



# HRM PENSION PLAN

Annual Report 2016





## Contents

|                                   |      |
|-----------------------------------|------|
| Preface . . . . .                 | 2    |
| Co-Chairs' Message . . . . .      | 2    |
| CEO's Message . . . . .           | 3-4  |
| 2016 at a Glance . . . . .        | 5-6  |
| Pension Plan Structure . . . . .  | 7    |
| Pension Plan Highlights . . . . . | 8-12 |
| Contact Us . . . . .              | 13   |



# Preface

The HRM Pension Committee is pleased to provide you with the 2016 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; and
- the audited 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.

# Co-Chairs' Message

We are once again pleased to report that your pension plan experienced a successful year. How do we measure that success? Your Pension Committee monitors two primary things: the financial condition of our plan (sustainability), and providing members with a pension plan they want and value.

For sustainability, the investment return for 2016 was 5.5%, which added \$95 million to the Plan net of all fees and expenses.

In an effort to better understand plan member preferences for important features of their pension plan, the Pension Committee distributed a plan member survey to active members in the Fall of 2016. The key findings of the survey were:

- The current pension package is strongly valued.
- Overall, respondents viewed changing the average earnings period from a best 3-year average to earnings over a member's entire career as the most negative plan design change, followed by a reduced pension formula.
- When asked directly, the 2% pension accrual rate in the pension formula is the most valued pension feature, while the survivor pension of 66 2/3% of the member's pension is the least valued feature.
- Overall, respondents were less sensitive to increasing contribution rates by up to 1.25% of members' pay for the Non-PSO (non-public safety occupation) group and 1.10% of members' pay for the PSO group.
- Results were consistent with the results from the 2009/2010 survey.

Our plan members' willingness to increase their contribution rates to keep the benefits that they have in a pension plan that they value is consistent with a recent national survey\* where 47% of Canadians surveyed said they would pay more than 10% of their income towards a pension or retirement savings plan. In fact, contribution rates did increase in January 2016 by 0.25% after a proposal by the Committee to reduce some benefits was rejected.

Your Pension Committee also recognizes that we must monitor ourselves, and to that end, we have embarked on a governance review process, looking at how we manage ourselves and whether we can do it in a better way. This review will likely take a number of months to complete, but in the end, we hope to ultimately improve the Pension Committee's governance structure and decision making for our Plan and ensure our members get the best pensions possible.

Your Pension Committee could not succeed in providing retirement security for our members without the leadership and hard work of CEO Terri Troy and the entire pension office staff, a team of skilled professionals who provide a high level of service to our members. We thank them for their efforts. As always, we encourage our members to contact the Pension Office anytime they have a question about their pension plan, at (902) 490-6213 or toll free at 1(888) 490-6213. Don't forget to visit the website regularly for updates and information: [www.hrmpensionplan.ca](http://www.hrmpensionplan.ca)

\*The Pension Canadians Want: Ipsos Reid, August 2016



Bill Moore, Co-Chair



Dan White, Co-Chair

# CEO's Message



## Hello Plan Members,

As always, it is my pleasure to update you on how your pension plan is doing and the activities of the Pension Office. The Pension Committee is responsible for the overall direction for the Pension Plan, including recommending contribution rates and plan design to stakeholders, such as HRM Council and the five HRM unions.

As CEO, I report to the Pension Committee and am responsible for implementing their goals and directions. In order to do this, I have set up a Pension Office which is primarily responsible for two things: (1) providing plan members with excellent plan member service and (2) investing the assets in such a manner to maximize returns while taking moderate and prudent risks to grow the assets over the long-term. We have been successful on both fronts.

## Plan Member Service

In 2016, plan members rated the service they receive from the Pension Office as being “Excellent”. We survey all active, terminating and newly retired members who contact our office by phone or email. Members are consistently pleased with the level of expertise, courteousness of staff, and the willingness of the Pension Office to assist them with their pension needs.

