

**City Manager's Office Report to
Priorities and Finance Committee
2020 July 14**

**ISC: UNRESTRICTED
PFC2020-0639**

Pension Governance Committee Annual Report

EXECUTIVE SUMMARY

In accordance with the Terms of Reference for the Pension Governance Committee (PGC), this annual report details the pension governance activities at The City of Calgary in 2019.

ADMINISTRATION RECOMMENDATION:

That Priorities and Finance Committee recommends that Council receive this annual report for the Corporate Record.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2020 JULY 14:

That Council receive Report PFC2020-0639 for the Corporate Record.

PREVIOUS COUNCIL DIRECTION / POLICY

At the 2003 September 29 Special Meeting of 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 and retirement arrangements in which City employees and Council participate.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Pension Governance Committee consists of five members appointed by the City Manager and two Council members appointed by Council. The 2019 members were:

- Mark Lavallee, Chief Human Resources Officer (Chair) (February to December)
- Leslie Shikaze, Manager, Human Resources Total Rewards (Chair) (January)
- Rebecca Andersen, Barrister & Solicitor, City Law Department
- Carla Male, Chief Financial Officer
- Michael Thompson, General Manager Green Line
- Laura Kennedy, Director/City Clerk
- Councillor Diane Colley-Urquhart
- Councillor Ray Jones

In 2019 PGC and its delegates:

**City Manager's Office Report to
Priorities and Finance Committee
2020 July 14**

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Pension Governance Committee Annual 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 2019.
- Filed the 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 2019. An updated Terms of Reference was presented to the PGC on September 23, 2019 and is anticipated to be updated in 2020.
- Complied with the PGC Code of Conduct. The Code of Conduct was reviewed in 2019.
- Completed the PGC Annual Assessment: no gaps were identified. The annual assessment was reviewed in 2019 and will be updated in 2020 to ensure continuing alignment with Canadian Association of Pension Regulatory Authorities (CAPSA) guidelines.

Details of the administrative, legal, funding and financial activities for all City pension plans are contained in Attachments 2-5.

Stakeholder Engagement, Research and Communication

This report was provided to the Pension Governance Committee at the 2020 June 30 meeting for review.

Strategic Alignment

This annual report and the governance activities of the Pension Governance Committee support the 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 and operations of the Pension Governance Committee in the 4-year budget plans, as part of the Employee Benefits Program.

Current and Future Capital Budget:

N/A

**City Manager's Office Report to
Priorities and Finance Committee
2020 July 14**

**ISC: UNRESTRICTED
PFC2020-0639**

Pension Governance Committee Annual Report

Risk Assessment

The City has summarized the pension plan risks and mitigating strategies which have not been identified in previous reports, or which have changed since previous reports. For LAPP and SFPP, The City utilized information and data from LAPP and SFPP Corporations as the applicable governing bodies to develop the assessment below.

Local Authorities Pension Plan (LAPP)

Regulatory: On 2019 November 19, the Government of Alberta introduced Bill 22, which amended the 2019 March 1 change. Bill 22 included the provision which mandates LAPP to utilize Alberta Pensions Services Corporation (APS) and Alberta Investment Management Company (AIMCo). The 2019 March 1 legislation had allowed LAPP to change providers after a five-year moratorium. Bill 22 also included the provision that the methodology used to calculate lump-sum ("commuted value") payouts would be changed as of 2020 April 1.

Requiring the pension plan to utilize specific providers carries the risk that the pension plan would not be able to change providers in the event of poor performance. To mitigate this risk, LAPP Corporation has regular meetings with the service providers to set expectations and review performance. The LAPP website states, "LAPP Corporation reports on its risks in a report called the Enterprise-Wide Risk Management Framework. This report is a comprehensive assessment of all risks facing LAPP and it covers the integrated responsibilities of LAPP Corporation and its Corporate Board, the Sponsor Board, and our service providers APS and AIMCo."

Governance: The City participates in the governance of LAPP as much as possible under the current governance structure. The City shares a rotating seat on the Sponsor Board (representative) and the Corporate Board (fiduciary) with the City of Edmonton and attends stakeholder information meetings when they are held by LAPP Corporation. However, this does not ensure that The City receives notice from the City of Edmonton regarding decisions which are before the Sponsor Board or timely information from LAPP Corporation. The lack of a direct voice presents a risk to The City. To mitigate this risk, The City is actively working with the City of Edmonton on a Terms of Reference document which will include a requirement for the city who is on the Sponsor Board to communicate to the other city on a mutually acceptable basis.

