



HRM PENSION PLAN

Annual Report 2014







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Preface

The HRM Pension Committee is pleased to provide you with the 2014 Annual Report which reflects the HRM Pension Plan's financial results. The Annual Report will help keep all plan members informed about the general operations of the HRM Pension Plan (the "Plan") on a yearly basis.

The Annual Report includes information on:

- how the Plan is governed
- the funded position of the Plan
- the performance of Plan assets and how Plan assets are invested
- the unaudited¹ financial highlights of the Plan including pension contributions, pension payments, investment income, value of investments, and expenses.

Hopefully you will find the Annual Report informative and self-explanatory.

Co-Chairs' Message

We are pleased to report that your pension plan has once again experienced a successful year. The investment return of the HRM Pension Plan for 2014 was 8.8%, net of all expenses. This is well in excess of our 6.5% return target, and means that our current plan design continues to be adequately funded with our current contribution levels. Total assets of the Plan have increased to \$1.5 billion.

Nonetheless, we do still have a "going concern" deficit of approximately \$182 million, meaning that our funded ratio—a key measure of pension plan health—is 88.5% as estimated by the Plan's independent actuary. This means we will likely need to continue with a contribution rate which includes an extra amount earmarked to reduce this deficit. Your Pension Committee is always mindful of demographic trends, investment market volatility, employer cost pressures, and numerous other factors that may affect our Plan, and are always looking ahead in order to preserve and protect the sustainability of our Plan.

We encourage all plan members to become familiar with the terms of their pension plan and ask any questions you may have. We are proud to have such a professional and capable Chief Executive Officer in Terri Troy and a Pension Office staffed with dedicated and enthusiastic people who are there to help plan members with their pension plan questions and issues. We want to thank them for their continued great work and encourage you to contact them at (902) 490-6213 or view our website, www.hrmpensionplan.ca, where plan members can find much useful information and take advantage of a personalized pension calculator.

It is our privilege to work with the entire Pension Committee and staff on such an important topic and we will continue to work diligently to provide excellence in service and towards ongoing sustainability of your plan.



Bill Moore, Co-Chair



Dan White, Co-Chair

CEO's Message



Financial Health

In 2014, the Plan earned 9.3%² before expenses. The 9.3% return generated approximately \$130 million for the Plan before expenses and approximately \$124 million after plan expenses. The 9.3% return exceeded its market index benchmark by 2.0%, representing approximately \$22 million in added value over its market index benchmark, after all plan expenses have been taken into account.

The Plan's equity, fixed income, and private investment portfolios earned 11.5%, 6.3%, and 12.7% respectively. Private investments include infrastructure, real estate, private debt and private equity. At December 31, 2014, the Plan had an allocation of approximately 38% in equities, 33% in fixed income and 29% in private investments. The asset mix is relatively defensive to help minimize any potential negative returns from future equity market corrections.

Since pension plans invest for the long-term, it is important to consider longer term performance. The Plan earned an annualized return of 10.7%, 8.8%, and 6.8% for the three-year, five-year, and ten-year periods ending December 31, 2014, outperforming the Plan's long-term annualized return objective of 6.5%³.

From an accounting perspective, the funded position of the Plan improved to 100%⁴ in 2014 from 98% in 2013 largely due to strong investment returns.

Total expenses have decreased from \$6.3 million to \$6.1 million. In 2014, total plan expenses represented 0.4% of plan assets. We continually strive to reduce unnecessary costs and invest in areas that either improve risk-adjusted returns net of fees, improve plan member service, or improve overall plan governance. In 2014, we identified new cost savings of approximately \$800,000 and other cost savings that will result in annual cost savings of approximately \$1.2 million per year. These cost savings were largely due to the negotiation of lower fees with investment managers.

Member Service

While continued strong investment performance is important to pay future pensions, we take great pride in ensuring that we are providing all plan members with excellent service. In 2014, the following initiatives were implemented to enhance plan member service:

- Implemented service standards (target turnaround times) for a number of plan member transactions. Over 96% of transactions were completed within the established standards.
- Increased pension administration staff to support new plan member services that are now being done in-house.
- Implemented an enhanced plan member call tracking system which will help us better understand the volume and type of requests that come into the Pension Office so that appropriate staffing levels are in place to ensure timely responses to plan member questions.
- Implemented a new automated process to help identify deceased pensioners. This process replaced the manual surveys mailed to pensioners.

