

**HALIFAX REGIONAL MUNICIPALITY  
PENSION COMMITTEE**

**June 17, 2013**

**The Halifax Club, Morrow Room**

**9:00 a.m. – 3:40 p.m.**

MEMBERS: Audra Abbott, NUMEA  
Sheldon Harper, CUPE  
Michael Lawlor, Retiree  
R. Scott MacDonald (HRPA), Co-Chair  
Raymond MacKenzie, ATU  
Roxanne MacLaurin, Management  
Bill Moore, Management  
Jennifer Purdy, NSUPE  
Gordon Roussel, Management  
Mike Sampson, Management  
Britt Wilson, Management, Co-Chair  
Dan White, IAFF

ALTERNATES: Jerry Blackwood, Management  
Stephen Bussey, IAFF  
Gerard Cottreau, Management (*left at 10:15 a.m.*)  
Rick Dexter, NUMEA  
Jack Dragatis, ATU  
Nigel Field, Retiree (*arrived at 11:00 a.m.*)  
Melanie Gerrior, NSUPE  
Sherry Hilchey, NUMEA (*left at 1:30 p.m.*)  
Charlotte McInnis, Retiree  
Peter Nixon, HRPA  
Dwayne Tattrie, CUPE

STAFF: Terri Troy, CEO  
Donna Bayers, Executive Assistant  
Angela Rushton, Manager, Pension Services  
Matt Leonard, Manager, Finance & Operations  
Alex Longmire, Senior Investment Associate (*arrived after lunch*)

OTHERS: Anne Patterson, Halifax Regional School Board  
Cathie O'Toole, Halifax Water (*arrived after lunch*)  
Diane Levandier, Sackville Sports Stadium  
Margaret Barry, Halifax Regional Library

**1. CALL TO ORDER**

The meeting was called to order at 9:05 a.m. by the Co-Chair, Mr. Britt Wilson. An In-Camera meeting will be held at the end of the Pension Committee meeting.

**2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS**

Mr. B. Wilson added, "Update on Pensioner Audit" by Angela Rushton under "Other Business."

*Moved by Audra Abbott and Seconded by Raymond MacKenzie to approve the agenda as amended. Motion Put and Passed.*

**3. APPROVAL OF MINUTES – March 21, 2013**

*Moved by Jennifer Purdy and Seconded by Stephen Bussey to approve the March 21, 2013 minutes as presented. Motion Put and Passed.*

**4. BUSINESS ARISING FROM THE MINUTES****4.1 December 31, 2012 Actuarial Valuation, Don Ireland, Actuary, Aon Hewitt**

Mr. B. Wilson introduced Mr. Don Ireland, Actuary, Aon Hewitt.

The purpose of Mr. Ireland's presentation is to review the funding for the Plan as of December 31, 2012. By law, an assessment of the Plan's financial position needs to be completed at least once every three years. The last valuation was completed for December 31, 2009. The next one is due for December 31, 2012.

Mr. Ireland reviewed the assets of the Plan versus the liabilities accrued to December 31, 2012. The valuation will determine a funding recommendation to show how much money needs to go into the Plan to pay off the deficit over a 15 year period as well as to pay for service being accrued by current members. Mr. Ireland reviewed the Going Concern Summary table which shows the unfunded liability, going-concern funded ratio and required contribution rates under various discount rate assumptions.

At the end of December 31, 2009, the Plan had a going concern deficit of approximately \$60 million and was approximately 95% funded. At the end of December 31, 2012, using Aon's "best estimate" discount rate of 6.70%, the Plan had a going concern deficit of approximately \$139.5 million, which was largely the result of low investment returns, since 2008 returns are included in the 5-year asset smoothing numbers. Using a 6.25% discount rate, the going concern deficit is approximately \$214.6 million which requires contributions of 23.9% of pensionable earnings in total, shared 50%/50% for employees/employers.

Ms. O'Toole asked how the mortality tables play a role in the selection of appropriate discount rates and will they be updated for future valuations? Mr. Ireland replied that mortality rates are the most difficult to determine. Presently, an industry standard rate table known as the UP 1994 projected generational table is used to determine mortality rates. Mortality tables are based on

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today's rates and projection rates. There are presently two studies being done, one in the United States and one in Canada. The Canadian study has not yet been released. Both studies are suggesting that the base rates are being overstated as people are living longer and are expected to live longer going forward. This could mean an increase of 7.5% in liabilities. He cautioned that in a year from now this assumption will need to be reviewed.

