HALIFAX REGIONAL MUNICIPALITY
SPECIAL PENSION COMMITTEE MEETING
Wednesday, July 15, 2015
Halifax Central Library, 5440 Spring Garden Road, Halifax, NS
Creative Lab Room
9:30 a.m. – 2:00 p.m.

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

ALTERNATES: Stephen Bussey, IAFF
Sherry Hilchey, NUMEA
Brian Leslie, Retiree
Roxanne MacLaurin, Management *(acting for John Traves)*
Peter Nixon, HRPA
Gordon Roussel, Management
Ken Wilson, ATU *(acting for Ray MacKenzie)*

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

OTHERS: Margaret Barry, Halifax Regional Library
Anne Patterson, Halifax Regional School Board
Don Ireland, Actuary, Aon Hewitt

REGRETS: Raymond MacKenzie, ATU
John Traves, Management

OBSERVERS: Joe Kaiser, NSUPE Local 13 President
Claudia MacFarlane, NSUPE Local 14 President

1. CALL TO ORDER

The meeting was called to order at 9:30 a.m. by the Co-Chair, Mr. Bill Moore. Introductions were made for all attendees.

2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS

A request for an In Camera meeting at the end of this meeting was added.

Moved by R. Scott MacDonald and Seconded by Rick Dexter to approve the agenda as amended. Motion Put and Passed.

3. APPROVAL OF MINUTES – June 18 & 25, 2015

Mr. Joe Kaiser referred to the June 18, 2015 minutes and noted that Mr. John Hanrahan is "Vice President," NSUPE, Local 2 not "President."

Moved by Dan White and Seconded by Mike Lawlor to approve the minutes of June 18, 2015 as amended. Motion Put and Passed.

The Committee reviewed the changes/additions to the June 25, 2015 minutes submitted by e-mail. These were submitted for Sections 4.1 and 4.2 and provided to the Committee in hard copy at the meeting.

Mr. Bone suggested that for clarification purposes, the first name initial be added when referring to Mr. White and Ms. White for these minutes and future minutes.

Moved by Rick Dexter and Seconded by R. Scott MacDonald to approve the June 25, 2015 minutes as amended. Motion Put and Passed.

4. BUSINESS ARISING FROM THE MINUTES

4.1 Review Options for Implementing Benefit Reductions

At the June 25, 2015 special meeting of the Pension Committee, a motion was made to make three benefit reductions effective January 1, 2016. Subsequent to this meeting, it was determined in discussions with Don Ireland, Actuary, Aon Hewitt and Pension Office staff that benefit reductions effective January 1, 2016 would not prevent the contribution rate increase identified in the December 31, 2014 actuarial valuation because the reductions would not affect the 2015 current service cost.

Mr. B. Moore asked Mr. Ireland to give a brief recap and provide any recommendations.

The three options discussed at the June 15, 2015 meeting were to:

- Increase contributions by 0.5% of pensionable earnings in total beginning January 1, 2016

- Reduce the margin for the 2014 valuation
- Reduce benefits for future service

The challenge for the Plan is to maintain stability of contribution rates and benefit levels when there is a thin margin and also the requirement to file annual valuations.

The Committee was provided with further information for the June 25, 2015 meeting regarding benefit reductions for future service. Mr. Ireland participated by phone for this meeting. The Committee reviewed various options and decided to recommend three benefit reductions:

- Change from best 3-year average earnings to best 5-year average earnings
- Change from unreduced pension at age 60 to unreduced at age 60 with 10 years of continuous service (Rule of 80/75 remains in place)
- Freeze the maximum pension limit at the 2015 Income Tax Act limit of $2,818.89 per year of service

These options would reduce the contribution requirements by 0.7% eliminating the need to increase the contribution rate by 0.5% for the December 31, 2014 valuation and also increase the margin. The Committee will need to decide when to implement these benefit reductions. Benefit reductions have to affect the 2015 year of service in some capacity.

Mr. B. Moore referred to the motion passed at the June 25th special meeting and the 0.7% reduction due to the combination of the three benefit reduction options.

Mr. B. Moore asked for clarification that the motion passed is fine but the issue is when to implement the reductions. Mr. Ireland replied, yes, timing is the issue. There is a regulatory concern that even if you preserve the benefits for members who leave in 2015, the regulator may consider the change to be a past service reduction and it may not be acceptable.