While we continue to invest in resources and tools to enhance plan member service, we are doing so on a cost effective basis. We recently benchmarked ourselves against a number of Canadian pension plans that publish their pension administration costs. We are pleased to report that the Plan's pension administration cost of approximately \$91 is lower than the average cost of approximately \$146 per member for the benchmarked group.

On behalf of the HRM Pension Office, we would like to thank all the plan members and Pension Committee for their support and guidance. It is a privilege to work for you.

Sincerely,

Terri Troy, CEO

¹ Audited financial statements will be approved and published in June 2015

² 9.3% before expenses, 8.8% after expenses

³ Same rate is used in the actuarial valuation report that reports the Plan's funded status on a going concern basis for regulatory purposes

⁴ The funded position of the Plan (Net Assets Available for Benefits Less Accrued Pension Obligation) reported in the financial statements will differ from that reported in the actuarial valuation report because calculation methodologies used by the Canadian actuarial and accounting professions differ. For accounting purposes, management's best estimate of annualized long term returns is used to value future pension obligations. For accounting purposes, management's long term rate of return assumption as at December 31, 2014 was 7.25% annualized. The 2013 actuarial valuation report assumed a long term annualized rate of return objective of 6.5% to value future pension obligations. This number is lower than the 7.25% used in the accounting valuation because it reflects additional conservatism. The actuarial valuation is used to determine contribution rates to ensure that the Plan is sustainable for funding purposes. The 2014 actuarial valuation report will not be completed until after the Annual Report is published. If 6.5% is used to value the pension obligations in the 2014 actuarial valuation report, the funded position on a going concern basis is estimated to be 88.5%, an improvement from 85% in 2013

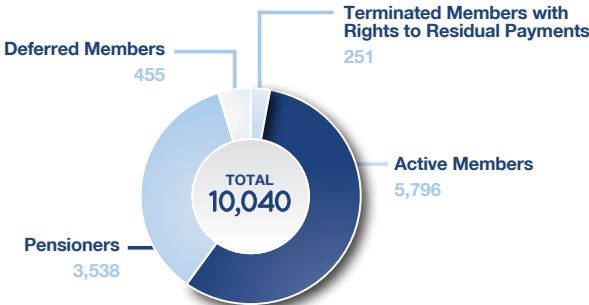
2014 at a Glance

As at December 31, 2014



Plan membership increased by 186 plan members

- ➔ Active plan member average age is **47**
- ➔ Retired plan member average age is **70**
- ➔ Average retirement age for members who retired in 2014 is **60**



Member Service Highlights

- ➔ Received approximately **1,100** member phone calls from April 1 to December 31, 2014⁶
- ➔ Plan member survey overall rating was **4.7/5** or **'Excellent'**
- ➔ Enrolled **339** new plan members
- ➔ Processed pension estimates for **186** plan members considering retirement and cost estimates for **72** plan members considering purchasing past service
- ➔ Provided benefit statements and processed payments for **200** retirements, **249** terminations and **120** deaths
- ➔ Presented **7** pre-retirement seminars and pension information sessions



The Plan has **12 participating employers.**

Of the 5,796 active members:

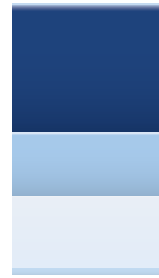
- 3,746** are employed by HRM and other participating employers⁷
- 1,685** by Halifax Regional School Board
- 182** by Ocean View Continuing Care Centre
- 96** by Halifax Water
- 72** by Quest
- 9** by HRM Pension Office
- 2** by Dartmouth Heritage Museum
- 2** by Harbour City Homes
- 2** by Lake District Recreation Association

⁶ The Pension Office began tracking member phone calls by type of inquiry on April 1, 2014

⁷ Includes the remaining participating employers on page 7 not listed here



Net assets increased by \$127 million to \$1.5 billion



Net asset increase	\$127 million
Investment Income	\$130 million
Contributions	\$76 million
Benefit Payments	\$(73) million
Expenses	\$(6) million



Earnings

The Plan earned 9.3% before expenses and **exceeded its benchmark** of 7.3% by 2.0%. The Plan also exceeded its long term rate of return objective of 6.5% by 2.8%.



