HALIFAX REGIONAL MUNICIPALITY
SPECIAL PENSION COMMITTEE MEETING
Monday, June 15, 2015
Duke Tower, 5251 Duke Street, 4th Floor Training Room
9:00 a.m. – 4:00 p.m.

MEMBERS: Rick Dexter, NUMEA
Melanie Gerrior, NSUPE
Sheldon Harper, CUPE
Michael Lawlor, Retiree
R. Scott MacDonald (HRPA) *(9:15 a.m.)*
Raymond MacKenzie, ATU
Bill Moore, Management, Co-Chair *(10:10 a.m.)*
Louis de Montbrun, Management *(9:20 a.m.)*
Mike Sampson, Management
John Traves, Management
Britt Wilson, Management
Dan White, IAFF, Co-Chair

ALTERNATES: Jerry Blackwood, Management
Stephen Bussey, IAFF
Jack Dragatis, ATU
Sherry Hilchey, NUMEA
Dwayne Hodgson, HRPA
Brian Leslie, Retiree *(until 3:00 p.m.)*
Greg MacKay, NUMEA
Roxanne MacLaurin, Management
Ted Moore, IAFF *(until 2:05 p.m.)*
Peter Nixon, HRPA *(9:15 a.m.)*
Gordon Roussel, Management
Ken Wilson, ATU

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

OTHERS: Margaret Barry, Halifax Library
Cheryl Little, Halifax Water
Cathie O'Toole, Halifax Water *(until 2:15 p.m.)*
Anne Patterson, Halifax Regional School Board
Don Ireland, Actuary, Aon Hewitt

OBSERVERS: Audra Abbott, *(Former NUMEA Voting Representative)*
Joe Kaiser, NSUPE Local 13 President *(9:30 a.m.)*

1. CALL TO ORDER

The meeting was called to order at 9:00 a.m. by the Co-Chair, Mr. Dan White.

2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS

Moved by Mike Lawlor and Seconded by Mike Sampson to approve the agenda as presented. Motion Put and Passed.

3. BUSINESS ARISING FROM THE MINUTES

3.1 December 31, 2014 Actuarial Valuation

- Review of Assumptions

  Mr. Don Ireland, Actuary, Aon Hewitt, presented an overview of assumptions for the December 31, 2014 actuarial valuation. A valuation must be prepared for the HRM Pension Plan as at December 31, 2014 and filed with the regulators by December 31, 2015. No changes are being proposed by Mr. Ireland to the assumptions adopted for the December 31, 2013 valuation.

  Mr. Ireland reviewed four major economic assumptions used in the valuation:

  - inflation rate
  - long term rate of return
  - discount rate
  - general wage growth

  The proposed best estimate rate of return is 6.75%. This is the long term rate of return assumption using AON's 30 year historical returns for asset classes used by the Plan at their respective weights but assuming no excess returns from active management. The preliminary valuation results were prepared using a 6.50% discount rate with a 0.25% margin.

  From AON's model, 6.75% represents the median (50^{th} percentile) return expectation assuming no value is added from active management other than to cover the costs of active management.

  Mr. Sampson asked what return is required for the financial statements? Mr. Ireland responded 7.25%, since this is Management's best estimate. Aon is comfortable with this rate for the financial statements. Mr. Ireland clarified that Management refers to the Pension Office in this instance.

  Mr. Ireland noted that there was a slight experience gain of approximately $5 million attributed to mortality experience observed at December 31, 2014. The gain arose because plan members were dying earlier than assumed. Research on plans across the country like the HRM Pension Plan shows the Canadian Pension Mortality (CPM) 2014 private table is the relevant table to use.

Mr. Ireland reviewed the summary of proposed best estimate demographic assumptions. The December 31, 2014 valuation showed an experience loss because people were retiring earlier than assumed. This will need to be monitored and may be because plan members are nervous about potential benefit reductions being proposed by the Management representatives of the Committee.