In 2016, the Pension Office processed approximately 600 pension calculations or approximately 93% of the total calculations processed for plan members. These calculations were for such things as pension estimates, termination benefits, service purchase estimates, pre and post retirement deaths, and marriage breakdowns. The number of transactions processed by the Pension Office increased 38% compared to 2015. Despite this significant increase in volume, the Pension Office completed approximately 91% of pension transactions within established timelines.

We continue to invest in staff and other resources such as a new pension administration system to enhance plan member service. We continue to improve on the quality of information provided to plan members and reduce turnaround times for processing various pension calculations by transferring more and more of the work to the Pension Office that had been previously outsourced to a third party pension administrator.

We benchmark ourselves against a number of Canadian pension plans that publish their pension administration costs. We are pleased to report that with an annual cost of \$117 per plan member in 2016, the Pension Office is a lower cost provider of pension administration services than the average annual cost of approximately \$169 per plan member for the benchmarked group.

## Investment Performance & Financial Health

In 2016, the Plan earned 5.5%<sup>1</sup> before expenses. The 5.5% return generated approximately \$102 million for the Plan before expenses and approximately \$95 million after plan expenses.

The Plan's equity, fixed income, and private investment portfolios earned 6.0%, 3.4%, and 6.6% respectively. Private investments include infrastructure, real estate, private debt and private equity. At December 31, 2016, the Plan had an allocation of approximately 38.4% in equities, 23.2% in fixed income and 38.4% 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 8.3%, 9.6%, and 7.0% for the three-year, five-year, and since-inception<sup>2</sup> periods ending December 31, 2016, after expenses, outperforming the Plan's long-term annualized return objective of 6.5%<sup>3</sup>.

From an accounting perspective, the funded position of the Plan continues to be positive at 104%<sup>4</sup> as at December 31, 2016.

We continually strive to reduce unnecessary costs and invest in areas that improve plan member service and improve risk-adjusted returns. In 2016, total plan expenses represented 0.39% of plan assets, as compared to 0.42% in 2015. Total expenses have decreased from \$6.7 million in 2015 to \$6.6 million in 2016. Although pension assets have increased from \$1.61 billion at the end of 2015 to \$1.68 billion at December 31, 2016, the investment management fees have decreased as a result of successfully negotiating lower fees and moving some mandates to lower fee managers. In 2016, we identified new annual cost savings of approximately \$6 million per year.

I would like to thank the staff of the Pension Office for their dedication to the management of the pension plan. It is truly a team effort. We take our work very seriously and focus on providing tremendous value to plan members.

Sincerely,

Terri Troy, CEO

<sup>1</sup> 5.52% before expenses, 5.13% after expenses

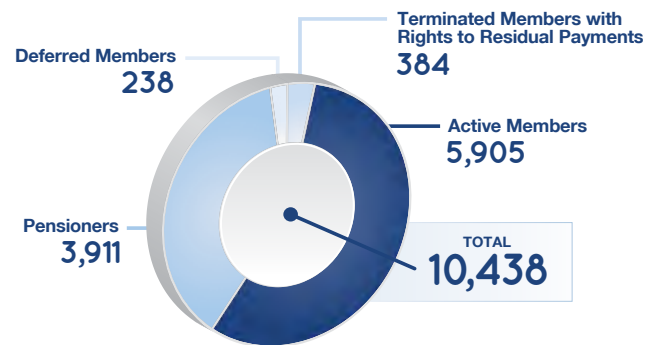
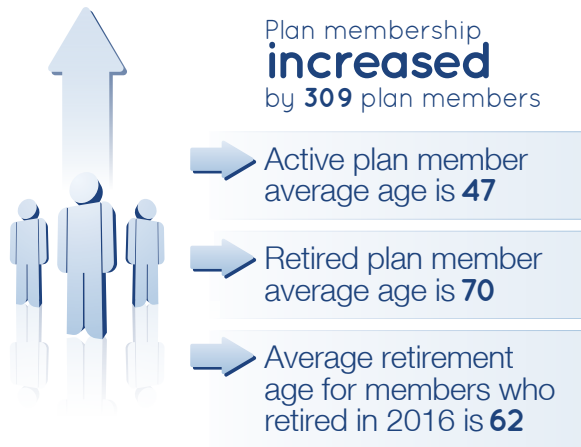
<sup>2</sup> October 1999

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

<sup>4</sup> 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, 2016 was 7.25% annualized. The 2015 actuarial valuation report assumed a long term annualized rate of return objective of 6.50% 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 2016 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 2016 actuarial valuation report, the funded position on a going concern basis is estimated to be 92.4%, an improvement from 89.6% in 2015.

