

Annual Report

NWT Legislative Assembly Pension Plans

MARCH 31, 2018

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Message from the Speaker

On behalf of the Board of Management, I am pleased to provide the annual report on the operations of the Legislative Assembly Retiring Allowances Act (RAA) and the Supplementary Retiring Allowances Act (SRAA) for the year ended March 31, 2018.

Over the twelve month period to March 31, 2018 the assets of the RAA earned a return of 5.4% and the assets of the SRAA earned a return of 4.9%, underperforming the benchmark by 0.1% and 0.6% respectively. The market value of the combined assets is approximately \$57.5 million which supports the projected payment of promised benefits and leaves a surplus of \$3.9 million. In accordance with the funding policy, the Assembly will commence making contributions to the plans after a contribution holiday of over 20 years.

The Board of Management has a fiduciary responsibility for ensuring that investments in the RAA and the SRAA are made on a prudent basis and in accordance with the needs of its membership. The Board is also responsible for all administrative matters related to the provision of benefits under the plans. These responsibilities are met through regular meetings of the Board and are delegated through external advisors and staff of the Legislative Assembly. This past year the Board of the 18th Legislative Assembly met three times to discuss pension related matters. Specifically, the Board undertook the following activities:

- Received a presentation on legislative, policy and case law updates from Aon Hewitt;
- Reviewed the performance of the actuaries, investment consultant, investment managers, external auditor and fund custodian;
- Reviewed the funding policy and approved an employer contribution for 2018-2019;
- Reviewed the statement of investment policies and procedures and approved proposed administrative and housekeeping amendments; and
- Approved the one year extension of actuarial, administration and pension consulting services, and directed the Speaker to initiate a competitive process to seek qualified proponents for these services starting January 1, 2019.

I would like to thank the other members of the Board of Management for their continued diligence in the administration of your pension plans and we will continue to meet regularly to ensure our fiduciary obligations are fulfilled.

Respectfully,

Jackson Lafferty
Speaker

Governance

Pursuant to section 4(4) of the *Legislative Assembly Retiring Allowances Act (RAA)* and section 2.1(1) of the *Supplementary Retiring Allowances Act (SRAA)*, the Board of Management is responsible for the administration of the Northwest Territories MLA Pension Plans. The Board of Management is empowered by the Acts to engage any persons that it considers necessary to carry out the provisions of the Plans, and to engage professionals as it requires for advice and assistance.

Board of Management of the 18th Assembly

Hon. Jackson Lafferty **Chair**

Frederick Blake Jr.

Hon. Robert C. McLeod

Hon. Wally Schumann

Cory Vanthuyne

Advisors

Former Speaker and Member

Paul Delory

Actuaries

Aon

Auditors

Ashton Chartered Accountants

Custodian

CIBC Mellon Global Services

Investment Manager

MFS MacLean Budden

Connor, Clark & Lunn

Plan Description

The RAA is the basic MLA tax registered pension plan in which all Members must participate. The SRAA is a supplementary pension plan that provides the remaining plan benefits that exceed the benefit levels permitted under the income tax rules. Participation in the SRAA is optional. Plan benefit provisions are dependent on the Member's best average salary and years of credited service with the Legislative Assembly. Members contribute 6.5% of earnings to the RAA and Members who choose to opt into the SRAA contribute an additional 2.5%.

The assets under the RAA are held in a trust and can only be used to pay benefits and expenses of the plan while the assets under the SRAA are part of the Government's Consolidated Revenue Fund and could be used at any time for any other purpose.

Board of Management Activity Administrative Activities

The Board of Management oversees all administrative and business processes associated with the management of the Plans in order to ensure they are managed in accordance with the governance manual, the provisions of the RAA and the SRAA and the applicable provisions of the income tax legislation. Each year, the Board works to ensure prudent stewardship of assets and liabilities. The Appendix contains a Plan Activity Chart which details the activities of the Board from April 1, 2017 to March 31, 2018.

With the leadership forum in November 2017, the annual pension meeting of the Board took place in January 2018 and included meetings with both investment managers as well as the actuary and investment consultant. In the previous pension meeting, the Board adopted a funding policy, which defines the Assembly's funding objectives and how to appropriately balance the interests of the stakeholders. As per the recommended strategy outlined in this policy, the Board will commence contributions to the Plans in the 2018-2019 year.

