

Calgary



# Pension Information Package

2020 February 28

# Table of Contents

|   |           |
|---|-----------|
| <b>Council Direction</b>  | <b>4</b>  |
| <b>Introduction</b>   | <b>4</b>  |
| <b>Key Highlights</b>   | <b>5</b>  |
| <b>Canadian Retirement Landscape</b>  | <b>6</b>  |
| Sources of retirement income  | 6         |
| Employer-sponsored pension plans  | 7         |
| Types of pension plans  | 7         |
| <b>Retirement Plans At The City</b>   | <b>13</b> |
| Defined Benefit Multi-Employer Plans (MEPPs)  | 14        |
| Supplementary Plans   | 17        |
| Council Pension Plans   | 19        |
| Closed Plans  | 19        |
| <b>Answering The Questions</b>  | <b>20</b> |
| <b>Are our pensions designed fairly?</b>  | <b>20</b> |
| 1. What is the benchmarking process for City of Calgary pensions, and where does The City believe it should “rank” itself?  |           |
| 2. What is the cost to The Corporation relative to the benchmark?   |           |
| 3. What is the context of The City’s total compensation model (of which pensions are one part) in today’s economic environment?   |           |
| <b>Are our pensions administered properly?</b>  | <b>23</b> |
| 1. Are The City of Calgary’s pensions monitored?  |           |
| 2. How does The City of Calgary address both the tangible (e.g. financial health of plan) and non-tangible (e.g. cost of turnover, lost knowledge base) variables involved in pensions? |           |
| 3. How does The City of Calgary stay focused on the future of its pension plans and anticipate liabilities?   |           |
| 4. How will The City of Calgary demonstrate not only the absolute values of its pension plans, but also trending over time (as part or percentage of total cost)?                       |           |
| <b>Context</b>  | <b>25</b> |
| 1. What are the current trends for public and private sector pensions, and how much sense do they make for The City of Calgary?   |           |
| 2. With the retirement crisis in Canada, is The City of Calgary doing its best to address the financial well-being of its employees?  |           |

|  |           |
|--|-----------|
| <b>Appendix A – Definition Glossary</b>                                    | <b>28</b> |
| <b>Appendix B – Local Authorities Pension Plan (LAPP) Information</b>      | <b>32</b> |
| <b>Appendix C – Special Forces Pension Plan (SFPP) Information</b>         | <b>34</b> |
| <b>Appendix D – Calgary Firefighters Supplementary Pension Plan (FSPP)</b> | <b>36</b> |
| <b>Appendix E – Open Pension Plans</b>                                     | <b>39</b> |
| <b>Appendix F – Examples</b>   | <b>41</b> |

# Council Direction

On 2019 November 18, Council approved Audit Committee report AC2019-1329, which directed Administration to answer questions from the Audit Committee's Working Group addressing citizen perceptions of the pension plans within The City, and report back to the Priorities and Finance Committee no later than Q1 of 2020. The questions fell under the following three key headings:

- 1. Are our pensions designed fairly?**
- 2. Are our pensions administered properly?**
- 3. Context (i.e. current trends)**

## Introduction

Before addressing the specific questions raised by the Audit Committee's Working Group, this report begins by laying out foundational information about pension plans and retirement savings in general (Canadian Retirement Landscape), followed by information about The City's pension plans (Retirement Plans at The City). In this way, we hope to create a level of understanding that will help in addressing the questions (Answering the Questions).

### **Definition Glossary**

We've underlined key words and phrases throughout this document to further your understanding of pension and retirement terms. See **Appendix A – Definition Glossary**.

# Key Highlights

1. Over 85 per cent of Canadian public sector employees have a pension plan.
2. City of Calgary employees contribute towards their pension during each pay period.
3. The vast majority of City employees (nearly 90 per cent) participate in one of two multi-employer pension plans (MEPPs) – Local Authorities Pension Plan (LAPP) or Special Forces Pension Plan (SFPP).
4. The supplementary pension plans, in which 12 per cent of City employees participate, build upon each other to ensure a consistent two per cent pension formula over the member's full salary for the pensionable service period. This consistent two per cent formula cannot be achieved under LAPP alone because of the formula rate limit and maximum salary caps under the Income Tax Act (ITA). The employee does not receive a duplicate pension benefit.
5. For every \$1 paid out in pension in 2017, LAPP reports that about 90 cents came from investment earnings, and nearly half the remainder came from employee contributions.
6. The City's largest multi-employer pension plan, LAPP brings together 420 employers and their 163,000 employees into a single plan that pools resources to obtain lower investment and administration fees, and to reduce volatility.
7. Pension plans in which City employees participate have governance structures in place to ensure they are regularly monitored and financially sustainable. The Pension Governance Committee (PGC) reports to Council annually on the activities for all pension plans in which City employees participate.
8. As shown on the annual financial statement, The City's pension expenses related to the pension plans account for five per cent of The City's annual expenses.
9. Financial well-being, in which pensions play a part, contributes to employee retention, health and productivity.
10. The City will be conducting the Total Compensation Review in 2020, which will help place the pension plans in a broader context.

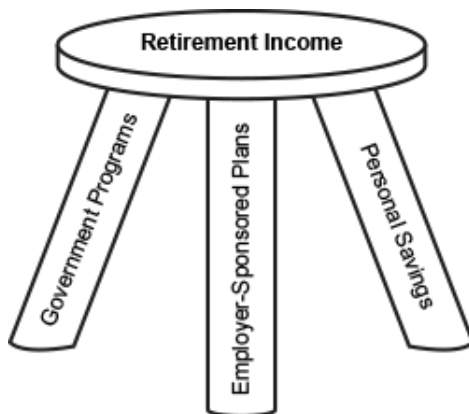


# Canadian Retirement Landscape

Most Canadians need to save towards their retirement if they wish to maintain a standard of living approaching what they enjoyed during their working years. As people are living longer the need is ever-increasing.

## Sources of retirement income

Retirement income sources are often depicted as a three-legged stool:



1. **Government programs**  
(including CPP/QPP, OAS, GIS)
2. **Personal savings**  
(including tax-assisted savings in RRSPs, TFSA's)
3. **Employer-sponsored retirement and savings plans.**

1. **Government programs** are designed to provide a base level of income needed in retirement. The Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) are designed to provide about 25 per cent of an average person's retirement income. The actual amount depends on a person's work history and their earnings. Recently the government introduced a gradual enhancement to the CPP increasing the benefit to about 33.3 per cent of employment earnings by 2035, over a concern that Canadians were not saving enough for retirement. Old Age Security (OAS) is designed to provide about 12 per cent of an average person's retirement income and the Guaranteed Income Supplement (GIS) is a supplement paid to low income seniors.
2. **Personal savings** may be tax-assisted (RRSPs and TFSA's) or after-tax savings (non-registered funds and bank accounts).
3. **Employer-sponsored retirement/savings plans** include pension plans, Group RRSPs, deferred profit-sharing plans and stock-purchase plans.

For many, all three of these vehicles have been essential to providing an income in retirement. However, we know that for many others, this optimal situation is not the case. Workplace pensions cover only 37 per cent of all working Canadians while in the Public Sector, 87 per cent

of workers are covered by a pension plan<sup>1</sup>. Without employer-sponsored pensions there is a much higher onus on personal savings, as well as personal investment decision-making which many people are ill-equipped to handle.

## Employer-sponsored pension plans

Pension plans play an important role in an employee's total compensation package and are used as attraction and retention tools by employers.

### Types of pension plans

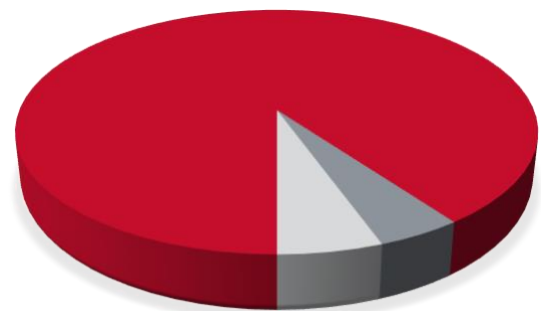
There are two predominant types of employer-sponsored pension plans in Canada: the defined benefit plan and the defined contribution plan:

1. The **Defined Benefit Plan (DB)**, as the name suggests, provides a defined benefit or pension income to the retiree, based on a formula that typically takes into account years of pensionable service and average pensionable earnings. Typically, both employees and the employer contribute to the plan. The plan funds are invested to ensure that plan members can be assured of their pension income at retirement. Actuarial valuations are done on a regular basis to ensure the plan is funded to the level deemed appropriate by the employer. The benefit is paid for the lifetime of the retiree, sometimes as a life guaranteed pension, and sometimes as a joint and survivor pension. Sometimes the pension is adjusted in line with a percentage of consumer price index increases.

DB plans are funded from contributions and investment earnings. Taxpayers may believe they are paying for every dollar paid out in

pension, but that is not the case. The Local Authorities Pension Plan (LAPP), in which most City employees are members, reports that for every \$1 paid out in pension in 2017, about 90 cents came from investment

### PENSION BENEFIT FUNDING SOURCES (LAPP)



- Investment earnings (LAPP) 90¢
- Employee contributions 4.5¢
- Employer contributions 5.5¢

<sup>1</sup> Statistics Canada, Tables 11-10-0133-01 and 14-10-0027-01.

earnings. And close to half of the remainder came from employee contributions (see **Appendix B – LAPP Information**).