# 2016 at a Glance

As at December 31, 2016



## Member Service Highlights

- ➔ Received approximately **3,510** member phone calls from January 1 to December 31, 2016
- ➔ Plan member survey overall rating was **4.3/5** or 'Excellent'
- ➔ Enrolled approximately **550** new plan members
- ➔ Processed pension estimates for **277** plan members considering retirement and cost estimates for **75** plan members considering purchasing past service
- ➔ Provided final costs to **15** plan members for past service purchases
- ➔ Provided benefit statements and processed payments for **309** retirements, **268** terminations and **120** deaths
- ➔ Provided pension information for **17** marriage breakdowns
- ➔ Completed **7** reciprocal transfers in/out and **9** past service purchases
- ➔ Presented **8** pre-retirement seminars and pension information sessions



The Plan has **13** participating employers.

Of the **5,905** active members:

**3,835** are employed by HRM and other participating employers<sup>5</sup>

**1,714** by Halifax Regional School Board

**164** by Ocean View Continuing Care Centre

**88** by Halifax Water

**85** by Quest

**16** by HRM Pension Office

**2** by Lake District Recreation Association

**1** by Dartmouth Heritage Museum

<sup>5</sup> Includes the remaining participating employers on page 7 not listed here



**Net assets increased**  
by \$65 million to \$1.7 billion



Net asset increase \$65 million

|                   |                              |
|-------------------|------------------------------|
| Investment Income | \$102 million                |
| Contributions     | \$81 million                 |
| Benefit Payments  | \$(111) million <sup>6</sup> |
| Expenses          | \$(7) million                |



**Earnings**

**The Plan earned 5.5%**  
before expenses which was in line  
with its benchmark of 5.5%



**Funding**

**The Plan is funded:**

10.4% on an accounting basis,  
92%<sup>7</sup> on a going-concern basis and  
61%<sup>7</sup> on a solvency basis

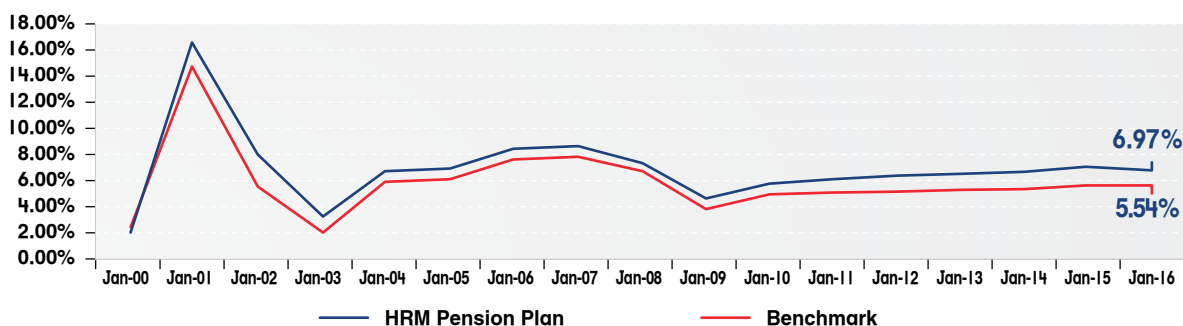


Average pension  
administration cost per  
member is **\$117**

Annual operating  
cost savings of  
**\$6 million** in 2016

Cumulative operating  
cost savings of  
**\$28 million** since 2006

## Since Inception Performance



The 6.97% annualized return since inception (October 1999) represents approximately \$1.2 billion from investment returns net of plan expenses and \$475 million in value added net of plan expenses in excess returns over benchmark returns.