Ms. O'Toole asked if the mortality studies included other municipalities within Nova Scotia and if not, how do they account for the difference in Nova Scotia health versus the health across the country? Mr. Ireland replied that the studies were not Nova Scotia-based. Some were Quebec-based and some Western Canada-based. The suggestion that Nova Scotians live shorter lives is true when you look at the population as a whole. A better indicator of mortality for the HRM Pension Plan is to look at working population life expectancies.

Mr. Hodgson asked if there was enough data to base the mortality studies on our own group's experience? Mr. Ireland replied that a large amount of data would be needed and the range of doubt would be quite wide.

Mr. Bussey asked if numbers could be prepared for HRM? Mr. Ireland replied that there is not enough data for the working population.

Mr. Roussel asked Mr. Ireland if he was comfortable with the 0.25% margin on the discount rate? Is this adequate? Mr. Ireland replied that this is a very thin margin for a plan of this nature. Some plans are striving toward a 0.75% to 1% margin. Plans tend to increase the margin when they are in a position to do so.

- Review of 2014 Actuarial Valuation Report
  Mr. Ireland distributed a discussion note on the preliminary valuation results for the HRM Pension Plan. Also distributed was a chart on the estimated reduction in current service cost for various combinations of future service benefit reductions for the HRM Pension Plan. The assumptions and the 0.25% margin remains the same for the purpose of this discussion.

  Mr. Ireland noted that there are three aspects that will affect the Plan's funding for the December 2015 valuation due to the recent amendments to the Pension Benefits Act.

  - immediate vesting and an improvement to the pre-retirement death benefit
  - the requirement to amortize new deficits as a level dollar amount rather than a level percentage of pensionable earnings
  - no longer allowing increases in current service cost contributions to be postponed for 12 months from the valuation date

  These will apply to the December 31, 2015 valuation.

Mr. Ireland reviewed the Summary of Going-Concern Position as at December 31, 2014. The best estimate going-concern funded ratio is 89.8% and the current service cost is 17.2%. Before the statutory improvements and using a 6.5% discount rate, the going-concern funded ratio is 87.1% and the current service cost is 17.9%. The impact after the statutory improvements would be a going-concern funded ratio of 86.9% and a current service cost of 18.0%. The statutory improvements are being assumed for the December 2015 valuation.

For the 2015 valuation, the cost impact of immediate vesting will be approximately $50,000 and the improvement to pre-retirement death benefits under the Pension Benefits Act will cost approximately $4.5 million.

Assuming a 6.5% discount rate, the total aggregate contribution rate beginning January 1, 2016 would be 24.4%, an increase of 0.5% over the current contribution rate of 23.9%. The margin as a percentage of best estimate liabilities is 3.1%, a slight increase over the 3% margin used in the 2013 valuation.

Mr. Ireland reviewed the reconciliation of the going-concern financial position. The difference between the expected unfunded liability and the unfunded liability after experience gains/losses as at December 31, 2014 was approximately a $7 million loss. The $7 million loss was due to higher than assumed salary growth ($20 million) and earlier than expected retirements ($10 million), partially offset by higher than expected investment gains and gains from mortality experience (plan members dying earlier than assumed).

Mr. Ireland reviewed the Summary of the Solvency Position. This is for information and disclosure purposes since the Plan does not need to fund for solvency. The solvency ratio (excluding grow-in benefits) at December 31, 2014 was 64.2% compared with 69.2% at the last valuation. The decline is due to lower long-term interest rates. With the new regulations, grow-in benefits will need to be disclosed. If a person's age plus service at the time of a plan wind up totals 55 points, they would be entitled to grow-in benefits.

Under the new regulations, the commuted value transfer ratio (including grow-in benefits) is 58.3%.

Mr. R. Scott MacDonald asked how do we compare with solvency rates across the country? Mr. Ireland replied public sector plans across the country largely are exempt from solvency. Ontario is better on the solvency side. The western provinces are in the 60% range. Multi-employer plans are closer to 50% across the country. Mr. Ireland stated that on both a solvency and going concern basis, the HRMPP was in line with the average public sector plan in Canada.

