



## **November 20, 2019: Stakeholder Engagement Session**

### ***Summary of Questions & Responses***

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#### **Governance**

- 1. Will the review of management positions (currently underway by the Government of Alberta (“GoA”) impact MEPP pensions?**

The Management Employees Pension Board (“MEPB” or the “Board”) is currently unaware of any planned changes to MEPP pension benefits resulting from the review of management positions.

- 2. If reclassified from management to bargaining unit, would MEPP members become Public Service Pension Plan (“PSPP”) members and what impact will this have on the Plan?**

The Board has not received any specific information regarding the management position review, including the pension plan membership fate of those who may be reclassified. The number of potentially impacted managers is unclear at this time.

The Board is committed to monitoring any membership impacts and will communicate them to members as soon as a decision has been reached by the GoA. In the meantime, valuation assumptions remain conservative to reflect this risk. Interim valuations may be conducted if the experience proves to be substantially different than the assumptions.

#### **Funding**

- 3. How are contribution rates determined?**

Actuarial valuations are an appraisal of the Plan assets versus liabilities. Actuarial valuations determine the Plan’s current funded status and are required, by law, to set the contribution rates. They are required to be completed at least once every three years.

Any required changes to the total contribution rate based on the actuarial valuation are recommended by the Board, and ultimately approved by the trustee of the Plan, the President of Treasury Board and Minister of Finance (the “Minister”).

- 4. When will the next actuarial valuation be completed?**

An actuarial valuation for funding purposes was last conducted in 2019, based on the year ending December 31, 2018. The results have been posted to the [Plan website](#).

The next actuarial valuation for funding purposes will be completed no later than as at December 31, 2021.

**5. When were the last MEPP Experience Study and Asset Liability Study (“ALS”) conducted, and by whom?**

The Experience Study and ALS are among several tools that the Board uses to monitor risk on an ongoing basis.

The purpose of an ALS is to examine and evaluate the probable growth and structure of MEPP’s liabilities, and to develop practical asset allocation recommendations that best meet the liabilities over time. The latest ALS was completed in December 2019, and subsequent adjustments have been made to the MEPP Investment Policy, effective January 1, 2020.

An Experience Study compares the assumed statistics versus the actual results (such as member demographics, mortality rates, etc.), and is completed every five years. The last Experience Study was completed in 2016. The next Experience Study will be completed no later than in 2021.

**6. Does the Board look at the practices of other provinces when determining the contribution rate split?**

The contribution rate split between employees and employers is determined by the Minister.

The contribution rate split is shifting towards a 50/50 share of current service costs between employees and employers, which is more in line with standard practices for defined benefit pension plans.

**7. Recently, the employer portion of the contribution rate was decreased by 4%. How much are employers saving with the reduction to their share of the contribution rate?**

The 2019-2023 GoA Fiscal Plan notes that \$65M will be saved over the next four years as a result of the reduction to the employer contribution rate.

**8. The employer contribution rate decreased and is now lower than that of PSPP’s employer contribution rate. Were greater contributions by the employer not previously a selling feature of MEPP?**

The contribution rates that are established for the purposes of funding any defined benefit pension plan are based on the results of an actuarial valuation report. Due to differences between benefit structure, timing of the review, demographic and economic actuarial assumptions, and the demographic profile of the plan’s membership, a direct comparison between pension plans (in this case PSPP and MEPP) is not practical. Because the benefits offered under each plan are unique, as well as the membership of the plans and the asset mixes and investment returns, etc., the contribution rates also differ.

The benefits (or “selling features”) of MEPP membership are defined for its members by the MEPP Regulation (“Plan rules”). In particular, key differences between MEPP and PSPP include the benefit accrual rate and unreduced early retirement provisions.

**9. (A) In terms of its assets and liabilities, how does MEPP compare to other pension plans?**

The Board cannot look to other pension plans for modelling Plan asset and liability considerations. The asset mix and risk profile for any defined benefit pension plan is uniquely managed and directly based upon factors such as actual membership data, maturity, risk tolerance, etc.

**9. (B) How does MEPP compare to other pension plans in terms of its assets (asset mix) and its liabilities (demographics, benefit levels, etc.)?**

The asset mix and risk profile for any defined benefit pension plan is uniquely managed and directly based upon factors such as actual membership data, maturity, risk tolerance, etc. However, MEPP, along with all pension plans, needs to be aware of industry trends, standards, new issues, new approaches, and the common challenges facing pension plans and how other plans and jurisdictions are handling them. MEPP is considered a mature plan compared to others, which is taken into account when selecting an asset mix. In terms of benefits, MEPP is more generous than some other defined benefit plans.