<sup>6</sup> \$77 million in monthly pension payments to retirees, \$18 million in lump sum payments related to the removal of the portability option for retirement eligible members, and \$16 million in lump sum termination payments

<sup>7</sup> Estimated by the Plan's actuary. Final numbers will be published when the December 31, 2016 actuarial report is approved by the Pension Committee. The 2016 actuarial report must be filed with the Superintendent of Pensions by September 30, 2017

# Pension Plan Structure

As at May 1, 2017

## Halifax Regional Municipality

**Pension Committee** (Joint representation consisting of 12 voting members)

### 5 Management

Louis de Montbrun  
Bill Moore  
John Traves  
Amanda Whitewood  
Britt Wilson

### 5 Union

Andrew Bone  
*Nova Scotia Union of Public and Private Employees (NSUPE)*

R. Scott MacDonald  
*Halifax Regional Police Association (HRPA)*

Ray MacKenzie  
*Amalgamated Transit Union (ATU), Local 508*

Dwayne Tattrie  
*Canadian Union of Public Employees (CUPE), Local 108*

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>      |

*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.*

## Participating Employer Representatives:

Katie Brown  
*Cole Harbour Place*

Max Chauvin  
*Dartmouth Sportsplex*

Al Driscoll  
*Halifax Forum Community Association*

Bonnie Elliott  
*Dartmouth Heritage Museum Society*

John MacMillan  
*QUEST*

Cathy Maddigan  
*Halifax Public Libraries*

Cathie O'Toole  
*Halifax Water*

Anne Patterson  
*Halifax Regional School Board*

Stuart Poteri  
*Centennial Arena*

Robert Rines  
*Lake District Recreation Association*

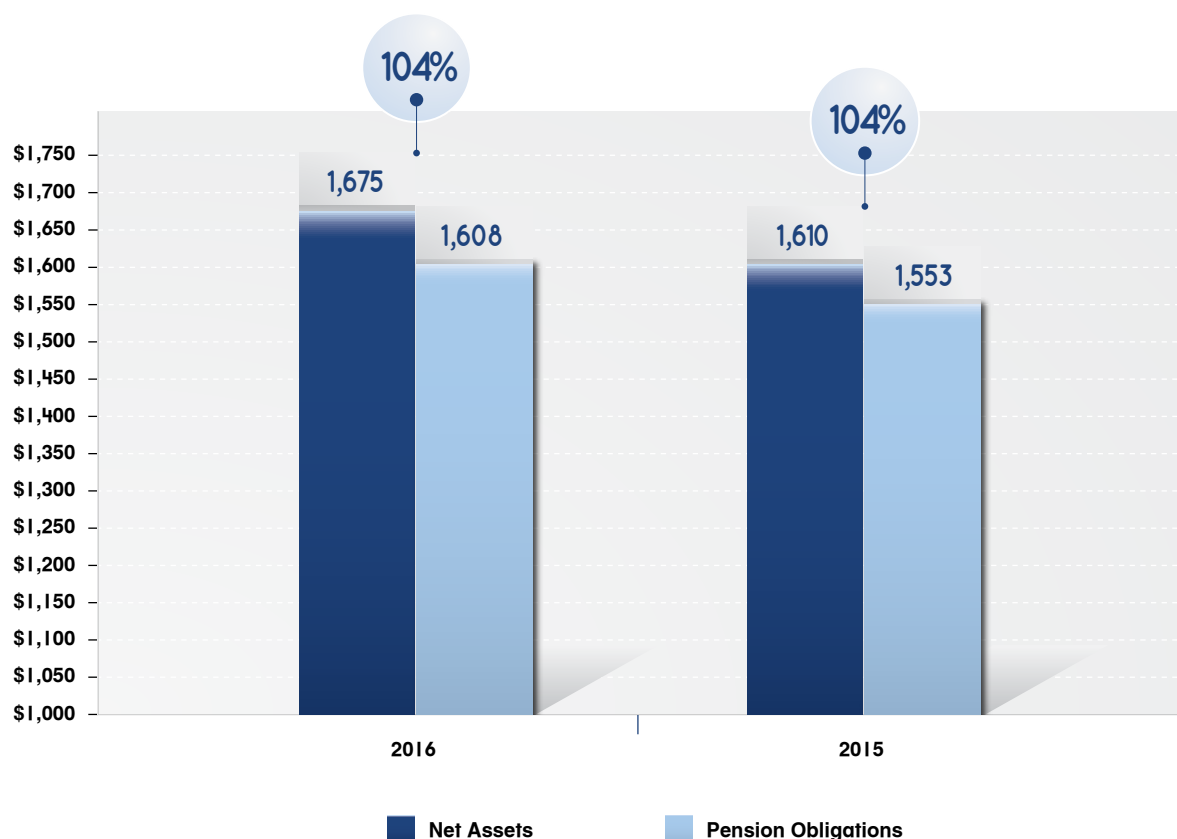
Steve Vincent  
*Ocean View Continuing Care Centre*

