Response from Administration to Labour Council Comments on NOM 2019-0568

	NOM C2019-0568	Labour Council Information	Response from City Administration
1	Whereas the Pension Governance Committee (PGC) is responsible for oversight on matters relating to the Calgary pension plans for employees and Council and for appointing stakeholder representatives (Plan Sponsor) for the multi-employer pension plans that are under the oversight of other bodies such as the Local Authorities Pension Plan (LAPP), the Special Forces Pension Plan (SFPP) and the Firefighters Supplementary Pension Plan (FSPP);	Correct	The City Manager has delegated responsibility to the PGC for administration and governance matters, however, significant changes to financial or non-financial risk, the cost, or the strategic impact of the plans are reported to and approved by The City Manager or appropriate committee of Council. The exception to this being EOPP and EOSP whereby plan review and the above mentioned significant matters are the mandate of the Council Compensation Review Committee (CCRC).
2	AND WHEREAS the Administrative Leadership Team (ALT) is accountable for approving a comprehensive compensation structure including retirement packages and pensions in order to attract and retain talent that is also competitive and financially sustainable for The City and Calgary taxpayers;	Correct	The City Manager, not ALT, is accountable for the compensation structure in accordance with bylaw 8M2001.
3	AND WHEREAS the Federal Government tabled legislation in 2016 which would introduce changes to amend the Pension Benefits Standards Act through Bill C-27 so that federally regulated companies and Crown corporations would have the option of setting up Target Benefit Plans (TBP) for their employees;	The Bill Never Made it past first reading and was deeply unpopular; odd that a Bill was included in the notice of motion.	Alberta has had the ability to setup TBP’s since 2014, although no plan sponsors have done so.
4	AND WHEREAS in 2018 the Government of Alberta introduced Bill 27: Joint Governance of Public Sector Pensions Act which transitions LAPP and SFPP	Correct	Agreed

	into a joint governance structure which gives substantial power to employer and/or employee representatives to manage different aspects of the pension plans;		
5	AND WHEREAS The City of Calgary is the second largest employer represented in the LAPP with just under 10% of the active plan members, while Alberta Health Services makes up more than 50% of active plan members;	Correct	There are over 420 participating organizations in LAPP with active membership exceeding 157,000 of which the City's active plan membership is 8.8%. LAPP is currently fully funded, but should that position change in the future, The City would share any risk with the current membership. The statute is unclear as to how the risk would be shared for current pensioners and deferred members if an employer left LAPP. It is noted that employer withdrawal is not allowed for the 5-year period between March 1, 2019 and February 28, 2024 for LAPP and SFPP. Withdrawal provisions after that timeframe for LAPP and SFPP have yet to be written. With respect to the Special Forces Pension Plan, The City is the largest employer with just under 50% of the active plan members.
6	AND WHEREAS from 2009-2017, The City of Calgary booked an average of 52% of its total expenditures on total compensation and 5% on pension expenses, where the average annual growth for pension expenses was 11% while total compensation was 6% and total expenditures was 6%;	The LAPP has lowered its contribution rate by 4% over the last two years. Odd that this fact was omitted from the notice of motion.	The specific 9 year timeline for these statistics (2009 – 2017) is not representative of any other combination of the 12 years of data provided by administration to the councillor for this notice of motion. The specific time line captures the global financial crises and the recovery however doesn't capture the point at which LAPP became fully funded and reduced employer (and employee) contribution rates by 2% each over the last two years. As brought forward by Greg Wiebe of The City's Finance Business Unit at the Council meeting on 2019 April 29, LAPP and SFPP comprise 94% of the pension expense; therefore, the 2% decrease in the contribution rates will have a

