HALIFAX REGIONAL MUNICIPALITY
PENSION COMMITTEE MEETING
Monday, June 6, 2016
Delta Barrington, Sackville Room
1875 Barrington Street, Halifax, NS
10:00 a.m. – 3:40 p.m.

MEMBERS: Andrew Bone, NSUPE
Rick Dexter, NUMEA
Sheldon Harper, CUPE
Michael Lawlor, Retiree
R. Scott MacDonald, HRPA
Raymond MacKenzie, ATU
Louis de Montbrun, Management
John Traves, Management *(11:30 a.m. – 1:30 p.m.)*
Amanda Whitewood, Management *(left 1:30 p.m.)*
Britt Wilson, Management
Dan White, IAFF, Co-Chair

ALTERNATES: Cameron Deacoff, NSUPE
Jack Dragatis, ATU
Nigel Field, Retiree
Melanie Gerrior, NSUPE
Brian Leslie, Retiree
Roxanne MacLaurin, Management
Ted Moore, IAFF
Peter Nixon, HRPA
Gordon Roussel, Management
Mike Sampson, Management *(acting for John Traves)*
Jason Snow, HRPA *(arrived 11:30 a.m.)*
Jordan Taylor, CUPE

STAFF: Terri Troy, CEO
Donna Bayers, Executive Assistant
Matt Leonard, Manager, Finance & Operations
Lisa Tanner, Director, Plan Member Services
Angela Himmelman, Manager, Plan Member Services
Robert Kerr, Director, Actuarial Services

OTHERS: Cathy Maddigan, Halifax Library
Anne Patterson, Halifax Regional School Board
Allan Campbell, Halifax Water

REGRETS: Bill Moore, Management, Co-Chair

OBSERVERS: Josh Mullins, NSUPE Local 2
Nicholas Hart, NSUPE Local 14

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. Dan White. Mr. D. White introduced and welcomed new Participating Employer representatives, Ms. Cathy Maddigan, Halifax Public Libraries (replacing Margaret Barry) and Mr. Allan Campbell, Halifax Water (replacing Cheryl Little) as well as observers, Mr. Josh Mullins, NSUPE Local 2 and Mr. Nicholas Hart, NSUPE Local 14

2. APPROVAL OF THE AGENDA, ADDITIONS, AND DELETIONS

Consent Agenda Item No. 3, "Amendment 2016-01 to give effect to January 28, 2016 resolution to remove the transfer option for retirement eligible members effective September 1, 2016" was added to the Consent Agenda.

Moved by Ray MacKenzie and Seconded by R. Scott MacDonald to approve the agenda as revised. Motion Put and Passed.

3. APPROVAL OF MINUTES – March 10, 2016

Mr. Gordon Roussel noted that he did not attend the March 10, 2016 meeting and asked that his name be removed from the list of attendees.

Moved by Mike Lawlor and Seconded by Britt Wilson to approve the March 10, 2016 minutes as revised. Motion Put and Passed.

4. CEO Update

Ms. Troy provided a brief overview of the Q1 CEO Update which was distributed in the Pension Committee meeting package.

The Pension Office was 97.6% compliant with service standards for Q1 2016. The combined service standard for Aon Hewitt and the Pension Office was 87.1%.

Ms. Tanner gave an update on the removal of the portability option for retirement eligible members. As of June 1, 2016, the Pension Office had received 200 telephone calls and 117 requests for commuted value estimates. Forty-eight of these requests were from Fire, 17 from Transit and 12 from the Halifax Regional School Board. The remaining 40 requests came from various other divisions. Of the 117 requests for commuted value estimates, 103 have been completed and sent to members. The total commuted value for the 103 estimates was in the $84 million range. The amount available for immediate transfer is in the $49 million range. Of the 117 requests, 15 retirement notices have been received. One member has returned the retirement forms and chose the monthly pension option.

Mr. Field asked what is the deadline to take the commuted value option? Ms. Tanner replied that notice must be given by July 31, 2016.

Ms. Troy reported that seven companies submitted a proposal for the Plan Member Survey. This survey would identify the costs of various options of the Plan. Two companies were shortlisted, Aon and Willis Towers Watson. Willis Towers Watson was selected. The survey is expected to be rolled out in the fall of 2016.

Ms. Troy reviewed the Summary of Transition History of Pension Administration services. Approximately 87% of all pension administration transactions are now done by the Pension Office. Up to December 2007, 100% had been outsourced to a third party administrator. Since that time, the Pension Office gradually took on more transactions to improve quality and response time.

Mr. Field asked if the RFP for pension administration reflects the Pension Office doing the same work they are currently doing? Ms. Troy replied yes.

The estimated minimum required rate of return for 2016 is -5.3% in order to prevent a contribution rate increase assuming pension liabilities change in line with previous assumptions. The required rate is low because of robust returns in the previous four years. The YTD return as of Friday, June 3, 2016 was -1.3%. Ms. Troy reviewed the investment activity for 2016. As at May 18, 2016, the Plan's asset mix was 37.5% Equities, 23.6% Fixed Income, and 38.9% private investments.

In response to questions from Mr. Wilson, Ms. Troy reviewed the Asset Mix Changes since 2006. Private investments have increased from 1% of the Master Trust assets to 38%. Funding has come from Canadian equities which changed from a 31% allocation to an 8% allocation and the balance from fixed income. Ms. Troy also reviewed the YTD changes in asset mix rebalancing due to funding of new investments or from sales of investments. In all cases, the transition costs have been immaterial.

