

**HALIFAX REGIONAL MUNICIPALITY
PENSION COMMITTEE MEETING
Thursday, June 14, 2018
Casino Nova Scotia, Schooner Room
1983 Upper Water Street, Halifax, NS
9:00 a.m. – 3:00 p.m.**

- MEMBERS:** Andrew Bone, NSUPE
Dwayne Tattrie, CUPE 108 *(left the meeting at approx. 1:20)*
Rick Dexter, NUMEA
R. Scott MacDonald, HRP
Louis de Montbrun, Management
Dan White, IAFF, Co-Chair
Britt Wilson, Management
John Traves, Management, Co-Chair
Ray MacKenzie, ATU
Mike Sampson, Management
- ALTERNATES:** Stephen Bussey, IAFF
Jack Dragatis, ATU
Melanie Gerior, NSUPE
Brian Leslie, Retiree
Scott Lillington, CUPE 108 *(left the meeting at approx. 1:20 p.m.)*
Greg MacKay, NUMEA *(left the meeting at 2:15 p.m.)*
Roxanne MacLaurin, Management
Gordon Roussel, Management
Jason Snow, HRP
Ted Moore, IAFF
Peter Nixon, HRP
Cameron Deacoff, NSUPE *(joined the meeting at 10:45 a.m.)*
- PARTICIPATING EMPLOYERS:** Cathy Maddigan, Halifax Library
Anne Patterson, Halifax Regional School Board
- STAFF:** Rob Ritchie, Chief Executive Officer
Matt Leonard, Director, Finance & Operations
Lisa Tanner, Director, Plan Member Services
Mark Whidden, Director, Pension Management
Vishnu Mohanan, Manager, Private Investments
Laura McLellan, Sr. Pension Consultant
Kimberly Clinton, Executive Assistant
- OBSERVERS:** Kimberly Scheelar, NSUPE, Local 14/Library
Joseph Kaiser, NSUPE, Local 13
- REGRETS:** Michael Lawlor, Retiree

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

1. CALL TO ORDER

The meeting was called to order at 10:01 a.m. by the Co-Chair, Dan White.

Mr. White introduced Mr. Robert Ritchie, the new CEO of the HRM Pension Plan. Mr. Ritchie addressed the committee.

Mr. Leonard introduced Ms. Kimberly Clinton, the new Executive Assistant to the CEO and Pension Committee.

2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS

The agenda was reviewed. Mr. Bone requested that the circulation of the Training & Education budget be added to items 5.2 and 7.2.

MOTION: To approve the agenda as amended.

MOVED BY: Scott MacDonald

SECONDED BY: Ray MacKenzie

MOTION PUT AND PASSED.

3. APPROVAL OF MINUTES – March 22, 2018 and April 18, 2018

A draft copy of the minutes from the March 22, 2018 and April 18, 2018 meetings were previously distributed to the Committee. There were no changes made to the minutes.

MOTION: To approve the minutes from March 22, 2018 as presented.

MOVED BY: Scott MacDonald

SECONDED BY: Rick Dexter

MOTION PUT AND PASSED.

MOTION: To approve the minutes from April 18, 2018 as presented.

MOVED BY: Dwayne Tattrie

SECONDED BY: Ray MacKenzie

MOTION PUT AND PASSED.

4. PENSION OFFICE UPDATE

A copy of the Pension Office update was provided to the Committee in their meeting packages.

Mr. Leonard asked Lisa Tanner to provide an update on Plan Member Services for Q1 2018. Ms. Tanner explained that at the beginning of 2018, the Pension Office started processing 100% of the pension calculations in house. In Q1, the Pension Office processed 157 calculations and the service standards compliance was 98.7%. The Pension Office and Conduent have completed approximately 85% of the new pension administration system after 16 months of the anticipated 2-year project. A new, more comprehensive retirement calculator was released on the Pension Plan's website at the end of April. The feedback from members has been favorable.

Mr. Leonard reviewed investments and highlighted the key activities for the quarter. The year to date return as of June 13th, was 2.6% and net assets of the Master Trust are approximately \$1.995 billion.

Mr. Leonard then reviewed the projected liquidity of the Master Trust and the realized proceeds from private investments in Q1.