Ms. Troy added that the valuation could be filed at the 6.25% discount rate but increase contributions by 4% extra instead of 3.2% (required when using a discount rate of 6.25%), since this has already been approved by plan members. Mr. Ireland agreed that the additional contributions would provide extra margin.

Ms. Barry asked if the settlement with Lehman Brothers was already built into this table? Ms. Troy replied, yes, the assets as at December 31, 2012 include the settlement.

Mr. Ireland referred to "transfer deficiency holdbacks." In accordance with the regulations, when someone transfers out of the Plan, the Plan has to hold back the solvency deficit portion of the transfer. This would be a liability of the Plan. Since 2009, the chart shows an estimated cumulative holdback of \$2.8 million. This amount is likely overstated by approximately \$1 million but, when corrected, it will not impact the funded ratio or required contribution rates.

The solvency ratio at the end of December 31, 2012 was 60.5%. It was 80.9% at the end of December 31, 2009. At the end of December 2012, the Plan received a full exemption for funding on a solvency basis. The solvency deficiency still needs to be reported in the annual valuation. This will form the basis for future hold backs of transfer deficiencies.

Mr. Ireland reviewed the going concern demographic assumptions:

- Mortality
- Termination of employment
- Retirement rate
- Disability
- Proportion of non-retired members with a spouse at retirement or pre-retirement death
- Spouse/member age difference

Mr. Ireland reviewed the going concern economic assumptions:

- Discount rate
- Inflation
- General salary increase
- Seniority, merit, promotion increases
- Maximum pension limit increase

The market value of assets at December 31, 2012 was \$1,211,130,000. The actuarial value of assets at December 31, 2012 was \$1,209,583,000.

Ms. Troy asked if we are to continue doing annual valuations, should we continue smoothing? Mr. Ireland replied, yes. The volatility of the market value in one year can be quite significant. Smoothing helps create more stability.

Ms. O'Toole asked now the number of participants has changed since 2009? Mr. Ireland replied that the largest increase has been in the number of pensioners.

**Motion:**

***Moved by Gordon Roussel and seconded by Mike Sampson to accept the filing of the December 31, 2012 valuation according to the pre-approved 6.25% discount rate assumption. Motion Put and Passed.***

The new base contribution rate of 11.96% for each employer/employee will be effective January 1, 2014. A draft communication to members has been prepared and distributed by the Pension Office.

**5. GOVERNANCE REVIEW**

**5.1 Committee Self-Monitoring STANDING ITEM (Committee)**

- Process
- Performance

No comments.

**5.2 Governance Policy Review – Governance Process (Committee)**

(a) Committee Principles

The Committee reviewed and made no changes to this policy.

(b) Committee Structure

The Committee reviewed and made no changes to this policy.

(c) Cost of Governance

✓ Training and Education Policy

Ms. Sherry Hilchey presented on behalf of the Training and Education Subcommittee. The subcommittee is proposing changes to:

1. Additional Mandatory Training Requirement

All new members/alternates will be required to attend both the Annual Education Session and either the Trustee Development Program (TDP) through Humber College or the FTMS through International Foundation and be certified. A passing grade would be required to obtain funding from the general budget. If there is a failing grade, the cost would come out of the member's individual budget.

2. New Member/Alternate Attendance – 1<sup>st</sup> year

Currently, after completing the Annual Education Session and signing off on the Code of Conduct, members are given an individual training budget. A concern had been brought forward that new

members/alternates who complete their mandatory training requirement shortly after their appointment would receive an individual budget but, are not able to attend further training because they hadn't met the 75% meeting attendance rule. If the Committee approves increasing the additional core training requirement above, it is not likely a newly appointed member would be able to complete both mandatory (core) training requirements in less than a 12-month period, making this issue redundant (there will be 4 meetings available for them to attend by that point).

3. Review of Individual Budget Amounts/Coverage

All costs related to certifications deemed as mandatory (FTMS or TDP Basic) as Core Training, along with those courses required for a member to become financially literate be paid out of the general training & education budget versus out of their individual budget.

Subcommittee is recommending individual budgets be increased for voting members and alternates to \$6,000/\$3,000 respectively per year.

