HALIFAX REGIONAL MUNICIPALITY
SPECIAL PENSION COMMITTEE MEETING
Thursday, June 25, 2015
Helen Creighton Room Alderney Gate Library
2:00 p.m. – 4:00 p.m.

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

ALTERNATES: Jerry Blackwood, Management
Stephen Bussey, IAFF
Cameron Deacoff, NSUPE
Jack Dragatis, ATU
Nigel Field, Retiree *(until 3:00 p.m.)*
Melanie Gerrior, NSUPE
Sherry Hilchey, NUMEA
Brian Leslie, Retiree
Greg MacKay, NUMEA *(2:35 p.m.)*
Ted Moore, IAFF
Peter Nixon, HRPA
Jordan Taylor, CUPE
Gordon Roussel, Management
Mike Young, CUPE

STAFF: Terri Troy, CEO
Donna Bayers, Executive Assistant
Angela White, Manager, Pension Services
Matt Leonard, Manager, Finance & Operations

OTHERS: Cheryl Little, Halifax Water *(for Cathie O'Toole)*
Anne Patterson, Halifax Regional School Board

OBSERVERS: Audra Abbott, Former NUMEA Voting Representative

1. CALL TO ORDER

The meeting was called to order at 2:00 p.m. by the Co-Chair, Mr. Bill Moore.

2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS

Moved by John Traves and Seconded by Rick Dexter to approve the agenda as presented. Motion Put and Passed.

3. APPROVAL OF MINUTES – June 15, 2015

Moved by Rick Dexter and Seconded by Ray MacKenzie to approve the minutes of June 15, 2015 as presented. Motion Put and Passed.

4. BUSINESS ARISING FROM THE MINUTES

4.1 Costing of Potential Going Concern Benefit Reductions

Mr. Don Ireland, Actuary, Aon Hewitt joined the meeting by phone.

Mr. Field commented that only one improvement to the Plan has been made to date which was the increase in the pension cap. He suggested dropping the pension cap to cover earnings up to $100,000 from the current Income Tax Act limit that covers earnings up to $140,000. Mr. B. Moore asked for Mr. Ireland's analysis of what would be the current service cost reduction of freezing the pension cap to cover earnings up to $100,000 going forward until such time that it could be increased again. Mr. Ireland will review these numbers and report back later in the meeting.

Mr. Sampson added that the pension cap was increased because a number of people were paying for something that they were not getting. Also, he pointed out that impacted plan members had paid additional money to increase the pension cap.

Mr. Ireland responded to Mr. Field's question with regard to reducing the maximum pension cap to cover a $100,000 salary level. When looking at the combined current service cost of 17.9% of pay, freezing the maximum pension cap to cover salaries up to $100,000 would decrease the current service cost by 1.2%. The PSO current service cost would decrease by 3.2% and the non-PSO group would reduce by 0.8% of service cost. PSO members' average earnings are currently $86,000 so more PSO members would be impacted than non-PSO members.

Mr. Dexter asked what would be the impact of a change to the maximum pension cap to a $120,000 salary level? Mr. Ireland replied this would not be linear but would reduce the aggregate current service cost by approximately 0.5%.

Mr. D. White asked if it was possible to increase the maximum pension cap each year to be 85% of the maximum ITA limit? Mr. Ireland replied that you would probably not see any current service cost reductions. Mr. D. White also asked if after freezing the maximum pension cap, are you able to revisit this in 4-5 years? Mr. Ireland replied that this would be possible.

Mr. B. Moore referred to the 6.50% discount rate and asked Mr. Ireland what number would be enough to make up the 0.5% shortfall? Mr. Ireland replied approximately 0.05% from 6.50% to 6.55%. Mr. Ireland replied that the 0.5% does not include the cost of the statutory benefit improvements. This cost will not have to be included until next year's valuation. When it does, it will add an extra 0.2% to the contribution rate assuming the statutory benefit improvements need to be prefunded.

Ms. Troy clarified Mr. Ireland's point about next year's funding of the statutory benefit improvements and asked if Mr. Ireland is assuming we have to pre-fund the benefit improvements or do we need a discussion with the Superintendent to confirm? Mr. Ireland replied that this would require a discussion with the Superintendent.

Mr. R. Scott MacDonald referred to the combination of costings 2, 4 and 7 – (2) Average earnings definition changes from Best Three to Best Five, (4) Maximum pension limit becomes frozen and (7) Replace unreduced at age 60 with unreduced at 60 and 10 years of service. This combination would provide a 0.7% reduction in the contribution rate while building the margin by 0.2%.

Mr. B. Wilson asked if the 6.50% discount rate would stay the same with this combination of costings? Mr. Ireland replied that he believed the discount rate would change to possibly 6.40% but he would have to review.

Moved by R. Scott MacDonald and Seconded by Ray MacKenzie to adopt the combination of costings of 2, 4 and 7 as presented in the Summary of Cost Impact for Proposed Benefit Changes, June 2015. These changes would take effect January 1, 2016. Motion Put and Passed.

Mr. D. White added that a large number of PSO members are working past the rule of 75.

Mr. Traves suggested a letter from the Co-Chairs be communicated indicating the unanimous decision of the Committee and asking for the support required under the Plan Text from the stakeholders. Mr. B. Moore suggested that this be part of the package communication. Any questions should be referred to the Pension Office.