Mr. MacDonald asked about the contribution and benefit payment amounts included in the liquidity schedule for 2018. He noted a gap between the two amounts. Mr. Leonard explained that the contribution amount is based on estimates received from each of the participating employers. The benefit payment amount is annualized and is based on a monthly average from Q1.

At this time, Mr. Traves took the position as chair of the meeting.

5. GOVERNANCE REVIEW

5.1. Committee Self-Monitoring STANDING ITEM (Committee)

- Process
- Performance
- Governance Review Update

Mr. Traves asked if there were any items to be discussed regarding Self Monitoring, noting that the Special Meeting on Governance is on Monday, June 18, 2018.

None were raised.

5.2. Governance Policy Review – Governance Process (Committee)

- a) Committee Principles
- b) Committee Structure
- c) Cost of Governance

Copies of the above noted Governance Policies were provided to the Committee in their meeting packages.

When discussing Committee Structure, Mr. de Montbrun noted that although it would be discussed later on the agenda, the Audit Sub-Committee is currently looking for a new member. He noted that the volunteer could be a voting member or an alternate member.

When discussing Cost of Governance, Mr. Traves noted item 3 regarding the Committee Training and Education Policy. Mr. Bone circulated a report on Training and Education costs for the Committee to reference. He discussed a recommendation being put forward by the Training and Education Sub-Committee to increase the budget for alternates and voting members. Mr. Bone indicated that training costs are trending upward and there has been a surge in requests for deviations from the budget. The recommendation is that the budget for alternates increase from \$3,000 to \$3,500, and that voting member budgets increase from \$6,000 to \$7,000. It was also recommended that these increases be made retroactive and included in the current budget year.

MOTION: To approve an amendment to the Committee Training and Education policy to increase the budget for alternates by \$500 to \$3,500 and increase the budget for voting members by \$1,000 to \$7,000.

MOVED BY: Andrew Bone
SECONDED BY: Ray MacKenzie

MOTION PUT AND PASSED.

Mr. Sampson asked if the training sub-committee has looked at the International Foundation of Employee Benefit Plans Master of Trust Management Standards program. Mr. Bone advised that the sub-committee did look at it during their last meeting. The program is being offered on a very limited basis, with a waiting list for the next offering in November. He explained that this is a 2-part course over a 2-year period, therefore requiring a longer commitment. Mr. Bone expressed some reluctance about making the program part of the core training for voting members as it may not provide enough value.

5.3. Current Governance Policy Quarterly Review Timetable MONITORING

A copy of the Governance Policy Review Timetable was provided to the Committee in their meeting packages.

Mr. Traves asked if there were some items that should be looked at before the beginning of the new year rather than making retroactive changes. It was proposed, based on the training budget discussion earlier, that the Cost of Governance Policy be reviewed at the Committee meeting in the 4th quarter, which would allow it to be revised, if necessary, prior to the beginning of the new calendar year.

MOTION: To approve the Governance Policy Review Timetable as amended to reflect the change in the review of the Cost of Governance policy from the 2nd quarter to the 4th quarter.

MOVED BY: Andrew Bone

SECONDED BY: Dan White

MOTION PUT AND PASSED.

5.4. Governance Policy Review – Executive Limitations

Copies of the Interim CEO Succession, Asset Protection, Investment and Communication and Support to the Committee policies were provided to the Committee in their meeting packages.

Interim CEO Succession:

Mr. Leonard reviewed the information that was provided in the report. The Interim CEO is in compliance with the limitations associated with this policy.

Asset Protection:

The Interim CEO is in compliance with the limitations associated with this policy. Key updates from the previous report were provided.

Ms. Tanner discussed the changes and updates that were made to section 2.

Ms. Tanner explained that at the time of the last report, there were still 2 outstanding issues related to the audit of the AON calculations. A repayment plan has been worked out for those 2 members.

The annual pensioner audit which was started in late January 2018 was completed in March. Equifax identified 54 out of 4,064 pensioners as possibly deceased, three of these were confirmed as deceased, the rest were confirmed as living and in receipt of their pensions.