Mr. Sampson asked when do we start using the 58% transfer rate? Ms. Troy replied, June 1, 2015.

Ms. Troy asked Mr. Ireland to confirm that indexation is excluded from the solvency funded ratios for those plans that offer indexation. Mr. Ireland replied, yes this is correct.

Mr. Roussel referred to Page 3 of the discussion note and asked what the difference is in the best estimate and the before statutory improvements columns? Mr. Ireland replied that the difference is the 0.25% margin for conservatism. This margin amounts to approximately $48 million on top of the $57 million margin as a result of the asset smoothing. A total margin of $105 million has been included in the draft valuation to help address future investment returns that are lower than expected or higher than expected benefit costs.

Mr. Ireland reviewed Appendix B – Actuarial Asset Value and Appendix C – Membership Summary.

Ms. Little asked Mr. Ireland what discount rate would he use? Mr. Ireland replied he would be comfortable with 6.50%.

Mr. Traves referred to Mr. Ireland's comment referring to minimum funding standards for Alberta and BC where the margin levels for going concern were beginning to be regulated. He asked if he could see a trend? Mr. Ireland will discuss this in his Emerging Trends presentation.

- Review of Emerging Trends
  Mr. Ireland presented on Emerging Trends for Canadian municipal plans.

  Mr. Ireland reviewed changes for the Quebec, City of Regina and City of St. John's municipal plans.

  Mr. Ireland reviewed the general trends in contribution rates for municipal plans across the country.

  Mr. Ireland reviewed the mortality assumption changes used to calculate commuted value effective October 1, 2015. The CPM aggregate table will be used and commuted values are expected to increase by at least 5%.

Ms. O'Toole asked if there was still flexibility in the Pension Benefits Act on restrictions of when you can take your commuted value? Mr. Ireland replied that there is no change in the Act regarding this.

Ms. White added for HRM's Plan, the early retirement subsidy does not come into effect until you are eligible to retire. Therefore, commuted values would be lower if a member terminated employment before their early retirement date.

Mr. Ireland reviewed the minimum funding standards. All public sector plans are exempt from solvency funding. The regulators are concerned about what will protect the benefit security for the members if there is no solvency. The concept being promoted is "going-concern plus."

Mr. Ireland reviewed the regulatory strategies to sustain and expand pension plans. Over the past 18 months, governments and regulators have been putting forth and acting on longer-term proposals for defined benefit pension reform aimed at varying objectives. Most jurisdictions have introduced legislation to allow target benefit plans.

Ms. O'Toole asked why the target benefit plan was not included in the Nova Scotia legislation? Mr. Ireland replied that the regulations have not been developed for target benefit plans and these would be very complicated. Ms. White added that the Superintendent of Pensions indicated it was mostly due to desired harmonization with other jurisdictions.

Mr. Sampson asked if the reports from Aon can be distributed? Mr. Ireland replied, yes.

The Committee then discussed the valuation assumptions presented by Mr. Ireland. Page 3 of the Discussion Note, the before statutory improvements column shows a need for a combined contribution increase of 0.5%. Mr. de Montbrun asked why the best estimate is not used? Mr. Ireland replied this can be used but the regulator may not accept this as there would not be sufficient margin built in. Using the best estimate could affect the Plan's ability to recover if something negative happens. Without significant margin built in, this could cause a significant contribution rate increase.

Mr. Bussey asked if this was accounted for in the smoothing and would this help in stabilizing contribution rates? Mr. Bussey noted that there is a combined $100 million buffer if you take into account the .25% margin plus the asset smoothing reserve. This buffer makes up about 50% of the unfunded position of $200 million. Mr. Ireland responded that the smoothing reserve helps negative impacts from lower than expected investment returns but it does not address negative impacts from higher than expected cost of liabilities.

Ms. O'Toole asked if there was no margin built into the valuation, would there be an increased legal liability for the voting members of the committee? Mr. Ireland said the committee would have to obtain legal advice on this.

Mr. B. Wilson asked how many plans with a risk premium associated with equities, only use the best estimate? Mr. Ireland replied that he is not aware of any.

