



# **Management Employees Pension Board (MEPB)**

## **Strategic Business Plan 2018 - 2020**

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## BOARD VISION

That Plan members and employers have a pension plan that is affordable and sustainable.

## BOARD MISSION

To provide prudent governance of the Plan and Fund.

## ACCOUNTABILITY STATEMENT

This strategic business plan was prepared under the Board's philosophy that the governors (the Board, the Administrator and the Trustee) of the Management Employees Pension Plan (MEPP or "the Plan") work in the best interest of the Plan to sustain and improve the financial health of MEPP. The Board believes that this is achieved through accountability, diligence, initiative, innovation, integrity, trust, and transparency.

## GOVERNANCE MANDATE AND RESPONSIBILITIES

The President of Treasury Board, Minister of Finance (the Minister) is the statutory administrator of MEPP, and holds all assets of the Plan in trust to provide benefits pursuant to the Plan and to meet Plan costs.

The *Public Sector Pension Plans Act* (PSPPA) sets out the main objectives of the Board with respect to funding, administration, investments and amendments to the Plan.

As outlined in the PSPPA, the Government of Alberta (GoA) has given the Management Employees Pension Board (MEPB or "the Board") the following responsibilities:

- Advise the Minister on any pension matter that is of interest to those entitled to benefits under MEPP.
- Consult with the Minister with respect to:
  - amending or repealing and replacing Plan rules, including adjusting contribution rates to ensure the Plan is funded;
  - conducting an actuarial valuation with respect to MEPP and the Public Service Management Closed Plan (Closed Plan);
  - proposed changes to the Public Service Pension Plan (PSPP) (Legislative Provisions) Regulation; and
  - the costs to be charged for the administration of MEPP and the Closed Plan.
- Review MEPP and Closed Plan member appeals of administrative decisions provided to them by the Plan's Administrator, Alberta Pensions Services Corporation (APS), in accordance with the delegation from the Minister, set out in Ministerial Authorizations 05/94 and 01/95 established pursuant to the PSPPA.
- Set general policy guidelines, such as the Investment Policy, on the investment and management of the MEPP fund.
- Set general policy guidelines on the administration of MEPP.

The responsibility of the Board's Investment Committee (IC) is to review the investment results of the Plan's Fund with Alberta Investment Management Corporation (AIMCo) and with the assistance of the Board's Investment Consultant. The IC also reviews the MEPP Investment Policy (IP) on an annual basis and makes recommendations to the Board on changes it believes are required to prudently manage the Plan.

AIMCo provides investment management services to the Plan under an investment management agreement with the Minister. AIMCo invests the Plan's assets for the benefit of Plan members and pensioners, subject to legislation and the MEPP IP, as set by the Board.

APS provides pension-related services to the Plan under a delegation from the Minister. APS provides benefit administration for members, pensioners and employers, including receiving and reconciling pension plan contributions, maintaining membership records, paying pensions, and providing information to members, pensioners and employers.

## SIGNIFICANT OPPORTUNITIES AND CHALLENGES

### CHALLENGES

- 1) Governance: *The MEPP is governed by a complex and multi-layered system, which can lead to unclear responsibilities for the involved parties.*

The Board was established to provide the Minister with independent expert advice on the Plan, independent of Alberta Treasury Board and Finance (ATBF), APS and AIMCo. A properly governed plan is monitored for risk, and has mechanisms in place to diligently and effectively act on changes that the Plan and its Fund require. Long-term financial health and effective governance go hand in hand; they can be achieved by improving clarity of roles and responsibilities, and reporting.

- 2) Investment Management:

- 2.1) *To gain returns in today's investment market, the Plan must take on some risk.* Consequently, the sophistication and complexity of investments has increased, which has resulted in the need for enhanced monitoring.
- 2.2) *Volatile geopolitical activity continues to affect the financial markets.* The Board believes that AIMCo is diligently monitoring the investment activities and markets, and has sound strategies to mitigate risks to the Plan Fund. The Board monitors these risks on a quarterly basis with its independent investment consultant and AIMCo.
- 2.3) *The Board is concerned with the impact of rising interest rates on investment returns.* The Board will continue to monitor and work with AIMCo on strategies to mitigate losses.
- 2.4) *In today's market, investments with higher returns and low risk are difficult to secure.* The Board continues to manage investments through its Investment Policy (IP), particularly by establishing an effective risk return measured asset mix, completed through its annual Asset Liability Study and IP review.

- 3) Supplementary Retirement Plan for Public Service Managers (MSRP) Governance: *MSRP, a plan providing supplementary benefits to MEPP members, is currently not under the MEPB's oversight.*

In order to prudently govern all of the plans linked to MEPP, and to increase efficiencies and effectiveness, remove duplications and bias, and for best governance practice, the Board recommends that the plans linked to MEPP be governed under one Board and that oversight and fiduciary responsibilities for the MSRP be moved back under MEPB. The (MSRP) was established in 1999 to provide supplementary benefits to MEPP members. A Committee comprised of ATBF staff and one member from the Public Service Commissioner's Office was established in 2003.