2. The **Defined Contribution Plan (DC)**, as its name implies, has a defined contribution rate for the employee which is often matched by the employer. The employee invests the accumulated contributions based on

investment choices provided by the plan. When the employee retires, they receive the value of their pension account based on accumulated contributions and investment returns which they can use to provide retirement income, by drawing down the balance or purchasing an annuity or other retirement income stream. Below are listed risks associated with each type of plan:

| Defined Benefit Plan   | Defined Contribution Plan  |
|--|--|
| Plan sponsor (employer) bears the risk that investments in the plan don't perform as expected, requiring extra contributions     | Employee bears investment risk in the plan                         |
| Plan sponsor (employer) bears the risk that pensioners live longer than expected (longevity risk), requiring extra contributions | Employee bears the risk that they outlive their retirement savings |

### 3. Other Pension Plans

There are other, less common types of pension plans in Canada as well, including:

- **Target benefit plan:** has a defined formula the plan is “targeting” as a pension (like a **DB plan**), but the benefit amount is not guaranteed (like a **DC plan**).
- **Defined benefit-floor plan:** provides a modest defined formula to act as a minimum guaranteed benefit plus employees contribute to a **DC plan**.
- **Flex plan:** allows some benefit choices to be made from the base DB plan formula from a side account within the pension fund (a type of spending account funded by the member).
- **DB/DC choice plan:** at retirement, an employee can choose between a **DB plan** benefit and the balance in their **DC plan**.
- **Age-based plan:** younger employees participate in a **DC plan**; at a certain age they start to participate in a **DB plan**.



The prevalence of the main types of pension plans in Canada is shown in the following table which shows a wide gap between public and private sector employees:

*% of Paid Workers Covered by Registered Pension Plan 1997-2017<sup>2</sup>*

|                 | 1997 | 2002 | 2007 | 2012 | 2017 |
|-----------------|------|------|------|------|------|
| All sectors     | 41.5 | 39.6 | 38.4 | 38.5 | 37.1 |
| DB plans        | 35.6 | 32.5 | 29.5 | 27.5 | 24.9 |
| DC plans        | 5.2  | 6.0  | 6.1  | 6.4  | 6.8  |
| Other plans*    | 0.6  | 1.0  | 2.8  | 4.6  | 5.4  |
| Public Sector** | 88.0 | 86.6 | 83.5 | 87.9 | 87.1 |
| DB plans        | 83.6 | 81.4 | 77.9 | 82.8 | 79.1 |
| DC plans        | 3.7  | 4.3  | 3.8  | 4.0  | 4.0  |
| Other plans     | 0.7  | 0.9  | 1.8  | 1.0  | 4.1  |
| Private Sector  | 28.2 | 28.2 | 25.7 | 24.2 | 22.7 |
| DB plans        | 21.9 | 21.3 | 15.8 | 11.5 | 9.2  |
| DC plans        | 5.6  | 6.2  | 6.7  | 7.1  | 7.6  |
| Other plans     | 0.6  | 0.6  | 3.1  | 5.6  | 5.8  |

\* 'Other' plans include those having a hybrid, composite, defined benefit / defined contribution or other component.

\*\* Public sector includes governments, crown corporations, health and education, government boards commissions and agencies.

It should be noted that pension coverage of employees in the private sector nationally has never been high, peaking at 35 per cent in the early 1980's.<sup>3</sup>

<sup>2</sup> Statistics Canada, Tables 11-10-0133-01 and 14-10-0027-01

<sup>3</sup> Mackenzie, Hugh, *Pensions in Manitoba: What's Working, What's Not, What's a Solution and What's Not*, in Canadian Centre for Policy Alternatives, September 2017

#### 4. Supplementary Pension Plans

For defined benefit plans, supplementary pension plans build upon the base plan to ensure a pension formula covering the employee's total pensionable earnings and pensionable service. These plans are most commonly found in organizations with DB plans. Because of tax deferral, the Income Tax Act (ITA) places a limit or cap on how much someone can *receive* from DB plans and contribute to DC plans. Where an employee's DB plan pension is limited by that cap, the supplementary plan formula is applied to the remaining pensionable earnings. The plan member is not receiving a duplicate benefit for the same salary amounts, as shown below:

| Base Plan                          | Supplemental Plan 1                                      | Supplemental Plan 2                                     |
|------------------------------------|--|---|
| Base plan formula as % of earnings | Supplemental plan formula for earnings up to ITA maximum | Supplemental plan formula for earnings over ITA maximum |

## 5. Multi-Employer Pension Plans (MEPP)

MEPPs bring together a number of employers and their employees into one plan. This allows employers to pool resources in order to obtain lower investment and administration fees, and to reduce volatility. The large funds with stable employee populations typically found in these plans enable investments into types of asset classes (e.g. real estate and infrastructure) which are not generally available to smaller funds. MEPPs also provide employees the ability to change employers without the need to end participation in the pension plan.

Other key differences between MEPPs and single-employer pension plans are:

| Single Employer Plans  | Multi-Employer Plans (MEPPs)   |
|--|--|
| The employer is usually the legal trustee and carries the fiduciary duties   | Typically, employers and the employee group (often a union or multiple unions) share trusteeship and fiduciary duties                                  |
| Economic and demographic risks are pooled among the employer's employees only; the smaller the group, the more volatile the experience | Economic and demographic risks are pooled among the employees of all employers; a larger number of employees reduces experience volatility             |
| The employer measures the obligation annually and this amount is reflected as a liability in the financial statements                  | Each employer only records contributions to the plan as an expense in the financial statements and does not record their share of the plan obligation. |

**6. Registered Pension Plans/Non-registered Retirement Arrangements**

To obtain preferred tax status, pension plans are registered with Canada Revenue Agency (CRA) under the Income Tax Act (ITA). These pension plans must also register with the pension regulator in their province. Any retirement arrangements that are not registered are not truly pension plans and do not have preferred tax status. Other key differences include:

| Registered Pension Plans  | Non-Registered Retirement Arrangements        |
|---|---|
| Pension plan provisions must comply with the ITA and the provincial regulations             | There are no regulations with which to comply |
| Contributions are tax-deductible  | Contributions not tax-deductible              |
| Formal pension fund for employees set up, and investment income in pension fund not taxable | Formal pension fund generally not allowed     |

# Retirement Plans At The City

The City's pension plans form a valuable part of an employee's total compensation package. This year, The City is undertaking a review of its total rewards package, including base compensation, benefits, perquisites and pensions, and benchmarking them against comparable organizations. The results will be presented to Council in the fall of 2020.

The twelve (12) pension plans and retirement arrangements in which City of Calgary employees (and former employees) participate are all **defined benefit** and may be categorized in different ways:

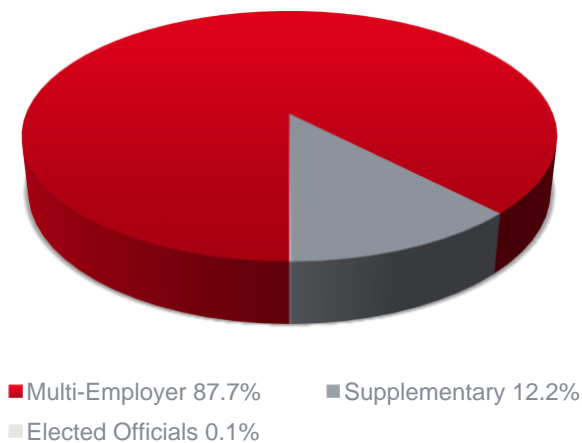
- **Closed** plans or **open** plans.
- **Multi-employer** plans or **single-employer** plans.
- **Base** plans or **supplementary** plans.
- **Registered** pension plans or **non-registered** retirement arrangements.

The City also offers access to a Group RRSP for employees through payroll deductions.

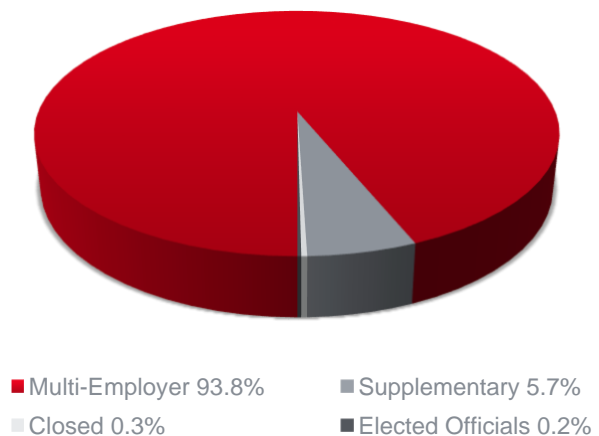
Understandably, it can be difficult to navigate the various plans. However, the vast majority of employees and employer contributions relate to our multi-employer pension plans (MEPPs) and their associated supplementary plans.

The following charts show the relative size of our plans in terms of City employees who participate in them and the amount of contributions to them by The City. The MEPPs are by far the largest:<sup>4</sup>

**ACTIVE MEMBERS**



**EMPLOYER CONTRIBUTIONS**  
(EMPLOYEE CONTRIBUTIONS NOT SHOWN)



<sup>4</sup> City of Calgary financial statements as at December 31, 2018

This report captures key features of each plan but will focus on our largest multi-employer pension plan (LAPP) and its related supplementary plans. A table outlining information (e.g. eligibility, membership, contribution rates) on all City open plans can be found in **Appendix E – Information on Open Plans**.