The ongoing legal issue with overpayment/repayment of monies paid out to a survivor following death went to small claims court in April and the outcome was a judgement in the Pension Plan's favour. Documents have been filed with the Land Registry and Personal Property Registry office's and all documents are now with the Sherriff's office who has the power to enforce the judgement through garnishing or seizing of monies or properties.

Investment:

Mr. Leonard reviewed the report. The investment strategy was in compliance with the Statement of Investment Policies and Procedures as at March 31, 2018.

Communication and Support to the Committee:

Mr. Leonard reviewed the report. The Interim CEO is in compliance with the limitations associated with this policy. Updates from the previous report were highlighted including the overpayment of a survivor pension that was discussed in the Asset Protection report.

MOTION: To approve the above policies as presented.

MOVED BY: Ray MacKenzie

SECONDED BY: Rick Dexter

MOTION PUT AND PASSED.

6. NEW BUSINESS

6.1. Summary Review of 2017 Draft Audited Financial Statements.

Copies of the draft financial statements of the Halifax Regional Municipality Master Trust and the Halifax Regional Municipality Pension Plan for the year ended December 31, 2017 were provided to the Committee in their meeting packages.

Mr. Traves introduced Mr. Carey Blair, Partner, KPMG LLP. Mr. Blair provided a brief overview of the audit process and KPMG's role as auditor. KPMG conducted the audit in accordance with Canadian generally accepted auditing standards. Mr. Blair advised that the audit opinions for both the HRM Master Trust and the HRM Pension Plan were unqualified.

Mr. de Montbrun noted the significant change made this year to the discount rate used for the extrapolation of the Plan's pension obligations. The discount rate decreased from 7.25% to 6.40%, and that the financial statements now show a deficit instead of a surplus. He asked Mr. Blair to speak further to this change.

Mr. Blair explained, accounting standards state that the discount rate should be management's best estimate. Management will consult with the actuary as to what would be the appropriate foundations for that estimate. There are several things that would need to be considered such as, risk free interest rates, types of investments held, the amount of risk that has been taken on, a provision for adverse deviation, and certain unknown market changes.

KPMG would agree based on their review, that the estimates were appropriate, based on current conditions and they also agree with the methodology used to develop it. This drop in discount rate is consistent with other pension plans.

Mr. MacDonald asked Mr. Blair to explain the fair value hierarchy detailed in Note 2 to the Master Trust financial statements. Mr. Blair explained that the fair value hierarchy has to do with the types of inputs used in valuing investments. There are 3 levels. The highest level is level 1, which

have quoted prices in active markets. Level 2 values are derived from market equivalents either directly or indirectly. The lowest level, level 3, uses values that are unobservable in the markets as they are not traded in the active market (ex. private investments).

Mr. Wilson asked who and how was the discount rate set? Mr. Leonard explained that the Pension Office investment team determined management's best estimate. It was based on expectations of future investment returns, a reduction for expenses, and an amount applied for adverse deviation.

Mr. de Montbrun advised the Committee that the Audit Sub-Committee did have a conversation with KPMG, without management present, and there were no concerns noted.

6.2. Recommendation to Approve 2017 Audited Financial Statements.

On behalf of the Audit Sub-Committee, Mr. de Montbrun recommended that the Pension Committee approve the 2017 draft audited financial statements of the HRM Master Trust and the HRM Pension Plan.

MOTION: To approve the draft audited financial statements of the HRM Pension Plan and the HRM Master Trust for the year ended December 31, 2017 as presented and recommended by the Audited Sub-Committee.

MOVED BY: Louis de Montbrun

SECONDED BY: Scott MacDonald

MOTION PUT AND PASSED.

6.3. Recommendation for New Member – Audit Sub-Committee

Mr. de Montbrun explained that the Audit Sub-Committee is currently looking for a new member. The volunteer can be either a voting or non-voting member. The sub-committee meets twice per year. Mr. MacDonald volunteered to be a member of the Audit Sub-Committee.

6.4. Review of Policy with Respect to Plan Expenses

A copy of the Policy with Respect to Plan Expenses was provided to the Committee in their meeting packages.

Mr. Leonard explained that this review is done on an annual basis. The only change that was made was to provision 6.07 (3) (I). There were no changes made to the appendices.