Administration Report

Section 21 of the RAA and section 11.1 of the SRAA require that a report on the administration of the Acts be presented to the Assembly each fiscal year. The report summarizes the current active membership, inactive members and plan assets. The March 31, 2017 report was tabled February 21, 2018 and is available on the Legislative Assembly website under Tabled Documents.

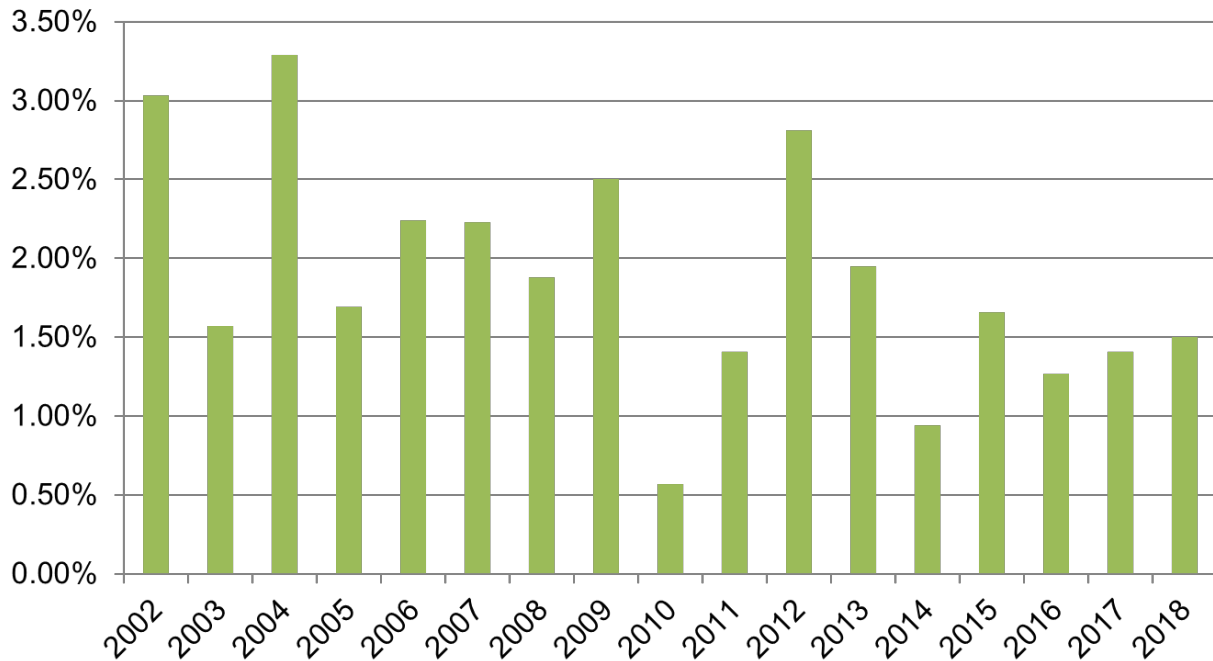
On March 31, 2018 there were forty-five (45) prior members or survivors of prior members receiving monthly pensions from the RAA and forty (49) from the SRAA. Membership information at March 31, 2018 is outlined in Table 1: Summary of Membership Information.

Table 1: Summary of Membership Information

	RAA	SRAA
Active	19	19
Deferred Non-Vested Members	13	0
Deferred Vested Pensioners	3	8
Pensioners	45	49

On January 1 of each year, pensions are increased to reflect changes in the cost of living as measured by the average Consumer Price Index to September 30 of the previous year. The January 1, 2018 increase was 1.50%. The chart below provides a history of cost-of-living increases that have been applied to pension payments.