## Defined Benefit Multi-Employer Plans (MEPPs)

There are two (2) defined benefit multi-employer pension plans in which City employees participate:

- |  |   |
|--|---|
| <p><b>1. Local Authorities Pension Plan (LAPP),</b><br/>a registered pension plan of over 400 Alberta public sector employers, in which most City employees participate.</p> | <p>Combined active membership for City employees in these plans at the end of 2018, was 15,600 employees.</p>   |
| <p><b>2. Special Forces Pension Plan (SFPP),</b><br/>a registered pension plan which covers police officers at The City and six (6) other employers.</p>                     | <p>As DB plans, they provide a benefit based on years of pensionable service and average pensionable earnings up to the Income Tax Act (ITA) limit. SFPP also includes a bridge benefit which pays a benefit from retirement to age 65.</p> |

Employee and employer contribution rates are set by the trustees based on actuarial valuations and their funding policies. Current (2020) contribution rates are:

| Plan | Employer Contribution  | Employee Contribution  |
|------|--|--|
| LAPP | 9.39% of earnings up to YMPE; 13.84% over YMPE up to annual earnings cap | 8.39% of earnings up to YMPE; 12.84% over YMPE up to annual earnings cap |
| SFPP | 14.55% of earnings up to earnings cap                                    | 13.45% of earnings up to annual earnings cap                             |

\* The YMPE (Yearly Maximum Pensionable Earnings) is the maximum earnings under the Canada Pension Plan as set by CRA. The YMPE changes every year.

Examples of these plans can be found in **Appendix F – Examples**; however, an LAPP example is included here to illustrate this plan (see next page):



**Employee Profile 1 – LAPP****Hamadi, Transit Supervisor**

Years of service: 24.2

Average salary: \$77,858

Age: 61

Pension payable per year: \$29,488

Meet Hamadi, a fictitious Transit Supervisor with over 24 years of service with The City of Calgary. He started his career at The City of Calgary as a Transit Operator (Bus driver) in 1994 and began contributing to the Local Authorities Pension Plan (LAPP) when he became a full-time employee in 1996.

Hamadi enjoyed connecting with Calgarians as part of his job, but he knew that he wanted to grow his career and help support his daughter with her post-secondary education. In 2015, Hamadi was promoted to the role of Transit Supervisor.

At 61, Hamadi is starting to think about retirement and what he might receive as part of his pension. Hamadi went to the LAPP website and ran a retirement estimate. Hamadi also took the time to look around the website for all sorts of other important information regarding the LAPP pension plan. The LAPP website gave him the following estimate of the pension payable to him if he were to retire today.

|                                       | First level of salary<br>in LAPP formula | Remaining level of salary<br>in LAPP formula | Total             |
|---------------------------------------|--|--|-------------------|
| Salary                                | \$56,440                                 | \$21,418                                     | \$77,858          |
| Multiply by % in<br>plan's formula    | LAPP first level:<br>(x 1.4%)            | LAPP remaining<br>level: (x 2%)              |                   |
| Multiply by years<br>of service       | x 24.2                                   | x 24.2                                       |                   |
| Estimated pension<br>payable annually | <b>\$19,122</b>                          | <b>+ \$10,366</b>                            | <b>= \$29,488</b> |

Employee profile is based on the LAPP valuation report, which provides average age, service, and salary for LAPP membership, and members tend to retire at their 85-point date. This data provides us with the "average" LAPP person who does not have a pension partner.

Governance of these plans is multi-faceted and comprehensive; the plans:

- Are regulated by the province through the employment pension plans act (EPPA) and the federal government through the Income Tax Act (ITA).
- Have oversight by a joint employer and employee sponsor board who sets governance policy and contribution rates and can alter plan design.
- Have oversight by a joint employee and employer fiduciary board who set the funding policy and the investment policy.
- Complete regular (annually for LAPP) actuarial valuations.

- Are audited annually by the Office of the Auditor General (OAG).

The City is an active participant on the joint boards for both plans either directly or, in the case of the LAPP, with a seat that is shared with The City of Edmonton. However, influence in LAPP in particular, is limited as our representation on the Board somewhat reflects our share of the total membership (<10%). For more information on the specific responsibilities and activities undertaken by the corporations, click here or visit [lapp.ca/sfpp.ca](http://lapp.ca/sfpp.ca). Additional information has been provided in **Appendices B – LAPP Information** and **C – SFPP Information**.

## Supplementary Plans

The Income Tax Act (ITA) allows defined benefit pension plans to cover up to two per cent of salary for each year of pensionable service up to certain limits. The City's supplementary plans simply build upon the base plan formula such that a two per cent pension covering the employee's *full* salary for every year of pensionable service in the supplemental plan is paid. Employees are not receiving a duplicate benefit on the same salary.

There are four (4) supplementary plans in which City employees participate:

1. The **City of Calgary Supplementary Pension Plan (SPP)**, a single-employer registered pension plan in which some City employees participate, supplemental to the Local Authorities Pension Plan (LAPP).
2. The **City of Calgary Overcap Pension Plan (OCP)**, a non-registered pension plan also supplemental to LAPP and SPP in which senior-level City employees participate.
3. The **City of Calgary Police Chief and Deputies Overcap Pension Plan (PCDOP)**, a non-registered pension plan supplemental to the Special Forces Pension Plan (SFPP).
4. The **Calgary Firefighters Supplementary Pension Plan (FSPP)**, a registered pension plan jointly sponsored by The City and the firefighters' Union.

With the exception of FSPP, The City is the legal plan administrator for the supplementary plans and this responsibility has been delegated to the Pension Governance Committee (PGC) which reports annually to Council. The PGC uses a professional investment manager, a third-party administrator and an actuary to aid in discharging its fiduciary duties. The PGC is chaired by the Chief Human Resources Officer and among its voting members are two General Managers and two members of Council. The PGC's Terms of Reference can be found in its annual report to Council. More information on the FSPP and its fiduciary board is in **Appendix D – FSPP Information**.

Employee and employer contribution rates to the FSPP are set by the FSPP Board based on actuarial valuations and the funding policy. Similarly, contribution rates to SPP are set by the Pension Governance Committee based on actuarial valuations and the funding policy. OCPP and PCDOP contributions are fully funded by The City as required. While the liabilities are included in The City's financial statements, there are no invested assets set aside. The funds are available as the liability is accrued.

Current (2020) SPP and FSPP contribution rates are below:

| Supplementary Plan | Employer Contribution              | Employee Contribution              |
|--------------------|------------------------------------|------------------------------------|
| FSPP               | 2.83% of earnings up to salary cap | 2.32% of earnings up to salary cap |
| SPP                | 2.92% of earnings up to salary cap | 2.35% of earnings up to salary cap |

Examples of these plans can be found in **Appendix F – Examples**; however, an SPP example is included here to illustrate this plan:

**Employee Profile 2 – Supplementary Pension Plan (SPP)****Jackie, Leader**

Age: 60.8

Years of LAPP service: 24.25

Years of SPP service: 19.35

Average salary: \$135,200

Pension payable: \$63,913

Meet Jackie, a fictitious Water Quality Service leader for The City of Calgary. Jackie manages The City's water and wastewater laboratories and a team of professional chemists, microbiologists and aquatic biologists who test our drinking water and wastewater 365 days a year.

Upon her graduation from the University of Calgary, Jackie was hired as a full-time Water Quality Technician at The City. As she developed her skills in the lab, Jackie continued her education in the evenings with a focus in management. Her career has included a few promotions and lateral moves that have furthered her knowledge and expertise. Nineteen years ago, Jackie won the leader competition. At almost 61, she's not ready to retire yet but is talking to her financial advisor about her pension. As a City employee, Jackie contributes to the Local Authorities Pension Plan (LAPP) and recently ran a retirement estimate on the LAPP website.

As a leader, Jackie contributes to the Supplementary Pension Plan (SPP) that builds upon LAPP and provides a pension on salary that is not covered by LAPP but which is under the Income Tax Act allowable salary.

Jackie went to the SPP website and ran a retirement estimate. The LAPP and SPP websites provided her with the pensions payable to her should she retire today.

|   | First level of salary<br>in LAPP formula | Remaining level of<br>salary in LAPP formula | Level of salary<br>in SPP formula | Total             |
|---|--|--|-----------------------------------|-------------------|
| <b>Salary</b>                                 | \$56,440                                 | \$78,760                                     | \$56,440                          | \$135,200         |
| <b>Multiply by %<br/>in formula</b>           | LAPP first level:<br>(x 1.4%)*           | LAPP remaining<br>level: (x 2%)              | SPP formula:<br>(x 0.6%)*         |                   |
| <b>Multiply by years of<br/>service</b>       | x 24.25                                  | x 24.25                                      | x 19.35                           |                   |
| <b>Estimated pension<br/>payable annually</b> | <b>\$19,161</b>                          | <b>+ \$38,199</b>                            | <b>+ \$6,553</b>                  | <b>= \$63,913</b> |

Employee profile is based The City's Supplementary Pension Plan (SPP). The SPP supplements the LAPP formula for earnings with the Income Tax Act limit. This data provides us the "average" SPP person at retirement who does not have a pension partner. \*Income Tax Act allows the defined benefit pension to cover 2% of salary for each year of service (1.4% + 0.6% = 2%). Jackie is not receiving a duplicate benefit on the same salary.

## Council Pension Plans

Council members can join the **Pension Plan for Elected Officials of The City of Calgary** (EOPP), a defined benefit single-employer registered pension plan.

Council members who are impacted by the Income Tax Act (ITA) limits on pensionable earnings for each year of pensionable service can participate in a supplementary plan, the **Supplementary Pension Plan for Elected Officials of The City of Calgary** (EOSP), which supplements the base plan to provide a two per cent pension on all pensionable earnings.

The plan administrator for both plans is The City which decides on investment policies and funding policies. Plan design changes are recommended

to Council by the Council Compensation Review Committee, a citizen committee that is formed through Council Bylaw to provide independent review and recommendations to Council on Council compensation matters.

