HALIFAX REGIONAL MUNICIPALITY
PENSION COMMITTEE MEETING
Thursday, September 21, 2017
Casino Nova Scotia, Compass Room
1983 Upper Water Street, Halifax, NS
9:00 a.m. – 2:40 p.m.

MEMBERS: Andrew Bone, NSUPE
Dwayne Tattrie, CUPE 108
R. Scott MacDonald, HRPA
Louis de Montbrun, Management
Raymond MacKenzie, ATU
Mike Sampson, Management
John Traves, Management, Co-Chair
Dan White, IAFF, Co-Chair
Amanda Whitewood, Management
Britt Wilson, Management

ALTERNATES: Jerry Blackwood, Management
Stephen Bussey, IAFF
Cameron Deacoff, NSUPE
Jack Dragatis, ATU
Melanie Gerrior, NSUPE
Sherry Hilchey, NUMEA *(acting for Rick Dexter)*
Scott Lillington, CUPE 108
Roxanne MacLaurin, Management
Peter Nixon, HRPA
Ted Moore, IAFF
Gordon Roussel, Management
Jason Snow, HRPA

PARTICIPATING EMPLOYERS: Cathy Maddigan, Halifax Library
Laura Ingles, HRSB *(acting for Anne Patterson)*
Cathie O'Toole, Halifax Water

STAFF: Terri Troy, CEO
Donna Bayers, Executive Assistant
Matt Leonard, Director, Finance & Operations
Lisa Tanner, Director, Plan Member Services
Mark Whidden, Director, Pension Management
Vishnu Mohanan, Manager, Private Investments
Jessie Zheng, Senior Investment Associate

OTHERS: Philip Churchill, Principal, Eckler, Ltd.
Jennifer Urquhart, Principal, Eckler Ltd.

REGRETS: Rick Dexter, NUMEA
Michael Lawlor, Retiree

An In Camera meeting was held from 9:00 to 10:00 a.m.

1. CALL TO ORDER

The meeting was called to order at 10:05 a.m. by the Co-Chair, Mr. John Traves.

2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS

Mr. Traves added, "Update from Executive Search Subcommittee" to be discussed after the Pension Office update.

Moved by Britt Wilson and Seconded by Ray MacKenzie to approve the agenda as amended. Motion Put and Passed.

3. APPROVAL OF MINUTES – June 8, 2017

Moved by Andrew Bone and Seconded by Louis de Montbrun to approve the June 8, 2017 minutes as presented. Motion Put and Passed.

4. 2016 Actuarial Valuation

Mr. Traves introduced Mr. Philip Churchill, Principal and Ms. Jennifer Urquhart, Principal, Eckler Ltd. to present the Updated Actuarial Valuation Results as at December 31, 2016. Eckler's report was distributed in the Pension Committee package. Copies were also made available at the meeting.

The 2016 Actuarial Valuation has been completed based on the assumptions proposed at the June 8, 2017 meeting.

Ms. Urquhart reviewed the updated membership reconciliation since the June meeting. The average pensionable earnings have increased since the June meeting due to the arbitration of a new contract for police in August 2017 which included retroactive increases back to April 2015. The same assumption was assumed for the firefighters. As a result, the funded ratio changed from the 92.4% reported at the June meeting to 91.4% based on the 2015 assumptions.

While reviewing the sources of gains and losses between January 1, 2016 and December 31, 2016, Mr. Bussey asked what were the "other gain and loss items" included in the table? Ms. Urquhart replied they would be items such as data changes and timing of benefit payments that would be too small to quantify individually.

Mr. T. Moore asked if the funded ratio went down due to the new contract for police and firefighters due to two years of interest being lost? Ms. Urquhart replied that interest would not be the reason for the funded ratio to decrease. The decrease is mainly due to a data change. The salaries for police and fire were too low in the preliminary valuation but until the contract was arbitrated, the impact of this adjustment was unknown.

Mr. MacDonald asked why the current service cost has increased from the previous year? Ms. Urquhart replied, this is due mainly to a difference from Aon's model to Eckler's model.

Mr. Churchill reviewed the proposed going concern assumption changes and valuation results using those assumptions.

After making all the proposed assumption changes, the funded ratio changed from 91.4% to 90.4%. This translates into approximately a $20 million increase in liabilities.

Mr. Churchill reviewed the required special payment schedule. The total required special payments are 5.9% of payroll and the required current service cost contribution equals 18.3% of payroll using the new assumptions. This means the legislated total required contribution rate would be 24.2% of payroll (5.9% + 18.3%). Currently employee and employer contributions total 24.6% of payroll. Therefore, current contribution rates would be sufficient to cover the legislated required contribution amount and there would be a contribution margin of 0.4% of payroll (24.6% EE/ER contributions minus 24.2% legislated requirement). 0.2% of payroll is approximately equal to $7.5 million. Therefore, the margin that is left will only cover an additional $15 million of deficit. Ms. Churchill felt that this margin was small for a $1.7 billion pension plan.

