

PENSION GOVERNANCE REPORT

EXECUTIVE SUMMARY

In accordance with the Terms of Reference for the Pension Governance Committee (PGC), this report on pension governance activities at The City of Calgary in 2016 is being provided to Priorities and Finance Committee for information.

ADMINISTRATION RECOMMENDATION(S)

That PFC recommends that City Council receive this report for information, on urgent business for July 24, 2017.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2017 JULY 18:

That Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

At the 2003 September 29 Special Meeting of City Council regarding Personnel Matters, Mayor Bronconnier directed "The Corporate Pension Governance Committee to bring forward an annual report, through the Accountability, Priorities and Agenda Committee to City Council on the state of Corporate Pensions based upon the reporting fundamentals of clarity, transparency and full disclosure, and further that this annual report be publicly available following acceptance by City Council."

BACKGROUND

The Pension Governance Committee was established in 2002 for oversight of governance, including compliance with Alberta Employment Pension Plans Act, Public Sector Pension Plans Act and the Canadian Income Tax Act of pension plans that City employees and City Council participate.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Pension Governance Committee consists of five members appointed by the City Manager and two City Council members appointed by City Council. The 2016 members were:

- Mark Lavallee, Chief Human Resources Officer (Chair)
- Rebecca Andersen, Barrister & Solicitor, City Law Department
- Beng Koay, City Treasurer (January to September)
- Eric Sawyer, Chief Financial Officer
- Brad Stevens, Deputy City Manager (January to May)
- Malcolm Logan, General Manager Transportation (June to December)
- Jacqueline Deitch, Director, Fleet Services (June to December)
- Councillor Diane Colley-Urquhart
- Councillor Evan Woolley (January to October)
- Councillor Ray Jones (October to December)

In 2016 PGC and its delegates:

PENSION GOVERNANCE REPORT

- Complied with all legislative requirements for all applicable pension plans including filing provincial and federal annual information returns. There were no changes to legislative requirements in 2016.
- Completed a triennial actuarial valuation for the Elected Officials Pension Plan (EOPP) and filed a report with provincial and federal pension regulators.
- Completed audited financial statements for all applicable plans in accordance with Canadian Accounting and Auditing standards for pension plans.
- Complied with all reporting requirements for the Local Authorities Pension Plan (LAPP) and Special Forces Pension Plan (SFPP).
- Remitted all required contributions for all pension plans in accordance with all legislative requirements.
- Administered plan enrolments, retirements, terminations, and pensioner payments in accordance with the applicable plan provisions.
- Complied with the PGC Terms of Reference and conducted four meetings in 2016. The Terms of Reference were updated in 2016.
- Completed the PGC Annual Assessment: no gaps were found.

Details of the administrative, legal, funding and financial activities for all City pension plans are contained in Attachments 1-4.

Stakeholder Engagement, Research and Communication

This report was provided to the Pension Governance Committee at the June 5, 2017 meeting for review.

Strategic Alignment

This annual report and the governance activities of the Committee support the City Council Priority of a well run City, being as efficient and effective as possible and providing oversight and sound management of pension policies and plans.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

The City includes its share of the pension contributions in the 2015-2018 budget plans, as part of the Employee Benefits Program.

Risk Assessment

LAPP and SFPP are multi-employer plans governed by provincial legislation and individual trustee boards. In 2012, The Alberta Finance Minister initiated a review of the sustainability of Alberta Public Sector Pension Plans. In 2014 Bill 9 was introduced into the Alberta legislature introducing pension reform, in September 2014 the legislature was prorogued and the bill cancelled. With the election of a new government in 2015, there has been no further discussion on pension reform.

PENSION GOVERNANCE REPORT

REASON(S) FOR RECOMMENDATION(S):

This report is for information only.

ATTACHMENT(S)

1. 2016 Pension Plan Summary
2. 2016 Pension Plan Governance Update
3. 2016 Pension Plan Administration Report
4. 2016 Financial Position of the Pension Plans

Outlined in this document is an overview of the pension plans that employees of The City and Council participate. Plan activities are reported quarterly to the Pension Governance Committee (PGC).

Administrative, legal, funding and financial information are found in the subsequent attachments.