In response to a question from Mr. Bussey, Ms. Troy reviewed the realized private investments since the first sale in October 2013. Nine investments have been sold to date. Three of these were sold in 2016. Returns on private investments have exceeded expectations.

In response to a question from Mr. Traves, Ms. Troy reviewed asset mix ranges from other Canadian pension plans that publish this information. Mr. de Montbrun commented that some of these plans have more asset mix options than the HRM Pension Plan. He asked if they are making it more complicated or are we making it simpler? Ms. Troy replied that we are making it simpler. Mr. de Montbrun asked if there was a way to group the options together to make it more comparable to the Plan's asset mix? Ms. Troy replied, yes, this would be possible. HRMPP's asset mix ranges for equities, fixed income, and private investments are comparable once subsets of the broader asset classes are aggregated into the broader classification. Unlike two of the plans, the HRMPP does not have an allocation for leverage. Leverage can enhance returns when returns are good but can also magnify losses when returns are not good.

5. GOVERANCE REVIEW

5.1 Committee Self-Monitoring STANDING ITEM (Committee)

- Process
- Performance

Mr. R. Scott MacDonald commented that he likes having the In Camera meeting first.

5.2 Governance Policy Review – Governance Process (Committee)

(a) Committee Principles
The Committee agreed and made no changes to this policy.

Mr. Bone reported that the Training and Education Subcommittee recently met and is reviewing the Training and Education Policy and plans to simplify the policy. Suggested changes will be brought to the next Pension Committee meeting.

(b) Committee Structure
The Committee agreed and made no changes to this policy.

(c) Cost of Governance
The Committee agreed and made no changes to this policy.

Moved by Rick Dexter and Seconded by Andrew Bone to approve the above policies as presented. Motion Put and Passed.

5.3 Current Governance Policy Quarterly Review Timetable

Moved by R. Scott MacDonald and Seconded by Ray MacKenzie to approve the above policy as presented. Motion Put and Passed.

5.4 Governance Policy Review – Executive Limitations – Monitoring Reports (T. Troy)

(a) Interim CEO Succession
The CEO is in compliance with this Executive Limitation. Delete "There has been no change since the last report." Key contacts have been updated for the Pension Office since the last report.

(b) Asset Protection
The CEO is in compliance with this Executive Limitation. The last report was November 2015.

The insurance policy provider for the Pension Office has been changed to Certain Underwriters at Lloyd's (a Lloyd's of London syndicate) effective January 1, 2016. The general aggregate limit has changed from $5,000,000 to $25,000,000.

Mr. Field asked for an explanation of the coverage. Mr. Leonard replied that this is an overall blanket coverage that includes third party liability. Ms. Troy added that the insurance also includes coverage for the Pension Office contents.

The Pension Office has not received written confirmation from Aon Hewitt since October 30, 2015 confirming whether they are in compliance with the Plan Text with respect to the calculation/valuation of current and future pensions.

Mr. de Montbrun asked why Aon Hewitt has not issued a more recent compliance report? Ms. Troy replied that she asked Mr. Deron Waldock from Aon Hewitt to address this later in the meeting.

Aon Hewitt will be attempting to recover an overpayment of approximately $16,000 they made on a reciprocal transfer to a former member. This was an excess amount that the member was not entitled to. If Aon is not able to recover the overpayment, Aon Hewitt will have to reimburse the Plan as per the contract.

Mr. Dexter asked what is the total amount to date that Aon Hewitt has paid back to the Plan? Ms. Troy replied, approximately $4,400 over the term of the contract.

Mr. T. Moore asked how aggressive is Aon Hewitt in going after the plan member for the overpayment? Ms. Troy replied that this is done in a professional way. Ms. Tanner added that small amounts are usually reimbursed to the Plan by Aon Hewitt directly. For higher amounts, Aon Hewitt will usually ask the plan member to reimburse the Plan where possible.

Mr. R. Scott MacDonald asked if the situation has ever been reversed? Ms. Tanner replied not that she is aware of, however, an audit will be performed for 2015.

Mr. Deacoff asked if the RFP for pension administration services contemplates a third party provider doing these calculations? Ms. Troy replied that the intent is to have access to a robust pension administration system and for the Pension Office to perform all calculations. However, the RFP contemplates outsourcing these calculations if and when required to do so, i.e. staff shortage, increased volumes, etc.

Mr. Dexter questioned whether the indemnification of $10 million by Aon was enough coverage. Ms. Troy replied that it is so far. However, mistakes can happen at any time. $1-2 million liability appears to be market.

Mr. Field asked does HRM carry any liability if the Plan receives faulty data from them? Ms. Tanner replied that any data received from the employers is tested for reasonability e.g. year over year changes. Ms. Troy added that credited service is one issue where employer data is relied upon.

Mr. B. Wilson replied to Mr. Field saying that the Plan cannot sue if it receives faulty data but the member can sue if they are affected by an error. Mr. Field asked if the Plan would have to pay for errors made in credited and continuous service? Does HRM hold any responsibility if the Plan has to take the member to court to recuperate the money? Mr. B. Wilson replied that HRM would have to get a legal opinion.

Mr. Sampson added that there is an obligation on the member to review their annual statements.

Ms. MacLaurin added that HRM has error and omissions insurance which covers mistakes that are made.

Mr. Field would like more information on how the Plan is covered for errors made by HRM.