Mr. Bone noted that the cost of travelling seems to always come up as an issue, more specifically the per diem for meals especially when travelling in the United States. Mr. Bone advised that

this would be something that will be further discussed by the Training and Education Sub-Committee.

MOTION: To accept the changes to this policy as amended.

MOVED BY: John Traves

SECONDED BY: Mike Sampson

MOTION PUT AND PASSED.

7. BUSINESS ARISING FROM THE MINUTES

7.1. Reports on Service Standards

A copy of the HRM Pension Plan Service Standard Report – Q1 2018 was provided to the Committee in their meeting packages.

Ms. Tanner discussed the service standards report. In 2018, all the calculations were being done in house. She highlighted that there were 157 calculations processed and 98.7% were completed within the service standards. Two calculations were past the service standard.

Mr. Bussey asked how far past the service standard were the 2 late calculations. Ms. Tanner replied the pension estimate was late because the Pension Office was still waiting for the 2017 data. Once the data was received, the estimate was completed and sent. It ended up being 2 days late. The termination statement was late, due to the member file being improperly filed with already processed files.

Mr. Sampson asked how are we doing with the completion of the annual member statements? Ms. Tanner advised that they were completed and mailed on June 11th.

7.2. Committee Education and Training Budget

A copy of the Committee Education and Training Budget was provided to the Committee in their meeting packages.

Mr. Bone reviewed the budget with the Committee. He noted that the Fall is quite busy with many Committee members attending conferences.

Mr. de Montbrun asked if there were limitations on where people can go for training?

There was then an open discussion about the destinations of the training and if it was the best value for the Pension Committee to send members to certain destinations. Many of the conferences and training seminars that are held in destinations outside of Canada tend to bring better speakers and 30-40% more attendance. The cost for these is very similar to going to many

destinations within Canada. The training is vetted by the Training and Education Sub-Committee. When people return from training, they are supposed to submit an evaluation form, that is then reviewed by the Training and Education Sub-Committee to determine if the training would be beneficial in the future for other members. It was noted that the training calendar and training records are due for a review.

7.3. Update – Club Vita

A copy of the memo regarding Club Vita was provided to the Committee in their meeting packages.

Mr. Whidden reminded the Committee that at the last Committee meeting in March, Eckler had gone over the preliminary valuations results, and had discussed some potential issues that could impact the Plan. One of those issues was a new mortality projection scale that the Canadian Institute of Actuaries (CIA) will most likely mandate using for valuation purposes in the near future. It is estimated that this new projection scale would increase the Plan's liabilities by 0.5% – 1.5%. After discussing this new projection scale at the last Committee meeting, Philip Churchill from Eckler had mentioned a program called Club Vita that attempts to resolve some of the current issues with how actuaries measure mortality. The Committee asked the Pension Office to provide more information on Club Vita.

Mr. Whidden briefly summarized two issues with how mortality is currently measured for actuarial valuation purposes. They were;

1. Standard mortality tables are developed on an infrequent basis with information that is out of date. This leads to large increases in plan liabilities when these new tables are adopted.
2. Currently the standard mortality tables being used for valuations are based on "plan level" factors (i.e. public vs. private sector), and generally do not take into consideration the individual characteristics of a plan's membership.

Mr. Whidden then indicated that Club Vita attempts to address these two issues.

The general concept of Club Vita is that all pension plans that participate in the program confidentially pool their data and there is an attempt to identify longevity trends in the data provided. Club Vita considers the individual characteristics of the membership data they receive and develop tailored mortality tables and identifies longevity risks for each plan that participates in the program. These mortality tables consider things such as member health, geographic location, age, gender, marital status and wealth. These tables are also developed with up to date information and adjusted each year based on any new information that becomes available.

Mr. Whidden indicated that if the Plan was to enroll in Club Vita it would use these customized mortality tables for its actuarial valuations each year. He indicated that there would be a change in the Plan's liabilities when initially moving from the current CIA mortality tables to the new Club Vita mortality tables. He indicated that because future adjustments to the Club Vita mortality tables are expected to be small, the Plan wouldn't be as exposed to large increases in liabilities due to changes in mortality tables as it would be if it continued to use CIA mortality tables. This is because CIA tables are released infrequently and this causes large increases to liabilities each time the CIA publishes a new mortality table.