Currently contribution rates are nine per cent for members of Council and 18.64 per cent for The City, whose rate fluctuates based on funding requirements. The supplementary plan, with only one active member currently, is fully funded by The City. Council supplementary plan pensions are fully funded by The City as required. While the liabilities are included in The City's financial statements, there are no invested assets set aside. The funds are available as the liability is accrued.

## Closed Plans

Closed plans are ones that are closed to new members. These pensions will continue until the last remaining member, pensioner or beneficiary dies.

There are four (4) plans which are closed to new members. These are:

1. The **City of Calgary Executive Pension Plan** (EPP), a non-registered retirement arrangement for named executives prior to 2000.
2. The **Calgary Police Supplementary Pension Plan** (PSPP), a registered pension plan for police officers prior to 1979.
3. The **City of Calgary Fire Chief and Deputies Overcap Pension Plan** (FCDOPP), a non-registered retirement arrangement for Fire Chief and Deputies prior to 2008.
4. **Contractual Obligations**, representing non-registered retirement arrangements negotiated with individuals prior to 2000.

There were no active members and fewer than 40 participants in all four plans combined at the end of 2018.

# Answering The Questions

## Are our pensions designed fairly?

### 1. What is the benchmarking process for City of Calgary pensions, and where does The City believe it should “rank” itself?

Until 2019 March 1, the provincial government through the Minister of Finance was the plan administrator for our multi-employer pension plans (MEPPs). This meant that the employers and employees who funded the pension plan and bore the investment risk, had no oversight on pension plan design, funding policy or investment policy. There was little appetite for individual employers to benchmark plans, as there was almost no opportunity to effect change. The plans have recently completed significant work in moving towards the new joint governance model.

The plans may engage in benchmarking of certain performance measures and costs. LAPP, by far the largest pension plan in terms of City membership and dollar contributions, has reported the following benchmarked information (see **Appendix B – LAPP Information**):

- Five-year net returns are at median of large public sector plans.
- Administrative costs are at median of large public sector plans.

SFPP has reported the same benchmarked information (see **Appendix C – SFPP Information**).

The City of Calgary will be engaging a third party in 2020 to benchmark all key elements of The City’s total compensation program for employees. This will include benchmarking the pension plans in which employees participate, with comparator organizations. The review will look at elements individually as well as the competitive positioning of the total rewards program as a whole.

We do know from Statistics Canada data<sup>5</sup> that over 85 per cent of the Canadian Public Sector has a pension plan and almost 80 per cent have a defined benefit pension plan. In an informal review of Canadian municipalities, we found that most municipal governments either have their own DB plan or participate in a province-wide DB plan. Some of these pension plans, like OMERS (Ontario) and the BC Municipal Pension Plan (British Columbia), combine a base plan with a supplementary plan.

Benchmarking was conducted at the start of our largest supplementary plans in 2000. An environmental scan of provincial public service supplementary plans was done at this time and helped inform the decision to introduce these plans.

<sup>5</sup> Statistics Canada, Tables 11-10-0133-01 and 14-10-0027-01.



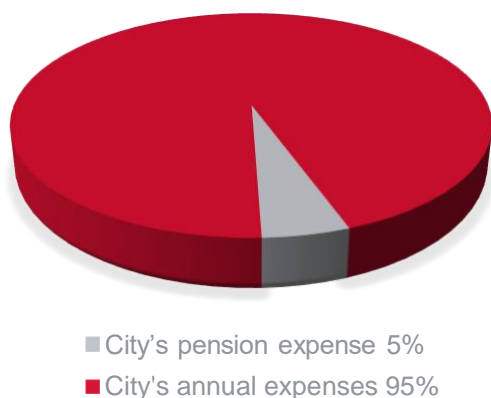
Council pensions are the responsibility of the Council Compensation Review Committee (CCRC) and may be benchmarked when Council's compensation is being reviewed. Pensions were benchmarked by the CCRC in each of 2006, 2012 and 2017.

While there is no specified pension "rank", when we benchmark base compensation, The City has traditionally targeted its base compensation to the median of the market, which is a blend of private and public employers. This positioning enables The City to continue to attract and retain required talent while being financially prudent.

## 2. What is the cost to The Corporation relative to the benchmark?

In 2018, City expenditures to support the twelve (12) plans was \$194 million, 5 per cent of The City's annual expenses. The comparable funding from City employees to their pension plans was approximately \$173 million.

### PENSION EXPENDITURES AS A PERCENTAGE OF THE CITY'S ANNUAL EXPENSES



While we will be undertaking a market review of our main pension plans as part of the Total Compensation Review, it is not certain we will be able to access competitive data that would enable us to answer this question. We will have a better understanding of the data available later this year.

## 3. What is the context of The City's total compensation model (of which pensions are one part) in today's economic environment?

The City is conducting a total compensation review, which will be presented to Council in the fall of 2020. The review will examine The City's market positioning with respect to each element of the total compensation program, including pensions, as well as evaluate the relative value of the compensation plan as a whole against market.

Our total compensation program needs to be reflective of and sensitive to changes in the economy, while continuing to attract and retain the qualified talent it needs to deliver services. This can be a fine balance. With recent sustained pay freezes, turnover has increased in certain areas.

While we also know that pension plans may not be top of mind for all employees, a 2014 Willis Towers Watson study found that 45 per cent of respondents said their company's retirement program was an important reason for joining their employer at organizations with DB plans and 68 per cent said that the retirement program gave them a compelling reason to stay on the job. Even younger employees (<age 40) agreed that it was an attraction factor (39 per cent) in their employment decision, and 58 per cent said it is an important reason to stay with their employer.<sup>6</sup>

<sup>6</sup> Gardner, J. and Nyce, S., *Attracting and Keeping Employees: The Strategic Value of Employee Benefits*. Towers Watson, 2014.

More studies point to the importance of good financial health: a survey conducted by the Canadian Public Pension Leadership Council found that 47 per cent of Canadians reported being highly concerned about running out of money after retirement, and all generations shared this concern<sup>7</sup>. Studies also show that employees troubled by their finances are twice as likely to be in poor health as those who are not worried. They report higher absenteeism and higher presenteeism (i.e. at work but not productive).<sup>8</sup> The Bank of Canada reported in 2018 that household debt was approximately 170 per cent of disposable income, up from 100 per cent 20 years ago. In other words, the average Canadian owed about \$1.70 for every dollar of disposable income earned per year, after taxes.

There is value to both the employee and employer in having a workplace pension plan. The City's pension plans provide employees with a level of financial security and certainty. Their pension income does not depend solely on the performance of their savings based on investment choices they have made. They understand how they will need to augment their pension to achieve financial well-being in retirement. They are more

likely to be financially able to retire when they reach eligibility.

From The City's standpoint, employees are more likely to be engaged and productive, and are more likely to have confidence in their ability to plan for and meet their financial needs into the future. Employees participating in City plans are also more likely to have the ability to leave The City when eligible for retirement, giving way to job opportunities for new staff.

That being said, it is important that we monitor and evaluate the overall value of the total compensation program to ensure it is competitive and sustainable.

**4. Can The City of Calgary provide examples of what a pension payout looks like within The Corporation? (i.e. if this person retired on a set date, what will s/he earn in pension benefits? Provide 12 tangible examples reflecting a diverse selection of positions at The City, of which one example would include a Councillor.)**

Please see examples in **Appendix F – Examples**.

<sup>7</sup> Brown, R. L., *The Social Implications of Pensions*. Canadian Public Pension Leadership Council, 2019

<sup>8</sup> Willis Towers Watson, 2017 Global Benefits Attitudes Survey

## Are our pensions administered properly?

### 1. Are The City of Calgary's pensions monitored?

All twelve (12) pension plans/retirement arrangements are monitored and subject to sound governance practices:

#### *Multi-employer pension plans (MEPPs)*

The MEPP administrators (LAPP/SFPP Corporations) are responsible for the governance and administration of the plans. With the passing of the Joint Governance Act (JGA) in Alberta on 2019 March 1, The City now has direct Trustee representation on both Boards. City representatives also participate in stakeholder meetings to review the Corporations' performance. Information from these meetings is shared with the Pension Governance Committee (PGC) (includes two Council representatives). The PGC provides a report annually to Council. The LAPP governance structure is comprehensive and includes:

- Adhering to all requirements of the provincial regulations for registered pension plans (the EPPA).
- Annual actuarial funding valuations.
- Setting and regular review of investment policy, funding policy, and performance.
- Annual audit by the Office of the Auditor General.

More complete information on LAPP's governance structure may be found at [lapp.ca/page/our-governance](http://lapp.ca/page/our-governance). Similarly, more complete information on SFPP's governance structure may be found at [sfpp.ca/page/sfpp-corporation](http://sfpp.ca/page/sfpp-corporation).

The City is responsible for remitting correct contributions to the LAPP and SFPP and informing the third-party administrator of terminations/retirements/enrolments/data changes. Contribution remittances are reviewed by Pensions Finance and the third-party administrator.

#### *Supplementary plans and Council plans*

The FSPP Board is responsible for the governance of the FSPP. The City appoints Trustees to this Board and City representatives participate in stakeholder meetings to review the Board's performance. Information from these stakeholder meetings is shared with the Pension Governance Committee.

The City utilizes a third-party administrator to administer the supplementary plans and Council plans. The third-party administrator reports to the Pension Governance Committee quarterly, who provides a report annually to Council, outlining the governance and administration, membership, contributions, investment returns and funded position of each plan.

Supplementary plan payments are reconciled by Pensions Finance. Cost-of-living increases are calculated by the third-party administrator and confirmed by The City.

### 2. How does The City of Calgary address both the tangible (e.g. financial health of plan) and non-tangible (e.g. cost of turnover, lost knowledge base) variables involved in pensions?