Local Authorities Pension Plan (LAPP) – is a defined benefit pension plan for the employees of local authorities in Alberta. The City of Calgary (The City) is one of over 400 employers who participate in the plan. LAPP is the largest pension plan in which The City participates. LAPP covers all permanent unionized and exempt employees (except for Police) at The City. Other employees may be eligible to join according to The City's Administration Policy; *Participating in the Local Authorities Pension Plan*. The Alberta President of Treasury Board and Minister of Finance is the legal trustee of LAPP.

Special Forces Pension Plan (SFPP) – is a defined benefit pension plan for police officers in the province of Alberta. The City is the largest of seven employers who participate in the plan. SFPP covers all members of the Calgary Police Association, Senior Police Association, Chief and Deputy Chiefs of Police. The SFPP is the second largest plan in which The City participates. The Alberta President of Treasury Board and Minister of Finance is the legal trustee of SFPP.

The City of Calgary Supplementary Pension Plan (SPP) – is a registered defined benefit pension plan and is available to all union-exempt City employees whose permanent position is classified at exempt level F and above. The SPP provides benefits that supplement members' base LAPP benefit. The City is the plan sponsor of the SPP.

Calgary Firefighters Supplementary Pension Plan (FSPP) – provides benefits that supplement firefighters' base LAPP benefit. The FSPP is a registered pension plan outlined in the collective agreement between The City and the International Association of Fire Fighters (IAFF) Local 255 and is mandatory for all eligible IAFF Local 255 members. The FSPP is administered by a joint Board of Trustees with representation from The City, IAFF, and an independent member.

Pension Plan for Elected Officials of The City of Calgary (EOPP) – is a defined benefit registered pension plan that provides benefits for The City of Calgary Elected Officials. The City is the sponsor of the EOPP.

The Calgary Police Supplementary Pension Plan (PSPP) – is a defined benefit registered pension plan that provides benefits to Calgary Police Service members who retired from The City prior to 1979. At the end of 2016, the plan membership consists of 19 pensioners and/or beneficiaries. This is a closed plan and will terminate when the final pension payment is made. The PSPP is governed by the PSPP Board of Trustees which consists of representatives from the Calgary Police Association, Calgary Senior Police Association, The City and an independent member. The PSPP meets on an annual basis. The City has sole responsibility for funding the plan.

Non Registered Pension Arrangements

The City is the sponsor of individual and group non-registered pension arrangements. These plans are non-registered for CRA purposes and provide defined-benefit pension benefits in excess of the limits of the *Income Tax Act (Canada)* supplemental to the registered plans. As such, there is no legislated requirement to pre-fund these plans through external trusts, and current income tax rules would impose additional costs on any external pre-funding arrangement. Sufficient funds are held within The City's investments to cover the obligations of these plans.

The non-registered arrangements are:

The City of Calgary Overcap Pension Plan (OCP) –covers eligible employees who occupy positions classified exempt level G and above, whose earnings are above the Canada Revenue Agency maximum pensionable earnings. The OCP is supplemental to LAPP and SPP.

The City of Calgary Police Chief and Deputies Overcap Pension Plan (PCDOP) - covers the Police Chief and Deputies who participate in the SFPP.

The City of Calgary Fire Chief and Deputies Overcap Pension Plan (FCDOP) –is a closed plan for Deputies who continue active membership in the FSPP.

The City of Calgary Executive Pension Plan (EPP) – is a closed plan and provides a benefit for Executive Officers who were appointed to these positions prior to 2003.

Supplementary Pension Plan for Elected Officials of The City of Calgary (EOSP) – is for the Elected Officials that have earnings above the Canada Revenue Agency maximum pensionable earnings. This plan provides pension benefits in excess of the EOPP.

Contractual Obligations – The City has entered into individual compensation arrangements with key members of management that provide defined benefits upon retirement. These contractual obligations were grandfathered to members and have been deemed as closed as no benefits are provided to new employees; however, benefits will continue to retirees.

Administrative Update

Pension Plan	Local Authorities Pension Plan (LAPP)	Special Forces Pension Plan (SFPP)
Plan Administration	Alberta Pensions Services Corporation is responsible for the administration of LAPP.	Alberta Pensions Services Corporation is responsible for the administration of SFPP.
Representation	<ul style="list-style-type: none"> Representatives from The City met regularly with the Plan Administrator to collaborate on the new administration system which was implemented in 2016. The Plan Administrator has provided The City with an on-site resource to liaise between it and The City. 	<ul style="list-style-type: none"> Representatives from The City met regularly with the Plan Administrator to collaborate on the new administration system which was implemented in 2016. The Plan Administrator has provided The City with an on-site resource to liaise between it and The City.

