

**City Manager's Office Report to
Priorities and Finance Committee
2019 July 02**

**ISC: UNRESTRICTED
PFC2019-0803**

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 2018.

ADMINISTRATION RECOMMENDATION:

That Priorities and Finance Committee recommends that Council receive this annual report for information.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2019 JULY 02:

That Council adopt the Administration Recommendation contained in Report PFC2019-0803.

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 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 2018 members were:

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

In 2018 PGC and its delegates:

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- 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 2018.
- 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 2018. The Terms of Reference was last updated in 2016.
- Complied with the PGC Code of Conduct. The Code of Conduct was reviewed and updated in 2018.
- Completed the PGC Annual Assessment: no gaps were identified. The annual assessment will be reviewed in 2019 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 2019 June 6 meeting for review.

Strategic Alignment

This annual report and the governance activities of the Pension and 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

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Financial Capacity

Current and Future Operating Budget:

The City includes its share of the pension contributions and operations of the Pension and Governance Committee in the 4-year budget plans, as part of the Employee Benefits Program.

Current and Future Capital Budget:

N/A

Risk Assessment

The City has summarized the pension plan risks and mitigating strategies for LAPP and SFPP below as they have the largest financial impact to The City. The City utilized information and data obtained from LAPP and SFPP as the applicable governing bodies to develop the assessment below.

Local Authorities Pension Plan (LAPP)

Regulatory: As of 2019 March 1, legal trusteeship of LAPP moved from the Minister of Finance to two boards comprising of employee and employer representatives – the Sponsor Board (a representative board) and the Corporate Board (a fiduciary board). As such, the governing legislation changed from the Public Service Pension Plans Act to the Alberta Employment Pension Plans Act. The government of Alberta has been clear that this shift will not result in any impact to the benefits or costs of the plans. A noteworthy change is the inability of any employer to exit the plan for five (5) years; the provisions for withdrawal after five (5) years have yet to be written.

The Sponsor Board has the ability going forward to make decisions which may impact the benefits or costs of the plans. The City has indirect representation on the Sponsor Board, sharing a rotating seat with the City of Edmonton. The City of Calgary also has representation on the Corporate Board.

Funding: LAPP is 104.5% funded as of the 2017 December 31 actuarial valuation report. As of that date, the solvency ratio is 76.6%. Both these metrics have improved over time while contribution rates have decreased in the last two years. 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 and methodology used in the valuations are current.

Governance: The LAPP Sponsor Board and Corporate Boards (prior to 2019 March 1, the LAPP Board) have responsibility for the governance of the plan and have Codes of Conduct, plan governance policies and plan funding policies in place. The Boards also have responsibility to oversee the operations of the service providers to the plan – Alberta Pension Services and Alberta Investment Management Company. The LAPP Corporate Board is assisted in its duties by LAPP Corporation, the executive team of which is made up of experts in the pension space. LAPP Corporation holds stakeholder meetings at least twice per year, which gives employers the opportunity to assess the performance and processes of the LAPP Corporation, the Boards, and their service providers.

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Special Forces Pension Plan (SFPP)

Regulatory: As of 2019 March 1, legal trusteeship of SFPP moved from the Minister of Finance to two boards comprising of employee and employer representatives – the Sponsor Board (a representative board) and the Corporate Board (a fiduciary board). As such, the governing legislation changed from the Public Service Pension Plans Act to the Alberta Employment Pension Plans Act. The government of Alberta has been clear that this shift will not result in any impact to the benefits or costs of the plans. A noteworthy change is the inability of any employer to exit the plan for five (5) years; the provisions for withdrawal after five (5) years have yet to be written.

The Sponsor Board has the ability going forward to make decisions which may impact the benefits or costs of the plans. The City has direct representation on the Sponsor Board. The City of Calgary also has representation on the Corporate Board.

Funding: SFPP is 89.2% funded as of the 2016 December 31, actuarial valuation report. As of that date, the solvency ratio is 67.4%. Both these metrics have improved over time while contribution rates have remained stable since 2011. A valuation is completed triennially to assess the funded status of SFPP and to ensure the assumptions and methodology used in the valuations are current.

Governance: The SFPP Sponsor Board and Corporate Boards (prior to 2019 March 1, the SFPP Board) have responsibility for the governance of the plan and have Codes of Conduct, plan governance policies and plan funding policies in place. The Boards also have responsibility to oversee the operations of the service providers to the plan – Alberta Pension Services and Alberta Investment Management Company. The SFPP Corporate Board is assisted in its duties by SFPP Corporation, the executive team of which has many years of experience with the plan. SFPP Corporation holds stakeholder meetings at least twice per year, which gives employers the opportunity to assess the performance and processes of the SFPP Corporation, the Boards, and their service providers.

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 (2016 April)
2. Attachment 2 – 2018 Pension Plan Inventory
3. Attachment 3 – 2018 Pension Plan Governance and Administrative Update
4. Attachment 4 – 2018 Pension Plan Administration Report
5. Attachment 5 – 2018 Financial Report on the Position of the Pension Plans
6. Attachment 6 – The City of Calgary Pension Governance Committee 2018 Workplan