



4000-G01
4200-P03

June 21, 2013

Honourable Doug Horner
President of Treasury Board and Minister of Finance
Members of Executive Council
Executive Branch
423 Legislature Building
10800 – 97 Avenue
Edmonton, AB T5K 2B6

Dear Minister Horner:

Subject: Governance – Management Employees Pension Plan (MEPP)

Your letter to the Management Employees Pension Board (MEPB or the Board), dated May 29, 2013, makes it clear that you have taken a leadership role in reviewing Alberta public sector pension plans including governance and plan design.

The mandate of the MEPB includes providing advice to the Minister of Finance on pension matters. To date we have had very constructive and collaborative discussions and communications with you and your staff and believe that we can provide valued input into the process. In a perfect world, and without time constraints, the process of a governance review should, in our view, include an assessment of the current governance structure, comparison to best practices and leading pension governance principles, consultation with impacted stakeholders and finally implementation of changes. Recognizing the importance of this initiative, and the sense of urgency that has been communicated, we have proactively outlined in this letter, our preliminary views and recommendations on governance changes, as it relates to the Management Employees Pension Plan (MEPP).

Over several years the Board has invested considerable resources in reviewing and understanding pension governance and its impact on sustainable delivery of pensions and retirement savings. The Board has previously advised predecessor Ministers, and Finance staff, on this subject. In the last year, the Board has specifically reviewed the current governance structure for MEPP, and evaluated the strengths, weaknesses and identified opportunities for improvement.

BOARD MEMBERS

Rod McDemand, *Chair*

Dave Lawson, *Vice-Chair*

Don Smallwood, *Chair IC*

Scott Kashuba, *Vice-Chair, IC*

Sonya Johnston

Darlene Halwas

Kim Flynn, *CHR*

In looking to make governance structure recommendations, we have started with pension governance goals and principles. Our high level view on pension governance goals is that 'sustainability' shouldn't be a special project that arises in a time of perceived crisis, but rather it should be the ongoing challenge and permanent agenda of the governors and agents of a properly functioning pension system.

Honourable Doug Horner

June 21, 2013

Page 2

Moving from goals to good pension governance principles, we looked to the 1999 Government of Alberta commissioned expert report that provides a framework for assessing governance models. The report (known as the Cortex Report) set out five criteria for assessing a pension governance model. The MEPB fully endorses these criteria and views them as principles that can be a valuable benchmark and reference point when moving forward with the review of pension governance. The five principles are as follows:

1. The functions of the sponsor and trustee must remain separate.
2. Parties exposed to significant risk through the pension plan must have the authority and capacity to manage their risk exposure.
3. From the outset, parties exposed to significant risk must have direct and active involvement in establishing the pension deal.
4. The pension deal must provide for an alignment of interests among affected parties.
5. Mechanisms must exist for transparent accountability.

To apply those principles to the governance of the MEPP, we believe your review should aim at three key areas, as follows:

1. Improve clarity on who is the sponsor and what are the sponsor roles and responsibilities.
2. The 'sponsor' and 'trustee' should be separated and the trustee should be empowered to manage the plan and deliver on the goals and objectives that are established by the sponsor.
3. Cost sharing, going forward, should be clearly established as 50:50 between employers and employees, for current service costs and any future unfunded liabilities.

More specifically, we would envision a sponsor group (or some form of sponsor engagement process) that has employer and employee representation, and has clear authority and accountability for establishing, adjusting and funding the retirement benefit program for Alberta public sector management employees (currently MEPP and the SRP). The sponsor group would retain the following functions:

- Plan design (Benefits)
- Contribution rates, and
- Funding Policy and strategy

The sponsor could then formally delegate further responsibilities to the Trustee. A Trustee Board could be formed with the following structure, responsibilities and accountabilities:

- Clear accountability for delivering on the sponsor's pension promise
- Ability to set policy and guide the strategic direction for the plan
- Authority to delegate investment management implementation and benefit administration
 - With the ability to choose service providers, including investment management and administration (may need to be phased in) (the goal is not to change, but to ensure responsiveness and reinforce authority and accountability), and

Honourable Doug Horner
June 21, 2013
Page 3

- With the responsibility for monitoring of investment and administration results, effectiveness and compliance, to ensure the plan is on track for achievement of strategic goals.
- Structured legally as a corporation to be able to engage resources and staff as the Board deems reasonable and appropriate.

The Trustee Board would also provide advice and recommendations to the sponsor group on plan design, contribution rates and funding policy, if requested by the sponsor.

The MEPB is committed to the goal of delivering retirement financial security for our members and at reasonable financial cost for the employers and members. We are available for consultation and to provide assistance to your process of review and decision making. This letter contains preliminary views and recommendations and we look forward to being involved in the process and working collaboratively with you, and your staff, as we endeavor to collectively improve the Alberta Public Sector Pension System.

Thank you for your consideration.

Sincerely,



Rod McDermid,
Chair

cc: Annette Trimbee, Deputy Minister of Treasury Board and Finance
Dwight Dibben, Public Service Commissioner (PSC), Office of the PSC