The last pensioner audit was completed in February 2016 using Equifax's Deceased ID service. Equifax checked the December 2015 HRM pensioner listing against its records and identified 47 out of 3,674 pensioners who were deceased or possibly deceased. To date, the Pension Office has confirmed that out of the 47 pensioners that Equifax identified, there are only 8 pensioners that require follow-up.

Effective April 1, 2016, Northern Trust has replaced RBC for performance measurement purposes for efficiency purposes.

(c) Investment
The CEO is in compliance with this Executive Limitation. The investment strategy was in compliance with the SIP&P as at March 31, 2016.

(d) Communication and Support to the Committee
The CEO is in compliance with these limitations except where noted.

The Pension Office took on the task of manually correcting and finalizing the 34 2014 annual statements that were incorrectly prepared by Aon Hewitt. These statements have been completed and mailed along with an apology letter from the office.

The Pension Office has decided to do an audit of the 2015 calculations produced by Aon Hewitt. The scope of the audit has not been determined yet and may involve using the Pension Office actuary or Mr. James Koo's actuarial team at Aon Hewitt or some combination.

The Federal claim codes for some pensions in Northern Trust's pensioner payroll system were not being updated annually since 2008. Thirty-seven pensioners were affected by this and Northern Trust has sent a letter to explain what happened. Northern Trust has since made an improvement in their system which has corrected the problem and pensioners are now being taxed properly.

Mr. D. White asked if only 37 pensioners were affected or only 37 noticed the error? Ms. Himmelman replied that 37 noticed the error but it would not have affected all pensioners. It was only members who had a claim amount on their TD1 forms other than the basic amount that were affected.

The amendments approved before the new June 1st new Pension Act are included in the Consent Agenda. Mr. Kerr will report on this. An update on any amendments not previously communicated will be mailed out with the annual statements in June.

All Committee members and Alternates have signed the Code of Conduct for 2016.

An update is included in the package for the regulatory check list.

Mr. R. Scott MacDonald asked why an extension has to be filed for the US Tax return? An extension is required for the US tax filing because not all tax slips are available in time for the June filing deadline. It is common practice to request an extension for the filing of US tax returns.

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

Mr. D. White added that the Pension Office has moved to its' new location, same building, Suite 1108.

6. BUSINESS ARISING FROM THE MINUTES

6.1 2015 Preliminary Actuarial Valuation

Ms. Troy introduced Mr. James Koo, Partner and Actuary, Aon Hewitt.

A copy of the Preliminary Results for the December 31, 2015 Valuation was distributed to the Committee. Mr. Koo reported no negative surprises or issues that require immediate action from the Committee.

The 2015 preliminary results are based on returning to a 6.50% discount rate from 6.55% and no other assumption changes being proposed. The discount rate is at the high end of the acceptable range and high relative to peers.

Mr. Koo reviewed the major economic assumptions:

- Inflation rate
- Long-term rate of return
- Discount rate
- General wage growth

The inflation assumption remains the same at 2.25% but this may need to be revisited if inflation expectations remain low.

Mr. Koo reviewed the Expected Return for the 30 Year Mean Annual Return produced from Aon Hewitt's multivariate asset model. The total portfolio expected return for the 2015 assumption was 6.69%. HRMPP has materially lower fees for private investments relative to the standard fee schedules that Aon Hewitt assumes. This amounts to 80 bp. Using 35 bp instead of the 80 bp, Aon Hewitt projects a total portfolio expected return of 6.83%, leading to a margin of 33 bp assuming a 6.5% discount rate is used.

Mr. Traves asked how long should we wait to revisit the inflation assumption? Mr. Koo replied that this should be looked at together with the overall discount rate. He referred to Slide 7 which shows a peer comparison of funding discount rates. The chart shows a decrease in the discount rate for the plans listed. In some cases, these plans have a lower inflation rate in comparison to HRMPP's.

Mr. Field commented that the list does not show all of the plans in Canada. Mr. Koo replied that the plans illustrated are all well-known public sector plans and many are jointly sponsored. The trend is to bring the discount rate down.

Mr. D. White asked what would be the impact to liabilities if the discount rate was dropped 0.25% to 6.25%? Mr. Koo replied that a 1% change would impact the liabilities by approximately 16-17% and would increase the current service cost as well.

For federally regulated pension plans, OSFI guidelines has recently reduced the maximum acceptable discount rate from 6.50% to 6.25% before margins. The Committee should look at reducing the discount rate in the near future. If the liabilities increase and the current service cost increases, there would be less contributions available to fund the deficit.

For HRM financial statement reporting, management's best estimate discount rate remains at 7.25%. The 7.25% is at the 60% percentile relative to AON's model.

Mr. Koo reviewed the summary of proposed best estimate economic assumptions and demographic assumptions.

Mr. D. White asked if there are periodic tests of the assumptions, e.g. 60% retiring at their earliest unreduced date, to see if the results are the same? Mr. Koo replied that this should be done at least every five years to see if they are reasonable. He was not sure if this has been done in the last five years but it should be done periodically.

Mr. Koo reviewed the going concern preliminary valuation results. For 2015, the smoothed value is $94 million lower than the actual market value of assets. The margin is just over 6% of the smoothed value compared to last year which was 4%. Next year, there could also be a gain on the smoothed value. The funded going concern ratio has improved to 89.4% from 87.7% including the negative impact of reducing the discount rate from 6.55% to 6.5%.

Mr. Sampson asked for an explanation on the difference of inactive and deferred members from 2014 to 2015? Mr. Koo replied that this number could have been high last year but there is no need for immediate action.