LAPP/SFPP and FSPP Corporations and Board are responsible for addressing the financial health of those pension plans. City representatives

participate on sponsor and/or corporate boards as well as stakeholder meetings to review the Corporations' and Board's performance.

Triennial actuarial valuations are performed for our supplementary registered pension plans, are reviewed by the Pension Governance Committee (PGC) and are reported to Council. The financial health of all City plans is attributable to sound governance practices, investment policies and funding policies, and the stability and risk pooling offered through our participation in large, multi-employer pension plans (MEPPs).

Liabilities are calculated annually on an accounting basis (accounting valuation) for all pension plans and non-registered retirement arrangements, with the exception of MEPPs, for inclusion in The City's financial statements.

The City tracks a number of metrics that can signal employee satisfaction or dissatisfaction with employment at The City. Turnover is one important measure, as resignations represent a loss of investment, knowledge, productivity and service continuity. Industry experts have estimated the replacement costs to fill vacancies can average 1.5 times the annual salary for the position. Turnover rates at The City tend to have an inverse relationship with age: the turnover rate for younger employees is higher and then gradually decreases as employees age.

Survey results from HR Metrics Survey for the years 2014 to 2018 show that The City had a lower turnover rate than the benchmarked organizations in the public sector.

While a direct link between turnover and pensions can be difficult to establish, according to an Application Satisfaction Survey from Human Resources at The City in 2018, competitive pay and pension ranked second and fifth amongst

seventeen (17) retention attributes that employees said influenced their decision to stay with The City.

### **3. How does The City of Calgary stay focused on the future of its pension plans and anticipate liabilities?**

Pension plan risks are outlined in the multi-employer pension plan (MEPP) strategic plans. The Corporations and Boards use a number of measures to provide insight on the future of the pension plans, including periodic asset/liability modelling (ALM) studies. For more information, visit [lapp.ca](http://lapp.ca), [sfpp.ca](http://sfpp.ca) and [fspp.ca](http://fspp.ca).

The actuary for most supplementary plans and the Council pension plan reports changes and anticipated trends that may affect the plans, to the PGC at its quarterly meetings.

The City performs annual accounting valuations and records liabilities in The City's financial statements. Plans are recorded on the financial statements as a net obligation and, therefore, assets and returns are extremely important. Funding valuations set contribution levels that ensure adequate investments exist to service the associated obligations.

### **4. How will The City of Calgary demonstrate not only the absolute values of its pension plans, but also trending over time (as part or percentage of total cost)?**

The City is undertaking a total compensation review in 2020 that will examine its competitive positioning relative to the market, and the value of the pension plans as a component of total compensation.

The City currently has actuarial valuations performed on its supplementary plans (SPP and EOPP) as well as accounting valuations on all

plans except the two large multi-employer pension plans (MEPPs). The results are reported in the Pension Governance Committee's (PGC's) annual report and in The City's financial

statements. Historical, funded ratios and contribution rates are provided in the PGC annual report presented in July to Council to show trends.

## Context

### 1. What are the current trends for public and private sector pensions, and how much sense do they make for the City of Calgary?

There are several trends that are noteworthy from a pension perspective:

Life expectancy is increasing for men and women as shown in the chart below, requiring retirement income for a longer period:

*Life Expectancy in Years from Birth and from Age 65*

| From Birth | Males | Females | Both |
|------------|-------|---------|------|
| 1980       | 72    | 79.1    | 75.4 |
| 2017       | 79.9  | 84      | 82   |
| At Age 65  |       |         |      |
| 1980       | 14.6  | 18.9    | 16.8 |
| 2017       | 19.3  | 22.1    | 20.8 |

We have also seen an internal trend with employees delaying retirement. The average retirement age has gradually risen from 59.9 to 61.8 years between 2010 and 2019.

Interest rates remain low, which makes it more difficult for plans to earn returns that will be sufficient to secure a reasonable retirement income.

There has been a shift in the private sector from DB plans to DC plans. This has been driven by a number of factors including:

- The cost of funding the plans as a result of decreasing investment returns, increasing life expectancy and solvency funding regulations.
- The decline of industries where DB plans predominated (e.g. manufacturing), and an increase in the service sector where DC plans are more common.
- Company risk aversion or decrease in risk tolerance for the funding risk.
- Competition from large pension funds whose scale results in lower investment fees and a greater range of investment opportunities.
- The impact of reporting a DB plan on an entity's financial statements, specifically the actuary and actuarial valuation costs, and financial comprehension and reporting complexity.
- Globalization of the workforce and the need for corporations to consolidate benefit plans, which is very difficult for DB plans.

Changes in direction demonstrated by federal and provincial governments create some level of uncertainty:

- The current federal government eliminated the previous government's plan to increase the age for receipt of the Canada Pension Plan (CPP) (driven by increased longevity) but did proceed to implement a gradual enhancement to the CPP.
- The previous Alberta Government allowed our multi-employer pension plans (MEPPs) to become jointly (employee and employer) governed and gave the Boards latitude to consider different administrators and investment companies in the future. The

current government maintained the joint trustee arrangement but rescinded the ability for boards to select investment and administration providers.

- The current Alberta government is considering the idea of removing Alberta from the CPP and setting up a provincial plan.

There has been a movement across many Canadian jurisdictions to relax funding requirements from the very costly solvency funding (the amount it would cost to windup a pension plan) to either going-concern funding (assumes the continuation of the pension plan) or the establishment of solvency funding **only** if certain going-concern targets are not met.

Most of these trends *favour* The City of Calgary's pension plans status. As a member of two large jointly-sponsored defined benefit multi-employer pension plans (MEPPs) whose investment arm, AIMCo, is one of the eight largest investment funds in Canada, our plans:

- Incur lower management expense and administration fees.
- Spread the risk across a large pool of employers and employees.
- Give access to top investment expertise, and a broad range of investment options.
- Are funded on the less costly and less restrictive going concern-valuation basis.
- Account for demographic and economic trends and risks in their governance practices.



**2. With the retirement crisis in Canada, is The City of Calgary doing its best to address the financial well-being of its employees?**

Employees at The City enjoy a comprehensive compensation package that includes base compensation, benefits and the opportunity for a retirement income.

The City supports and promotes the financial well-being of its employees in a number of other ways as well, including:

- Offering healthy workplace information sessions to employees that focus on financial wellness (e.g. budgeting) and, through the Employee and Family Assistance Program, financial coaching.

- Delivering total rewards statements so employees can see the value of their total rewards package.
- Providing workshops and resources (retirement analyst) to explain pension plans.
- Inviting Alberta Pension Services to speak to employees about their pension plan.
- Directing employees to excellent resources on the multi-employer pension plan (MEPP) (LAPP and SFPP) sites.

However, we know there is an opportunity to do more to support employees in better managing their financial well-being.

# Appendix A – Definition Glossary

## **Accounting Valuation**

An accounting valuation is an assessment of the plan's obligations valued in accordance with accounting standards. The results of an accounting valuation appear on an entity's financial statements, but is not used to calculate the contributions required to fund the plan.

## **Active Member**

An active member is an employee who is currently contributing to the pension plan.

## **Actuarial(ly) Equivalent**

To be actuarially equivalent, the present value of the expected future pension payments for the different forms of pension are equal. The present value of all future pension payments is calculated with regard to life expectancy and is discounted to today using current interest rates.

## **Actuarial Valuation or Actuarial Funding Valuation**

An actuarial valuation or actuarial funding valuation is an analysis performed by an actuary that compares the assets and liabilities of a pension plan using economic and demographic assumptions to determine the funded status. An actuarial valuation for defined benefit registered pension plans in Alberta is required to be performed at least every three years.

## **Actuary**

An actuary is a financial professional trained to calculate the value of pension payments using data about life expectancy, retirement ages, and interest rates and is a Fellow of the Canadian Institute of Actuaries.

## **Administrator and Third-Party Administrator**

The sponsor of the pension plan is the administrator. The administrator will contract certain administrative functions to a third-party provider. This third-party administrator takes care of the pension plans on a day-to-day basis and is reviewed at regular intervals by the administrator.

## **Annuity**

An annuity is a series of specified monthly payments to a person purchased from a Canadian life insurance company. These payments are provided under a contract with the life insurance company in exchange for an up-front premium. The monthly amount paid differs based on the size of the original sum of money and the form of pension chosen.

## **Beneficiary (other than pension partner)**

A beneficiary is the person(s) named to receive a benefit if the employee dies before retirement or to receive the remaining payments under a life guaranteed pension if the employee dies after retirement. If the employee does not have a pension partner and does not name a beneficiary, the estate is the beneficiary.

## **Bridge Benefit**

Some pension plans provide for a pension which is paid from their date of retirement to age 65, then stop. The reason this pension is called a "bridge benefit" is because the original intention was to bridge a person from retirement date to when they were expected to start collecting their Canada Pension Plan pension.

## **Closed Plan**

A closed plan is a pension plan which does not accept new members.

### **Commuted Value**

The commuted value is the amount of money paid in a lump sum that is equal to the actuarially equivalent value of future pension payments under the normal form of pension, as determined by the plan actuary. The commuted value is calculated using prescribed interest rates and probable life-span factors.

### **Consumer Price Index**

The Consumer Price Index is a measure of the rate of average price change for goods and services bought by consumers in Canada. It is used as a way to estimate changes in prices and inflation.

### **Cost-of-living Increases**

Some pension plans and retirement arrangements provide for increases in the benefit of pensioners to reflect increases in the cost of living, usually with reference to the consumer price index.

### **CRA or Canada Revenue Agency**

CRA is the federal government agency responsible for administering the Income Tax Act including the provisions for registered pension plans.