The communication package will first be circulated to the Pension Committee. If there are any questions, another meeting may need to be called. If no meeting is required, the Co-Chairs will work with the CEO to prepare a presentation and package to present to the stakeholders.

Mr. B. Moore asked how long it would take for the Pension Office to program the new benefit reductions into calculations? Ms. A. White replied that it might take Aon approximately one month.

Ms. A. White explained to the Committee how these changes would result in a service split for members at retirement. A member's best three-year average over their entire career would be used for service before the amendment, and their best 5-year average over their entire career would be used for service after the amendment.

Mr. Sampson asked if you were 60 years of age and had 9 years of service, would you be able to retire? Mr. Ireland indicated that there would be an actuarial reduction on the post-amendment service. Ms. A. White told Mr. Ireland that it would be more consistent with the Plan Text if the reduction was the same as the early retirement penalty of 6% per year. Mr. Ireland said there would not be a material difference if the plan reduction was used rather than an actuarial reduction.

Mr. Ireland added that if you reduce the pension cap to cover earnings up to $100,000 and increase it each year by the increase in the ITA limit, anything gained in lowering the maximum salary is lost when you project going forward as you significantly reduce the current service cost on an aggregate basis. When you freeze the pension cap, you gain a more meaningful reduction in current service cost.

Mr. Dexter asked Mr. Ireland what would be the reduction in service cost for freezing the pension cap to $120,000. Mr. Ireland replied that it would be about 0.5% beginning at January 1, 2016 going forward.

Ms. Troy asked the Committee what would be the response at the Annual General Meeting if a member asks why the Committee did not consider the benefit reduction of going from a 66 2/3% survivor pension to 60% survivor pension? Mr. MacKenzie replied that ATU plan members did not want this touched.

Mr. Dexter suggested the Committee consider doing another Plan Member survey. This will be on the agenda for the September Pension Committee meeting.

4.2 Explanation of Negative Impacts to Service Cost in Draft 2014 Valuation

Mr. R. Scott MacDonald referred to the explanation provided by Mr. Ireland that the largest cause of the increase in current service cost was the increase in the active membership's average age. Average age increased by 0.3 years but average continuous service also increased by 0.2 years. He asked if this is being caused by new young people not being enrolled in the Plan or is the whole population just getting older? Mr. Ireland replied that it could be both but there could also be many reasons for this.

The second reason for the increase in current service cost was that salary increases were higher than assumed. Mr. R. Scott MacDonald asked if the potential for further related current service cost increases has been resolved because the average salary increase assumption of 1.5% was for one year only? Mr. Ireland replied that the assumption from January 1, 2015 forward is that salaries will increase by 3%. If salary increases are in line with 3%, it should be fine.

Mr. R. Scott MacDonald asked if the Committee approved a 1.5% salary increase assumption last year? Mr. Ireland replied, yes.

4.3 Review of Margin

Mr. Bone asked Mr. Ireland if the 0.25% margin in the discount rate being recommended is best practice? Mr. Ireland replied that actuarial standards allow an actuary to recommend funding on best estimate results as an absolute minimum. The amount of margin that is added is decided between the actuary and the Pension Committee in accordance with what the Pension Committee is trying to achieve in relation to stabilizing contribution rates. The regulator is not likely to accept a margin rate based on best estimate results. The 0.25% margin rate is the lowest rate for plans that he has seen. It results in a margin as a percentage of best estimate liabilities of 3.1% when others are above 5% and are striving for a 10-15% margin. This would equate to a 6% discount rate.

Mr. Traves suggested looking at a 6.3% discount rate.

Mr. R. Scott MacDonald confirmed with Mr. Ireland that the margin was 2.4% two years ago and 3% last year. Mr. R. Scott MacDonald referred to the 3.1% margin and 6.5% discount rate for this year and asked if this was lower last year? Mr. Ireland replied, it was lower than the 2.4% by 0.7% of liabilities this year

Ms. Troy asked if discount rates moved in increments of 0.25% only or can you have a discount rate in between? Mr. Ireland replied that they can be in between.

Mr. de Montbrun suggested a 6.35% discount rate.

Moved by John Traves and Seconded by Louis de Montbrun to adopt a 6.35% discount rate assumption which would provide a 5% margin. Motion Defeated.

Mr. D. White asked if you needed to lower the discount rate to get the right margin? Mr. Ireland replied that creating a more predicable return and reducing volatility alone does not influence the best estimate discount rate. You could use the absolute return strategy with an expectation of lower volatility in investment returns which could serve as justification to incorporate margin. Even in this case, a 3% margin would be thin.

Mr. Wilson pointed out that another challenge is having to file valuations annually. He feels the only way to prepare for this is to create more margin.

Mr. B. Moore clarified that a 6.35% discount rate would result in a 1.8% increase in cost. All stakeholders must accept this or there would be a contribution rate increase of 0.9% for each side. He asked if all stakeholders do not agree to the recommended changes, what is the due date for filing the valuation? Ms. Troy replied that the valuation has to be filed by December 31, 2015. The Committee has to notify plan members 180 days in advance of any contribution increase.

Mr. Dexter did not feel that the City would agree to another contribution rate increase. Mr. Traves added that Regional Council is a signatory to the Plan Text as are all of the participating employers and the default is an increase in contributions.

5. OTHER BUSINESS

6. DATE OF NEXT MEETING – September 24, 2015

7. ADJOURNMENT

Meeting was adjourned by Rick Dexter at 4:05 p.m.

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Bill Moore, Co-Chair