Mr. Koo continued to review the preliminary valuation results. There was an $11.2 million salary gain in the valuation compared to an $18.5 million loss last year. This is due to lower salary increases than assumed.

Mr. Field asked if the salary assumption was a worthwhile thing to change? Mr. R. Scott MacDonald added that when the updated mortality tables came in, there was a one year reduction of the 3% salary assumption. Mr. Koo replied that the 2015 valuation includes a 3% assumption for salaries. Mr. Field asked at what point would the salary assumption be dropped from 3% to 2.5%? Mr. Koo replied that all the assumptions should be looked at together. One reason it could be high is the 2.25% inflation assumption instead of 2%. Actual inflation is about 1.4% or 1.5%. The discount rate was based on a 2.25% inflation assumption. If salary increases are lower because of a lower inflation rate, the salary rate could be lower but the discount rate would need to be lowered as well.

Mr. Field asked if this would balance out? Mr. Koo replied that the discount rate has a bigger impact than salary. Mr. Field would like to see the real costs of running the pension plan. He feels that the mortality tables should reflect the fact that people in Atlantic Canada die earlier than people in the rest of Canada. Mr. Koo replied that there is no need for immediate action but there is pressure to decrease the discount rate. If the discount rate is changed with a decrease in the salary scale, this will increase the liabilities and current service costs.

Mr. B. Wilson added that it is not one year. Fundamentally, the reason why actuaries are hired is because it is not possible to change anecdotal evidence into a number. It is only possible to look at statistics.

Mr. D. White commented on the salary issue. Last year, police and fire did not receive a wage increase. Next year, the salary increase could be more but will most likely average out.

Mr. R. Scott MacDonald added that in 2014 the salary assumption was changed for one year to be 1.5% instead of 3% which resulted in a $20 million loss.

Mr. Field added that if the discount rate is decreased, benefits will be affected. Mr. Koo replied that the assumptions will be looked at to make sure they are reasonable. There was some discrepancy regarding a few hundred pre 1994 hires as to whether these were PSO or Non-PSO. This will be verified. It is important to note that these results are not final.

Mr. Koo showed the breakdown in current service cost. The total normal cost at December 31, 2015 is 18.2% but the final number could be closer to 18.1%.

Mr. Koo reviewed the solvency liability. The Plan is exempt from solvency funding but the transfer ratio is required for disclosure purposes. The transfer ratio (with grow in) is 60.1% as of December 31, 2015. The Committee should keep this number in mind. It is a measure of the degree of risk in the funding valuation.

Mr. R. Scott MacDonald asked for the margin as a percentage of best estimate liabilities, last year versus this year. Mr. Koo replied last year the margin was 3% in 2014. It has increased to

5% in 2015. Ms. Troy interjected saying that Don Ireland, the previous actuary, had used a Best Estimate of 6.75% before margin to calculate these numbers which may be different from what Mr. Koo is now using. Ms. Troy will discuss this with Mr. Koo.

Mr. D. White referred to the slide on current service costs and asked if this has gone up and will this need to be changed? Mr. Koo replied that the difference between the total contributions minus the current service cost is still enough to cover the special payments. If the average age continues to increase, this will continue to trend up.

Ms. Whitewood asked what is the process if the Committee decides to change the discount rate or the inflation assumption? Mr. D. White replied that the Committee will make a decision when they receive the final report from the actuary. Mr. Koo added that last year's report showed that a 1% change in the going concern discount rate resulted in a 14% change in the liability and a 20% change in the current service cost. Ms. Troy referred to Slide 13 where the impact of the change on the discount rate is 5 bps. She asked if that was $9.7 million for every 5 bps? Mr. Koo replied, yes, this is a good estimate.

Mr. Koo reviewed key sustainability considerations. Margin is one aspect but margin alone is not sufficient. The HRM Pension Plan is very mature. A 10% shock would require an increase in contributions of about 4.5%, or a 25% reduction in the value of future accruals for active employees. Ms. Troy asked if the 10% shock was on the asset side or on the funded ratio? Mr. Koo replied, the funded ratio.

From a practical standpoint, you cannot keep adjusting benefits as it becomes impossible to administer and to communicate to members. A more affective way is needed to make adjustments. A lot of other plans are adjusting their indexation to deal with these issues, however, this is not a benefit in the HRMPP. Indexation can be adjusted easily.

Mr. Field asked if Aon Hewitt has looked at the changes to the Canada Pension Plan (CPP) which are being proposed and how they might affect the HRMPP? Mr. Koo replied that CPP expansion is a priority of the Federal Government but it is uncertain if this will get approved. There would be no automatic change to the benefits of the HRMPP. Some plans are integrated with CPP but the HRMPP is not. CPP expansion would not be retroactive and would only affect the future.

Ms. Troy added that the HRMPP will be doing a plan member survey on plan features. She asked Mr. Koo, based on what other plans have done and taking into account the HRMPP, what is his personal view on the next change to the Plan? Mr. Koo replied that his suggestion would be to have a benefit that could easily be changed, like indexation. Indexation is very expensive and something else would have to be changed to provide this benefit. If indexation is added now, ten years from now, there would be ten years of accrued liability under this new rule.

Mr. B. Wilson asked for clarification that this would be a plan design that promises automatic indexing to a certain level unless things go bad or is this adhoc indexing? Mr. Koo replied that you would fund for indexation and if there is a negative surprise, you could temporarily cut it. Other plans set the contribution rate to pay for indexation but do not explicitly put it in the valuation.