The next step would be to have a more detailed presentation from Eckler on Club Vita at a future Committee meeting.

Mr. Sampson noted that Mr. Whidden had mentioned in the memo that these tables would be acceptable by the Nova Scotia Superintendent of Pensions, and then asked if the CIA have issued an opinion on the use of these tables? He also asked if there are any other suppliers or competitors to Club Vita. Mr. Whidden indicated that he was unsure if the CIA has expressed an opinion on Club Vita but he didn't think so and that he does not believe there are currently any Canadian competitors. Mr. Whidden said he would look into this further and let the Committee know.

Mr. Bussey asked Mr. Whidden for his opinion and recommendation on this service. Mr. Whidden advised that he recommends taking the next step and having a more detailed presentation from Eckler to better explain the Club Vita approach and that managing longevity risks is a prudent step to managing a pension plan's overall risk profile.

Mr. Traves, asked if there are any other plans in Nova Scotia that have adopted Club Vita and if this approach has been accepted by the Nova Scotia Superintendent of Pensions in these instances. Mr. Traves felt that before we make any decisions we need to know for certain if the Superintendent would accept our valuation results if we were to use these customized mortality tables. Mr. Whidden indicated that he was unsure of any specific Nova Scotia plans that have adopted Club Vita.

Mr. Dexter asked Mr. Whidden to confirm with the Superintendent her position on Club Vita.

Mr. Ritchie clarified that he understood that there is a general interest from the Committee in exploring Club Vita further but that certain questions that were brought up need to be addressed before any decisions are made. Assuming the responses to these questions are favorable, Eckler will be invited to do a more in depth presentation at a future committee meeting.

7.4. 2017 Preliminary Actuarial Valuation.

Mr. Philip Churchill, Ms. Jennifer Urquhart, and Mr. Chris Murphy, Principals for Eckler, joined the meeting. and distributed the preliminary actuarial valuation report to the Committee.

Mr. Churchill presented the preliminary actuarial valuations results as at December 31, 2017.

Mr. Churchill reported that as of December 31, 2017, based on the previously discussed assumptions, the Plan is estimated to be 91.7% funded on a Going Concern basis and that current contributions rates are sufficient to meet the regulatory funding requirements and no changes to benefits are necessary as at December 31, 2017.

Mr. Churchill noted that as of December 31, 2017, active members represent about 47% of the Plan's total liabilities. Thus, over half of the Plan's liabilities relate to members no longer employed by HRM. This is a key issue to monitor going forward when thinking about long term planning, and how the future demographics and contribution rates of the Plan will evolve.

Mr. Churchill reviewed some of the gain and loss items from the December 31, 2017 valuation. He indicated that the Plan's assets did very well during 2017 and that none of the other experience gain and loss items were surprising or overly material to the results of the valuation.

Mr. Churchill then reviewed the Plan's current service cost using the proposed 6.17% discount rate. Between December 31, 2016 and December 31, 2017, the Plan's current service cost increased from 18.2% of payroll to 18.9% of payroll. This was mainly due to the change in the discount rate from 6.4% to 6.17%.

Mr. Churchill then discussed the Plan's required contributions to fund the preliminary deficit of approximately \$160 million dollars. He noted that the special payment schedules currently in place from prior valuations are more than sufficient to fund this deficit. No new special payment schedules are required and the special payment schedule developed in 2009 can be slightly reduced.

Mr. Churchill then touched on the Committee's margin policy which indicates that there is a goal to have a 5% margin in the Plan's liabilities when we file this year's valuation. He indicated that by using a 6.17% discount rate we will achieve this goal and no adjustments to contributions or benefits will be required.

Mr. Churchill then discussed the next steps before the valuation can be formally filed with the regulators. Eckler will need to complete some final data checks, complete the solvency valuation and the valuation report prior to the September 30, 2018 filing deadline. Final results will be presented to the Committee at the September 20 meeting.