*Harbour City Homes*

# Pension Plan Highlights

As at December 31, 2016

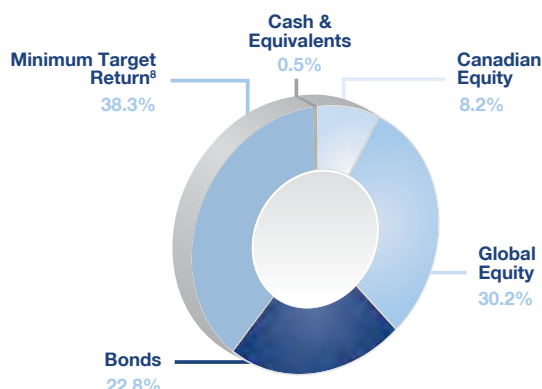
Halifax Regional Municipality Pension Plan  
Financial Position: Accounting Basis (\$ millions)



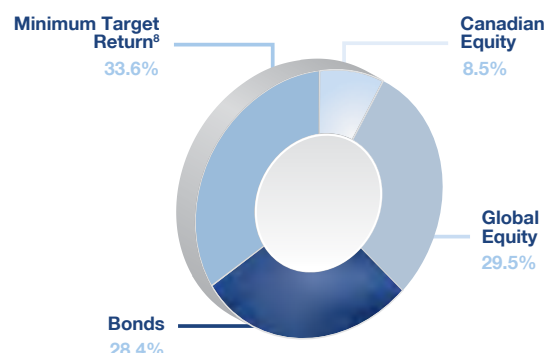
This chart shows the funded position of the Plan from an accounting perspective. The Plan's net assets are divided by the value of the pension obligations to obtain the funded position for accounting purposes.

The Plan's funded position on an accounting basis was 104% at the end of 2015 and 2016.

### Actual Asset Mix As at December 31, 2016



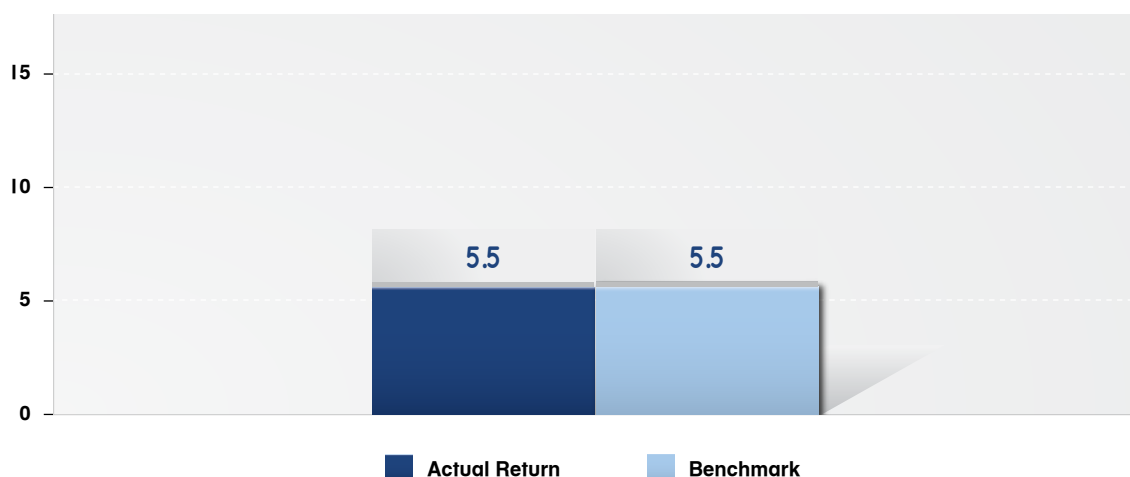
### Asset Mix Policy As at December 31, 2016



The asset mix policy is the long-term investment strategy that has been approved by the Pension Committee. As at December 31, 2016 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.