Pension Plan	Supplementary Pension Plan (SPP)	Firefighters Supplementary Pension Plan (FSPP)	Elected Officials Pension Plan (EOPP)	Police Supplementary Pension Plan (PSPP)	Non-Registered Pension Plans (Note 1)
Administrative Services Provider	Aon Hewitt	Morneau Shepell	Aon Hewitt	The City	Aon Hewitt
Representation	The Provider reports quarterly to the PGC.	The Provider reports quarterly to the Board of Trustees.	The Provider reports quarterly to the PGC.	City Administration reports annually to the Board of Trustees.	The Provider reports quarterly to the PGC.

Note 1: Refer to Attachment 1 for the list of non-registered pension plans

2016 Pension Plan Governance Update

Governance Update

Pension Plan	LAPP	SFPP
Plan Trustee	The President of the Alberta Treasury Board / Minister of Finance is the legal trustee and administrator of the plan.	The President of the Alberta Treasury Board / Minister of Finance is the legal trustee and administrator of the plan.
Stakeholder Participation	The City continues to participate in LAPP employer stakeholder consultation groups. There were 2 meetings held in 2016 which City representatives attended.	The City continues to participate in employer stakeholder committees. There were no scheduled meetings in 2016.

2016 Pension Plan Governance Update

Governance Update (continued)

Pension Plan	SPP	FSPP	EOPP	PSPP	Non-Registered Pension Plans (Note 1)
Plan Trustee	The City	Board of Trustees	The City	Board of Trustees	The City
Stakeholder Participation	Ongoing PGC monitoring.	There are three City-appointed trustees on the Board (currently one retired and two active employees).	Ongoing PGC monitoring.	There are two City-appointed trustees on the Board.	Ongoing PGC monitoring.
Amendments	None	The pension plan text was consolidated to May 21, 2015 and signed in 2016. The Trust Agreement was amended in 2016 to increase the number of trustees in order to enhance the Board's resources for plan oversight and succession planning, and to address housekeeping items.	None	N/A	N/A
Governance Documents	Funding policy, governance policy and Statement of Investment Policies up-to-date.	Funding policy, governance policy and Statement of Investment Policies up-to-date.	Funding policy, governance policy and Statement of Investment Policies up-to-date.	N/A	N/A

Note 1: Refer to Attachment 1 for the list of non-registered pension plans

2016 Pension Plan Administration Report

PFC2017-0563
ATTACHMENT 3

Pension Plan	Local Authorities Pension Plan (LAPP)	Special Forces Pension Plan (SFPP)
Total active members' salary & service reported to plan administrators	13,364	2,169
Number of refunds to members as of 2016 Dec 31 (includes commuted value payouts)	(Note 1)	(Note 1)
Number of pensioners receiving monthly pensions @ 2016 Dec 31	(Note 1)	(Note 1)
2016 Cost-of-Living Adjustment (COLA) to pension payments (Note 2)	0.72%	0.72% / 0.36%

Note 1: Due to the multi-employer nature of LAPP & SFPP, information specific to The City of Calgary member refunds and pension payments is not readily available

Note 2: Each year the pension increases at a rate of 60% of the change in the Alberta Consumer Price Index (ACPI) with the exception of:

- The COLA for the pension payments for SFPP post-2000 service increases at a rate of 30% of the change in the ACPI

2016 Pension Plan Administration Report

(Continued)

Pension Plan	Supplementary Pension Plan (SPP)	Firefighters Supplementary Pension Plan (FSPP)	Elected Officials Pension Plan (EOPP)	Police Supplementary Pension Plan (PSPP)	Non-Registered Pension Plans (Note 1)
Total active members' salary & service reported to plan administrators	742	1,328	14	-	268
Number of refunds to members as of 2016 Dec 31 (includes commuted value payouts)	46	8	-	n/a	9
Number of pensioners receiving monthly pensions @ 2016 Dec 31	119	910	17	18	78
2016 Cost-of-Living Adjustment (COLA) to pension payments (Note 2)	0.72%	0.72%	0.80%	0.72%	0.72% / 0.80%

Note 1: Refer to Attachment 1 for the list of non-registered pension plans

Note 2: Each year the pension increases at a rate of 60% of the change in the Alberta Consumer Price Index (ACPI) with the exception of:

- The COLA for the EOPP pension payments which increases at a rate of 66.67% of the change in the Canada Consumer Price Index

2016 Financial Position of the Pension Plans**Funded Status - \$ thousands**

A going-concern actuarial valuation is conducted at least every three years in order to assess the financial position of a pension plan as at the valuation date on the premise that the plan will continue into the future indefinitely. The funded ratio compares the value of the plan assets to plan liabilities while a plan is ongoing. An unfunded liability or excess asset position exists when the actuarial valuation determines whether the plans' liabilities exceed the plans' assets or the plans' assets exceed the plans' liabilities.

Pension Plan	Local Authorities Pension Plan (LAPP) (Note 1)	Special Forces Pension Plan (SFPP) (Note 1)
Actuarial Valuation Date	2015 Dec 31	2013 Dec 31
Next Actuarial Valuation Date	2016 Dec 31	2016 Dec 31
Actuarial Value of Assets	\$34,724,300	\$1,902,400
Actuarial Liability	\$36,904,900	\$2,367,000
Going –Concern Unfunded Liability / (Excess Assets)	\$2,180,600	\$464,600
Going-Concern Funded Ratio	94.10%	80.40%

Refer to graphs on page 3

Note 1: Due to the multi-employer nature of LAPP and SFPP, information is not available to determine the portion of the plans' obligations and assets attributable to each employer. However, given that these plans have unfunded liabilities, an inherent unrecorded liability amount is attributable indirectly to plan participants. The LAPP and SFPP Boards have had a Long Term Funding Strategy in place for some time and over the past five years the funded ratio of the Plans has improved. Plan deficiencies are resolved by a combination of increased future employee and employer contributions, increased investment returns and interest rates, management or amendment of future liabilities.

- The going-concern funded status of SFPP as of 2013 December 31 was 80.4% based on the minimum level of indexing for post-2000 service.
- Information on the valuation results for LAPP and SFPP as at 2016 December 31 was not available at the time of the report.

2016 Financial Position of the Pension Plans

Funded Status - \$ thousands (continued)

Pension Plan	Supplementary Pension Plan (SPP) (Note 1)	Firefighters Supplementary Pension Plan (FSPP) (Note 1)	Elected Officials Pension Plan (EOPP) (Note 2)	Police Supplementary Pension Plan (PSPP) (Note 3)	Non - Registered Pension Plans (Note 3)
Actuarial Valuation Date	2016 Dec 31	2015 Dec 31	2015 Dec 31	2016 Dec 31	2016 Dec 31
Next Actuarial Valuation Date	2019 Dec 31	2018 Dec 31	2018 Dec 31	2017 Dec 31	2017 Dec 31
Actuarial Value of Assets	\$43,233	\$155,501	\$11,821	n/a	n/a
Actuarial Liability	\$42,733	\$164,782	\$9,318	\$1,892	\$52,167
Going – Concern Unfunded Liability / (Excess Assets)	(\$500)	\$9,281	(\$2,503)	n/a	\$17,143
Going-Concern Funded Ratio	101.17%	94.40%	126.87%	n/a	n/a

Refer to graphs on page 3

Note 1: The unfunded liabilities of The City Sponsored Pension Plans, SPP and FSPP, are shared 45% by the members and 55% by The City, in accordance with the terms of the plan texts. The SPP is in a surplus position with a funded ratio greater than 100% (assets exceed the plans' liabilities) as of the 2016 December 31 going-concern valuation.