			significant impact on pension expense going forward. For example, considering a 5 year time frame ending in 2018 which only captures half of the 2% contribution decrease results in a 3% average annual growth in pension expenses. Importantly none of these statistics take into consideration inflation or the size of The City and the population it serves.
7	AND WHEREAS in 2017 total expenditures equaled $3.8B, 2) total compensation equaled $2.01B and 3) pension expenses equaled $208M;	The LAPP contribution rate has declined 4% of the last two years.	As stated in WHEREAS #6 above, only 2% of this is reflected in the City's financial statements (Employer portion), and 94% of the pension expenses is LAPP and SFPP.
8	AND WHEREAS in recent years, the private sector and in some cases the public sector has started to migrate away from Defined Benefit Plans (DBP) for a variety of valid reasons;	The move away from defined benefit pension plans is creating a crisis in retirement savings. One of the reasons we created the Canada Pension and Old Age security was because Canadians could not save enough for their retirement.	It is important to understand the reasons for the migration and their context; as well as how these may or may not be applicable in The City of Calgary's environment. While the move away from DB pensions hinders retirement savings, it is not necessarily the cause of what many believe to be a crisis. It is noted that, since the creation of CPP in 1965, there are more tax-preferred vehicles and expansions to vehicles in place at that time to aid Canadians' saving for their retirement. Given that the pension plan is a part of the overall compensation structure, it needs to be viewed within the overall compensation context. Private sector compensation plans are vastly different depending on the nature of the position and can include stock options, short-term incentive plans, long-term incentive plans, transportation compensation, etc.
9	AND WHEREAS DBPs can be volatile in nature due to valuation assumption risk whereby actuarial valuations on plan assets and liabilities are dependent on economic and demographic assumptions, possibly	That may be but it is not the case for the LAPP. Frankly, the LAPP is currently valuated, actuarially at 104% and 113% using accounting standards. As of December 31,	With respect to the NOM, Unrealized gains and losses are equally as important and together they both cause short term volatility as the pension assets and liabilities are subject to volatility. The Pension plans however are not short term, they

	resulting in significant variability in realized gains or losses which may have a direct and/or indirect impact on employer or employee contributions;	2017, there were 159, 270 active LAPP members and 65,089 retirees. These facts were also omitted from the Notice of Motion.	are long term and use actuarial and investment expertise to guide and navigate the short term volatility to ensure the long term sustainability and health of each plan. Labour council is correct in that LAPP is large enough to smooth out some of this variability; the number of LAPP members is a relevant point (for example, with this many retirees, the average expected deaths are easier to predict), but the current funded ratio is not (for example, investment returns don't change because of the level of plan funding).
10	AND WHEREAS the foundational assumptions of DBPs may include things such as interest rates, investment returns, inflation, life expectancy, future salary levels and demographic assumptions that can change over time and cause significant volatility in realized gains and/or losses in such pension plans;	The LAPP has assets of $45 billion. The LAPP fund has grown $29 billion over the last 11 years. The LAPP has earned an average of 7.2% return on investment over the last 20 years. The LAPP has earned an average of 6.6% over the last 10 years. The LAPP has earned an average of 8.8% over the last 4 years.	This section is providing more detail on the previous section on valuation assumption risk and possible significant volatility. The size of the asset base and the history of returns is not necessarily indicative of future results or how it would serve to reduce volatility, especially of demographic assumptions. Annual accounting valuations and triannual funding valuations adjust the plans for interest rates, investment returns, inflation, life expectancy and future salary levels, as well as adjusting for experience in regard to changing demographics. The Plan administrators respond to these findings to ensure the future sustainability of the plan.
11	AND WHEREAS The City of Regina experienced such escalating issues with respect to the Regina Civic Employees' Superannuation & Benefits Plan (7000+ civic employees plus members from other industries) with a deficit close to 300M in 2013, which led to threats from the provincial regulator to cancel the plan;	The Regina pension plan has 7 employers participating in the plan. LAPP has 420 employers. The Regina Pension Plan has 7,739 plan members. The LAPP has 159, 270 active members. In 2016, the Regina pension plan $1.37 Billion in assets and $1.42 Billion in	The City of Regina voted not to implement contribution rate increases recommended by the plan actuary to increase contribution rates, which led to the censure by the provincial regulator. It is noted that, due to governance changes in 2013 implemented by the City of Regina, the pension plan is in a surplus position in accordance with the plan's 2017 annual report with no change to benefits.