### **Defined Benefit Pension Plan or Defined Benefit Plan or DB Plan**

A defined benefit plan or DB plan pays a lifetime monthly pension defined by a formula that is used to calculate the benefit. The benefit is calculated at retirement and is independent of the pension plan fund's investment returns. All the pension plans in which The City participates are defined benefit pension plans.

### **Defined Contribution Pension Plan or Defined Contribution Plan or DC Plan**

A defined contribution plan does not promise a specific benefit at retirement. It is a type of retirement plan in which the employer, employee

or both make contributions to a trust fund on a regular basis. The employee draws income from the trust fund account balance to provide income in retirement. The future monthly pension fluctuates based on the investment earnings.

### **Employment Pension Plans Act (EPPA)**

The employment pension plans act is the legislation in the province of Alberta which governs registered pension plans.

### **Fiduciary**

A fiduciary is a legal term to describe a person who has a legal or ethical relationship of trust to someone else. Fiduciaries must act at all times for the benefit and interest of the other party.

### **Form of Pension and Optional Form of Pension**

Form of pension refers to the type of benefit provided to an employee's pension partner and/or beneficiary on death. When an employee retires, the employee will generally have a number of different forms of pension, called optional forms of pension, to choose from.

### **Funding Policy**

A funding policy is required by Alberta regulation for defined benefit registered pension plans. The funding policy establishes the guidelines by which the plan sponsor will set contributions.

### **Going-concern Valuation or Going Concern Funding**

A going-concern valuation provides an assessment of a pension plan on the premise that the plan continues into the future indefinitely based on assumptions in respect of future events. The results of the going-concern valuation are used to calculate contributions required to fund the plan and are referred to as going concern funding.

### **ITA or Income Tax Act**

The Income Tax Act or ITA is the legislation which governs what types of income are taxed when, and at what rate. Canada Revenue Agency is the body responsible for the Income Tax Act and its regulations.

### **Investment Manager**

The investment manager is a professional investment firm which invests the pension plan funds in accordance with the investment policy.

### **Investment Policy or Statement of Investment Policy (SIPP)**

The investment policy is required by Alberta regulation for registered pension plans. The investment policy establishes the guidelines for the investment of the pension plan fund, the objectives and risk tolerance of the parties involved, and the risk characteristics of asset classes. The investment policy helps ensure the pension assets are invested in ways that protect the interests of the pension plan members.

### **Joint and Survivor Pension**

A form of pension in which the employee receives payments for the employee's lifetime and the surviving pension partner receives a percentage of the payments for the remainder of their lifetime. The percentage of payments is chosen at time of retirement.

### **Life Guaranteed Pension**

A form of pension in which the employee receives payments for the employee's lifetime, with a stated number of payments guaranteed in any event. Should the retired employee pass away before the end of the guarantee period, the surviving beneficiary or pension partner would receive the value of the remaining payment to the end of the guarantee period. Common guarantees are 5, 10, and 15 years, or no guarantee.

### **Multi-Employer Pension Plan (MEPP)**

A MEPP is a plan in which multiple employer and employee groups participate. They are often set up for an entire industry or geographical area. A fiduciary is appointed to manage the plan on behalf of the employers and employees.

### **Non-Registered Pension Plans or Non-Registered Retirement Arrangements**

A non-registered pension plan or (more correct) a non-registered retirement arrangement is a pension plan which has not been, and cannot be, registered with the provincial pension regulator or CRA. There are no regulations which oversee these plans, other than general provisions of the Income Tax Act.

### **Normal Form of Pension**

Normal form of pension refers to the form of pension specified as the default in the pension plan provisions.

### **Open Plan**

An open plan is a pension plan in which new employees can join.

### **Pension Governance Committee or PGC**

The City has an obligation to look after the interests of employees in all the pension plans in which City employees participate. The PGC has been delegated this responsibility.

### **Pension Partner**

In order to qualify as a pension partner, a person must meet the description under Alberta pension legislation, as follows: "A pension partner is a person to whom an employee is married and has not been separated from for more than 3 years. If no such person exists, a pension partner is a person who has lived with the employee in a marriage-like relationship for 3 years before the pension starts, or a person in a relationship with the employee of some permanence where there is

a child from the relationship by birth or adoption.”  
If the employee has a pension partner, Alberta pension legislation requires that the pension partner is the beneficiary unless the pension partner has waived this right.

### **Pension Plan or Plan**

In this context, “pension plan” or “plan” are generic terms designed to encompass the registered pension plans, non-registered pension plans / non-registered retirement arrangements in which employees of The City participate.

### **Pensionable Earnings**

Pensionable earnings are the earnings used to calculate contributions and pension entitlement. The definition of pensionable earnings varies from pension plan to pension plan.

### **Pensionable Service**

Pensionable service is the years of service used to calculate the pension benefit. Pensionable service may be limited to a maximum number of years in some pension plans.

### **Registered Pension Plan**

A pension plan is “registered” when its defining documents have been submitted to, and accepted by, the provincial pension regulator and CRA. A registered pension plan must comply with the regulations of the two bodies.

### **RRSP (Registered Retirement Savings Plan) or Group RRSP**

An RRSP is a type of tax-sheltered investment account that is registered with CRA. Retirement savings within the RRSP are allowed to grow tax-free and are taxed when withdrawn. RRSPs must be collapsed by the end of the year in which a person turns age 71. Group RRSPs are no different than RRSPs, except that the employee can make contributions directly from payroll.

### **Single-Employer Pension Plan**

A single employer pension plan is set up by an employer for its employees – either the whole employee population, or a select group. The employer is also referred to as the plan sponsor and has fiduciary duties to the employees.

### **Solvency Valuation or Solvency Funding**

A solvency valuation provides an assessment of a pension plan on the premise that the pension plan is terminated based on current payout assumptions. The results of the solvency valuation are used to calculate funds required to immediately fund the plan and are referred to as solvency funding.

### **TFSA (Tax-Free Savings Account)**

A TFSA is a type of tax-sheltered investment account that is registered with CRA. After-tax dollars are put into the account, and investment income is allowed to grow tax-free. Neither the principal nor the investment income is taxed when withdrawn.

### **Total Compensation Package or Total Compensation**

Also known as a Total Rewards Package, a total compensation package is the total of all different types of compensation which may be received by an employee. This may include salary, perquisites, benefits and pensions.

### **Total Rewards Package or Total Rewards**

See “Total Compensation Package”.

### **YMPE (Yearly Maximum Pensionable Earnings)**

The YMPE is the year’s maximum pensionable earnings for the Canada Pension Plan set by CRA. The YMPE changes every year.

# Appendix B – Local Authorities Pension Plan (LAPP) Information



## GOVERNANCE SUMMARY PREPARED FOR THE CITY OF CALGARY

The following list of high level statements was prepared to assist the City of Calgary in assessing and benchmarking its participation in LAPP.

- LAPP represents the core and in most cases, the sole source of employer-sponsored retirement income savings arrangements for the majority of public service employees.
- LAPP has a long history of strong governance. In 2019, the Plan's governance structure was modified and the Plan is now formally registered as a jointly sponsored pension plan under the Employment Pension Plans Act (EPPA). LAPP's legal Administrator is LAPP Corporation. Complete information regarding LAPP's governance structure and LAPP Corporation can be found at [lapp.ca/page/our-governance](http://lapp.ca/page/our-governance).
- As part of LAPP's on-going governance initiatives, LAPP completes annual actuarial funding valuations and periodic asset/liability modelling (ALM) studies. The most recent actuarial funding valuation prepared as of December 31, 2018 reported that the Plan is 107.7% funded. LAPP Corporation will be completing its next ALM study in 2020.
- LAPP recently commissioned an external actuarial consultant to provide LAPP with an independent expert view of certain financial, risk and long-term sustainability measures related to the Plan. Following the completion of the assessment and review, the external party reported that in their opinion:
  - LAPP is using assumptions that produce appropriate contribution requirements supporting long term sustainability and is being funded on a reasonable basis
  - As currently construed in terms of benefit design and funding policy, LAPP's long term funding requirements are expected to remain reasonably stable and most likely be in the range of 16.5% to 17.0% of pay
  - Achieving similar retirement income outcomes using a defined contribution (DC) approach would necessitate contribution rates in the range of 23% to 30% of pay
- As a large jointly sponsored pension plan, LAPP benefits from economies of scale and is able to deliver benefits securely, stably and cost effectively. Part of LAPP's inherent advantage as a jointly sponsored



pension plan under the EPPA is that it is exempt from the funding requirements and resulting funding volatility associated with pension plans that are subject to solvency funding rules.

- LAPP regularly benchmarks its performance against the performance of its peers. Each year, CEM Benchmarking Inc. is engaged to benchmark LAPP's administration service levels and costs against those of other large Canadian public sector pension plans. LAPP's results are very close to the median results for the peer group, with administration cost levels being right at the median and service scores being just below the median. Similarly, the benchmarking of investment results is also completed by CEM Benchmarking Inc., who monitor investment returns, value add and expense levels. Not accounting for differences in investment policy, LAPP's 5-year net returns have matched the peer median returns of 7.4% per annum.
- LAPP, Alberta Pension Services Corporation (APS) and AIMCo are each audited annually by the Office of the Auditor General (OAG).

# Appendix C – Special Forces Pension Plan (SFPP) Information



## CITY OF CALGARY – PUBLIC SECTOR PENSION REVIEW SPECIAL FORCES PENSION PLAN

### Pension Overview

- SFPP is the pension plan for Alberta’s municipal police officers.
- SFPP is a defined benefit pension plan that is designed to support the unique nature of police, allowing them to retire after 25 years of pensionable service or at age 55 with an unreduced pension. This is something that the Income Tax Act allows SFPP to provide.
- Alberta municipal police services participate in SFPP: Calgary, Edmonton, Camrose, Lacombe, Lethbridge, Medicine Hat, and Taber.
- SFPP is the 81st largest pension fund in Canada (based on assets) and in the 90th percentile in Alberta (based on active members).
- Every year, SFPP completes an environmental scan for trends in the pension industry. Nearly all police services across Canada participate in defined benefit pension plans. This is not expected to change.