Funding

The Plan is funded:
 100% on an accounting basis,
 89%⁸ on a going-concern basis and
 61%⁸ on a solvency basis

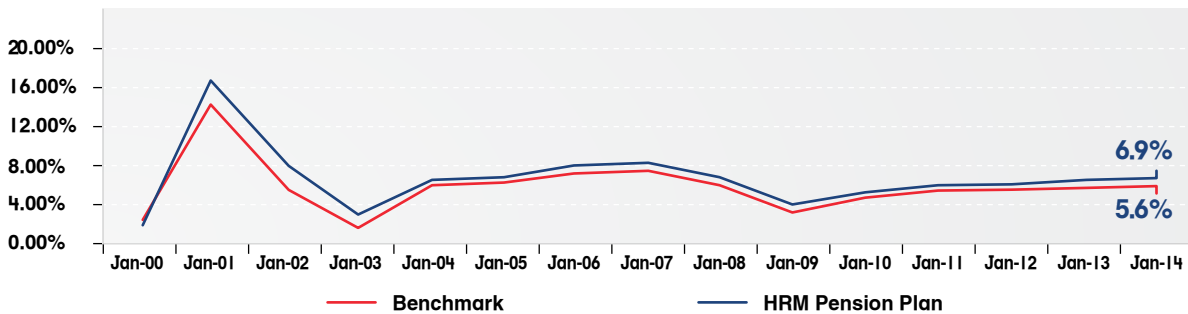


Average pension administration cost per member is **\$91**

One-time operating costs savings of **\$817,000** in 2014

Cumulative operating costs savings of **\$21 million** since 2006

Since Inception Performance



The 6.9% annualized return since inception represents approximately \$919 million from investment returns net of plan expenses and \$242 million in value added net of plan expenses in excess returns over benchmark returns.

⁸ Estimated by the Plan's actuary. Final numbers will be published when the December 31, 2014 actuarial report is approved by the Pension Committee. The 2014 actuarial report must be filed with the Superintendent of Pensions by the end of 2015

Pension Plan Structure

As at May 31, 2015

Halifax Regional Municipality

Pension Committee (Joint representation consisting of 12 voting members)

5 Management

Louis de Montbrun
Bill Moore
Mike Sampson
John Traves
Britt Wilson

5 Union

Melanie Gerrior (acting)
Nova Scotia Union of Public and Private Employees (NSUPE)

Sheldon Harper
Canadian Union of Public Employees (CUPE), Local 108

R. Scott MacDonald
Halifax Regional Police Association (HRPA)

Ray MacKenzie
Amalgamated Transit Union (ATU), Local 508

Dan White
International Association of Fire Fighters (IAFF Local 268)

1 Non-Union

Rick Dexter
Non-Union Municipal Employees Association (NUMEA)

1 Retired Member

Mike Lawlor

Co-Chairs: 1 union representative and 1 management or non-union representative

Bill Moore	<i>Management</i>
Dan White	<i>Union</i>

Participating Employer Representatives:

Margaret Barry
Halifax Regional Library

Katie Brown
Cole Harbour Place

Max Chauvin
Dartmouth Sportsplex

Al Driscoll
Halifax Forum Community Association

Bonnie Elliott
Dartmouth Heritage Museum Society

Cindy Hilchey
Ocean View Continuing Care Centre

John MacMillan
QUEST

Cathie O'Toole
Halifax Water

Anne Patterson
Halifax Regional School Board

Stuart Poteri
Centennial Arena

Robert Rines
Lake District Recreation Association

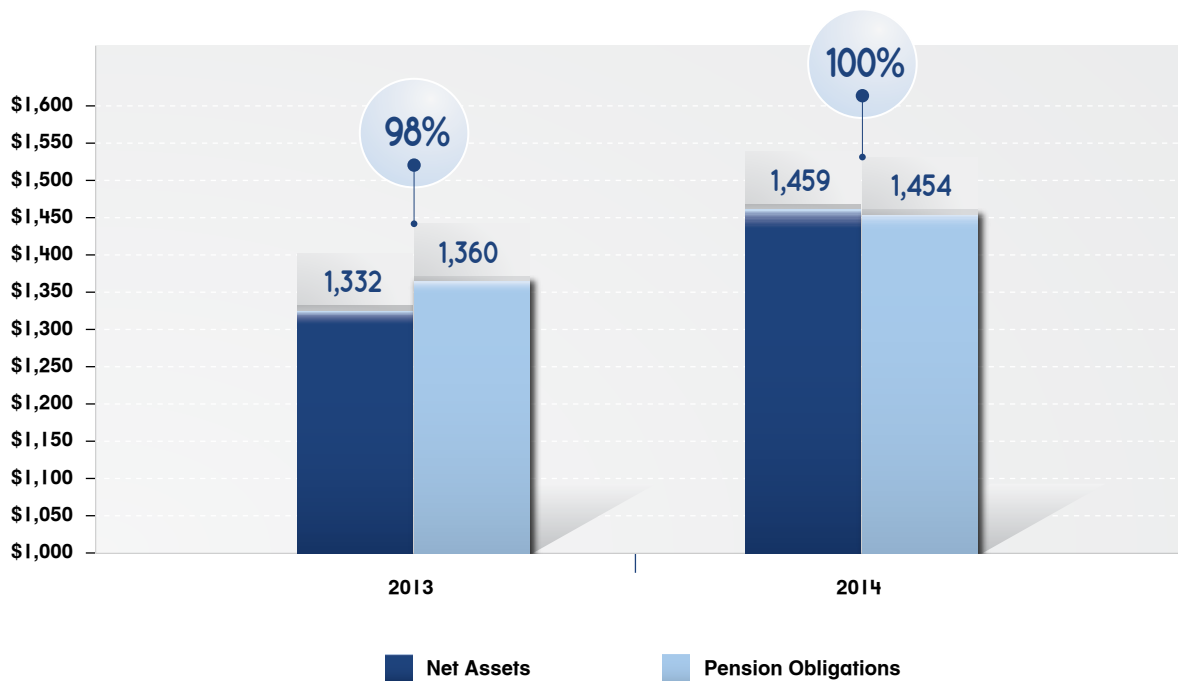
Bob Thomson
Harbour City Homes

Each voting member may have two alternates; an alternate can vote in the absence of the voting member. There are 12 non-voting participating Employer representatives.

Pension Plan Highlights

As at December 31, 2014

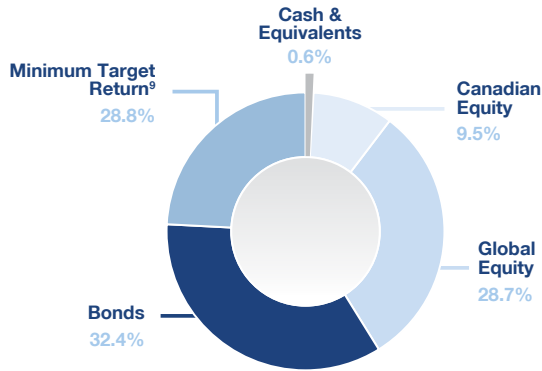
Halifax Regional Municipality Pension Plan
Financial Position: Accounting Basis (\$ millions)



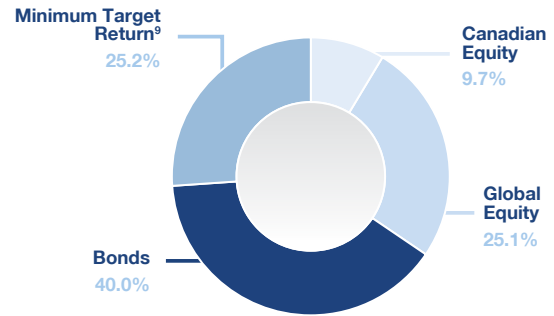
This chart shows the funded position of the Plan from an accounting perspective. The Plan's net assets are divided by the value of the pension obligations to obtain the funded position for accounting purposes.

The Plan's funded position increased from 2013 to 2014 as investment gains were greater than the increase in the cost of future pension obligations.