Mr. Sampson asked how is it possible to change the benefits but administer them in a different way? Mr. Ireland replied that the vested benefits would still be protected. If a person were to retire in 2020, the benefit earned for 2015 service would still be based on the best three-year average earnings definition. When the amendment is made to go from best three-year average earnings to best five-year average earnings, a best five year definition would apply to 2015 service. A test would need to be made to make sure the vested benefit at the end of 2015, which is based on the best three-year average earnings at 2015, does not give a higher benefit than the best five-year average earnings at 2020.

Mr. D. White added that it would be difficult to implement a retroactive contribution rate increase since a six-month notice is required by the Plan Text and it would be administratively difficult to retroactively implement the benefit reductions.

Mr. D. White suggested accepting a lower margin for one year to fix the problem for 2015. What would the 2015 margin have to be in order to maintain the January 1, 2016 effective date for benefit reductions? Mr. Ireland replied that the current discount rate of 6.5% would need to increase to 6.55%. The margin would go from 3.1% to 2.5% for 2015. The margin would come back to the current level or above in 2016 depending on the benefit reductions implemented, all other factors remaining the same. Mr. Ireland added that this would be the simpler solution.

Mr. B. Wilson expressed his concern that the Committee would be reducing the margin instead of increasing the margin to build capacity in the Plan for the future. The proposed benefit reductions would have done this and an easy solution may not be the best solution in the long term. He would like the Committee to move forward with a strong commitment to increasing the margin.

Mr. D. White added that he agrees but he would see the lower margin for 2015 as a temporary fix only with the understanding that the margin would be increased over time.

Mr. B. Moore asked if we make the 0.7% reduction in benefits which includes an increase of 0.2% in the margin, what is the impact of decreasing the margin?

Ms. Troy clarified that two motions were passed. One for a 6.5% discount rate and one motion for benefit reductions effective January 1, 2016. The discount rate would need to change to 6.55% if the benefit reductions are effective January 1, 2016.

Mr. Ireland added that the valuation at December 31, 2014 shows a margin of 3.1%. If the margin is reduced, it would be at 2.5%. Even if you maintain the margin at 3.1%, the amount of money coming in from increased contributions to fund this margin level would not be available until January 1, 2016.

Mr. de Montbrun asked if the 0.7% benefit reductions were implemented, how would the extra 0.2% affect the margin in the next valuation? Mr. Ireland replied that the margin would increase from 3.1% to something less than 3.5%.

Mr. Sampson asked if it was an option to amend the Plan Text to shorten the notice period on contribution changes from six months in order to implement the retroactive contribution increase? Mr. Sampson also asked with the requirement to do annual valuations, does it still make sense to do smoothing over five years? Mr. Ireland replied you could gain a little by shortening the smoothing period but you would have to remain at three years for some time and not switch the smoothing period back and forth.

With respect to the 180 day notice period, Ms. A. White replied that an amendment can be made to the Plan Text but plan members must be notified of the amendment 45 days in advance of filing the amendment with the Superintendent of Pensions. The Committee has the responsibility to give plan members and employers written notice of a change to contribution rates. If an amendment to the Plan Text affects the rights and responsibilities of the Committee, it needs to be approved by the unions and HRM Council.

Mr. D. White added that this could be considered for future years but not the current year.

Mr. Bone asked if the obligation to provide notice regarding contribution rate increases comes from the Pension Benefits Act or the Plan Text? Ms. A. White replied that the Plan Text states that 180 days' notice must be given. Mr. Bone asked how much notice is required for benefit changes? Ms. A. White replied that approval must be received from unions and HRM Council and plan members must be given 45 days' notice of the amendment before it is filed with the Superintendent of Pensions in accordance with the Pension Benefits Act regulations.

Mr. R. Scott MacDonald asked Mr. Ireland to rephrase the discussion with regard to margin in terms of discount rate. Is 6.55% the way to go for the December 31, 2014 valuation? Would the discount rate go back to 6.5% next year? Mr. Ireland replied that he would expect a modest reduction to approximately 6.45% for the 2015 valuation.