<sup>8</sup> The Minimum Target Return Portfolio investments are private investments in real estate, infrastructure, private equity, and private debt

### Halifax Regional Municipality Pension Plan Performance - 2016 (Return %)



In 2016, the Plan earned 5.5%, which was in line with its benchmark of 5.5%. 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 5.9% S&P/TSX Index + 2.6% S&P/TSX 60 + 4.6% S&P 500 Index (\$USD) + 9.1% MSCI EAFE Index (\$CAN) + 4.2% MSCI Emerging Markets (\$CAN) + 11.6% MSCI World (\$CAN) + 15.0% FTSE TMX Canada Universe Bond Index + 13.4% 3 Month Banker's Acceptance + 33.6% Minimum Target Return.

## Since Inception Performance as at December 31, 2016 (Return %)



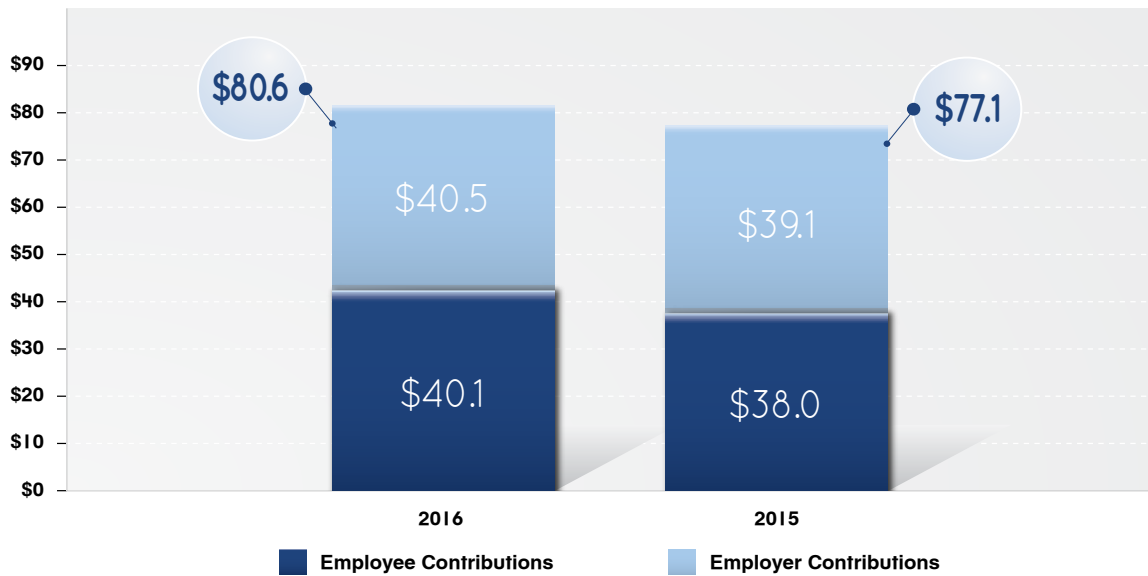
For pension plans, a longer-term perspective is important. Since inception, the Plan has earned an annualized rate of return of 6.97% net of expenses exceeding its 6.50% long-term rate of return objective by 0.47% per year.

## Calendar Year Returns 2007-2016 (Return %)



With the exception of 2008, the Plan has performed well over the last ten years.