### Governance Overview

- In 2019, SFPP’s governance changed to become a jointly sponsored pension plan, registered under Alberta’s Employment Pension Plans Act.
- SFPP is jointly sponsored by seven municipalities and seven police associations.
- Together, the sponsors are responsible for decisions about Plan benefits and setting contribution rates.
- SFPP Corporation has the fiduciary duties in managing the Plan, and must act in the best interest of all SFPP members. Managing Plan administrative costs is a priority for SFPP.
- Under the new governance arrangement, SFPP achieved a lot in 2019. This includes establishing a new pension transfer agreement with the RCMP Pension Plan, allowing part-time police officers to join SFPP, updating and addressing issues in the Plan for the first time in 30 years, and analyzing the performance and costs of our service providers.
- Further information about SFPP’s governance is available at <https://www.sfpp.ca/page/sfpp-corporation>.

## Funding Overview

- SFPP has a Funding Policy, which sets the priorities on how to fund the Plan.
- SFPP completes an actuarial valuation at least every three years. The most recent actuarial valuation, prepared for December 31, 2018, shows that SFPP is 92.4% funded (an improvement on 88.5% in December 31, 2016).
- SFPP's post-1991 service (post-pension reform) is 98.8% funded.
- Around 80 cents of every SFPP pension dollar is funded from investments. SFPP reviews the Plan's Statement of Investment Policies and Procedures every year to make any necessary adjustments to meet the Plan's funding.

## Administration Overview

- SFPP Corporation is responsible for the oversight of SFPP's investment and administrative service providers. Bill 22 has made these service providers mandatory.
- SFPP's investments are managed by Alberta Investment Management Corporation (AIMCo), an Alberta Government Agency that is one of Canada's largest institutional investment managers. SFPP's partnership with AIMCo provides investment opportunities in pools that a plan of SFPP's size typically cannot find.
- SFPP's administration services are provided by Alberta Pensions Services Corporation (APS), an Alberta Government Agency, that also provides services for other Alberta public sector pension plans.
- Both AIMCo and APS regularly benchmark their performance against their peers. These surveys look at AIMCo and APS as a whole, rather than SFPP specifically. Both surveys are performed by CEM Benchmarking Inc., a Canadian company specializing in pension benchmarking.
  - The most recent CEM Benchmarking investment survey results indicate that AIMCo's asset management costs (47.7 basis points) was below their peer median (55.2 basis points).
  - SFPP has a value-add performance benchmark for AIMCo, which they have achieved four times out of the last eight years. Over the same period, AIMCo's costs have remained stable.
- SFPP Corporation is currently undertaking independent reviews of AIMCo and APS, focusing on the costs for SFPP specifically.
- SFPP will continue to look at opportunities to enhance services and value for money for our members and employers.

# Appendix D – Calgary Firefighters Supplementary Pension Plan (FSPP)

## Audit Committee Working Group Report Questions

### *Are our pensions administered properly?*

- Are the City of Calgary's pensions monitored?
- How does the City of Calgary address both the tangible (e.g. financial health of plan) and non-tangible (e.g. cost of turnover, lost knowledge base) variables involved in pensions?
- How does the City of Calgary stay focused on the future of its pension plans and anticipate liabilities?
- How will the City of Calgary demonstrate not only the absolute values of its pension plans, but also trending over time (as part or percentage of total cost)?

## Calgary Firefighters Supplementary Pension Plan

### *Overview*

The Calgary Firefighters Supplementary Pension Plan (the "Plan") and Trust Fund (the "Fund") was jointly established in 1974 by the City of Calgary (the "City") and the International Association of Firefighters Local 255 ("IAFF") to provide ancillary early retirement benefits and supplementary death and disability benefits to members of the Plan and other beneficiaries.

The Plan is a registered pension plan under the *Income Tax Act (Canada)* and the *Employment Pension Plans Act (Alberta)* (the "EPPA").

### *Roles and Responsibilities*

The Plan's Board of Trustees (the "Board") is subject to and governed by the trust agreement between the City and IAFF. The Board, which is the "administrator" of the Plan for the purposes of the EPPA, is a jointly sponsored board of Trustees, with an equal number nominated by each of the City and the IAFF and one independent trustee appointed by the trustees nominated by the City and IAFF. Responsibilities of the Trustees arise by virtue of statutory, fiduciary and contractual obligations.

In fulfilling its obligations as administrator under the EPPA, the Board has a duty to:

- (i) act honestly, in good faith and in the best interests of members of the Plan and other beneficiaries entitled to benefits from the Plan;

- (ii) exercise the care, diligence and skill that a person of ordinary prudence would exercise when dealing with the property of another person; and
- (iii) avoid knowingly allowing the interests of the Trustees or any other party to conflict with its powers and duties in respect of the Plan.

The Board has two distinct roles with respect to the Plan:

- (i) setting overall direction and providing oversight, and
- (ii) ensuring the day-to-day administration of the Plan.

The Board delegates its day-to-day administration functions but retains accountability for direction-setting and ultimate oversight. The Board has delegated the day-to-day administration of the Plan, including the responsibility for maintaining Plan records and managing the day-to-day affairs and operation of the Plan, to its administration center (the “FSPP Administration Centre”). The FSPP Administration Centre acts in accordance with the directions, instructions and approvals given by the Board, and reports back to the Board regularly.

The Board has also delegated authority for other specialized tasks, such as investment management services, legal services, actuarial services etc., to third-party service providers. These third-party service providers also act in accordance with the directions, instructions and approvals given by the Board, and report back to the Board regularly.

Contractually, the Trustees are bound by the terms of the Trust Agreement and the Plan. Other contractual obligations initiated by the Trustees are third-party services relating to Plan administration, investment management of Plan assets, and custodial, banking, actuarial, auditing, insurance, legal and other consulting services.

## **FSPP-Related Responses to Questions Posed**

### **1. Is the FSPP monitored?**

The Board of Trustees provides oversight of all FSPP matters. The Board has contractual agreements with professional third-party providers related to Plan administration, investment management of Plan assets, and custodial, banking, actuarial, auditing, insurance, legal and other consulting services.

The Plan, and its current funding and investment status is subject to ongoing reviews by the Alberta Superintendent of Pensions pursuant to the *Employment Pension Plans Act*. The Plan is also subject to the requirements of the *Income Tax Act (Canada)* and meets all the related filing and registration requirements.

**2. How does the Board of Trustees address the tangible (e.g. financial health of plan) variables?**

The Board employs the services of an actuary to assess the financial position of the Plan at least every three years, In addition, the actuary works with the Board on a regular basis to ensure that action is taken if Plan experience deviates materially from the expected assumptions set in the most recent valuation of the Plan.

The Board has contracted the services of a professional investment organization to assist the Board in all strategic investment matters and in ongoing investment performance monitoring issues.

**3. How does the Board of Trustees stay focused on the future of the Plan and anticipate liabilities?**

In addition to regular funding valuation of the Plan by the Plan's actuary and ongoing funding monitoring, the Board of Trustees undertakes the following:

- comprehensive modelling of current and future Plan liabilities and assets under various potential and extreme economic scenarios, to ensure that there will be sufficient assets to meet the Plan's benefit payout requirements based on sustainable contribution rates from plan members and the City; and
- comprehensive studies of plan experience to ensure that the assumptions that are used to assess the funded status of the Plan continue to be appropriate best-estimate assumptions.

# Appendix E – Open Pension Plans

| Type of Plan<br>(Name of Plan)   | Eligibility                   | Sponsor                 | Active City<br>Members<br>as at<br>2018 Dec 31<br>(rounded) | City<br>Authority                               | Employee<br>contribution<br>rates as at<br>2018 Dec 31                       | Employer<br>contributions<br>rates as at<br>2018 Dec 31                       | Accrued<br>Benefit<br>Liability as at<br>2018 Dec 31* |
|--|-------------------------------|-------------------------|---|---|--|---|---|
| <b>Multi-Employer (MEPP) Defined Benefit Plans</b>                           |                               |                         |   |   |  |   |   |
| <b>Local Authorities<br/>Pension Plan<br/>(LAPP)</b>                         | Most staff                    | LAPP<br>Corp            | 13,500  | Share seat<br>on Board<br>w/City of<br>Edmonton | 9.39% up<br>to YMPE,<br>13.84%<br>over YMPE<br>up to<br>annual<br>salary cap | 10.39% up<br>to YMPE,<br>14.84%<br>over YMPE<br>up to<br>annual<br>salary cap | n/a   |
| <b>Special Forces<br/>Pension Plan<br/>(SFPP)</b>                            | Police                        | SFPP<br>Corp            | 2,100   | Seat on<br>Board                                | 13.45% up<br>to annual<br>salary cap   | 14.55% up<br>to annual<br>salary cap  | n/a   |
| <b>Supplementary Pension Plans</b>   |                               |                         |   |   |  |   |   |
| <b>Supplementary<br/>Pension Plan<br/>(SPP)</b>                              | Exempt                        | City                    | 780   | Plan<br>Sponsor                                 | 2.35% up<br>to annual<br>salary cap  | 2.92% up<br>to annual<br>salary cap   | \$6,567,600<br>(@55%)                                 |
| <b>Overcap Pension<br/>Plan (OCP)</b>  | Exempt                        | City                    | 260   | Plan<br>Sponsor                                 | n/a  | n/a   | \$25,926,100  |
| <b>Police Chief &amp;<br/>Deputies Overcap<br/>Pension Plan<br/>(PCDOPP)</b> | Police<br>Chief &<br>Deputies | City                    | <10   | Plan<br>Sponsor                                 | n/a  | n/a   | \$4,782,900   |
| <b>Firefighters<br/>Supplementary<br/>Pension Plan<br/>(FSPP)</b>            | IAFF 255                      | City<br>and<br>IAFF 255 | 1,380   | Joint<br>Sponsor<br>with IAFF                   | 2.63% up<br>to annual<br>salary cap  | 3.22% up<br>to annual<br>salary cap   | \$43,686,900<br>(@55%)                                |



| Elected Officials                                   |                    |      |     |              |                               |                                |           |
|---|--------------------|------|-----|--------------|-------------------------------|--------------------------------|-----------|
| Elected Officials Pension Plan (EOPP)               | Members of Council | City | 14  | Plan Sponsor | 9.00% up to annual salary cap | 18.64% up to annual salary cap | \$560,100 |
| Elected Officials Supplementary Pension Plan (EOSP) | Members of Council | City | <10 | Plan Sponsor | n/a                           | n/a                            | \$829,900 |

\*Net liability for financial statement purposes established by the Accounting Valuation.