**10. MEPP is currently 71% funded on a solvency basis. Is this a concern?**

Solvency is a measure used to show the funded status of a pension plan if it were to be wound-up. Although a solvency valuation is required by legislation, funding based on the solvency valuation results is not required. In some jurisdictions, pension regulators have imposed an 85% solvency threshold, typically in response to concerns about private sector bankruptcy.

Asset management is influenced by the current investment climate. Based on market trends, we are likely to experience a low interest rate environment for a long time. However, if interest rates were to rise, then the funding status on a solvency basis would improve. The Board has reviewed these considerations and other such risks with the Plan actuary. The Plan's solvency results are accounted for in the Board's Enterprise Risk Management ("ERM") framework.

MEPP's funding is based on the going concern actuarial valuation. As at December 31, 2018, the Plan was 102% fully funded, and there are no concerns about the sustainability of the Plan at this time.

## **Investments**

**11. How is the asset mix decided?**

The Board, in conjunction with their external investment consultant, Ellement Consulting, reviews the asset mix and Investment Policy on a regular basis. The ALS, as described above, is one of the tools that the Board uses to determine the optimal asset mix for risk adjusted returns.

**12. What is AIMCo’s role in setting the asset mix?**

AIMCo acts in an advisory capacity, providing data for the ALS, and their transition plans when moving from one asset mix to another. The Board sets the investment policy for the plan and AIMCo is responsible for executing that investment strategy.

**13. What is MEPP’s exposure to oil and gas investments?**

MEPP has exposure to oil and gas investments through various asset classes such as fixed income, public equity and infrastructure. MEPP’s total portfolio exposure to oil and gas investments is approximately 9%.

**14. Is the Investment Management Agreement a public document?**

The Investment Management Agreement between the GoA and AIMCo is not a public document, and is therefore not intended for public distribution.

**15. Is there an opportunity for a private corporation to take over the investments currently being invested by AIMCo?**

Neither the Board nor AIMCo are currently aware of any such plans at this time.

## Administration

**16. Is the Cost of Living Adjustment (“COLA”) guaranteed for MEPP pensions? Could that change?**

The Plan rules guarantee COLA at 60% of the Alberta Consumer Price Index (“ACPI”). While Plan rules can change over time, the Board is not currently aware of any planned changes related to COLA.

**17. Is the high-five salary calculation (i.e. average of the highest five consecutive years of a member’s pensionable salary) determined according to the calendar year?**

Not necessarily. The highest average salary is determined based on a period of five consecutive years, regardless of the calendar year. For example, if a member terminates on June 30, 2020, assuming that their five highest salary years were at the end of their career, the period used to calculate the highest average salary would be from July 1, 2015, to June 30, 2020.

**18. Some processes take a long time for APS to complete. What service level targets does APS have, and how do they compare to competitors? Can members pay more to get more?**

In recent years, certain administrative functions were backlogged as a direct result of a change in the administrative system software used by APS.

Service Level Targets (“SLT”) are established between the Province and APS, in consultation with the Board. Many SLT were codified in 2019, in the Pension Administration Services Agreement between the Province and APS. APS reports on their performance relative to the SLT on a quarterly basis, and trends are closely monitored by the Board. The Board is also kept

apprised of special circumstances and one-off situations where exceptions to the targets may be requested and granted.

APS also measures its performance annually via industry-standard, comparative measurements, such as CEM Benchmarking. APS is consistently classified as a low cost, high service provider.

The 2019-2023 GoA Fiscal Plan places a high importance on fiscal restraint, achieved in part through the control of pension administration costs. APS will endeavour to continue to provide a high level of service to members, while remaining fiscally conservative. Administrative costs per member are reflected in the member and employer contribution rates.

**19. Some other plans disclose service levels and how they are meeting those targets. Will this be something that the Board will possibly asking for APS to provide?**

The Board will be exploring options for this type of disclosure with APS.

**20. Who is the system provider for APS?**

Morneau Shepell.

**21. Currently, spousal benefits do not benefit all MEPP members equally, (e.g. unmarried members essentially subsidize benefits for married members yet will receive none of this benefit themselves). Are there plans to change this?**

The Board recently recommended a review of equity principles in a variety of instances within the Plan rules. The Board is monitoring this issue, and any updates will be reflected in future communications to Plan members.

**22. What is the timeline between the date you retire and the date you receive your first pension?**

The SLT is 30 days between the finalization of all paperwork and the date of the first pension payment. In order to avoid a delay of that first payment, members should submit their application to retire approximately four months ahead of the date they plan to retire.

APS needs approximately three months to ensure all components of the application have been received, to review the application and supporting documents, and to confirm and process the benefit for payment.

Members should work with their employer to ensure that their applications are appropriately completed and submitted with all of the necessary supporting documents.