Mr. Sampson asked what would we do for the last nine months if the existing contribution rate was not ok? Mr. Churchill replied, the new Pension Benefit Act states that special payments to fund any new deficits may be delayed up to 12 months.

Mr. Churchill reviewed the valuation results using best estimate assumptions. The new 6.40% discount rate includes a margin for adverse deviation of 0.35% per annum (implying that the best estimate discount rate would be 6.75%). All other assumptions are considered best estimate. The target goal is a 10% margin in the liabilities. A 35 bp margin in the discount rate generates a liability margin of 4.1% at December 31, 2016. Under the best estimate discount rate, the funded ratio of the Plan would be 94.1%.

Mr. Churchill reviewed the cost impact of reducing the discount rate to 6.2% and 6.0%. A discount rate of 6.0% would result in a funded ratio of 86.1%, a 6.2% discount rate would result in a funded ratio of 88.2%. If a 6.0% discount rate assumption was used, this would result in approximately a 10% margin in the liabilities. This would require a minimum increase in contributions of 3.0% of payroll in total (1.50% of payroll for each of the employees and the employers).

Mr. Churchill reviewed the solvency/hypothetical wind-up results and assumptions. The Pension Benefits Act allows the exclusion of grow-in benefits in the solvency liabilities. If the solvency ratio is less than 85%, an annual valuation must be filed. The wind-up valuation includes grow-in benefits.

Mr. Churchill noted that the way Aon calculated the transfer ratio last year was correct but they did not calculate the solvency ratio correctly. This error had no impact on the Plan but has been corrected this year. The current transfer ratio is 60%, the same as last year. It is reasonable to continue with the holdback of 40% for commuted value payouts. The solvency ratio as at December 31, 2016 is 63.5%. Therefore, annual valuations continue to be required. The completed actuarial valuation report is required to be filed by September 30, 2017.

Moved by Scott MacDonald and Seconded by Andrew Bone to approve the December 31, 2016 Actuarial Valuation with all the assumption changes made as presented. Motion Put and Passed.

Mr. White asked Mr. Churchill to provide Eckler's commentary on the Nova Scotia Government's review on defined benefit pension funding framework. The Government is requesting feedback by November 10, 2017.

Mr. Churchill reported that Ontario did a similar review about 12 months ago. He believes this is a move towards eliminating solvency funding for all plans. JSPPS are already exempt. Some provinces, Quebec and Alberta, have moved to a going-concern plus regime. There would be enhanced requirements for margins in the going concern valuation which may be determined based on asset mix and maturity of the pension plan. There would be limits on contribution holidays and benefit improvements. Eckler provided comments on the Ontario Report and was very encouraged by the going-concern plus regime. It was stressed that plans that currently have solvency exemptions, should not get lumped into this new regime.

There is a link on the Nova Scotia Government Department of Finance website where the Superintendent is looking for feedback on the proposed changes.

Mr. Traves asked how far along is Ontario? Mr. Churchill replied, he believes they are going ahead with going-concern plus. Mr. Traves asked if there is a move towards a legislative margin? Mr. Churchill replied, yes. Mr. Traves asked if Ontario is receptive to excluding those plans that are currently relieved from solvency and what they might be looking at for margin? Mr. Churchill replied that he did not know.

5. Pension Office Update

Mr. Leonard introduced Lisa Tanner and Vishnu Mohanan of the Pension Office. Ms. Tanner provided an update on plan member services and Mr. Mohanan provided an update on investments. A report was provided in the Pension Committee package.

Ms. Tanner reported that service standards for Q2 2017 compliance was 97% for the Pension Office (97% combined Aon/Pension Office). The Pension Office processed 159 calculations with four of the calculations being jointly processed between the Pension Office and Aon.

The implementation of the internal pension administration system is approximately 70% completed after 11 months. For risk management purposes, the two systems will continue to run parallel until final testing is completed. Termination/retirement testing in the new system has resulted in approximately 95% accurate results. Mr. de Montbrun asked if the inaccurate results were errors by the Pension Office or the new system? Ms. Tanner replied that they are working on some bugs in the system and these errors were for some special situations. For the most part, the results have been very accurate. Any calculations going out to members are still being done using the Aon system.