Funding: LAPP is 107.7% funded as of the 2018 December 31 actuarial valuation report. As of that date, the solvency ratio is 77.9%. Both these measures have been improving over time while contribution rates decreased in 2018 and 2019. The LAPP contribution rate is currently in excess of the minimum required rate to further strengthen the plan's financial position. A valuation is completed annually to assess the funded status of LAPP and to ensure the assumptions used in the valuations are current.

LAPP Corporation provides investment result updates to employers and employees on its website on a quarterly basis. The Q1 2020 investment results were posted June 3, 2020. LAPP Corporation also provides other updates as required. With respect to recent financial events and the COVID-19 pandemic, LAPP's website currently states,

**City Manager's Office Report to
Priorities and Finance Committee
2020 July 14**

**ISC: UNRESTRICTED
PFC2020-0639**

Pension Governance Committee Annual Report

“In 2019, fearing an impending end to the longest sustained bull market run in history, LAPP Corporation took steps to put in place measures to effectively “insure” LAPP’s public equities (stock market) portfolio against large losses. Those measures, which we refer to as our downside protection strategy, were put in place only days before the stock market began to collapse in February. LAPP has not been immune to the impacts of the economic crisis across its full investment portfolio, however, the measures put in place by LAPP did protect the Plan from the worst of the impacts in the stock market. All in all, since the end of 2019, the funded position of the Plan remains in a surplus position but has reduced from 119% funded at the beginning of Q1 to 109% at the end. Investment losses actually reduced the funded ratio by 13% in Q1 but with LAPP’s downside protection strategy, the impact of losses was lessened by 4.4%...”

and

“LAPP Corporation and its key service providers, Alberta Pensions Services Corporation (APS) and Alberta Investment Management Corporation (AIMCo) are closely monitoring the COVID-19 situation and its impact in Alberta, across Canada and throughout the rest of the world.

To date there has been no disruption to LAPP Corporation’s, APS’ or AIMCo’s business operations. Together, we would like to take a moment to assure members, retirees, and stakeholders of LAPP that our respective organizations have extensive business resilience plans and emergency response protocols in place to mitigate potential impacts in critical operational areas.

We are committed to:

- Ensuring retirees continue to receive their monthly pension payments on time;
- Providing timely responses to member inquiries;
- Assisting employers so they can continue to remit critical pension data;
- Continued professional investment management of the LAPP fund.”

Special Forces Pension Plan (SFPP)

Regulatory: On 2019 November 19, the Government of Alberta introduced Bill 22, which amended the 2019 March 1 change. Bill 22 included the provision which mandates SFPP to utilize Alberta Pensions Services Corporation (APS) and Alberta Investment Management Company (AIMCo). The 2019 March 1 legislation had allowed SFPP to change providers after a five-year moratorium. Bill 22 also included the provision that the methodology used to calculate lump-sum (“commuted value”) payouts would be changed as of 2020 April 1.

City Manager's Office Report to
Priorities and Finance Committee
2020 July 14

ISC: UNRESTRICTED
PFC2020-0639

Pension Governance Committee Annual Report

Requiring the pension plan to utilize specific providers carries the risk that the pension plan would not be able to change providers in the event of poor performance. To mitigate this risk, SFPP Corporation has regular meetings with the service providers to set expectations and review performance. The SFPP website states, "To manage that risk, SFPP has a funding policy that builds the ability to absorb sudden market downturns."

Funding: SFPP is 93.1% funded as of the 2018 December 31, actuarial valuation report. As of that date, the solvency ratio is 71.7%. Both these measures have been improving over time while contribution rates have remained stable since 2011. A valuation is completed at least triennially to assess the funded status of SFPP and to ensure the assumptions used in the valuations are current.

SFPP Corporation provides updates to employers and employees on its website on an as-needed basis. An investment update was posted in June, 2020. With respect to recent financial events and the COVID-19 pandemic, SFPP's website currently states,

"Your SFPP pension remains secure. The formula for your pension is based on the salary you earn while working for an SFPP employer and how long you contribute to the Plan. Your pension plan is comprised of a broadly diversified portfolio of investment assets designed specifically to withstand episodes of market volatility, which mitigates the impact of how investment markets perform in the relative short term. SFPP Corporation will continue to monitor the investment performance of the Plan and act in the long-term best interests of all members."

and

"SFPP and our partners have extensive plans to continue providing services. SFPP's key partners are our pension administration services provider (Alberta Pensions Services Corporation, also known as APS) and our investment manager (Alberta Investment Management Corporation, also known as AIMCo). Together, our priorities are to:

- Continue paying SFPP monthly pension payments on time
- Provide timely responses to member questions
- Assist employers so they can remit critical pension data
- Continue professional investment management of the SFPP Fund

So far, there have been no disruptions to SFPP's business operations. SFPP Corporation, APS, and AIMCo have extensive business resilience plans and emergency response protocols in place to mitigate potential impacts in critical operational areas."

