

**HALIFAX REGIONAL MUNICIPALITY
PENSION COMMITTEE MEETING
Thursday, March 22, 2018
Casino Nova Scotia, Compass Room
1983 Upper Water Street, Halifax, NS
9:00 a.m. – 3:00 p.m.**

MEMBERS: Andrew Bone, NSUPE
Louis de Montbrun, Management
Rick Dexter, NUMEA
Michael Lawlor, Retiree
R. Scott MacDonald, HRP
Raymond MacKenzie, ATU
Mike Sampson, Management
Dwayne Tattrie, CUPE 108
John Traves, Management, Co-Chair
Dan White, IAFF, Co-Chair
Britt Wilson, Management

ALTERNATES: Jerry Blackwood, Management (*acting for Amanda Whitewood*)
Stephen Bussey, IAFF
Cameron Deacoff, NSUPE
Jack Dragatis, ATU
Melanie Gerrior, NSUPE
Brian Leslie, Retiree
Scott Lillington, CUPE 108
Greg MacKay, NUMEA
Ted Moore, IAFF
Gordon Roussel, Management
Kenny Wilson, ATU

PARTICIPATING EMPLOYERS: Cathy Maddigan, Halifax Library
Cathie O'Toole, Halifax Water
Allan Campbell, Halifax Water

STAFF: Matt Leonard, Interim CEO
Donna Bayers, Executive Assistant
Lisa Tanner, Director, Plan Member Services
Mark Whidden, Director, Pension Management
Laura MacLellan, Pension Consultant
Vishnu Mohanan, Manager, Private Investments

OBSERVERS: Kimberly Scheelar, NSUPE Local 14
Joe Kaiser, President NSUPE Local 13

REGRETS: Amanda Whitewood, Management

An In Camera meeting was held from 9:00 to 10:00 a.m.

1. CALL TO ORDER

The meeting was called to order at 10:00 a.m. by the Co-Chair, Mr. John Traves.

2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS

Moved by Ray MacKenzie and Seconded by Jerry Blackwood to approve the agenda as presented. Motion Put and Passed.

3. APPROVAL OF MINUTES – November 16, 2017 & January 18, 2018

Moved by Rick Dexter and Seconded by Mike Lawlor to approve the November 16, 2017 and January 18, 2018 minutes as presented. Motion Put and Passed.

4. 2017 Accomplishments and 2018 Goals

Mr. Leonard provided a brief overview of the 2017 Accomplishments and 2018 Goals which was distributed in the Pension Committee meeting package. Highlights were:

The 2016 actuarial valuation was filed in September 2017. The discount rate was reduced from 6.5% to 6.4%. Several other valuation assumptions were updated. There were no recommended benefit changes or contribution increases.

The Plan earned 10.85% net of all plan expenses in 2017.

Ms. Tanner reported that the 2017 plan member satisfaction survey resulted in an “Excellent” rating of 4.34/5. There was a total of 640 plan member calculations processed in 2017 with 19 of the 640 calculations processed jointly between the Pension Office and Aon Hewitt (AON). The Pension Office completed 98.9% of plan member transactions within service standard time frames.

The Pension Office successfully implemented a new pension administration system during 2017. Plan member data has been transitioned to the new system, with a comprehensive review of all historical data. Interface processes for new enrolment files and annual data loads are in place. Calculation modules have been implemented for retirements, terminations and pre-retirement deaths. Year-end accruals, annual statements and Pension Adjustments have all been implemented as well.

The Pension Office continued active participation in data validations with Employers to get clean member data faster for earlier preliminary actuarial valuation results and to produce annual statements.

The audit of past AON calculations was completed. Ninety-four percent of the calculations were confirmed to be in a tolerable range of expected results. All issues with respect to any under and overpayments have now been resolved.

The 2015 Plan Amendment for the changes to the Nova Scotia Pension Benefits Act and Regulations was filed in November 2017.

The Pension Committee responded to the Nova Scotia Superintendent of Pensions Consultation Paper which addressed several proposed changes to the Nova Scotia Pension Benefits Act and Regulations.

Mr. Leonard reviewed the investment activity for 2017. As of December 31, 2017, the Plan's asset mix was 38.14% equity, 26.00% fixed income and 35.86% private investments.

With regards to new private investments made during 2017, Mr. Bussey asked how are we doing relative to the target returns for each investment? Are we generally hitting these returns or are we lower or higher? Mr. Mohanan replied that it depends on the investment but on average the investments are beating the target returns.

Mr. Leonard reviewed the investment cost savings. There was a total of \$1,960,630 in annual cost savings and \$11,266,546 in estimated one-time savings identified in 2017. These investment cost savings were mainly due to lower negotiated management and performance fees on private investments.