Mr. MacDonald noted that 6.17% is an odd discount rate, and asked if it could be reduced to 6.15%. Mr. Churchill explained that using a 6.15% discount rate could be possible but he would need to confirm that it would not have any impact on contributions or benefits. Mr. Churchill noted that this information can be provided at the September meeting.

7.5. Pension Modelling Update

A Long-Term Planning presentation was distributed to the Committee by Eckler.

Ms. Urquhart introduced Mr. Murphy. Mr. Murphy is from Eckler's Toronto Pension office and leads the Financial Modelling and Pension Risk Management group.

The focus of this project is on long term planning for the Plan. Mr. Murphy indicated that today they will be focusing on an overview of the work plan, reviewing the interview findings, discussing key principles and proposed metrics, a comparator plan analysis and a high-level discussion about modelling assumptions. Mr. Murphy indicated that this project is an exercise in risk management and that one of the end goals should be to have a better risk management process in place for the Plan. Mr. Murphy then briefly touched on some of the other recent modelling projects that Eckler has worked on.

Mr. Murphy indicated that there are generally 4 broad categories that DB pension plan risks can be categorized in. These categories are: risks that affect both assets and liabilities (ex. asset liability mismatch), investment risks, demographic risks, and other risks that are hard to quantify (ex. regulatory risk). Each of these categories have different managing techniques. The key risks that were identified that the HRM Pension Plan is exposed to are investment returns, volatility of contributions, discount rate and the maturing of the plan.

Mr. Murphy talked about the sources for pension plan risks and various risk management strategies. He noted that risk management strategies for pension plans are generally all linked together and cannot be looked at independently.

Generally speaking, there are 3 different ways that these risks are tested and modelled. They include; sensitivity testing, scenario testing, and stochastic modelling. Stochastic modeling provides for a wide range of simulated economic and capital market scenarios and analyzes the Plan's risk exposure under these scenarios. Stochastic modelling is the type of testing that Eckler is proposing for this project. Mr. Murphy summarized that the mandate of this exercise is to look at the Plan's benefit and funding policy while holding the Plan's current asset mix constant.

The review will provide the Committee with information related to the Plan's risk profile and from there they can make more informed decisions with regards to how much risk the Plan is willing to take. Mr. Murphy then briefly touched on some of the different assumptions that will be needed in order to do the modelling.

Mr. Sampson asked how do you build in things like future changes in mortality tables into the model? Mr. Murphy indicated that the model is built using current assumptions but additional margin can be built into the model assumptions to show what could happen in the future.

Mr. Murphy then discussed the idea of “key metrics” and how they are used to assess the results of the testing. He suggested that the following key metrics might be a good starting point for the Plan;

1. The long term current service cost should be less than 18% of payroll
2. There being at least an 85% chance of average contributions over the next 30 years being less than 25% of payroll
3. There should be at least an 85% chance of annual contributions over the next 30 years being less than 25% of payroll

Sample model outputs were provided for a hypothetical pension plan to give the Committee a sense of how results would be presented to them once the modelling is complete.

Mr. Murphy then provided historical information specific to the HRM Pension Plan. He provided some statistics on the Plan back to 1999. There was a further discussion about the Plan’s historical current service cost from 1999 – 2016 and the Plan’s current ability to absorb a shock in funded status.

Ms. Urquhart then provided an overview of the 16 interviews that were conducted with voting members of the Committee, certain employers and Pension Office staff. She discussed the key findings and outcomes of these interviews. The interviewees were asked to provide candid and confidential feedback on the Plan. The feedback that was presented was prioritized by majority and how strongly people felt about specific issues related to the Plan.

Mr. Murphy wrapped up the discussion with a summary of the work plan, the timelines and the items that will be done between now and November 2018 when it is anticipated that the project will be completed.

8. OTHER BUSINESS

There was no other business to discuss.

9. DATE OF NEXT MEETINGS

Special Meeting - June 18, 2018

Annual General Meeting -June 18, 2018

Committee Meeting -September 20, 2018

10. ADJOURNMENT

MOTION: To adjourn the HRM Pension Committee meeting at 2:34pm

MOVED BY: Ray MacKenzie

SECONDED BY: Rick Dexter

Dan White, Co-Chair