Pension Plan for Elected Officials of The City of Calgary (EOPP)

Funding: EOPP is 133.9% funded as of the 2018 December 31 actuarial valuation report. As of that date, the solvency ratio is 92.8%. Both these measures have improved over time while

**City Manager's Office Report to
Priorities and Finance Committee
2020 July 14**

**ISC: UNRESTRICTED
PFC2020-0639**

Pension Governance Committee Annual Report

contribution rates have remained stable since 2016. A valuation is completed at least triennially to assess the funded status of EOPP and to ensure the assumptions and methodology used in the valuations are current. The EOPP is a defined benefit pension plan. Thus, funding and investments required are calculated using a long time horizon. Short-term fluctuations in experience do not necessarily impact the long-term results or contributions required to fund the plan. The COVID pandemic is just one short-term fluctuation and does not itself impact the ability to pay pensions from the plan as they come due.

Funding of the EOPP is guided by its funding policy, which has the following objectives:

- “The Plan’s funding should ensure the security of accrued benefits that have been promised to plan members and beneficiaries
- The Plan’s funding should be at a level that is sufficient to support the sustained accrual of benefits earned for future service as contemplated by the Plan
- The Plan’s contributions rates should remain stable and affordable
- To ensure, to the extent possible, that each generation of active members and The City, according to the contribution rates and funding provisions described in section III, will fund the anticipated cost of the benefits for that generation.”

Investment of EOPP assets is guided by its Statement of Investment Policies and Procedures, which has the following objective:

- “The basic goal underlying the establishment of the Plan’s investment objectives is to ensure that the assets of the Plan, along with expected future contributions, will be invested in a prudent manner to be sufficient to meet the obligations of the Plan as those obligations come due.
- In light of the Plan’s basic goal, the investment objectives for the Fund have been developed having regard to the characteristics and objectives of the Plan.”

The City of Calgary Supplementary Pension Plan (SPP)

Funding: SPP is 101.2% funded as of the 2016 December 31 actuarial valuation report. As of that date, the solvency ratio is 64.3%. The next valuation report will be filed before the end of 2020. A valuation is completed at least triennially to assess the funded status of SPP and to ensure the assumptions and methodology used in the valuations are current. The SPP is a defined benefit pension plan. Thus, funding and investments required are calculated using a long time horizon. Short-term fluctuations in experience do not necessarily impact the long-term results or contributions required to fund the plan. The COVID pandemic is just one short-term fluctuation and does not itself impact the ability to pay pensions from the plan as they come due.

Funding of the SPP is guided by its funding policy, which has the following objectives:

- “The Plan’s funding should ensure the security of accrued benefits that have been promised to plan members and beneficiaries
- The Plan’s funding should be at a level that is sufficient to support the sustained accrual of benefits earned for future service as contemplated by the Plan
- The Plan’s contributions rates should remain stable and affordable
- To ensure, to the extent possible, that each generation of active members and The

**City Manager's Office Report to
Priorities and Finance Committee
2020 July 14**

**ISC: UNRESTRICTED
PFC2020-0639**

Pension Governance Committee Annual Report

City, according to the contribution rates and funding provisions described in section III, will fund the anticipated cost of the benefits for that generation.”

Investment of SPP assets is guided by its Statement of Investment Policies and Procedures, which has the following objective:

- “The basic goal underlying the establishment of the Plan’s investment objectives is to ensure that the assets of the Plan, along with expected future contributions, will be invested in a prudent manner to be sufficient to meet the obligations of the Plan as those obligations come due.
- In light of the Plan’s basic goal, the investment objectives for the Fund have been developed having regard to the characteristics and objectives of the Plan.”

REASON(S) FOR RECOMMENDATION(S):

This report is for information only and is intended to provide Council with assurances and information on all of The City’s pension plans and activities.

ATTACHMENT(S)

1. Attachment 1 – Terms of Reference for the Pension Governance Committee of The City of Calgary (2020 May)
2. Attachment 2 – 2019 Pension Plan Inventory
3. Attachment 3 – 2019 Pension Plan Governance and Administrative Update
4. Attachment 4 – 2019 Pension Plan Administration Report
5. Attachment 5 – 2019 Financial Report on the Position of the Pension Plans
6. Attachment 6 – The City of Calgary Pension Governance Committee 2020 Workplan