Mr. Sampson asked what is the review process for calculations? Ms. Tanner replied that Mark Whidden, Director, Pension Management in the Pension Office has set up very detailed peer review spreadsheets. The Pension Office can independently verify the results coming from the Aon system and the internal pension administration system

The annual statements were prepared on time and mailed out prior to June 30, 2017 except for Ocean View Continuing Care Centre (data was not submitted by the employer) and four members who required data verification from the employer.

A draft is currently being reviewed of the Plan Text Amendment for changes to the Nova Scotia Pension Benefits Act and Regulations. The Audit of past Aon calculations has been completed with 94% of the calculations being within tolerable range.

Ms. O’Toole asked what is the deadline for filing the Plan Text Amendment? Ms. Tanner replied, June 1, 2018. The plan is to have a draft for the Committee to review at the next meeting.

Mr. Mohanan then reviewed some key investment activities for the second quarter and their negotiated cost savings.

From January to June 2017, investment negotiations have led to realized and unrealized cost savings of $7.4 million primarily due to paying zero or low investment management fees and performance fees.

As of September 5, 2017, the year to date return of the Master Trust was 4.6%. As of this morning, the rate of return increased to 5.4%. Mr. Bussey asked why the rate of return has dropped since the June meeting? Mr. Mohanan replied that earlier in the year, the equity mandates did quite well especially emerging markets, however, these markets have since given back some of the gains. Mr. Blackwood asked if there has been any impact since the Bank of Canada interest rate increase? Mr. Mohanan referred to slide 11, stress testing scenarios. With the increase in Canadian interest rates, the Canadian dollar has increased in value compared to the U.S. dollar. The stress testing shows that a 10% increase in the Canadian dollar results in a 1.04% decrease in the return of the Master Trust. If US interest rates increase, this is good for the Plan. If equities go down by 5%, the projected return of the Master Trust would go down by 2.26%.

Mr. Bussey asked if the effect of the recent Canadian dollar increases have already been factored into the return shown? Mr. Mohanan replied yes, that since this report was generated on August 14, 2017, the Canadian dollar has strengthened by about 5%. This affect has already been factored into the 5.4% rate of return mentioned above.

The Plan’s asset mix is 38.2% equities, 24.6% fixed income, and 37.2% private investments.

Mr. Mohanan reviewed the estimated liquidity chart for 2017. There are no liquidity issues.

6. Update Executive Search Subcommittee

Mr. Traves reported that the Voting Members have set up a search subcommittee made up of Scott MacDonald, Dan White, Britt Wilson and John Traves. Due to the delay in the CEO search process, Ms. Troy has agreed to delay her retirement date. An RFP to hire a search firm has been finalized and should go out this week. The Committee has been discussing whether the Plan is large enough to separate the positions of CEO/CIO. This will be decided later with the successful candidate depending on their skill set.

7. GOVERANCE REVIEW

7.1 Committee Self-Monitoring STANDING ITEM (Committee)

- Process

  Ms. Hilchey expressed her concern that she is not familiar with the issues when attending In Camera meetings on behalf of a Voting Member. Mr. White replied that unless it is a legal matter, the voting member should bring the alternate up to date with what is on the agenda.
- Performance
- Governance Review Update

  A Governance meeting is scheduled for September 29, 2017 with Kathy Bush. Mr. Traves encouraged all union executives to attend this meeting. The latest summary from Kathy Bush will be circulated to the Pension Committee and union executives.

7.2 Governance Policy Review – Committee-Management Delegation (Committee)

(a) Global Governance-Management Connection
(b) Unity of Control
(c) Accountability of the CEO

There were no changes to these policies.

Moved by Britt Wilson and Seconded by Louis de Montbrun to accept the above policies as presented. Motion Put and Passed.

7.3 Governance Policy Review – Executive Limitations

(a) Financial Condition and Activities

The Pension Office is in compliance with the limitations associated with this policy. Mr. Leonard provided an update.

(b) Service Providers

The Pension Office is in compliance with the limitations associated with this policy. Mr. Leonard provided an update.

Mr. Deacoff asked if Eckler was hired just for the 2016 actuarial valuation or for future valuations? Ms. Troy replied, there is no set term. Eckler can be terminated at any time.

(c) Investment
The investment strategy was in compliance with the SIP&P as at June 30, 2017. Mr. Leonard provided an update.

(d) Communication and Support to the Committee
The Pension Office is in compliance with the limitations associated with this policy. Ms. Tanner reviewed the updates which were highlighted in the report. The majority of the 2016 annual statements were sent out prior to the June 30th deadline with some exceptions outlined in the report. Due to Oceanview Continuing Care Centre staff changes, they are having difficulties gathering the 2016 pension data and are working on a plan for next year so this does not occur again.