Mr. B. Wilson asked the Committee if our Plan is in the second bucket except for not doing the funding? His understanding was that indexing was adhoc and only funded if the Plan's financial status was sufficient. We do not explicitly or implicitly fund for indexation. Mr. Koo confirmed that the Plan does not fund for indexation unless there happens to be a surplus. If you fund for this explicitly, you would have to fund for a lower benefit because indexation has a higher value. This is unlikely in the near future.

Mr. Field asked if this includes pensions in payment in ten years? Mr. Koo replied if the Committee decided to add indexation into the funding of the Plan and 20 years later someone joined the Plan the next year, they would have all of their service under this new benefit. When they retired, they would expect to get indexation.

Mr. Field asked if you could ever get less money? Mr. Koo replied that you would never get less but you would not get the increase.

Mr. Sampson asked how different is this design from a target benefit plan? Mr. Koo replied that an ultimate target benefit plan means that accrued and future benefits are potentially adjustable.

Mr. Deron Waldock of Aon Hewitt added that another way to term this is managed defined benefit plans. Managed in that there are prescribed rules that kick in at certain points to correct and adjust and deal with different factors.

Mr. Field asked for the percentage that is needed to provide indexing? Mr. Koo replied that some plans target 100% of CPI and fund for that while others will target 75% of CPI. Mr. Field asked if this would be a 30% reduction in benefits to have indexation. Mr. Koo replied, yes, approximately. Mr. Koo could provide more figures.

Mr. R. Scott MacDonald thanked Mr. Koo and his team for their work and for providing this information earlier than usual. Mr. MacDonald would like to see the margin expressed as a percentage of best estimate liabilities instead of basis points. He asked for the timeline of final valuation results. Mr. Koo replied approximately six weeks.

Mr. MacDonald asked if the 5% margin was achievable for 2018, is there room to continue to decrease the discount rate and still have an overall margin improvement from last year? Mr. Koo replied that the results are favourable but not good enough to make any significant increase in the margin. If the discount rate is lowered, the current service costs and liabilities increase. The Committee should look at this in conjunction with the overall sustainability considerations.

6.2 Reports on Service Standards

Ms. Tanner reviewed the Service Standard Report for Q1 2016 which was distributed in the package. The Pension Office processed 86.4% of the calculations. Aon continued to be involved in the more complicated calculations until the Pension Office had processes in place to do these calculations. In early April, the Pension Office began completing non-automated termination and pre-retirement death calculations that Aon would normally do. The Pension Office met the service standards in 97.6% of the 124 transactions processed. Three Service Purchase Statement transactions were late. Aon did not meet the 15 day service standard in any of these 3 cases resulting in the combined Aon/Pension Office service standard being outside of the 20 day service standard. Aon is not fulfilling its commitment to 100% compliance with the service standards. They only completed 1 of their 19 transactions within the service standard. In May, the Aon actuarial group volunteered to assist the AON pension administration team with the outstanding calculations. The only calculations that are currently being sent to Aon are Reciprocal Transfers and Service Purchase requests.

Mr. Deron Waldock, Partner and Chief Legal Officer, Aon Hewitt added his comments on these service standards. He agreed that 5% is not a good number but he believes that things are getting better. A new person has been introduced to head their team in the last couple of weeks who is expected to turn things around. They have also introduced a better peer review process so that work is going out correctly.

Aon is also looking at compliance reporting. The last report was done in October 2015. A report will go out when the annual statements are completed and then will be done on a quarterly basis.

Once the statements are completed, the Aon team lead will come to Halifax to meet with Ms. Tanner and her team during the summer. Mr. Waldock asked Ms. Tanner to copy him on her service standard reports.

6.3 Update – Plan Member Survey

Ms. Troy reviewed the timeline and objectives for the Plan Member Survey. A copy was provided in the meeting package. The plan is to release the final survey to plan members by mid-October and review the results with the Pension Committee by November 24, 2016. The intention is to do an electronic survey only and give plan members access to computers if they do not have one. In order to improve the participation rate, promotion items may be considered.

6.4 Update – Holdback Exceptions for Shortened Life Expectancy

Mr. Kerr provided an update since the last Pension Committee meeting. A memo was distributed in the meeting package. At the Committee meeting of March 10, 2016, the HRM Pension Office proposed that the Committee add to the Plan’s holdback policy an exception for Shortened Life Expectancy commutations. The Pension Office considers it counter to the intent of the Shortened Life Expectancy commutation requirement to hold back a portion of the commuted value for 5 years when the primary eligibility criterion for Shortened Life Expectancy commutation is a life expectancy of less than 2 years. The result is a holdback amount that is scheduled for payment well after the intended recipient is expected to have died. The Pension Office noted that such an exception to the Plan’s holdback policy would be in compliance with the Act by virtue of the Act‘s exception for total transfer deficiencies less than 5% of assets.

Mr. Bussey had requested more information on the cost. Mr. MacDonald had asked if there is a holdback in pre-retirement death situations and if a similar exception should be made for commuted value payments arising from member deaths.

Mr. Kerr reached out to other plans to see what their experience was with Shortened Life Expectancy commutations. Ontario has had a provision in their Act since 1999 that is now in the Nova Scotia Pension Benefits Act. The response was that these requests are few and the Plan should not expect significant costs or a material impact on cash flow requirements.