Actual Asset Mix As at December 31, 2014



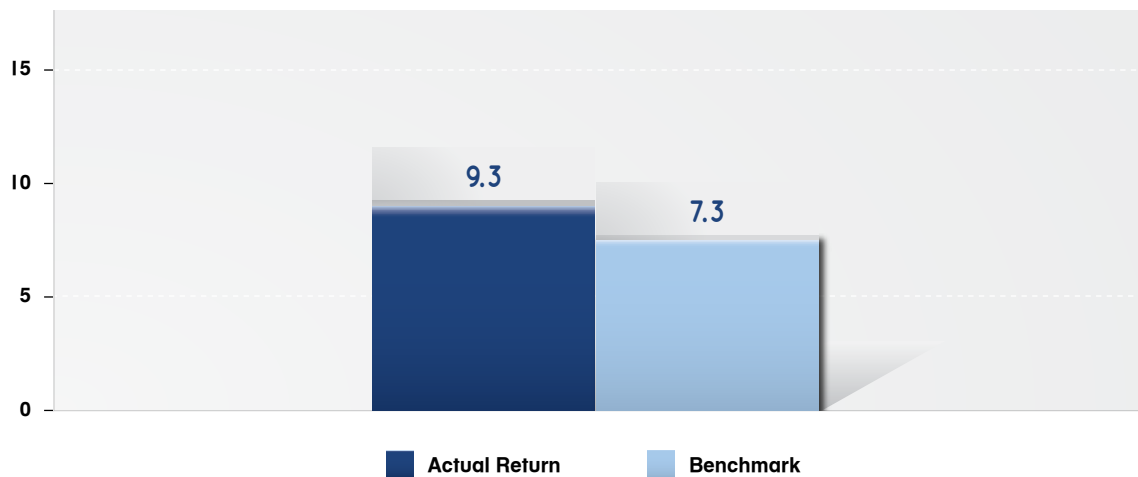
Asset Mix Policy As at December 31, 2014



The asset mix policy is the long-term investment strategy that has been approved by the Pension Committee. As at December 31, 2014 the actual asset mix for the Plan was in line with its asset mix policy ranges. The variance between actual asset mix and the asset mix policy is monitored on an ongoing basis and rebalanced when required. Differences in actual asset mix and asset mix policy are due to market movements and timing of cash flows.

⁹ The Minimum Target Return Portfolio investments are private investments in real estate, infrastructure, private equity, and private debt

Halifax Regional Municipality Pension Plan Performance - 2014 (Return %)



In 2014, the Plan earned 9.3%, outperforming its benchmark by 2.0%. The benchmark return represents what the Plan would have earned if it had been invested solely in index funds for all asset classes except for the Minimum Targeted Return allocation, which targets 6.5%.

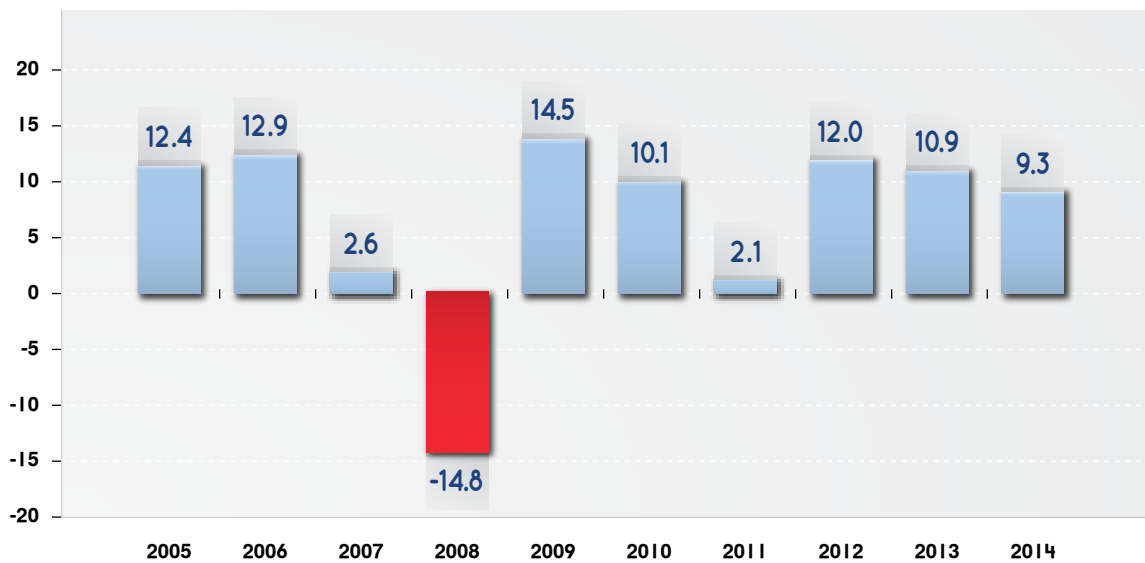
The benchmark is 6.7% S&P/TSX Index + 3.0% S&P/TSX 60 + 2.6% S&P 500 Index (\$CAN) + 4.2% S&P 500 Index (\$USD) + 8.4% MSCI EAFE Index (\$CAN) + 3.3% MSCI Emerging Markets (\$CAN) + 6.6% MSCI World (\$CAN) + 19.6% Canadian Bonds + 20.4% 3 Month Banker's Acceptance + 25.2% Minimum Target Return.