Mr. de Montburn asked if our processes have improved with respect to identifying data issues? Ms. Tanner replied that processes and peer review have been improving each year, with expanded data validations and sample sizes of annual statements. With the implementation of the new system, the Pension Office will be in a much better position to identify any issues in the future.

Mr. Traves asked if we are on track to file the CRA waiver application for contribution limits next week (with respect to the valuation report filing)? Ms. Tanner replied CRA has confirmed that the current waiver was granted for the period ending December 31, 2018 unless contribution rates increase or benefits change. Mr. Traves commented that the list of regulatory filing requirements needs to be updated to reflect this information. Ms. Tanner will update.

Mr. Sampson asked how many members are from Oceanview Continuing Care Centre? Ms. Tanner replied approximately 145 active members. Mr. Sampson asked if Oceanview sent a communication to its members? Ms. Tanner replied, not that she is aware of. No communication came from the Pension Office. There have been no members from Oceanview calling the office. Mr. Sampson commented that technically we are in violation of the Act. Ms. Tanner replied yes, and Oceanview has been made aware of their requirements under the PBA and the Participating Employer agreement which may include financial penalties for late data. There are no other issues with this participating employer. Ms. Tanner will be setting up a meeting with them in November 2017 to see if assistance can be provided for next year.

The Pension Office has been unsuccessful at getting reimbursement for the overpayment made to a survivor who passed away in April 2016. Legal assistance has now been requested to assist with the recovery.

Mr. de Montburn asked if this money went into a bank account? Ms. Tanner replied yes, and the bank account was presumably closed in March 2017 when the bank returned the funds to Northern Trust.

Mr. Whidden reported on the audit of the 2015/2016 calculations that Aon had completed. An audit of 208 commuted value/actuarial calculations has been completed. 94% or 196 calculations have been confirmed to be within a tolerable range. The specifics of the remaining 12 were outlined in the report.

Mr. de Montbrun asked if there was any intention of going back further to check Aon's calculations for errors? Ms. Tanner replied we believe the problems started when Aon had some significant turnover with staff in 2015. There is no plan to complete an audit of calculations that occurred prior to 2015.

Mr. Bussey asked if Aon was being held accountable for these errors? Ms. Tanner replied, the Pension Office has not charged Aon for any of the time involved to do the audit. Aon is responsible to recover any overpayments that the Pension Office is unable to recover. If Aon can't recover these payments, then they are responsible for reimbursing the Plan.

The Pension Office, in conjunction with Eckler, is working on the Plan Text amendment to reflect the new pension legislation. The amendment is required to be filed by June 1, 2018. Eckler provided a draft amendment on August 14, 2017. The goal is to provide the final amendment to the Pension Committee at the next meeting.

Ms. Bayers has booked the Delta Barrington for the November 16, 2017 Pension Committee meeting.

The updated regulatory check list was attached to the Communication and Support to the Committee report.

Moved by Scott MacDonald and Seconded by Mike Sampson to approve the above policies as presented. Motion Put and Passed.

8. BUSINESS ARISING FROM THE MINUTES

8.1 Committee Education and Training Budget

Mr. Bone reported that half of the Committee Education and Training Budget for the year has been spent. He encouraged members to take advantage of training opportunities that are available. If there are any questions regarding individual training budgets, please contact Mr. Bone or review the Committee Education and Training Policy.

8.2 Reports on Service Standards Q2 2017

Ms. Tanner reported that Q2 was a successful quarter. The Pension Office met the service standards in 154 of the 159 transactions processed and was 97% in compliance with the service standard. Three of the four pension estimates that were late were late by one day. There was an unusually high number of requests during the month of May when three out of the four estimates were late. One late post retirement death letter was due to an issue with conflicting information regarding the percentage due to the survivor. The average service days for all types of transactions have been within the service standard. Ms. Tanner also reported that the Pension Office is 100% in compliance with the service standard for Q3 as of September 20, 2017.

Mr. Nixon asked when the online pension calculator will be updated to reflect the new police contract? Ms. Tanner replied, the online calculator uses data on file to the end of 2016. This data will not be updated until the 2017 annual data reports from the employer are received. Mr. B. Wilson replied, data is updated once per year in January. Ms. Tanner added that the data is not imported into the system until it has been fully validated. The update to the calculator may not be completed until Q2 2018.

9. NEW BUSINESS

There was no new business.

10. OTHER BUSINESS

Mr. Traves thanked Ms. Troy and her staff for the great presentations today. He added that Ms. Troy has been very accommodating in making this transition as easy as possible.

11. DATE OF NEXT MEETING – November 16, 2017

12. ADJOURNMENT

The meeting was adjourned at 12:20 p.m. by Ray MacKenzie.

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John Traves, Co-Chair