Mr. B. Wilson asked if Mr. Ireland supported a higher amount of margin and if the Committee should be putting a plan in place to increase the amount of margin in the Plan funding? Mr. Ireland replied from a practical point of view in managing a plan, the two fundamental objectives for a plan are to secure the benefits and stabilize the contributions. When you are forced into annual valuations, this is very difficult to do with a thin margin. There should be a plan to work towards a solution to increase margin over time to approximately 10% of best estimate liabilities.

Mr. de Montbrun asked what is a reasonable time to get to a 10% margin? Is that a five year plan or a 20 year plan? Mr. Ireland replied that it depends on the circumstances. He recommended that a slower journey is warranted. Six percent of pay of the present contribution rate is funding the $207 million deficit. These are temporary contributions that will come off in 10-13 years' time. If you work toward a smaller margin, you would have more funding later to keep the contributions in place to help increase margin. During that time there is also potential for better investment returns to help with the margin.

Mr. de Montbrun asked if the extra 6.6% in year's 10-13 means moving to 10% is a 20 year journey? Mr. Ireland replied that it could be a 10-15 year journey but there could be potential for experience gains to move in that direction sooner. If stable investment returns meet the discount rate assumption, this would be a 10-15 year journey.

Mr. Dexter asked if we allow the 0.25% contribution rate increase on each side to go forward as well as the 0.7% benefit reductions, what would be the impact? Mr. B. Moore added if we increase the margin by 1% what would be the cost? Mr. D. White asked if margin is the percent of best estimate liabilities, referring to a 3.1% margin and $1.6 billion in best estimate pension liabilities, would that be approximately $50 million? Mr. Ireland replied, yes. Mr. D. White added that an extra 10% of margin would be $150 million.

Mr. Ireland replied to Mr. Dexter's question and said that this would move the margin up by approximately 1%, from 3% to 4%. A half percent increase in contribution rate is approximately 1% of extra margin.

Mr. Bussey asked what would the discount rate be with a 10% margin? Mr. Ireland replied approximately 75 bp lower or 6%.

Ms. Claudia MacFarlane, NSUPE Local 14 President, asked what is the standard margin? Mr. Ireland replied that the standard margin varies by plan and circumstances of the plan. He deals with plans with 17% margins and plans with 5% margins. A 5% margin is the least that he has seen in the public sector until this Plan. Private plans are subject to solvency. There is pressure by regulators to increase margins in plans. Quebec has just passed regulation that would see plans like this one having a margin of 15%.

Mr. de Montbrun asked with a Quebec pension plan, if you are not at 15%, do you have time to get there? Mr. Ireland replied, yes. It is basically a 15 year amortization period to get there.

Mr. B. Wilson suggested going with a 6.55% discount rate but also make a commitment that the margin will be increased by 1% every year until the goal is reached.

Mr. Bussey asked how much of a discount rate, 6.5% or 6.55%, would you need in order to get a 1% margin each year from investments? Mr. Bussey asked Ms. Troy what was the year to date return? Ms. Troy replied 7.1% at close of business yesterday. Mr. Ireland replied if the assumption is 6.5%, you would need 7.5% in annualized returns to grow the margin by 1% each year, assuming the liabilities remain stable.

Mr. B. Wilson asked what was the return last year? Ms. Troy replied 9.3%. Part of the excess return is in the $57 million smoothing reserve. The return after smoothing was approximately 7%.

Mr. R. Scott MacDonald asked if the component of aging members could still be an issue? Mr. Ireland replied that this is unpredictable and depends on hiring and retiring patterns. He added that there are more impacts on the aging structure in a one year period than a three year period.

Mr. Rick Dexter made a motion to move to a discount rate of 6.55% from 6.5%.

Moved by Rick Dexter and Seconded by Dan White to move to a Discount Rate of 6.55% for the December 31, 2014 valuation.

Mr. R. Scott MacDonald clarified that the benefit changes would be effective January 1, 2016 and the discount rate would be effective December 31, 2014.

Mr. B. Wilson proposed an amendment to the motion to increase the margin by 1% per year towards a target of 10%. Mr. Dexter rejected the amendment to his motion.

Mr. de Montbrun would like to see a commitment to moving forward on the margin before accepting the 6.55% discount rate.

Mr. R. Scott MacDonald asked if we have a 2.5% margin this year instead of 3.1%, does the margin grow beyond the 3.1% in January 2016? Mr. Ireland replied that at the December 31, 2015 valuation, the margin would likely be a little higher than the current 3.1% level if benefits are reduced as discussed beginning January 1, 2016. Ms. Troy clarified that this would be at the 6.5% discount rate.