Mr. Sampson asked Mr. Ireland to clarify if the 0.25% margin was thin? Mr. Ireland replied, yes, relative to other plans he is aware of. Mr. Ireland said that plans tend to increase margin levels when they are in a position to do so.

Mr. White asked if moving the discount rate from 6.5% to 6.55% is advisable? Mr. Ireland replied this would be reducing the margin to maintain status quo. This could be done but may have to be more in the 6.6% range to prevent a contribution rate increase.

Mr. R. Scott MacDonald asked what would the deficit be with a 6.25% discount rate? Mr. Ireland replied approximately $255 million resulting in a 1.5% increase in contributions.

Mr. Bussey asked how the Plan is doing year to date? Ms. Troy replied that the year to date return as of close Friday, June 12, 2015, was 5.4%.

Moved by R. Scott MacDonald and Seconded by John Traves to accept the continuation of the assumptions used in the December 31, 2013 Valuation for the December 31, 2014 Valuation. Motion Put and Passed.

The Plan Text requires that Plan Members and employers have six months' notice of any contribution increases. This would be the end of June 2015. Ms. Troy informed the Committee that the Committee could advise plan members that a contribution of approximately .25% is likely effective January 1, 2016 unless offsetting benefit reductions are made. These would have to be unanimously approved by all 5 HRM unions and Council.

The Committee decided to move the discussion on potential benefit changes to item 3.2.

3.2 Pension Plan Funding

Mr. B. Wilson presented to the Committee "Impact Analysis of the Proposed Pension Changes". This is in follow up to the memo distributed to the Pension Committee on March 12, 2015 regarding proposed changes to build capacity in the Plan.

Mr. B. Wilson also put forth a document providing notice of various motions effective January 1, 2016 that the HRM Pension Plan be amended as follows for all future service accruals:

- that the earliest unreduced pension rule for non-PSO members be changed to a combination of age and service equalling 85 (Rule of 85) and for PSO members be changed to a combination of age and service equalling 80 (Rule of 80).
- that the earliest possible retirement age for members be set at a minimum of age 55.
- that the highest average earnings period be changed to 5 consecutive calendar years.
- that the normal form of pension be changed from a Joint and Survivor 66.66% to a single life guarantee for 120 months and that actuarial equivalent forms of pension be added as required by legislation.
- that the benefit formula be changed to integrate with the Canada Pension Plan (CPP) as follows:
    - 1.4% of earnings up to YMPE as defined by the Canada Revenue Agency and 2% of earnings over YMPE as defined by the Canada Revenue Agency.

Mr. B. Wilson asked that the Committee consider these motions separately.

Mr. R. Scott MacDonald stated that he was very pleased with the investment performance since inception. Mr. MacDonald asked Mr. Ireland if he could provide an update for 2014 on the costing of potential benefit reductions of that Mr. Ireland had provided a year ago. Mr. Ireland replied this would take a week to complete but he did not expect the current service cost would change from last year.

Mr. Wilson provided various examples of the proposed changes on the annual pension amount for an employee who has 25 years of service pre-change and 5 years post-change.

Mr. B. Wilson clarified that the notice for motions is to amend future benefits and keep the contribution rate the same.

Mr. Bussey asked if we could go to a 7.25% discount rate? Ms. Troy replied that this is used for accounting and the difference between the accounting number and actuarial number is active management and additional conservatism. From AON's perspective, a 7.25% expectation represents the 60th percentile and essentially presumes active management can add 0.50% additional return. Mr. Ireland would not be comfortable with using 7.25% as the Going Concern discount rate because it assumes no margin.

Ms. Troy asked Mr. Ireland if the Committee reduces benefits but keeps the contribution rate the same, would this be acceptable from CRA's perspective unless the margin is changed? Mr. Ireland replied, the margin would need to change for CRA to accept this. The deficit and current service costs would increase but because you have reduced the benefits, it would be more balanced with more margin in the system.