10-Year Annualized Performance as of December 31, 2014 (Return %)



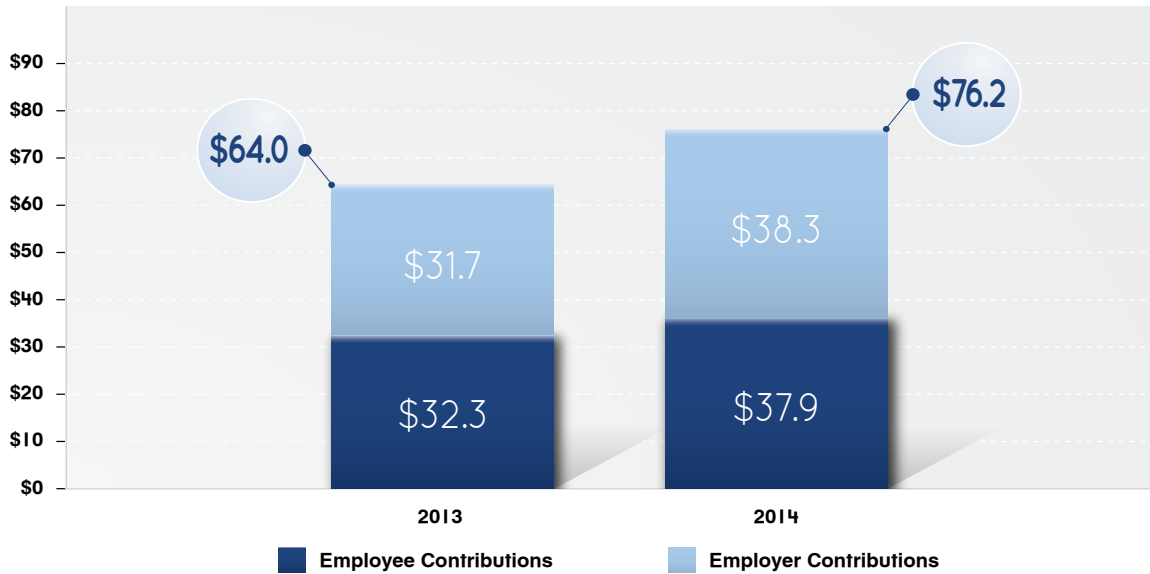
For pension plans, a longer-term perspective is important. For the 10-year period ending December 31, 2014, the Plan earned an annualized rate of return of 6.8% exceeding its 6.5% long-term rate of return objective by 0.3% per year.

Calendar Year Returns 2005 - 2014 (Return %)



