benefit by contributing to the voluntary employee contributions account (VECA). If you have any questions about these plan changes, VECA, or any other aspect of the Pension Fund, please contact the Fund Office.

Sincerely,

The Board of Trustees