Mr. Dexter asked how the Pension Office was managing after the CEO's retirement? Mr. Leonard responded that the Pension Office is managing very well both on the investment side and the plan member service side. Mr. Leonard added that the year to date investment return is up nearly 2% in the first quarter and that the Master Trust' assets are approaching \$2 billion.

Mr. Leonard reviewed the 2018 goals.

The Pension Office will continue with the implementation of the new pension administration system. The development and testing of a new Member Self Service Website is also in progress. A communication will be going out to Plan Members very soon.

The Pension Office will be updating all the Participating Employer agreements in 2018.

Mr. Deacoff asked when renewing the Participating Employer agreements, what is the potential for looking at penalties for not submitting contributions or other employee data on time?

Update since meeting: The Pension Office confirms that penalties for late submission of clean data and late remittance of contributions are already included in the Participating Employer Agreements.

Ms. O'Toole asked about the Halifax Water Participating Employer Agreement, the Participating Trust Agreement and the agreement between the HRM Pension Plan and the Halifax Water Pension Plan and will they need to be updated now?

Mr. Leonard replied he was not aware of any updates that needed to be made to the Trust Agreements. Ms. O’Toole asked if there is anything that needs to be done that will affect the Halifax Water Participating Employer Agreement? Mr. Leonard said he will check on this.

Mr. Leonard finished with a review of the optimal asset allocation and the Pension Plan’s liquidity position for 2018.

5. GOVERNANCE REVIEW

5.1 Committee Self-Monitoring (Committee)

- Process
- Performance
- Discussion of Next Steps

Mr. Traves commented he is pleased with the performance of the Committee in discussions aimed at improving the Plan.

Mr. Traves reminded the Committee of the April 18, 2018 Special meeting to discuss the Plan’s governance structure.

5.2 Governance Policy Review – Governance Process (Committee)

- (a) Chief Governance Officers’ Role
Mr. White noted that the apostrophe should be after the “s” in “Chief Governance **Officers’** Role” to show that there are two Co-Chairs or two Governance Officers.
- (b) Committee Members’ Code of Conduct
There were no changes to this policy. Pension Committee members in attendance were asked to sign as required annually.

Moved by Ray MacKenzie and Seconded by Scott MacDonald to accept the above policies as amended. Motion Put and Passed.

5.3 Governance Policy Review – Committee-Management Delegation (Committee)

- (a) Monitoring CEO Performance

There were no changes to this policy.

Moved by Jerry Blackwood and Seconded by Rick Dexter to accept the above policy as presented. Motion Put and Passed.

5.4 Ends (Committee)

- (a) Ends Statement

There were no changes to this policy.

Moved by Ray MacKenzie and Seconded by Rick Dexter to accept the above policy as presented. Motion Put and Passed.

5.5 Governance Policy Review – Executive Limitations (Pension Office)

- (a) Global Executive Constraint
The Interim CEO is in compliance with this policy. There were no updates since last report.
- (b) Treatment of Plan Members
The Interim CEO is in compliance with this policy. There were no updates since last report.
- (c) Treatment of Staff
The Interim CEO is in compliance with this policy. There were no updates since last report.
- (d) Financial Condition and Activities

The Interim CEO is in compliance with the limitations associated with this policy. The HRM Pension Plan's pension administration expense per plan member for 2017 was \$135. This is well below the median in comparison to 11 other Canadian Pension Plans.

Mr. White commented on the HRM Pension Plan's cost per plan member. This shows how efficiently the Pension Office and the Committee are managing the members' money.

- (e) Investment
The investment strategy was in compliance with the SIP&P as at December 31, 2017.
- (f) Communication and Support to the Committee
The Pension Office is in compliance with the limitations associated with this policy. Ms. Tanner reviewed the updates that were highlighted in the report.

With regard to the overpayment of a survivor pension, the Pension Office has filed a Notice of Claim and Statement of Claim in Small Claims Court. Ms. Tanner will attend on the court date in April 2018.

Ms. Bayers has booked all venues for the 2018 Pension Committee meetings.

Moved by Scott MacDonald and Seconded by Andrew Bone to approve the above policies as presented. Motion Put and Passed.

6. NEW BUSINESS

6.1 Preliminary Discount Rate and Margin Discussion

Mr. Philip Churchill and Ms. Jennifer Urquhart, Principals, Eckler Ltd. were invited to speak about the projected valuation results as at December 31, 2017. Their report was handed out at the meeting.

Mr. Churchill reviewed the Plan's preliminary assets as at December 31, 2017. Next, Mr. Churchill reviewed the Going Concern Assumptions that were used in the December 31, 2016 Actuarial Valuation. Mr. Churchill noted that the results contained in his presentation do not reflect any gains and losses that might result from Plan experience during the year. These amounts will not be known until the data as at December 31, 2017 has been incorporated into the results in June.