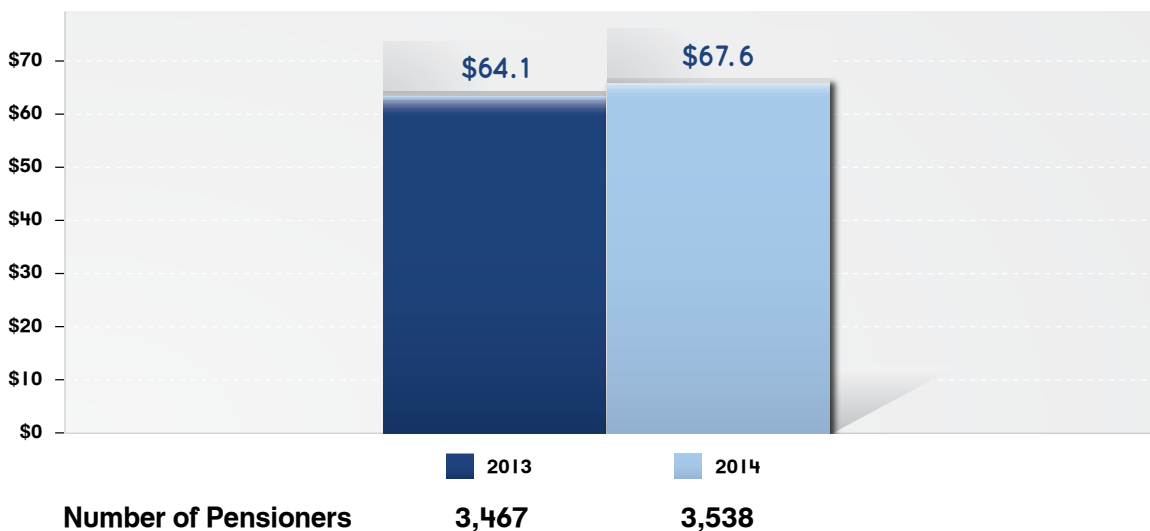
With the exception of 2008, the Plan has performed well over the last ten years, resulting in the Plan outperforming its ten-year annualized return objective of 6.5%.

Employer / Employee Contributions (\$ millions)



- Employee contributions may vary from the employer portion primarily due to the disability waiver provision and optional benefits paid 100% by the employee such as the pre-April 1, 1998 'Rule of 75' election for Public Safety Occupations.
- Defined benefit contribution rates for the current plan division increased from 10.36% to 11.96% of pensionable earnings for plan members and employers effective January 2014. Some plan members contribute at different rates due to participation in a prior plan division or due to eligibility for the 'Rule of 75'.

Pension Payments (\$ millions)



- Pension payments increased as a result of the increase in the number of pensioners from 2013 to 2014.

Total Expenses (\$ millions)



Expenses decreased in 2014 relative to the most recent five year average. Expenses as a percentage of average assets decreased in 2014 primarily due to an increase in net assets.

Total Expenses As at December 31, 2014

	\$CAN millions	%
Investments ¹⁰	\$4.8	78.7%
Pension Administration ¹¹	\$0.9	14.8%
Governance ¹²	\$0.4	6.5%
Expenses	\$6.1	100%

¹⁰ Includes all costs associated with investment and risk management

¹¹ Includes all costs associated with pension calculations and plan member service

¹² Includes all costs associated with governance including committee costs, audit, legal, actuarial and consulting fees

Contact Us

For general questions, please contact the Halifax Regional Municipality Pension Office at:

1809 Barrington Street
Suite 804, CIBC Building
Halifax, Nova Scotia
B3J 3K8

Phone: (902) 490-6213
Toll Free: 1 (888) 490-6213
Fax: (902) 490-5597
E-mail: HRMPension@halifax.ca

Regular Office Hours: Monday - Friday - 8:30 a.m. - 4:30 p.m.

If you are a pensioner, please contact Rosemary Saba at (902) 490-6213 (Toll free: 1-888-490-6213) or Northern Trust Company, Canada at 1-800-711-1101 for:

Payments/deposit inquiries
T4A's
Addresses/banking change
Additional taxes to be withheld
Change in tax

Please contact Marisa Tobin at (902) 490-4852 or tobinm@halifax.ca for:

Pension division due to marriage breakdown
Buyback of service calculations
Transfers of service from another employer
Calculation of benefits on death of a pensioner or active member

Please contact Rosemary Saba at (902) 490-6213 or sabarose@halifax.ca for:

Confirmation/change of beneficiary designation
Change in marital status
Proof of continued enrolment in school for orphan benefits or disqualification of orphan benefits
Other general inquiries regarding pension benefits

Please contact Jeanette MacLanders at (902) 490-2903 or maclanj@halifax.ca for:

Termination of employment
Retirement
Questions about your annual pension statement



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www.hrmpensionplan.ca