		obligations leaving a gap of \$47.4 Million. An odd omission made by the writer of the Notice of Motion. The comparison between the two plans is flawed.	The registered pension plans in which The City of Calgary participates have been making the necessary funding changes as recommended by plan actuaries. LAPP, in particular, has been making contributions in excess of the minimum recommended by the plan actuary and continues to do so even after the 4% decrease (for example, the decrease could have been upwards of 5.86%).
12	AND WHEREAS The City of Montreal also saw pension servicing go from \$100M to \$600M between 2002 and 2014 resulting in a pension deficit of close to \$2B in 2013;	The LAPP is not in financial trouble. The LAPP is currently 104% percent funded on an actuarial basis and 113% on an accounting basis. This is fear mongering by the writer.	The source of these numbers need to be forwarded by the mover before any comment can be made. The City of Montreal continues to sponsor a defined benefit pension plan.
13	AND WHEREAS The Government of New Brunswick also incurred major setbacks with their public sector pension plans after the financial crisis in 2008, which caused substantial investment losses and led to major reforms and the introduced Bill 63 to amend the Pension Benefit Act (creating a new pension option called the Shared-Risk Pension Plan (SRPP) which is a TBP);	It bears repeating, the LAPP is not in financial trouble. The LAPP is currently 104% percent funded on an actuarial basis and 113% on an accounting basis. This is fear mongering by the writer.	The source of this information needs to be forwarded by the mover before any comment can be made.
14	AND WHEREAS The City of Calgary and City Council spent a considerable amount of time debating recent \$250M shortfall in the budget due to devaluation of downtown office towers which resulted in increases in taxes and possible structural changes that may result in an in-depth Service Line Review;	The City of Calgary factored the declined in pension contributions to help offset the shortfall. It contributed tens of millions in savings to the City.	The \$250 million shortfall referred to is not an actual budget shortfall but a tax shift as a result of the rapid decline in the market value of a small number of high valued downtown properties which resulted in a redistribution of property taxes (\$250 M from 2015-2018) to other non-residential properties, causing untenable property tax increases for some property owners. Administration has achieved significant savings and reductions resulting over the last four years from staff austerity measures including position reductions, salary freezes and

			changes to certain programs and services.
15	AND WHEREAS with City Council governance responsibilities, direction must be given to look at creative ways of providing secure, sustainable, and affordable pension options that balance the needs of all stakeholders including the employer, the employees, taxpayers, future taxpayers, society-at-large, and which comply with applicable legislation and existing labour agreements;	It bears repeating, the LAPP is not in financial trouble. The LAPP is currently 104% percent funded on an actuarial basis and 113% on an accounting basis. This is fear mongering by the writer	The LAPP and SFPP boards have governance responsibilities for those pension plans. Any changes to plan design are within those bodies' mandate. The FSPP Board has governance responsibilities for that pension plan. Any changes to the plan design would be the result of negotiation between The City and IAFF Local 255. 4 of the remaining 9 plans do not have active members and therefore do not lend themselves to examination of their structure. 2 plans – EOPP and EOSP – are reviewed by the Council Compensation Review Committee (CCRC). Only 3 plans (approximately 800 City of Calgary employees) remain which are in The City's purview and for which this sort of examination would be applicable – SPP, OCPP and PCDOPP.
16	AND WHEREAS it is imperative for the long-term health of the City of Calgary that City Council is proactive, and makes continuous improvements and adjustments to its policies, procedures, and operations by asking the right questions to avoid crisis situations before they materialize;	It bears repeating, the LAPP is not in financial trouble. The LAPP is currently 104% percent funded on an actuarial basis and 113% on an accounting basis. This is fear mongering by the writer.	NOM is correct with respect to the 3 employee and 2 Elected Official plans as indicated in Whereas #15 and Labour Council is correct in that there are currently no crisis situations.
	Therefore, be it resolved that Council directs Administration to engage independent experts and or consultants to address the following, with a report back to Priorities and Finances no later than Q1 2020: 1. A comprehensive examination that includes but is not limited to a quantitative and qualitative analysis of the	These reviews are done annually as is an annual audit. Why pay a consultant to duplicate work?	Labour Council is correct with respect to LAPP and SFPP at the plan level. For FSPP, EOPP and SPP, this is done on a regular basis. For the non-registered retirement arrangements some evaluations cannot be done (for example, solvency and going-concern valuations are not completed, and there are no assets). Specifically,