4. Update "Training & Education Policy"

Subcommittee recommends approval of changes to the Committee Training and Education Policy. These proposed changes under "Member/Alternate Education & Training" reflect:

- additional mandatory training
- website login directions
- availability of deviation form, training calendar, and individual training records on website
- encouraging members to review their records for accuracy on an annual basis
- re-worded "Advanced Financial Literacy" requirement
- notes when general budget is utilized

5. Update of "My Pension Education Checklist"

Subcommittee recommends approval of changes to the Training and Education checklist as presented.

6. Deadlines – Requests for Training

Subcommittee recommends Members/Alternates with training requests do so via email to the Executive Assistant before the 'early bird' date indicated on the training calendar.

7. Reimbursement for Expenses – Driving

Subcommittee recommends the HRMPP should not reimburse for more than the number of hotel nights required to attend a conference and do not reimburse money to attendees for hotel nights if they are not going to be staying in a hotel. Accommodations are reimbursed by receipt only if they are not paid for by the Pension Office directly.

8. Changes to Flight/hotel after booking  
Subcommittee recommends that changes to flight or hotel are only to be made in emergency situations. Changes will not be made for weather related reasons since airlines will do this without incurring change fees.

Recommendation No. 1

***Moved by Gordon Roussel and Seconded by Raymond MacKenzie that all new members/alternates be required to attend both the Annual Education Session and either the Trustee Development Program (TDP) through Humber College or the FTMS through International Foundation and be certified. Motion Put and Passed.***

Recommendation No. 2 and 3

***Moved by Raymond MacKenzie and Seconded by R. Scott MacDonald that all costs related to certifications deemed as mandatory (FTMS or TDP Basic) as Core Training, along with those courses required for a member to become financially literate be paid out of the general training and education budget versus out of individual budget. The individual budgets to be increased for voting members and alternates to \$6,000/\$3,000 respectively. Motion Put and Passed.***

Some members are missing the early bird deadline for registration of training due to the delay in receiving signed HRM approval forms. Mr. B. Wilson will look into what is causing the delay and arrange for Ms. Bayers to receive notification of approval more quickly.

Ms. Troy added that since this is a governance issue, training does not need to be approved by the CEO, only by the Training and Education Subcommittee. Ms. Troy will continue to offer advice on training opportunities.

Recommendation No. 6

***Moved by Michael Lawlor and Seconded by Dan White to recommend that Members/Alternates with training requests do so via email to the Executive Assistant before the 'early bird' date indicated on the training calendar. 3 members opposed, motion defeated.***

Recommendation No. 7 and 8

***Moved by Dan White and Seconded by Raymond MacKenzie to recommend HRMPP not reimburse for more than the number of hotel nights required to attend a conference and do not reimburse money to attendees for hotel nights if they are not going to be staying in a hotel. Accommodations are reimbursed by receipt only if they are not paid for by the Pension Office directly. Those wishing to drive to a conference will be reimbursed up to the lesser of the mileage rate or the amount of what the most inexpensive flight for that particular trip is at the time. Motion Put and Passed.***

The Training and Education Subcommittee will update the Training and Education Policy to reflect the changes discussed today and bring back to the next meeting for approval. Ms. Troy also noted additional administrative changes on Page 2 of the policy under "New Member/Alternate Orientation."

The Training and Education Subcommittee will also update the Pension Training and Education Checklist to reflect the changes discussed.

The Training and Education Subcommittee reported that very positive feedback was received on the Annual Education Session held in May as well as on the Introductory Meetings between new Committee/Alternate members and the CEO.

Ms. Troy reviewed the spreadsheet which shows a breakdown of expenses for the Committee. The spreadsheet shows a total training budget for 2013 which will change with the new training budgets approved today.

Mr. B. Moore stressed that the Committee should have a competency profile. He feels this will better reflect the education level of the Committee as opposed to the amount of money spent on training. Each member should be responsible for their own individual training profile. The Committee needs to review what areas need to be strengthened. The Training and Education Subcommittee will review and bring back to the Committee.

Ms. Bayers will include Education Sessions at Pension Committee meetings in members' training records going forward and back two years.

The Training and Education Subcommittee is working on an introduction to the Policy Governance Model for new Committee/Alternate members.