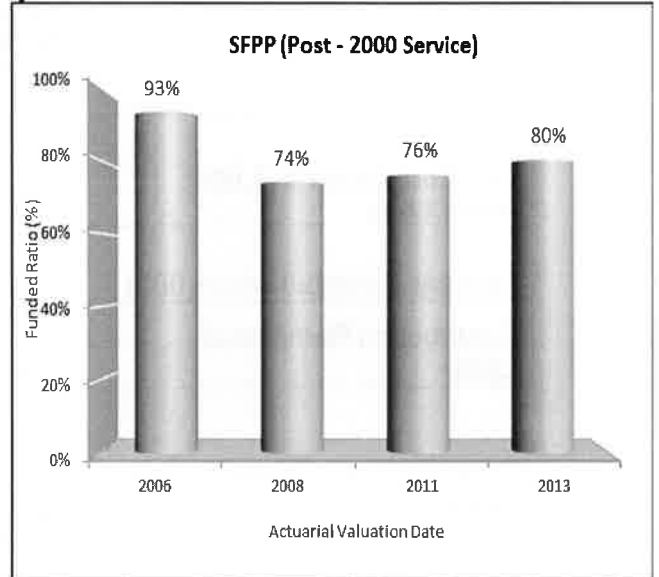
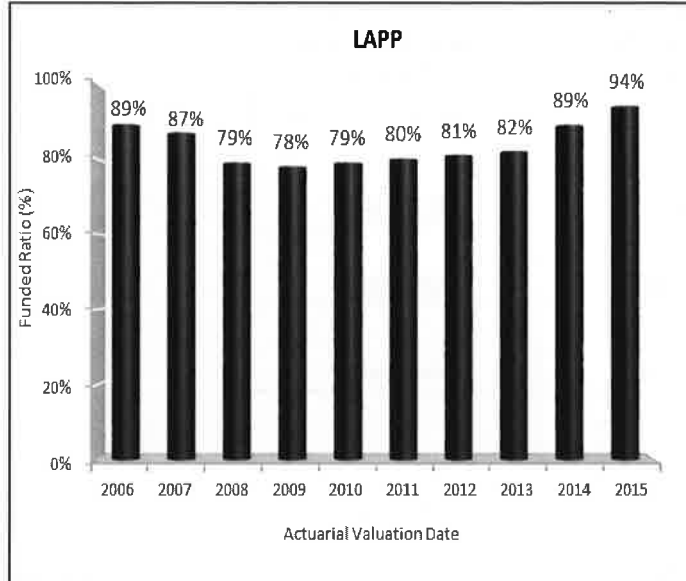
Note 2: The members of the EOPP contribute a fixed percent contribution rate of pensionable earnings. The City provides the balance of the funding based on the most recent going-concern valuation report. The EOPP is in a surplus position with a funded ratio greater than 100% (assets exceed the plans' liabilities) as of the 2015 December 31 going-concern valuation.

Note 3: Refer to Attachment 1 for the PSPP and non-registered pension plan funding requirements.

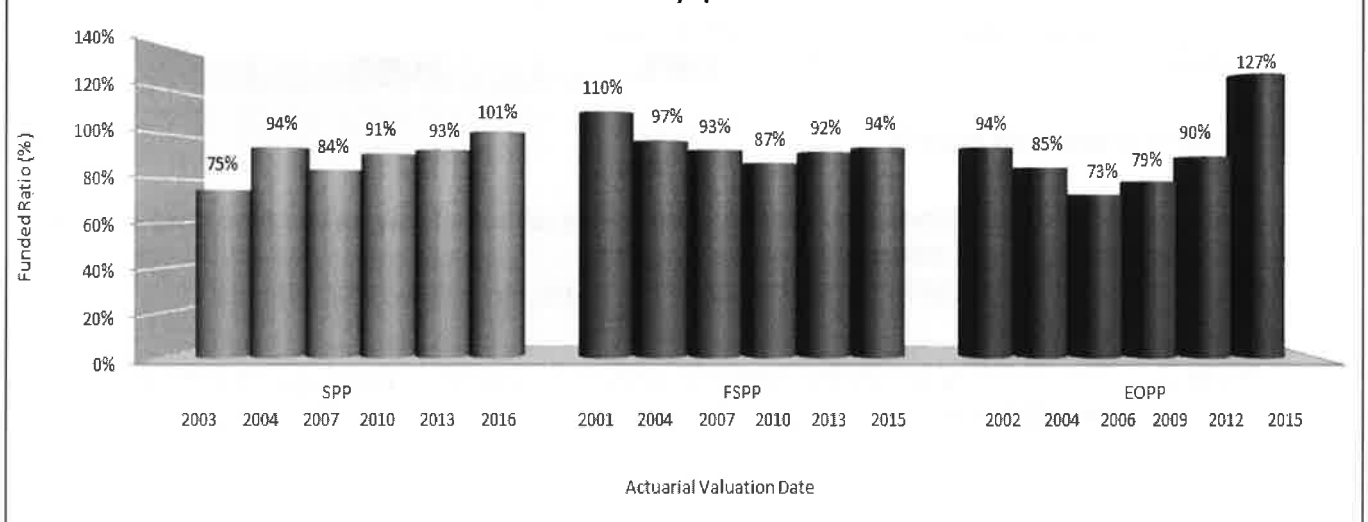
2016 Financial Position of the Pension Plans