Mr. Ken Wilson asked how can we commit to a margin increase of 1% without bringing this back to the respective bargaining units? What happens if the benefit reductions are not agreed to? Mr. B. Wilson replied that contributions would go up.

Mr. Bussey asked if any of the unions were to vote down the benefit reductions and the default is a 0.5% increase to contributions, does this change with the 6.55% discount rate? Mr. Ireland replied that if the Committee moved forward with the motion to move to a 6.55% discount rate, the valuation would show a 0% contribution increase for 2015.

Mr. R. Scott MacDonald added the valuation needs to be filed by December 31, 2015. If the benefit reductions are not approved by unions and HRM Council and the discount rate stays at 6.5%, there is still a possibility of a 0.5% contribution rate increase.

An amendment to the original motion was made by Rick Dexter to move the discount rate to 6.55% and include the three benefit reductions. Dan White agreed to this amendment.

Moved by Rick Dexter and Seconded by Dan White to change from a 6.5% discount rate to a 6.55% discount rate for the December 31, 2014 valuation and move forward with the three benefit reductions for January 1, 2016. Motion Put and Passed.

Moved by Britt Wilson that the Committee establish a plan to attain a goal of 10% of liabilities margin over a period of 15 years starting with the valuation of December 31, 2015. He proposed a minimum of a 0.5% increase in margin annually.

Mr. de Montbrun asked Mr. Ireland if this sounds reasonable? Mr. Ireland replied that this is a reasonable aspiration recognizing that this may not all come from contribution rate increases or benefit reductions.

Mr. Ireland cautioned that next year the statutory benefits will come in to affect which will cost the Plan approximately $4.5 million. This amount is not included in the 2014 valuation.

Mr. B. Wilson cautioned that the Province could make more changes.

Mr. D. White suggested setting a margin number for each year for the full 15 years rather than a minimum 0.5% increase for each year.

Mr. R. Scott MacDonald suggested a commitment to never go below a margin level of 3.5% of best estimate liabilities.

Mr. de Montbrun asked how long would it take to develop a plan? Mr. Ireland replied that there are many ways to get to the 10% goal. In 10-13 years' time when the deficit contribution schedules roll off, a large amount of capacity to increase the margin would be created if contribution rates are not reduced at that time.

Mr. B. Wilson added that as fiduciaries of the Plan, the only thing that the Committee has the ability to change is the level of margin and to keep members informed of what these benefits cost.

Mr. Bussey asked what would be the impact on margin if the contribution rate levels in 10-13 years remained the same? Mr. Ireland replied, less than a 25% margin but more than 10%.

Mr. Bone asked if Mr. Ireland was satisfied with waiting 10-13 years or if there should be something done in the interim to increase the margin? Mr. Ireland suggested updating the funding policy and reviewing the target each year.

Mr. Bone added that he could not support Mr. B. Wilson's motion until more information is provided and a plan is developed.

Mr. B. Wilson withdrew his original motion and proposed a new motion for a commitment of a 10% margin in 15 years and that the Committee engage Aon Hewitt to develop a plan which will be ratified by the Committee before the end of 2015.

Moved by Britt Wilson and Seconded by R. Scott MacDonald that the Committee commit to a 10% margin in 15 years and engage Aon Hewitt to develop a plan which will be ratified by the Committee before the end of 2015. Motion Put and Passed.

Mr. B. Moore asked Mr. Ireland if the Committee could have some of this information by the next Committee meeting in September? Mr. Ireland replied that he should have some information by the first week of September. The Committee will discuss at the September 24, 2015 meeting and invite Mr. Ireland to attend. The funding policy will be included on the September 24, 2015 agenda.

4.2 Review Draft Member Communication Regarding Recommended Benefit Reductions

Ms. A. White referred to the two draft communications to members and employers dated July 2015 and the previous communication that was distributed in June 2015. These communications were distributed to the Committee by email and hard copies of the draft communications were provided at the meeting. Ms. A. White asked the Committee to review the July 2015 communication version without the blacklined changes since this version reflected the decision made by the Committee earlier this morning. The Committee agreed to adopt this version.