### **5.3 Governance Policy Review – Executive Limitations – Monitoring Reports (T. Troy)**

(a) Interim CEO Succession

The CEO is in compliance with the limitations associated with this policy. Mr. Hirschfeld will be retiring from the Pension Office as of June 28, 2013. Ms. Troy updated the key contacts for the office. Angela Rushton will be responsible for pension administration, plan member and Plan design matters. Alex Longmire will be responsible for investment matters. Matt Leonard will be responsible for finance and administration issues, including staff payroll and benefits, premises and insurance. Donna Bayers will be responsible for Committee training, governance policy updates and meeting logistics.

(b) Asset Protection

The CEO is in compliance with the limitations associated with this policy. The previous CEO report for No. 1 has been updated to show the increase to insurance coverage for the Pension Office. There were no other significant updates since the last report on November 22, 2012.

(c) Investment

The CEO is in compliance with the limitations associated with this policy. The investment strategy was in compliance with the SIP&P as at March 31, 2013. The Asset Mix was within min-max ranges. Ms. Troy reviewed the top 10 holdings by book value and the top 3 Canadian Government holdings by book value. The

Pension Benefits Act restricts investing in securities of a related party other than an “immaterial” amount. The credit rating average was A+, above investment grade. All investment managers reported that they were in compliance with the investment management agreements.

(d) Communication and Support to the Committee

The CEO is in compliance with the limitations associated with this policy. Ms. Troy provided updates for 1C, 1E and 1F.

On May 6<sup>th</sup> via email, Ms. Troy advised the Committee of the Plan Text’s potential non-compliance with the Income Tax Act pertaining to the use of the DC Account to purchase DB benefits. The Pension Office sent a letter to CRA highlighting the issue. No response has yet been received from CRA.

Matt Leonard joined the Pension Office effective April 2, 2013 as Manager, Finance and Operations.

Two alternates have not signed the Code of Conduct after multiple requests. The Co-chairs will contact the individuals or the nominating party to indicate that the Code of Conduct has not been signed.

#### **5.4 Current Governance Policy Quarterly Review Timetable**

The Committee made no changes to the timetable.

*Moved by Dan White and Seconded by Roxanne MacLaurin to approve the review of the policies and Monitoring Reports as presented. Motion Put and Passed.*

#### **5.5 Pension Reform**

Ms. Troy reported that the draft regulations have been released. The target date for completion is the Fall of 2013.

Ms. O’Toole added that Halifax Water sent a letter to the Nova Scotia Government asking for solvency exemption for the Halifax Regional Water Commission Pension Plan.

#### **5.6 Committee Education and Training Budget**

The remaining Training and Education budget for 2013 is 60%.

#### **5.7 Update – Plan Expense Policy**

Ms. Troy reviewed updates to the Plan Expense Policy. Updates were made on Page 4 under “Ground Transportation” as there was duplication on Page 5. On Page 6 updates were made under “General” to reflect the current governance policies. The new wording reflects this change.

*Moved by Roxanne MacLaurin and seconded by Dan White to approve the amended Plan Expense Policy. Motion Put and Passed.*

### **5.8 Update – In Camera Meeting Procedure**

This item was deferred from the last meeting. Ms. Troy referred to the last paragraph of the In Camera Procedure which states that the In Camera minutes will be kept in a locked cabinet in the Pension Office. Ms. Troy reported that this procedure is not being followed. Ms. Troy added a comment in the 2<sup>nd</sup> paragraph to indicate that she will attend all In Camera meetings except those pertaining to CEO compensation unless requested by the Committee. The Committee will review and report at the next meeting.

### **5.9 Retirement Calculator Update**

Ms. Rushton gave an update on the retirement calculator in Mr. Hirschfeld's absence. A link has now been added to the HRM Pension Plan website. A letter will be distributed with the Annual Statements giving instructions to members on how to log into their account.

The Pension Committee recognized and thanked Mr. Glenn Hirschfeld for his years of service and commitment to the HRM Pension Plan Committee. The Committee wished him all the best in his retirement.

## **6. NEW BUSINESS**

### **6.1 Summary Review of 2012 Draft Audited Financial Statements**

Mr. B. Wilson introduced Mr. Jamie O'Neill of KPMG. The Audit Subcommittee met with the Pension Office and KPMG on May 28, 2013 to review the draft financial statements and the audit findings report. The Audit Subcommittee recommended to the Pension Committee to approve the draft audited financial statements for the HRM Pension Plan and the Master Trust as presented at December 31, 2012. KPMG supports the recommendation of the Audit Subcommittee. There are no unresolved matters with either financial statement. After approval by the Pension Committee, KPMG will sign the audit report.