Ms. Barry asked if you only made these proposed changes for new hires, would there be much of an impact? Mr. Ireland replied, there would be no affect. Usually when this happens, the defined benefit plan would be closed and new hires would have a defined contribution plan.

Mr. B. Moore asked what margin rate would we need to have to build capacity? Mr. Ireland replied that going from 3.1% to a 5% margin rate would be approximately $30 million and a 1% additional deficit contribution.

Mr. R. Scott MacDonald would like to see an update to the costing of all the benefit changes previously discussed in the fall, and commentary on the impact of active aging and the cost of salaries on the service cost.

Mr. Ireland added that it was assumed salaries would go up 1.5% at January 1, 2014. If they went up 3-3.5 % there would be a $15 million loss. Ms. Troy asked how did the Committee arrive at 1.5%? It seems low. Mr. Ireland replied that this was set last year.

All 12 voting members agreed to defer any decisions on the above motions and to have a special meeting either the day before or the day of the Annual General meeting. Mr. Ireland will provide an update for that meeting on:

- costing to all benefit changes provided last fall
- active aging cost impact on service cost
- salary costs impact on service costs
- range of margin

4. NEW BUSINESS

4.1 Members Eligible for Retirement

Ms. White distributed a chart on the members of the HRM Pension Plan eligible for retirement as at December 31, 2013. This information was presented for information.

Mr. Roussel asked to be eligible for an unreduced retirement, you would not have a Plan reduction, correct? Ms. White replied, yes.

Mr. Bussey asked what would be the impact if 15% of members retired? Mr. Ireland replied that liabilities would increase by 10-15% for those individuals. The total liability for the Plan would be approximately $30 million.

Mr. Sampson asked if there is a difference between taking a pension or a commuted value? Mr. Ireland replied that liabilities would increase by approximately 0.25% for those individuals who take a commuted value.

Ms. O'Toole added that it might be useful to look at the impact of each of the motions presented in Item 3.2 in relation to members staying or leaving.

4.2 Nova Scotia Legislative Changes:

Governance, Funding, Investment, D. Ireland

Mr. Ireland presented on the recent Nova Scotia Pension Regulation Changes. The new Act and accompanying regulations came into force June 1, 2015. The new legislation is consistent prior to reform except for the introduction of Jointly Sponsored Pension Plans (JSPP).

Ms. O'Toole asked how the HRM Plan differs from a JSPP? Ms. Troy replied that the Committee cannot make plan design changes. Each stakeholder has a veto over plan design; therefore, it does not fit into the definition of a JSPP. There is also an issue with Participating Employers that may not fit with the definition. Mr. Ireland added that grow in benefits can be removed on plan windup in a JSPP.

Plan Administration, A. White

Ms. White presented on the administration implications of the Nova Scotia Pension Regulation Changes. Ms. White reviewed the administrative impact related to:

- Immediate Vesting
  Starting June 1, 2015, pension benefits on termination of employment can be a paid in the form of a deferred pension or commuted value including employee and employer DC contributions.

- Small pension rule
  Beginning June 1, 2015, commuted values will be unlocked if the deferred pension is less than 4% of the YMPE or the commuted value is less than 20% of the YMPE. Mr. Roussel asked if this was an option? Ms. White replied, yes.

- Spouse definition
  Starting June 1, 2015, the definition of common-law partner is eliminated and non-married partners are included under the definition of spouse. New legislation means a lack of clarity surrounding death entitlements. It is possible to have two spouses. Where entitlement is disputed, the administrator may pay the amount into court, where it would be paid out

following a judicial decision. Mr. Bussey asked if this affects anyone presently? Ms. White replied, yes. Mr. B. Wilson asked if f there was any barrier to the Plan seeking clarification from the member at retirement? Ms. White replied that before any payment is made from the pension plan, the member is required to sign a declaration of marital status form. This is a requirement under the Plan Text. The member is responsible for informing the Pension Office of their spouse.

- Pre-retirement death benefit

  Mr. B. Wilson asked what affect would a change to the normal form of pension for married members have on the Plan? Ms. White replied that it would reduce commuted values for future service.