Funded Status (Continued)

Funded Status of Multi-Employer Pension Plans



Funded Status of The City Sponsored Pension Plans



2016 Financial Position of the Pension Plans

2016 Contributions

Pension Plan	Local Authorities Pension Plan (LAPP)	Special Forces Pension Plan (SFPP)
City Contributions (\$,000) (Notes 1 & 2)	\$152,011	\$33,063
Member Contributions (\$,000)	\$139,933	\$30,601
Contribution Remittance Cycle	Bi-weekly	Bi-weekly
Effective Date of Contribution Rates	2015 Jan 1	2010 July 1
Member Contribution Rates (Notes 1 & 2)	10.39% up to YMPE 14.84% over YMPE	13.45%
City Contribution Rates (Notes 1 & 2)	11.39% up to YMPE 15.84% over YMPE	14.55%

Refer to graphs on page 6

Note 1: The contributions are made in accordance with the terms of the plan texts and the most recent actuarial report as follows:

- LAPP & SFPP: The City contributes 1% more than the members.

Note 2: The YMPE refers to the Yearly Maximum Pensionable Earnings. In 2016 the YMPE was \$54,900.

2016 Financial Position of the Pension Plans

2016 Contributions (continued)

Pension Plan	Supplementary Pension Plan (SPP)	Firefighters Supplementary Pension Plan (FSPP)	Elected Official Pension Plan (EOPP)	Police Supplementary Pension Plan (PSPP) (Note 3)	Non-Registered Pension Plans (Note 3)
City Contributions (\$,000) (Notes 1 & 2)	\$2,736	\$4,569	\$314	n/a	n/a
Member Contributions (\$,000)	\$2,369	\$4,230	\$151	n/a	n/a
Contribution Remittance Cycle	Monthly	Bi-weekly	Monthly	n/a	n/a
Effective Date of Contribution Rates	2014 July 15	2014 July 1	2016 Jan 1	n/a	n/a
Member Contribution Rates (Notes 1 & 2)	2.44%	2.63%	9.00%	n/a	n/a
City Contribution Rates (Notes 1 & 2)	2.83%	3.22%	18.64%	n/a	n/a

Refer to graphs on page 6

Note 1: The contributions are made in accordance with the terms of the plan texts and the most recent actuarial report as follows:

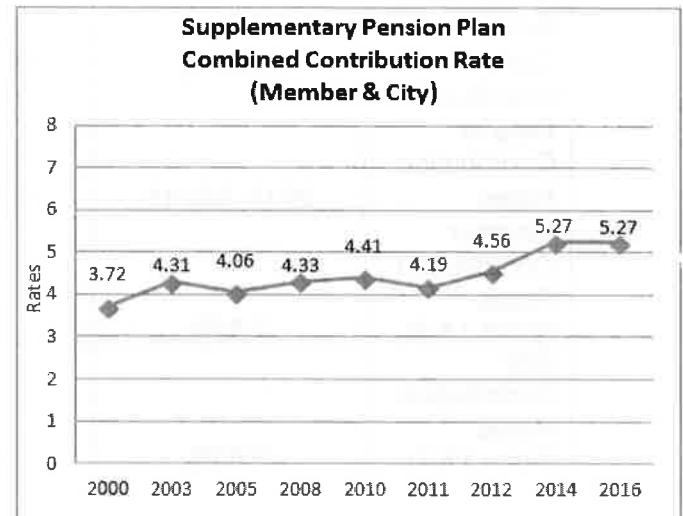
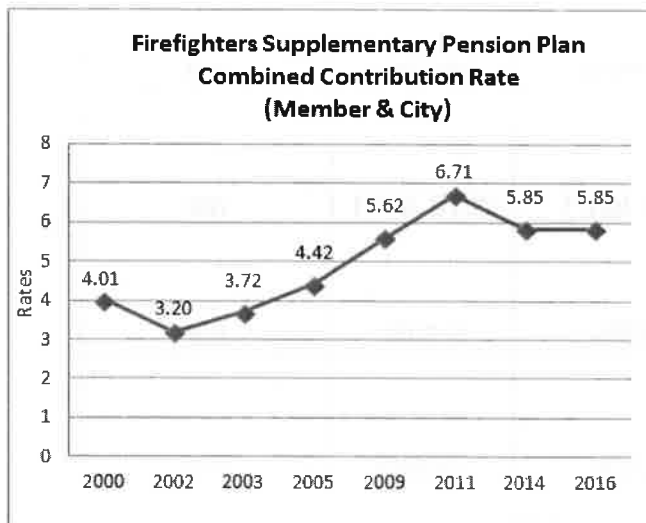
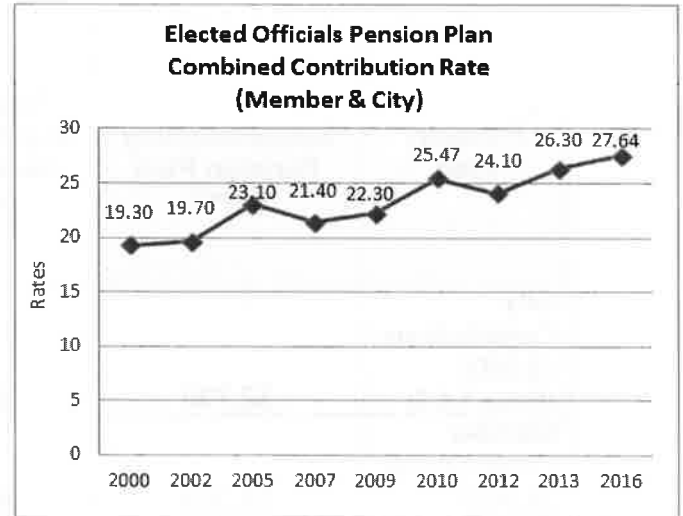
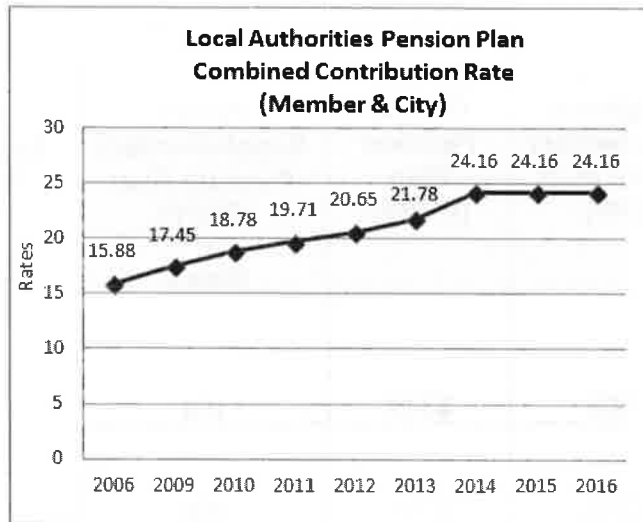
- SPP & FSPP: the current service costs and going concern unfunded liabilities or excess assets are shared 45% by the members and 55% by The City.
- EOPP: Members contribute a fixed rate of earnings with The City providing the balance of the funding as determined by the most recent actuarial valuation report.

Note 2: The YMPE refers to the Yearly Maximum Pensionable Earnings. In 2016 the YMPE was \$54,900.

Note 3: Refer to Attachment 1 for the PSPP and non-registered pension plan funding requirements.

2016 Contributions (continued)

2016 Financial Position of the Pension Plans



Note: a graph of the rates for the Special Forces Pension Plan is not shown as, since 2010, the combined contribution rate is unchanged at 28%. Prior to 2010, the combined rate was 21.12%.

2016 Financial Position of the Pension Plans

Investment Returns (net of fees) as of 2016 December 31

Investment Returns (annualized)	LAPP	SFPP	SPP	FSPP	EOPP	PSPP (Note 1)	Non-Registered Pension Plans (Notes 1 & 2)
1 Year	5.88%	6.83%	4.04%	7.59%	4.04%	N/A	N/A
3 Years	8.34%	9.38%	9.33%	7.90%	9.34%	N/A	N/A
4 Years	9.15%	10.63%	12.14%	9.37%	12.15%	N/A	N/A

Note 1: Sufficient funds are held within The City's investments to cover the obligations of these plans as determined by the most recent actuarial valuation and reported in Note 13 of The City's 2016 Annual Report

Note 2: Refer to Attachment 1 for the list of non-registered pension plans