The Pension Office does not see much of a parallel with regard to pre-retirement death benefits. There is no reason to expect the recipient (spouse or beneficiary) to not be alive to receive the holdback payment in five years' time. In the case of an estate being the beneficiary, the estate may have to be settled more quickly than five years. There could be a reason for waiving the holdback where there is a death benefit payable to an estate. If so, the Committee could extend this and waive the holdback for all death benefits. The extra cash outflow for the last couple of years would be about $260,000 a year if the holdback was waived. The cost of an exception to the Plan's holdback policy for lump sum death benefits would be the difference between the pension fund rate of return vs. the interest rate credited to the holdback amounts over the holdback period. Assuming the pension fund achieves the Plan's target return of 6.5%, these costs would be approximately $60,000 for 2014 adjusted holdback amounts and $67,000 for 2015 adjusted amounts.

Mr. T. Moore asked if an estate can be settled even though there is an outstanding amount of money? Mr. Sampson replied that the final accounting cannot be completed until you know the final assets.

Mr. Sampson added that in both of these cases, there should not be a holdback. These are two very traumatic events for families and should be settled as soon as possible. Mr. R. Scott MacDonald agreed. Mr. Field added that the cost to the Plan is minimal.

Moved by R. Scott MacDonald that the Holdback Policy be amended to allow for the immediate payout of commuted values for shortened life expectancies and deaths before retirement.

Ms. Tanner asked what should happen with the holdbacks for members that have already died? Mr. Samspon felt that this should be done retroactively. Mr. MacDonald asked if the policy is effective today, would the outstanding holdbacks be paid? Ms. Tanner replied, yes.

Mr. B. Wilson made a friendly amendment that effective today's date, any holdbacks currently being held, and any future holdbacks be paid out.

The motion was seconded by Rick Dexter.

Motion: Moved by R. Scott MacDonald and Seconded by Rick Dexter that effective today's date the Holdback Policy be amended to allow for the immediate payout of commuted values, including any current holdbacks, for shortened life expectancies and deaths before retirement. Motion Put and Passed.

6.5 Update – Short Term Disability Issue

Mr. Kerr gave a verbal update. He did not find any information that would be useful. Based on the data that is available on contributions that are waived due to disabilities, there is a provision in the actuarial valuation that amounts to ¼ of 1% of the contribution rate that is set aside to cover waived contributions. This is approximately $700,000 a year.

Mr. D. White was concerned that the intent of the Plan Text is not what is happening with respect to the waiver of member contributions while on disability. Mr. B. Wilson added that the Plan Text says that if a person is on a disability program and they receive less money they get the waiver but it does not say for what period the 'less money' refers to. Currently, if someone earns less in their bi-weekly pay period, this triggers the waiver for the entire bi-weekly pay period. HRM is looking at a configuration that would be able to determine the 'less money' down to the hourly rate but this has not been implemented yet.

Mr. Field added that in the plan design, the intent was for the disability waiver to be applicable for people that went on long term disability. It was never anticipated that this would be for one day.

Mr. Bone added that perhaps the waiver should be for the difference.

Ms. Tanner added that the disability waiver speaks to a definition of being Totally Disabled and a member's net pay being less. The definition of Total Disability includes certification by a medical doctor.

Mr. D. White asked if this could be resolved by payroll or changing the wording of the Plan Text?

Mr. B. Wilson replied that HRM is working on changing the coding but this could take longer than amending the Plan Text wording.

Mr. Sampson asked about consistency between employers. He asked Ms. Patterson if the School Board sets a minimum time period before someone gets a waiver? Ms. Patterson replied, for WCB, it exempts them for whatever time they are off.

Ms. MacLaurin added that many medical benefits are administered in house without having a doctor on staff. A form is completed and signed by the doctor and the person's employer. If there are any discrepancies, the file may be sent for an outside review of a medical doctor. Often, the decision would be made by information received by the family doctor. She agreed that the wording in the Plan Text should be amended but it is not that complicated to administer.

Mr. B. Wilson suggested that by the time the Committee meets next, their system should be configured and something should be in place by the fall. Mr. Wilson will bring a status report to the next meeting and a decision can be made at that time on whether the language needs to be changed.

6.6 Type of Amendments required as per June 1, 2015 Legislation Change

Mr. R. Scott MacDonald had asked at the last Pension Committee meeting for an update on the type of amendments that are required since the June 1, 2015 legislation change. A memo is included in the meeting package which identifies required amendments and optional amendments.

Mr. B. Wilson asked if the legislative changes with respect to the pre-retirement death provisions have been incorporated into the actuarial valuation? Ms. Troy replied that Mr. Koo has confirmed that this has always been incorporated and no change is required.

Mr. Field asked if the definition of spouse incorporates common law partner? Mr. Kerr replied that the definition of spouse incorporates what would have previously been referred to as a common law partner. If you have been living common law for a year, that individual qualifies as your spouse, if neither person is married. If you are married and have been living common law for three years, your common law partner qualifies as your spouse. This raises the issue that there could be two spouses.

Mr. Field asked if there was anything that could be put in the Plan Text to mitigate this? Mr. Kerr replied that the Plan Text has to have a definition of spouse that is as good as or better than what is in the Act. He does not believe there is a way to make this more favourable.

Ms. MacLaurin asked if there was a way to make an election where there is more than one spouse under the definition? Mr. Kerr replied that the Act gives the spouse certain rights. The spouse can elect away from their rights but no one else can elect away from the spouse's rights.

Ms. Tanner added that the Pension Office has come across this problem and will be seeking clarification from the Superintendent of Pensions. In the past, the Superintendent has said that it is up to the court to decide.