- 4) Pension Administration: *Clarity of roles and responsibilities, and services level agreements, are important for effective monitoring of the Plan's Pension Administration.*

Currently, an Operating Protocol (2008) between the Minister, APS and the MEPB is in place; however, it does not provide the clarity that is required to effectively manage the Plan. To resolve this, a new Pension Services Agreement (PSA) should be established and implemented. The Board looks forward to being consulted, and working with ATBF on the PSA, and working with APS to establish Service Level Agreements.

- 5) Board Staff: *The Board has experienced challenges with the retention of Board staff and succession planning, both of which are crucial to the success of the Board.*

To improve autonomy, remove the potential for conflict of interest (both real and perceived), and to allow for prudent governance and oversight of the administration of the Plan, the Plan Board Director (PBD) reports directly to the Board. While the Board appreciates these changes and have seen improvement, it continues to monitor services and agreements with APS and will consult with the Minister if required.

## OPPORTUNITIES

- 1) Financial Health: The Board's philosophy on financial sustainability is that it should not be a special project that arises in times of perceived crisis. Instead, consistent monitoring should be a permanent agenda item for the governors and agents of a properly functioning pension plan. Through diligent monitoring of the Plan and adopted practices (e.g. annual Asset Liability Study (ALS), annual assessment of cash flow projections, actuarial valuations, etc.), the Plan's funded status is consistently improving.
- 2) Investment Management Agreement (IMA): The Board consulted with AIMCo and ATBF on the IMA between AIMCo and the Minister, which was signed on September 14, 2017. The Board sees implementation of this document as integral to prudent investment governance, and looks forward to working with AIMCo on its implementation.
- 3) Investment Performance:
  - 3.1) The purpose of an asset mix review (completed annually) is to: better understand the investment and funding needs of the Plan, establish risk parameters, better match assets to liabilities, and to ensure that these needs are accurately reflected in the mix. The asset mix and policy are reviewed annually.
  - 3.2) Although it requires enhanced monitoring and risk management, volatility in the markets can create opportunities for investment purchases at decreased costs. The Board is pleased to work with AIMCo on opportunities to enhance returns while managing risk.
- 4) Risk Management: The Board will continue to assess its Enterprise Risk Management (ERM) Framework, which includes a comprehensive risk-reporting program to identify and monitor the Plan's risks. These risks are reviewed by Board staff quarterly, and a full review by the entire Board will occur annually. The ERM has been provided to the Minister.
- 5) Administrative Reviews: the MEPB has authority through the PSPPA, Schedule 5, Sections 3(2)(d) and 10, and Section 10 of Schedule 6 (Public Service Management (PSM) Closed) to hear MEPP and PSM Closed Plan member appeals of Administrative Decisions provided to members by APS, and make the final decision of the Minister. This delegation is executed through Ministerial Authorizations 05/1994 and 01/1995.  
  
The Board is a member of, and continues ongoing education through, the Foundation of Administrative Justice (FoAJ). The Board regularly hears appeals from Plan members, resulting in resolutions and minimizing potential legal steps.
- 6) Board Effectiveness: to improve its effectiveness, the Board utilizes comprehensive assessments of its competencies and skills, and Board and individual Board member evaluations. The Board maintains best practices in governance and keeps up to date on industry trends, education related to governance, investment, and pension funding, through annual assessments of Board and staff member education needs. Board policies are adopted or amended based on these reviews, and the Board focuses its attention on the overarching priorities of funding and investments, Plan costs, financial health, and governance.
- 7) Stakeholder Communication: the Board communicates with various stakeholders on issues under its jurisdiction and related to its mandate and roles. The Board takes a proactive approach in communication with stakeholders and believes in transparency. These stakeholders include: employers, Plan members and beneficiaries, and the Government of Alberta (GoA). Quarterly updates, semi-annual newsletters and annual Stakeholder Governance Sessions are tools that the Board has implemented to communicate with stakeholders.

## THREE-YEAR STRATEGIC PLAN

### STRATEGIC CONTEXT

The goals, outcomes, and key strategies in this Plan are aligned with the strategic direction of the Board. There are six key strategic priorities for 2018 – 2020: 1) Plan funding and sustainability, 2) Investments, 3) Fiscal Management, 4) Communication, 5) Governance, and 6) Enterprise Risk Management.

The following are the steps required in the three-year plan to meet the overarching needs of the Plan and achieve the Board's mandate, mission and vision.

### Strategic Priority 1 – Plan Funding and Sustainability

Overall Goal: That the Plan is effectively funded, and an appropriate amortization schedule and plan is in place to address any unfunded liabilities (on a going concern basis).

The Board will complete annual reviews, measurements, and reporting, to monitor and enhance plan funding and sustainability. This includes:

- 1) completing annual extrapolations of prior years' funding valuations for annual financial reporting;
- 2) completing actuarial valuations on an ad-hoc basis and/or every two years;
- 3) maintaining or enhancing funding requirements through the established MEPP Funding Policy;
- 4) annually assessing the Funding Policy to ensure that the policy meets the needs of the Plan and is in keeping with industry best practices;
- 5) assessing annual cash flow projections for the liability proxy update and future projections; and
- 6) completing an annual ALS to better match assets to liabilities and monitor for future plan needs.