Mr. Churchill then reviewed the derivation of both the "Best Estimate" and the "Going Concern Discount Rate" as at December 31, 2016 and December 31, 2017. Based on Eckler's model the "Best Estimate" discount rate has dropped from 6.75% at the end of 2016 to 6.60% at the end of 2017.

Mr. Churchill referred to the January 28, 2016 motion by the Pension Committee which states that a minimum margin of 5% is to be achieved by 2018 with a target margin of 10% by 2028. This means that the Plan should have a 5% margin in its liabilities when the December 31, 2017 valuation is filed. Mr. Churchill then indicated that in order to achieve this 5% margin in the Plan's liabilities, he estimates that the "Going Concern Discount Rate" will need to be set to 6.17%.

Mr. Churchill then provided some preliminary numbers as at December 31, 2017 using a 6.17% discount rate. He estimated that the funded ratio of the Plan would be 91.4% and that current total contributions rates (24.6%) would just be able to cover the required current service cost (19%) and special payment contributions (5.6%). If these were the final results of the 2017 actuarial valuation, no changes would need to be made to the current contribution rates or benefits and the Plan would meet its 5% margin target.

Mr. Churchill reviewed some of the challenges going forward:

- Potential changes to the Nova Scotia Pension Benefits Act
 - If move to a "going-concern plus" regime could solvency-exempt plans be subject to the new rules?
 - Mandated maximum discount rates?
- Target margin is 10% by 2028
 - Actions to get there?

Mr. MacDonald asked about the feedback from the Superintendent last year regarding the 6.4% discount rate? Mr. Churchill replied, the Superintendent responded that 6.4% is the highest discount rate used by any plan she is responsible for. Mr. Churchill added the HRM Pension Plan's asset mix is very different from other plans. Based on the numbers presented today, a 10% margin by 2028 cannot be achieved unless there is an excess in investment returns or other Plan changes are implemented.

Mr. Traves asked how soon would changes need to be made? Mr. Churchill suggested, 1-3 years.

Mr. Bussey asked why the “Best Estimate” discount rate dropped from 6.75% for 2016 to 6.60% for 2017? Mr. Churchill replied modelling is done on expected long term returns for each of the asset classes each year based on updated economic indicators.

Mr. Bussey asked Mr. Leonard what he thought about the 6.60% rate for this year? Mr. Leonard replied that our internal best estimate calculation is 6.75%.

Mr. Churchill reviewed other challenges going forward:

- Ministerial approval of member contributions in excess of 9%
 - Current CRA guidance requires member contributions (including contributions towards deficits) not fund more than 50% of past and future benefits for active members
 - Current contribution rates result in a ratio of about 48%
- New mortality improvement scale
 - Canadian Institute of Actuaries published a new mortality improvement scale last fall
 - Not suggesting a change in assumption at December 31, 2017, but likely will become the industry standard

Mr. Sampson asked what could be done if CRA does not allow increases in member contributions? Mr. Churchill replied, he is not sure but it could require the employer to pay more. Mr. Traves added this would require discussions between the employees and employers regarding compensation to make up the increase.

Mr. Churchill discussed the new mortality improvement scale. Ms. O’Toole asked what would be the impact of this new scale? Mr. Churchill replied, possibly an increase of 1-1 ½ % or \$20-30 million.

Mr. Bussey asked if there was a mortality table for just Nova Scotia? Mr. Churchill replied there is not enough experience. Eckler is developing their own mortality tables. Ms. Urquhart added that Eckler has a longevity club called Club Vita that some pension plans are signing up for. This uses individual pension plan data similar to the standard actuarial tables but makes it more robust. Lifestyle, geography, etc. would be considered and the data is updated each year.

Mr. Bone asked how would you become part of Club Vita? Mr. Churchill replied, by subscribing to the service. Mr. Bone asked if the regulators are accepting the use of these mortality tables? Mr. Churchill replied, yes.

Mr. Wilson asked if there would be more volatility risk using a mortality table tied directly to the Plan? Mr. Churchill replied, the data that would be used to generate their table is from many plans who have similar characteristics to members of the HRM Pension Plan over a long period of time.

Mr. Sampson suggested Pension Office staff obtain more information about Club Vita and report back to the Committee at the June meeting.

6.2 Review of Committee Training and Education Policy

Mr. Bone reported there are no proposed changes to the policy since it was recently updated in December 2016. Mandatory and Core training remains the same for new members. He asked new members to review the policy to ensure they are receiving the appropriate training recommended.

He noted there are more requests for deviation coming into the Training and Education Subcommittee. International Foundation training costs are increasing on an annual basis and training costs have risen 10-20% over the last 3-4 years. He suggested the Committee review the training budget sometime in the near future.

Mr. Traves suggested the Training and Education Subcommittee bring back a recommendation to the Committee.