Mr. Bone asked what is the work plan to have these amendments finalized? Ms. Troy replied that there is a transition period until June 2018. Mr. Kerr added that he is targeting for the end of this year or the first half of next year. One of the issues is whether this is funded and what implications this has in terms of the timing of getting the amendments done. Amendments that improve benefits have to be pre-funded.

Mr. Kerr referred to the small benefit/small value commutation rule which states that an individual is not subject to locking in if their annual pension is less than 4% of the YMPE or their commuted value is less than 20% of the YMPE. Up to this point, the Act has been interpreted as giving the member the option but not giving the Plan the option to force these individuals out. This becomes a necessary provision when you have immediate vesting. At this point, there is no indication if the Superintendent of Pensions is going to interpret it differently.

In the process of developing the required amendment, Pension Office staff will be reviewing the Plan Text on a clause by clause, word by word basis. Other amendments may be identified in the future.

Mr. Roussel asked if the cost is known for all of these changes to the Plan and how these will affect the liabilities to the Plan? Mr. Kerr replied that the cost of immediate vesting was identified last year in the December 21, 2014 valuation. Ms. Troy added that it was approximately $50,000. Mr. Kerr continued saying that the cost of the pre-retirement death benefit where the cost is 100% rather than 60% is effectively covered by the way the Plan has been valued to date. The other amendments are not cost generating amendments.

6.7 Committee Education and Training Budget

Mr. Bone reported that $24,720 of the $120,000 annual budget for training has been spent. There are some pending expenses. Foundation and Trustee Management and Advanced Trustee Management is in Halifax in July 2016 at the Marriott Harbourfront. He encouraged anyone who has not taken this training to do so. These courses can also be taken in parts. ATMS and FTMS are in Halifax again in September 2017. The Training and Education Subcommittee met last week. Letters will be sent to everyone identifying what the next steps are in their training.

Mr. Deacoff attended two events this year. He suggested that the resource material made available for those who attended should be available to other members of the Committee that were not in attendance. Ms. Troy replied that the Office could house this manually or post on the Committee Section only part of the HRMPP website as a training reference centre. The Committee agreed that this was a good idea.

Mr. T. Moore reported that he, Rick Dexter, Jack Dragatis, Ray MacKenzie and Sheldon Harper attended a very good Pension Investment and Governance Basics course in Toronto in May 2016. He suggested asking some of the speakers to speak at any basic training that the Pension Committee might do in the future.

Mr. Bone suggested that the Subcommittee put together a list of on-line training. He asked if anyone has taken any on line training to please forward the names of these courses to him.

6.8 Governance Update

Mr. D. White reported on the ongoing governance study being done by Mr. Ron Pink. The Co-chairs met with him recently. Mr. Pink is not quite ready to meet with the Committee, however, he will be speaking with some management representatives, union presidents and union voting members. Mr. Dexter added that this should also include NUMEA. An update will be provided at the next meeting.

Mr. Field asked when the report is due? Mr. D. White replied September 2016.

7. <u>NEW BUSINESS</u>

7.1 Summary Review of 2015 Draft Audited Financial Statements

Mr. Matt Leonard introduced Ms. Jacklyn Mercer, Partner, Deloitte and Ms. Diana Khosla, Senior Manager, Deloitte. Ms. Khosla referred to the year-end communication report which was included in the package as well as the financial statements for the HRM Pension Plan and Master Trust. All of the outstanding items are complete with the exception of signed management representation letters. There were no significant deficiencies in internal controls identified. There were no uncorrected misstatements or disclosure deficiencies. The accounting policies were consistent with the previous year for both the Pension Plan and the Master Trust. Deloitte intends to issue unmodified audit reports on the Financial Statements for the year ending December 31, 2015 once the representation letters are signed and the draft Financial Statements are approved by the Pension Committee.

The significant accounting policies are disclosed in Note 2 of both sets of statements. There is one minor change to the Pension Plan Financial Statements. On Page 14, No. 4 Obligations for Pension Benefits, in the table at the bottom of the page, 3rd line from the bottom, "Increase" will be changed to "Decrease."

Mr. de Montbrun added in the extension of this note, there is additional disclosure that discusses how there is a deficit for funding purposes and a surplus for accounting purposes. The note explains why there is a surplus in the financial statements.

The Audit Sub-Committee recommended to the Pension Committee to approve the 2015 Draft Audited Financial Statements of the HRM Master Trust and Pension Plan.

7.2 Recommendation to Approve 2015 Audited Financial Statements

Moved by Louis de Montbrun and Seconded by R. Scott MacDonald that the Pension Committee approve the Draft Audited Financial Statements of the HRM Master Trust and Pension Plan for the year ending December 31, 2015. Motion Put and Passed.

Ms. Troy asked Mr. Koo to explain further the Pre-Retirement Death Benefit. Last year the legislation was changed where the pre-retirement death benefit for post 1987 service had to provide at least 100% of the commuted value. The HRM Plan already provides this for people that are not retirement eligible. For people that are retirement eligible, a pension is payable to the spouse plus any additional excess of the commuted value over the value of the pension payment for the spouse. There is no change in the liability of the valuation due to the change in the legislation.

7.3 Review of Policy with Respect to Plan Expenses

A memo was distributed in the package with regard to "Plan Member Surcharge for Pension Garnishment." Ms. Tanner referred to the appendix in the Plan Expense Policy. It is recommended that a surcharge of $70.00 be added for the garnishment of payments due to the Maintenance Enforcement Act. This is allowed in accordance with the Pension Benefits Act. Ms. Tanner suggests separating the Surcharges to the Plan Members section of the Appendix from the Expense Reimbursement to Committee and Alternate representatives section into two appendices and add the $70.00 garnishment for the Maintenance Enforcement Act.