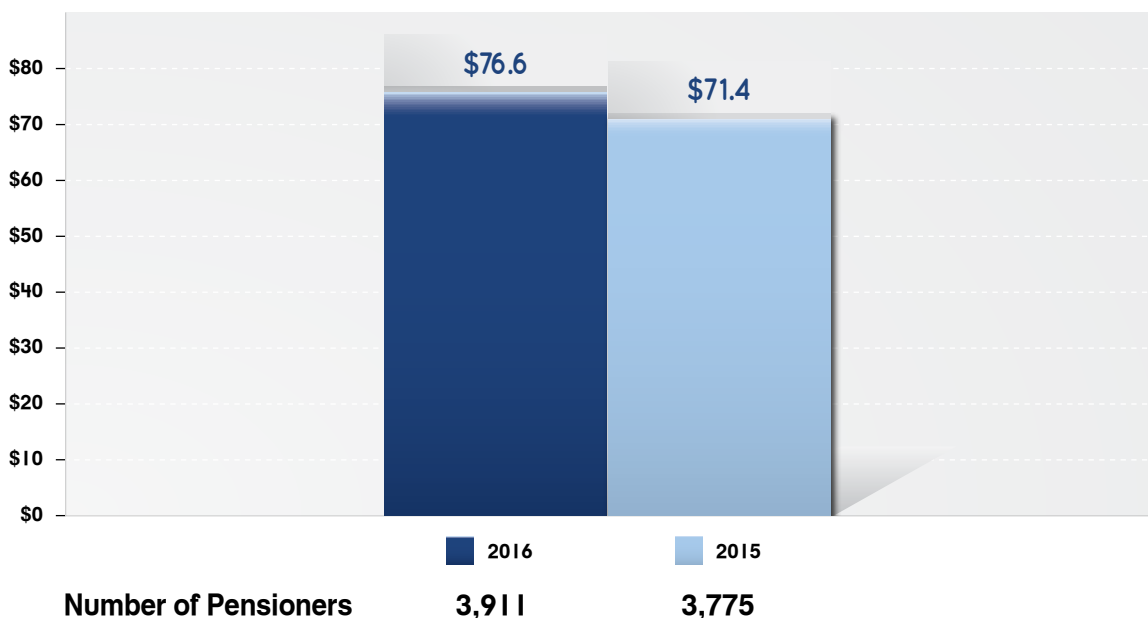
## Employer / Employee Contributions (\$ millions)



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.

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 2015 to 2016.

## Total Expenses

(\$ millions)



Expenses increased by approximately \$200,000 in 2016 relative to the 5 year average primarily due to higher investment fees as assets increased. Expenses as a percentage of average assets decreased in 2016 primarily due to an increase in net assets.

## Total Expenses

As at December 31, 2016

|                                            | \$ millions  | %           |
|--------------------------------------------|--------------|-------------|
| <b>Investments<sup>9</sup></b>             | \$4.7        | 71.2%       |
| <b>Pension Administration<sup>10</sup></b> | \$1.3        | 19.7%       |
| <b>Governance<sup>11</sup></b>             | \$0.6        | 9.1%        |
| <b>Expenses</b>                            | <b>\$6.6</b> | <b>100%</b> |

<sup>9</sup> Includes all costs associated with investment and risk management

<sup>10</sup> Includes all costs associated with pension calculations and plan member service

<sup>11</sup> 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 1108, 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 | 8:30am - 4:30pm

**If you are a pensioner, please contact the general line 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](mailto:tobinm@halifax.ca) for:**

- Pension division due to marriage breakdown
- Buyback of service calculations
- Transfers of service from another employer

**Please contact the general line at (902) 490-6213 or [HRMPension@halifax.ca](mailto:HRMPension@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 Rosemary Saba at (902) 490-2903 or [sabarose@halifax.ca](mailto:sabarose@halifax.ca) for:**

- Termination of employment
- Calculation of benefits on death of a pensioner or active member
- Questions about your annual pension statement

**Please contact Nancy Reny at (902) 490-6041 or [renyn@halifax.ca](mailto:renyn@halifax.ca) for:**

- Retirement

**Please contact Laura McLellan at (902) 490-2148 or [mcllellal@halifax.ca](mailto:mcllellal@halifax.ca) for:**

- Residual payment inquiries



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