Mr. Deacoff asked if the Training and Education Subcommittee has reviewed the new MTMS Program being offered by the International Foundation?

Mr. Bone replied, no, the program was announced by the International Foundation but the details have not yet been confirmed. The Training and Education Subcommittee will review once the information becomes available.

Moved by Andrew Bone and Seconded by Louis de Montbrun to approve the Training and Education Policy as presented. Motion Put and Passed.

6.3 Term of John Traves as Co-Chair expires June 8, 2018

Mr. Wilson nominated Mr. Traves to be reappointed for another one-year term. There were no other nominations. Mr. Traves accepted this nomination.

Moved by Britt Wilson and Seconded by Scott MacDonald to reappoint John Traves as Co-Chair of the HRM Pension Committee for a term of one year. Motion Put and Passed.

7. BUSINESS ARISING FROM THE MINUTES

7.1 Reports on Service Standards Q4 2017 & Calendar Year 2017

Ms. Tanner reported that in Q4, the Pension Office and Aon met the service standards in all transactions processed and was very pleased to report 100% compliance within the service standard. She congratulated the Plan Member Services team in achieving these excellent results.

Mr. Bussey asked if going forward should the Committee be looking at increasing the expectation for service standards? Ms. Tanner replied she has looked at the standards and believes that they are fine and within industry standard.

Ms. Tanner reviewed the service standard report for 2017. The Pension Office continued to meet the service standards in the majority of cases during 2017, with 98.9% of calculations being performed within the standard. This is an increase from the 91.3% in 2016.

7.2 Update December 2016 Pensioner Audit

A memo was provided in the Pension Committee package. Ms. Tanner reviewed the memo. The Pension Office is looking at improving this process for 2018. The process is taking too long, increasing the risk that payments could continue to be made to deceased pensioners. The timeline for the December 2017 pensioner listing audit will be shortened with the process ending at July 1st. For subsequent years, the process will be started later in the year and will be completed within three months. It will be done during the calendar months that will not affect the pensioners that travel during the winter months (May to July). As of mid-January 2018, a paragraph was added to the signature section of the Retirement Option Statement to advise new retirees of the annual process.

7.3 Update DC Plan Text Administrator Responsibilities

Mr. Whidden reviewed the Amendment to the Defined Contribution Pension Plan for Certain Employees of the Halifax Regional Municipality with Manulife Financial. A copy of the amendment was distributed in the Pension Committee package. This amendment brings the defined contribution policy with Manulife in compliance with the new pension regulations effective June 2015.

Mr. MacDonald asked how many active members were left in the DC Plan? Mr. Whidden replied there are 62 members who have balances, two who are contributing and two who are on some form of leave. The rest of the members have either terminated employment or are now participating in the DB Plan

Moved by Scott MacDonald and Seconded by Britt Wilson to approve the Amendment to the Defined Contribution Pension Plan with Manulife as presented. Motion Put and Passed.

7.4 Committee Education and Training Feedback and Budget

Mr. Bone provided an update on the Committee education and training budget.

8. OTHER BUSINESS

8.1 Update on Executive Search

Mr. Traves provided an update on the executive search. The competition is well underway and the subcommittee will have a recommendation to the Pension Committee soon.

Mr. Moore asked when will the search be complete and if a decision will be made before the April 18, 2018 Special Governance meeting?

Mr. White replied that a recommendation could be put forward to the Committee in the next week to ten days.

The Committee asked Mr. Leonard to review the Q4 2017 Investment Report, Consent Agenda Item No. 1. Mr. White noted Consent Agenda Item No. 3, resignation of Nigel Field. The HRM Pension Plan Annual General meeting will be held on June 18, 2018 in the Compass Room, Casino Nova Scotia.

Mr. Field joined the Committee for lunch. A card and gift was presented to Mr. Field for his tremendous service to the Pension Committee. Mr. Field is stepping down after 29 ½ years of involvement with the Pension Committee. The Committee commended Mr. Field for his many years of contribution to the Pension Committee.

The Pension Committee also acknowledged and thanked Ms. Bayers for her ten years of service with the HRM Pension Plan Office and supporting the Pension Committee. Ms. Bayers will be retiring at the end of May 2018.

Mr. Traves commented on the current situation with the Halifax Regional School Board. HRSB employees make up approximately one quarter of the Plan. With respect to legislation, the Province has changed the name of the School Boards to Regional Centres for Education but their legal structure remains the same. They will continue to be members of the HRM Pension Plan.

9. **DATE OF NEXT MEETING** – April 18, 2018 (Special Meeting)
June 14, 2018 (Regular Meeting)

10. **ADJOURNMENT**

Moved by Scott MacDonald and Seconded by Rick Dexter to adjourn the meeting at 1:30 p.m.

John Traves, Co-Chair