- Interest rates
  Interest rates applied to DC accounts when actual net fund rate of return is unknown starting from June 1, 2015 will change to the most recently calculated net fund rate of return. Interest rates applied to commuted value payments (from date of termination to the first day of the month in which payment is made) starting June 1, 2015 will be the interest rate used in determining the commuted value (assumed interest rate for the first 10 years after payment). This changes monthly and ranges from 2.5% - 3.1% for commuted values calculated in 2015.

- Administration fees
  Administration fees for division of pension due to marriage breakdown have changed to a maximum fee of $650 for division of DB and DC combined benefit.

- Transfer ratio
  The transfer ratio applied to a commuted value payment at December 31, 2013 was 69.2%. The remainder would be held back for five years with interest. Some exceptions to this are the small pension rule and the amounts being transferred pursuant to a reciprocal transfer agreement. Starting June 1, 2015, the plan may pay out 100% of commuted values if the aggregate of transfer deficiencies for all transfers made since the last review date does not exceed 5% of the assets of the plan at that time.

Committee decision required – Should HRMPP pay out 100% of commuted values or continue to apply the transfer ratio?

Ms. White explained some considerations for the Committee to discuss.

Mr. Roussel asked if this decision included calculations done in the past or just going forward? Ms. White replied that the Superintendent will allow plans to pay out past amounts as long as the cumulative transfer deficiencies did not exceed 5% of the assets at that time. Mr. Ireland added that the amount being held back currently is approximately $8 million. Ms. White explained that this amount is already in the Plan's liabilities.

Mr. de Montbrun asked what is different? Ms. White explained that in the past there was no discretion, the Plan had to apply the transfer ratio.

Mr. Traves asked if this is a change in benefit if the hold back is waived? Ms. White replied, no, the commuted value is not changing, only the portion that is paid immediately. There is no impact on the funding of the Plan.

Ms. MacLaurin asked if there were any figures on what the Plan is earning after these deferred payments are paid with interest? Mr. Ireland replied that there could be a gain or loss depending on the rate of return. Ms. MacLaurin asked if historically, has the Plan been making a gain at holding back the 5%? Mr. Ireland replied, yes.

Mr. Sampson asked if more plan members would take their commuted value if 100% was paid out? Ms. White replied that there are not a lot of terminated members electing a deferred pension instead of a commuted value. Most members who terminate employment before retirement transfer their commuted value even though the transfer ratio is applied. Mr. Sampson asked how much time is this taking administratively? Ms. White replied there could be an extra 0.5 FTE required to do the extra work. Mr. Sampson also asked if there was an option to change this at some later date? Ms. White replied, yes, the legislation does not have a time line.

Mr. B. Wilson added that it may be better for the Plan to hold back the transfer deficiency.

Mr. B. Moore asked what is the additional cost? Ms. White replied, there would be a charge from Northern Trust for the extra payments but it would be minimal. Most work would be done within the Pension Office.

Mr. White added that Pension Office staff could be doing other things if they did not have to perform the additional commuted value calculations.

Ms. Little asked if this applies to other jurisdictions? Mr. Ireland replied, yes, and the ones he is aware of do not pay out the full commuted value.

Ms. Troy added that you could change the Plan Text to say you cannot take your commuted value on retirement. This would save more money for the Plan. This would be an amendment and require consent of all 5 HR unions and Council. Mr. B. Wilson replied that this could drive members to leave and transfer the value of their pension prior to age 55.

Moved by Ray MacKenzie and Seconded by Dan White to pay out 100% of the amount owing of the commuted value. The rest of the Committee opposed. The motion was defeated.

The Committee decided to continue the current practice of applying the transfer ratio to commuted value payments, in accordance with the provincial pension legislation.

5. OTHER BUSINESS

6. DATE OF NEXT MEETING – June 18, 2015.

The Committee decided to call a Special follow up meeting on June 25, 2015 before the Annual General Meeting to discuss update costings of benefits.

7. ADJOURNMENT

Meeting was adjourned at 3:50 p.m.

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Dan White, Co-Chair