Moved by Rick Dexter and Seconded by Kenny Wilson to distribute the July 2015 Communication as distributed without the blacklined changes. Motion Put and Passed.

This communication will also be posted on the HRM Pension Plan website.

Ms. Hilchey asked if the Pension Office has received a lot of inquiries regarding the proposed benefit changes? Ms. A. White replied that there have been some but since the June 2015 communication, there have been less than a dozen inquiries received.

5. NEW BUSINESS

5.1 AGM Update

Mr. D. White expressed his disappointment that some of the management representatives attended the Special Pension Committee meeting prior to the Annual General Meeting but did not stay for the Annual General Meeting.

The Annual General Meeting adjourned at approximately 6:30 p.m. Mr. Peter Nixon thanked Mr. D. White and Mr. B. Moore for doing an exceptional job of responding to all of the questions at the meeting.

Mr. B. Moore felt that members left the meeting with a better understanding of the issues. There were a lot of positive comments at the end of the meeting.

Mr. Bone felt the room was too small for the meeting and a larger room should be booked for the 2016 meeting. He also felt that a 4:30 p.m. start time was too early as some members are not finished work until 4:30 p.m. He suggested a 5:00 p.m. start time. He also suggested a sound system. Mr. D. White suggested a podium and microphone as well. Ms. Hilchey suggested the theatre room at Alderney Landing. Ms. Bayers will look at booking this venue for the 2016 meeting.

Mr. Sampson was unsure if plan members are allowed to be make motions at Annual General Meetings. Does the Committee have to act on these motions? Mr. D. White replied that this is the one meeting per year that members feel they can speak. Mr. B. Moore would like to discuss this with Mr. Ron Pink for a legal opinion. The Committee's responsibility according to the Plan Text is to review the Annual General Meeting minutes.

Mr. B. Moore and Mr. D. White, have a meeting with Mr. Ron Pink for the first week of September to discuss various governance issues. Results of this meeting will be brought back to the September 24th Committee meeting. Mr. B. Moore will advise on whether Mr. Pink can attend the September 24th meeting.

Ms. Claudia MacFarlane, NSUPE Local 14 President, suggested Paul O'Regan Hall as another venue for Annual General Meetings.

Mr. B. Wilson added that members have a voice through their Pension Committee representative and should not feel that the only place they have a voice is at the Annual General Meeting.

5.1.1 Review of Draft AGM Minutes

The Committee reviewed the minutes. A motion was made by plan members at the AGM meeting requesting that another plan member survey be done. The Pension Office will look into this and report back to the Committee. Another question asked at the meeting was what would be the cost to get to 85% solvency. According to information from Mr. Ireland, this would cost approximately $500 million upfront.

The Committee approved the posting of the draft 2015 Annual General Meeting minutes to the HRM Pension Plan website.

5.1.2 Plan Member Survey on Benefit Reductions

The Committee asked the Pension Office to do some preliminary work on this and bring back findings to the Committee.

5.2 Next Steps – Stakeholder and Plan Member Meetings

The Committee agreed to mail the July 2015 member communication to active members only since they are the only plan members affected by the changes. The title of the communication will be changed to "Active Plan Members." Once the Plan amendments are drafted and ready to be signed and filed with the Superintendent of Pensions, members would be given 45 days' notice. After this, the amendments can be filed.

Mr. Ken Wilson asked if the 45 days' advance notice starts from January 1st? Ms. A. White replied, yes, but you would not have to file with the Superintendent until January 1, 2016.

Mr. Sampson asked if a separate communication or meeting would need to be done for non-union members? Was this done for previous amendments? Ms. A. White replied that she could not confirm what communications were required to be done for previous amendments but that the legislation was changed on June 1, 2015. The 45 day advance notice of amendments is a requirement of the current legislation. The previous Pension Benefits Act did have different requirements regarding notices to members regarding plan amendments.

The Pension Office will make presentations to all unions upon request prior to the September 24th Committee meeting. The results will be discussed at that meeting. The Committee should be informed prior to the September 24th meeting, if any of the unions are not in agreement with the recommended benefit reductions.

6. OTHER BUSINESS

7. DATE OF NEXT MEETING – September 24, 2015

8. ADJOURNMENT

Moved by Mike Sampson and Seconded by Rick Dexter to adjourn the meeting at 1:00 p.m.

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Bill Moore, Co-Chair