*(Linkage to: Challenges 1, 2, 5; Opportunities 1, 2, 3, 5)*

### Strategic Priority 2 – Investments

Overall Goal: That the return on investments is maximized while balancing the risk and return profile of the Plan.

With the assistance of the Board's external Investment Consultant, the Investment Committee will continue to review the investment results of the Plan's Fund with AIMCo quarterly.

The Committee will complete an annual enhanced ALS to monitor and assess future plan needs and implement changes to the asset mix. Following the annual ALS, the Committee will complete a fulsome review of the MEPP IP and recommend policy changes to the Board that are required to prudently manage the Plan. A full ALS will be completed every five years, if required.

The Committee will meet quarterly to monitor the investment performance and risk tolerance of the Plan and AIMCo's compliance with the MEPP IP.

To assist AIMCo with improved investment performance (returns, risk and costs), the IC will continue to assess new investments and strategies as identified or requested by AIMCo or the Board's Investment Consultant. Additionally, the Board participates in AIMCo's annual client satisfaction survey, and completes its own evaluation/ scorecard of AIMCo.

*(Linkage to: Challenges 1, 2; 5; Opportunities 1, 2, 3, 5)*

### Strategic Priority 3 – Fiscal Management

Overall Goal: Costs related to investment and administration of the Plan are managed fairly, efficiently and effectively.

The Board receives AIMCo and APS' (service providers) annual business plans and budgets. The Board monitors the service providers for effectiveness, diligence, performance, and costs.

The Board monitors these service providers quarterly and will continue to complete independent annual evaluations and score cards. Feedback will be provided to the service providers, and the Board will work collaboratively with them to improve performance. Based on these actions, the Board will provide annual reporting to, or immediate consultation with, the Minister.

The Board maintains a three-year rolling strategic business plan (BP) and budget. Board staff monitor the Board's budget, expenses, contracts and accruals monthly and report quarterly to the Board.

The contracts and costs of the external consultants required to meet Plan needs will be managed by the Board and staff; this includes actuarial, investment consulting and ad-hoc services such as legal. The Board and staff will continue to ensure that contracts meet the legal and policy requirements of the Government, such as Trade and Tender rules, and the policies of its service provider, APS.

*(Linkage to: Challenges 1, 2, 5; Opportunities 1, 2, 3, 5)*

### Strategic Priority 4 – Communication

Overall Goal: Through the Board's ongoing communication to the members, employers, and other key stakeholders, all parties will better understand the structure and operations of the Board, its mandate and responsibilities.

The Board, through its staff, will perform regular reviews and updates to the MEPP website and consult with APS on Plan communication to members.

To enhance stakeholder communication and relations, the Board has implemented a MEPB Communications Plan. The Board will provide MEPP Spring and Fall Newsletters and quarterly MEPB updates on the Board's activities. In addition, the Board will host annual MEPP Stakeholder sessions.

Ad-hoc communication will be provided through the Plan's website and other electronic tools, such as email and surveys. Lastly, the Board is accessible to Stakeholders through the Board's office, by telephone and email.

*(Linkage to: Challenges 1, 4; Opportunities 3, 4, 5, 6, 7)*

### Strategic Priority 5 – Governance

Overall Goal: The Board operates in an effective and efficient manner, and in accordance with good governance standards and applicable legislation.

The Board will maintain compliance with all applicable legislation and the Mandate & Roles Document (MRD). The Board will consult with the Minister on matters that arise or that the Board deems integral to prudent management, such as the development of a Pensions Services Agreement (PSA) and implementation of the IMA.

As well, the Board will monitor and respond to new initiatives and regulation changes that affect the Plan and Stakeholders.

The Board works collaboratively and transparently with the Auditor General, meeting semi-annually to review the plan audits, financial statements and prepare the MEPP annual report.

The Board will monitor and review services provided to the Board by the Plan's Administrator, APS, to fulfill the Board's mandate, including financial services and human resources. The Board will consult with APS and/or the Minister if required.

Prudent, effective Plan and Board governance will occur by:

- 1) Board member and staff education and training;
- 2) ensuring that Board policies align with GoA polices, are relevant, current, and in keeping with best practice standard;
- 3) conducting annual Board evaluations, individual peer assessments, developing a skills matrix; and
- 4) maintaining effective and open working relationship with APS, AIMCo, and ATBF.

*(Linkage to: Challenges 1, 5; Opportunities 1 - 7)*

### **Strategic Priority 6 – Enterprise Risk Management (ERM)**

Overall Goal: The Board diligently monitors key risks that may threaten achievement of the policy and business objectives of the MEPP.

The Board will complete its ERM program to identify and monitor key risks, and to ensure that these risks are managed with considered judgement and discipline. The Board considers all material exposures to all types of adverse events, and recognizes the inherent limitations of such management.

The Board will identify key risk owners, such as the Plan's investment manager, AIMCo, and the Plan's Pension Administrator, APS, to ensure compliance with the MEPB ERM Policy and Appetite Statement.

*(Linkage to: Challenges 1 – 5; Opportunities 1 -7)*