Ms. MacLaurin asked if this was the fee when we respond to an order for garnishment? Ms. Tanner replied, yes.

Mr. de Montbrun asked if the fees charged have a relation to the actual cost of providing the service? Ms. Tanner replied that the fees are outlined in accordance with the Act. There is a maximum amount that can be charged. Mr. de Montbrun asked if this was the maximum. Ms. Tanner replied, yes. Mr. de Montbrun asked if this was the actual cost to provide the service? Ms. Tanner replied that it could cost more.

Moved by Mike Sampson and Seconded by R. Scott MacDonald to approve the amended policy with the additional fee of $70.00 for garnishment of a member's pension benefit. Motion Put and Passed.

Mr. Field asked who pays the fee? Ms. Tanner replied that the member would pay and it would be deducted from any payments deducted from the Plan.

7.4 Term of Bill Moore as Co-Chair expires September 1, 2016

The Management representatives recommended that Bill Moore's term be extended for another year.

Moved by Britt Wilson and Seconded by Mike Sampson that Bill Moore's term as Co-Chair be extended for another year until September 1, 2017. Motion Put and Passed.

8. OTHER BUSINESS

Consent Agenda Item No. 2

Mr. Kerr reviewed the revisions to the materials provided in the package in connection with Consent Agenda Item No. 2, Plan Text update. An Alternate Member of the Committee has observed a problem on Page E-13 of the proposed updated Plan Text. The error stems from Amendment 2014-02 which inserted subsection E3.03 (e) to reflect the maximum early retirement reduction permitted by the Pension Benefits Act. The order of subsections E3.03(e) and (f) were reversed. The order of the subsections was changed to reflect that the Income Tax Act minimum reduction takes precedence over the Pension Benefits Act maximum reduction. This issue has not had any impact on plan administration or interpretation. This error was not corrected when the amendment was adopted. The Superintendent of Pensions has indicated that she would deal with this as an administrative change.

Mr. R. Scott MacDonald asked if there were many members left in the Metropolitan Authority Plan? Ms. Tanner replied, approximately six members.

Consent Agenda Item No. 3
This item was added to the consent agenda for the June 6, 2016 meeting. This amendment 2016-01 gives effect to the January 28, 2016 resolution to remove the commuted value option for retirement eligible members effective September 1, 2016. The amendment was developed by Pension Office staff, with advice from the pension legal team at Aon Hewitt.

Mr. Sampson asked if a pension falls under the small benefits rule' can this be still be paid as a lump sum? Mr. Kerr replied, yes. Mr. Sampson asked about pre-retirement death for a single member who is eligible to retire, does the beneficiary have the option of taking the pension payment or the value of the payment? Mr. Kerr replied under the new Pension Benefit Act, the spouse has three options, lump sum, immediate pension from the plan or a deferred pension. In the case of a beneficiary or estate, there is no option to take the pension. They would get the lump sum.

Ms. MacLaurin added that a member has expressed their concerns with the commuted value option deadline for pension eligible members. One of the concerns was the communication piece and how this was communicated and also the notice period of six months and whether that was actually met. The other concern was whether the amendment could be implemented prior to approval of the Superintendent of Pensions.

Ms. Tanner replied that the notice period was intended to go from March 1 – September 1, 2016. The March 1 deadline was not met with the mail out. There were some issues with the printing. The actual mail out date to all members was March 9, 2016. However, the notice was on the HRM Pension Plan website and the HRM Hub on March 2, 2016. The unintended consequence of having this amendment effective September 1st meant that members had to end their employment by July 31st in order to take advantage of the commuted value option because of the way retirement dates are defined. For example, if a member ends their employment on August 1st (or later in August) then their 'retirement date' is considered to be September 1st and that member would not be entitled to the commuted value as it will no longer be available on September 1st. It was determined that you would have to leave before August 1st in order to have the commuted value option available.

The amendment which removes the commuted value option for retirement eligible members can be administered once it is filed. It is anticipated that this amendment will be approved by the Superintendent of Pensions. The Pension Office has done its due diligence with respect to this change. The Superintendent of Pensions has confirmed that this is not a change in "benefit" levels. The Superintendent of Pensions has also received a copy of the notice and the Pension Office received confirmation that the notice met all of the requirement under the Act. There is a 45 day period for any amendment that would be considered an adverse amendment. Even though we do not consider this an adverse amendment, we are well within the 45 day notice period.

Ms. MacLaurin asked Ms. Tanner if she was confident that this was not a void amendment and that the Superintendent of Pensions is in agreement that it is not a change in benefits. Ms. Tanner replied, yes.

Mr. Sampson asked why could the September 1st date not be included? Does the wording say that if your retirement date is the first of the month coincident with or next following month that you give notice? Ms. Tanner replied that it is coincident with.

Ms. Himmelman added that as of September 1st, the option is no longer available. If you retire on September 1, 2016, you do not have the option to take the commuted value.

Mr. Field added that it is unfortunate that six months turned out to be five months.

Mr. Bone asked if another motion can be made? The Committee expressed their concern in doing this. Ms MacLaurin agreed to communicate this information to the member.

Mr. D. White reminded the Committee of the Annual General meeting on June 20, 2016 at 5:30 p.m.

9. DATE OF NEXT MEETING – September 15, 2016

10. ADJOURNMENT

Britt Wilson moved to adjourn the meeting at 3:40 p.m.

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Dan White, Co-Chair