	state of The City of Calgary's Pension Plan by: a) Reviewing annual financial and performance history that dates back to 2000 and may include, but not limited to, expense ratios, solvency funding ratios, going concern ratios, assets, liabilities, unfunded liabilities, administrative costs, pension plan contributions (employer and employee). Number of active members, investment returns, and any other variables that can describe plan strengths, weaknesses, gaps, and suitability for the long-term health of The City;		EOSP, OCPP, FCDOPP, PCDOPP, PSPP, EPP and contracts. A third-party consultant could opine on the declining relevance of data as time passes. The cost/benefit of a significant number of years in the analysis should be examined. 10 years of data would add significantly to the effort and complexity of the analysis whereas a 5 year data trend may be adequate. Sensitivities could be added for risk factors.
	b) Examining the short, medium and long-term viability and sustainability;	These reviews are done annually as is an annual audit. Why pay a consultant to duplicate work?	With respect to both the NOM and Labour Council statements, LAPP completes these examinations on a regular basis, through such things as asset-liability studies and forecast valuations, but not on an annual basis. It would not be part of an annual audit. SFPP and FSPP conduct similar reviews. As noted under Whereas #15, only 3 employee and 2 Elected Official plans remain under The City's purview and for whom examinations of this nature may be appropriate.
	c) Comparing public and private industry trends including best practices;	Is it what is good for Employees or the City?	Any comparison must be made in the context of the industry and organisation, and respect of the total compensation package.

	d) Comparing other types of pension plans available in the marketplace (i.e. Defined Contribution, Hybrid, Target Benefit, Other etc.) that would provide good financial stewardship and risk mitigation for The City of Calgary while also striving to keep the impact of any possible changes at a minimum for all employees (exempt, non-exempt, Council);	Will it include what is best for employees? The public sector pension plans regulations, dealing with the LAPP require, “certification by the employer that the proposed withdrawal has the support of a majority of the potential withdrawing participants.” It seems highly unlikely that a majority of employees will consent to withdraw from the plan. The City will also be responsible	With respect to Labour Council’s concern, the comparison should be done using a balanced approach. A third-party consultant could best achieve this balance. It is noted that the employer withdrawal is not allowed for the 5-year period between March 1, 2019 and February 28, 2024 for LAPP and SFPP. Withdrawal provisions after that timeframe for LAPP and SFPP employers under joint governance have yet to be written. Changes to FSPP would have to be negotiated between The City and IAFF 255. As explained in Whereas #15, 4 plans do not have active members and the concept of changing the type of plan is not applicable. Examination of EOPP and EOSP are the mandate of the Council Compensation Review Committee (CCRC). Only SPP, OCPP and PCDOPP are left for this comparison.
	e) Evaluating entry/exit strategies, including costs or savings, of moving toward other identified pension plans that would include recommendation to align with current policy, rules, collective agreements, or legislation, (municipal, provincial, or federal) or provide suggestions on recommended changes that would need to be implemented at the municipal, provincial or federal levels to	The public sector pension plans regulations, dealing with the LAPP require, “certification by the employer that the proposed withdrawal has the support of a majority of the potential withdrawing participants.” It seems highly unlikely that a majority of employees will consent to withdraw from the plan.	With respect to Labour Council’s concern, the evaluation should be done using a balanced approach. It is noted that the withdrawal provisions for LAPP (and SFPP) employers under joint governance have yet to be written. The NOM is correct in referring to the various collective agreements; LAPP, SFPP and FSPP would have to be negotiated out in order to contemplate exiting from those plans. With respect to identifying other types of pension plan designs, changes to LAPP and SFPP are the mandate of the LAPP and SFPP boards; FSPP would have to be negotiated between The City and IAFF 255.

	achieve the pension reform change that are being suggested;		As explained in Whereas #15, 4 plans do not have active members and the concept of exiting, changing, or realizing cost savings is not applicable. Examination of EOPP and EOSP are the mandate of the Council Compensation Review Committee (CCRC). Only SPP, OCPP and PCDOPP remain appropriate for this evaluation. Reference in the NOM to pension reform change is unclear. An explanation should be forwarded by the mover before any comment can be made.
	f) Identifying potential impacts on current employee retention and future employee recruitment of moving towards identified pension plans;		
	g) Determining risks and other impacts on the City of Calgary and employees in migrating towards other potential viable sustainable pension plans;		