Mr. Moore referred to Page 14 of the HRM Pension Plan financial statements. He asked why there was a significant increase in governance expenses from 2011 to 2012. Mr. O'Neill replied that this was related to legal costs.

Ms. O'Toole asked if there were any further accounting reporting changes coming for the Plan next year? Mr. O'Neill replied that there are a number of financial instrument sections that are in progress under IFRS but it is not known when these will come into effect.

### **6.2 Recommendation to Approve 2012 Audited Financial Statements**

***Moved by Gordon Roussel and Seconded by Bill Moore to approve the draft audited financial statements for the HRM Pension Plan and the Master Trust for the year ending December 31, 2012 as presented at the June 17, 2013 Pension Committee meeting. Motion Put and Passed.***

Ms. Troy reviewed the Q1 Investment Report, Consent Agenda No. 1 prior to Mr. Pink's arrival.

Mr. B. Wilson reminded the Committee of the Annual General Meeting on Thursday, June 20, 2013 followed by the 15<sup>th</sup> Anniversary Dinner and celebration of Glenn Hirschfeld's retirement.

Ms. Troy referred to Consent Agenda Item No. 7, and reminded the Committee of the letter to plan members regarding commuted values that will be sent out with the Annual Statements.

### **6.3 Governance Review, Ron Pink**

Mr. B. Wilson introduced Mr. Ron Pink of Pink Larkin. Mr. Pink referred to his letter of March 14, 2013 to Terri Troy, CEO regarding the governance structure of the HRM Pension Plan (Agenda Item No. 6.3). He suggested a detailed discussion with the Committee might be useful. In his letter he refers to the HRPAs collective agreement, article 51(4) where it states: “The Region agrees there will be no amendment to any pension plan which alters the pension benefits or contribution levels for any member of the bargaining unit without the consent of the Union...” He questioned whether it is always best to have this sort of language in the collective agreement, which is negotiated between the parties, or should all the Plan issues be dealt with under the Plan Text? Mr. Pink also suggested other issues for discussion such as:

- Creation of the Plan into an independent body funded by the Settlers
- Elevate the committee members to trustees
- Reduce the size of the board and the number of alternates
- Eliminate the need to obtain permission from bargaining units for any change where applicable
- Create independence for the board
- Elevate the responsibility of the members
- Establish a new relationship with HRM
- Potentially create different plans for different unions depending on contribution levels

Many pension plans around the country are redesigning their governance structure to be more flexible and effective. Mr. Pink suggested that the Committee begin to act independently of the nominating unions and act solely in the best interests of all the beneficiaries regardless of the appointing union.

Ms. Troy asked if the Committee would consider becoming trustee of the existing Plan as opposed to using a corporate trustee. Northern Trust is presently the corporate trustee and legal owner of the Plan assets. This sometimes creates time delays when working on private investments. Ms. Troy would like to know if there is any additional risk for the Committee to become trustee. Does the Plan Text allow the Committee to be trustee?

Mr. Pink suggested amending the Plan Text so the Committee could become trustee. The Pension Plan office will look at next steps to eliminate Northern Trust as corporate trustee. Ms. Troy will report back at the next Pension Committee meeting.

The Committee will have a future discussion on the other issues presented by Mr. Pink. Mr. Field suggested bringing the various unions together with Mr. Pink for discussion.

## **7. OTHER BUSINESS**

### **7.1 Pensioner Audit**

Ms. Rushton reported that the pensioner audit is now in its final stages. There are still 32 members who have not yet responded and attempts to locate the pensioners have been

unsuccessful. The last letter was sent by registered mail. The next step will be to halt those pension payments in an attempt to prevent the Plan from overpaying any pensioners who have passed away. Any affected pensioner who contacts the Pension Office to confirm their identity will have their pension re-started as soon as possible.

8. **DATE OF NEXT MEETING** – October 3, 2013

9. **ADJOURNMENT**

*Moved by Michael Lawlor and Seconded by Bill Moore to adjourn the meeting at 3:40 p.m.  
Motion Put and Passed.*

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Britt Wilson, Co-Chair