# Appendix F – Examples

## Local Authorities Pension Plan (LAPP), The City of Calgary Supplementary Pension Plan (SPP) and The City of Calgary Overcap Pension Plan (OCP)

1. The following three examples show the difference in LAPP, SPP and OCP pensions for an average employee<sup>9</sup>:

- Current age 45.6 years.
- Current service 9.0 years (the same service in all 3 plans).
- Who retires at their 85-point date (60.8 years old with 24.2 years of service).
- With no pension partner.
- Who picks the basic or normal form of pension.<sup>10</sup>

Person “A” earns the LAPP average salary of \$77,858, Person “B” earns the SPP average salary of \$135,200 and Person “C” earns the OCP average salary of \$167,000.

|                      | Person A | Person B | Person C |
|----------------------|----------|----------|----------|
| LAPP monthly pension | \$2,457  | \$4,770  | \$5,996  |
| SPP monthly pension  | n/a      | \$719    | \$286    |
| OCP monthly pension  | n/a      | n/a      | \$500    |
| Total                | \$2,457  | \$5,489  | \$6,782  |
| Replacement ratio*   | 37.9%    | 48.7%    | 48.7%    |

\* The replacement ratio indicates how much of an employee’s earnings are replaced by the pension.

<sup>9</sup> As reported in the December 31, 2018 LAPP actuarial valuation.

<sup>10</sup> The basic or normal form of pension for LAPP is payable for the employee’s lifetime, with 5 years guaranteed payments. The basic or normal form of pension for SPP and OCP is payable for the employee’s lifetime, with 10 years guaranteed payments.

2. The following three examples show the difference in LAPP pensions for employees with short or long service, as well as employees who leave The City before retirement and leave their pension in LAPP to retirement.

Person “D” is Person “A” with service capped at 35 years of service:

|                      | Person D |
|----------------------|----------|
| LAPP monthly pension | \$3,554  |
| Replacement ratio*   | 54.8%    |

\* The replacement ratio indicates how much of an employee’s earnings are replaced by the pension.

Not everyone retires with 85 points, and these employees are subject to a pension reduction.

Person “E”:

- Retires at age 55.
- With 25 years of service (80 points).
- With the LAPP average salary of \$77,858.
- With no pension partner.
- Who picks the basic or normal form of pension.<sup>11</sup>

|                      | Person E |
|----------------------|----------|
| LAPP pension formula | \$2,538  |
| Reduction            | 15%      |
| LAPP monthly pension | \$2,158  |
| Replacement ratio*   | 33.3%    |

\* The replacement ratio indicates how much of an employee’s earnings are replaced by the pension.

<sup>11</sup> The basic or normal form of pension for LAPP is payable for the employee’s lifetime, with 5 years guaranteed payments. The basic or normal form of pension for SPP and OCPP is payable for the employee’s lifetime, with 10 years guaranteed payments.

Person “E” could have left their pension in the pension plan to avoid the reduction. If Person “E” waited until age 65, there would be no reduction to their pension, as illustrated by Person “F”:

- Retires at age 60.
- With 25 years of service (85 points).
- With the LAPP average salary of \$77,858.
- With no pension partner.
- Who picks the basic or normal form of pension.<sup>12</sup>

|                      | Person F |
|----------------------|----------|
| LAPP pension formula | \$2,538  |
| Reduction            | 0%       |
| LAPP monthly pension | \$2,538  |
| Replacement ratio*   | 39.1%    |

\* The replacement ratio indicates how much of an employee’s earnings are replaced by the pension.

<sup>12</sup> The basic or normal form of pension for LAPP is payable for the employee’s lifetime, with 5 years guaranteed payments. The basic or normal form of pension for SPP and OCPP is payable for the employee’s lifetime, with 10 years guaranteed payments.

3. OCPP supplements LAPP and SPP for pensionable earnings in excess of the Income Tax Act (ITA) limit. It is important to note that not all members of OCPP will receive a benefit from it. This example outlines an employee who is not expected to receive an OCPP benefit based on the employee's salary (\$154,600), with age and service the same as Person C above.

|                      | Person G |
|----------------------|----------|
| LAPP monthly pension | \$5,553  |
| SPP monthly pension  | \$725    |
| OCPP monthly pension | \$0      |
| Total                | \$6,278  |
| Replacement ratio*   | 48.7%    |

\* The replacement ratio indicates how much of an employee's earnings are replaced by the pension.

## Local Authorities Pension Plan (LAPP) and Calgary Firefighters' Supplementary Pension Plan (FSPP)

The following example shows the pensions payable from LAPP and FSPP for an average firefighter:<sup>13</sup>

- Age at retirement 58.0 years.
- Service at retirement 28.3 years.
- With no pension partner.
- Who picks the basic or normal form of pension.<sup>14</sup>

4. Person "H" earns the average salary of FSPP retirements in 2019 of \$135,800.

|                                | Person H |
|--------------------------------|----------|
| LAPP monthly pension           | \$5,608  |
| FSPP monthly pension to age 65 | \$799    |
| Total to age 65                | \$6,407  |
| Replacement ratio*             | 56.6%    |
| Total after age 65             | \$5,608  |
| Replacement ratio*             | 49.6%    |

\* The replacement ratio indicates how much of an employee's earnings are replaced by the pension.

<sup>13</sup> 2019 FSPP retirement data.

<sup>14</sup> The basic or normal form of pension for LAPP is payable for the employee's lifetime, with 5 years guaranteed payments. The basic or normal form of pension for FSPP is payable to the employee's age 65, with 5 years guaranteed payments.

## Special Forces Pension Plan (SFPP) and The City of Calgary Police Chief and Deputies Overcap Pension Plan (PCDOPP)

5. The following two examples show the difference in SFPP and PCDOPP pensions for an average police officer:<sup>15</sup>

- Current age 40.8 years.
- Current service 12.1 years.
- Who retires when first retirement eligible (25 years of service).
- With no pension partner.
- Who picks the basic or normal form of pension.<sup>16</sup>

Person “I” earns the SFPP average salary of \$114,500, and Person “J” earns the PCDOPP average salary of \$232,000.

|                                       | Person I | Person J |
|---------------------------------------|----------|----------|
| <b>SFPP monthly pension to age 65</b> | \$4,771  | \$6,442  |
| <b>PCDOPP monthly pension</b>         | n/a      | \$2,493  |
| <b>Total to age 65</b>                | \$4,771  | \$8,935  |
| <b>Replacement ratio*</b>             | 50.0%    | 46.2%    |
| <b>Total after age 65</b>             | \$4,037  | \$8,201  |
| <b>Replacement ratio*</b>             | 42.3%    | 42.4%    |

\* The replacement ratio indicates how much of an employee’s earnings are replaced by the pension.

<sup>15</sup> As reported in the December 31, 2018 SFPP actuarial valuation.

<sup>16</sup> The basic or normal form of pension for SFPP is payable for the employee’s lifetime, with 5 years guaranteed payments, with a bridge benefit to age 65. The basic or normal form of pension for PCDOPP is payable to the employee’s age 65, with 5 years guaranteed payments.



## Pension Plan for Elected Officials of The City of Calgary (EOPP) and Supplementary Pension Plan for Elected Officials of The City of Calgary (EOSP)

6. The following two examples show the difference in EOPP and EOSP for an Elected Official:<sup>17</sup>

- Current age 53.4 years.
- Current service 8.4 years.
- Who retires at age 60 with 15 years of service.
- With no pension partner.
- Who picks the basic or normal form of pension.<sup>18</sup>

Person “K” earns the current Councillor salary of \$113,325 and Person “L” earns the current Mayor salary of \$200,586.

|                             | Person K | Person L |
|-----------------------------|----------|----------|
| <b>EOPP monthly pension</b> | \$2,833  | \$3,865  |
| <b>EOSP monthly pension</b> | \$0      | \$1,149  |
| <b>Total</b>                | \$2,833  | \$5,014  |
| <b>Replacement ratio*</b>   | 30.0%    | 30.0%    |

\* The replacement ratio indicates how much of an Elected Official’s earnings are replaced by the pension.

<sup>17</sup> As reported in the December 31, 2018 EOPP actuarial valuation.

<sup>18</sup> The basic or normal form of pension for EOPP and EOSP is payable for the Elected Official’s lifetime, with 5 years guaranteed payments.