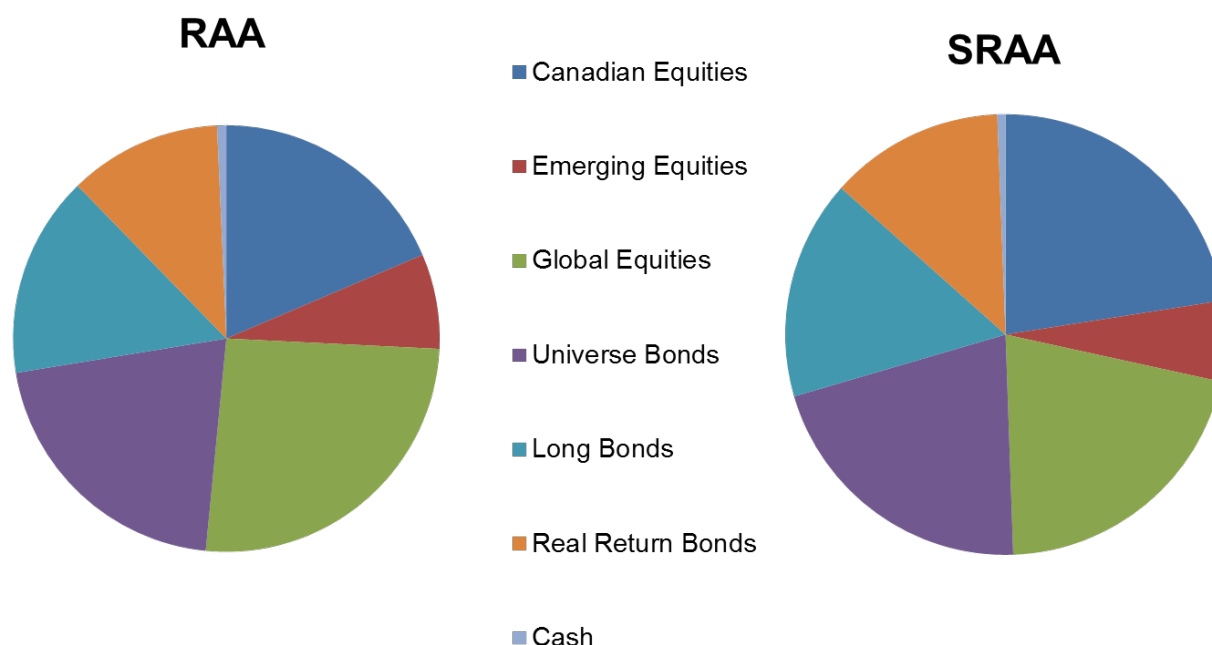
% COLA to Pension Payments 2002 – 2018



Investment Management.

The Board employs two investment management firms to invest the assets of the RAA and the SRAA. Each firm invests roughly half of the assets of the RAA and half of the assets of the SRAA in a number of asset classes that include Canadian, US and International equities as well as fixed income assets (e.g. bonds) to provide diversification. The two firms employ different investment styles which provide additional diversification to the pension assets so that when the assets invested by one firm are not performing very well, the assets invested by the other firm will hopefully perform better.

The asset mix of the RAA and SRAA pension funds at March 31, 2018 is summarized in the chart below.



Investment Performance

The RAA return for the year ending March 31, 2018 was 5.4%, which was less than the policy benchmark return of 5.5%. Canadian and Global Equities, and CC&L's Universe Bonds and Long Bonds underperformed their respective benchmarks, while the Emerging Market Equities, Real Return Bonds, and MFS's Universe Bonds and Long Bonds outperformed or met their respective benchmarks over the past year. For the four-year period ending March 31, 2018, the RAA had an annualized return of 7.3% which exceeded the benchmark return of 6.7% by 0.6%.

Return on Investments %	2018	2017
Annual Return	5.4	8.8
Annual Benchmark	5.5	9.7
Four Year Annualized Return	7.3	9.4
Four Year Benchmark	6.7	8.0

The SRAA return for the year ending March 31, 2018 was 4.9%, which was less than the policy benchmark return of 5.5%. The respective asset classes performed similarly to the RAA. For the four-year period ending March 31, 2018, the SRAA had an annualized return of 7.5% which exceeded the benchmark return of 7.3% by 0.2%.

Return on Investments %	2018	2017
Annual Return	4.9	9.0
Annual Benchmark	5.5	9.7
Four Year Annualized Return	7.5	9.8
Four Year Benchmark	7.3	8.8

Financial Highlights

In this fiscal year, there were no membership changes. The payment of pension benefits was relatively steady throughout the year. Investment income and Member contributions exceeded the pension payments and expenses paid out of the plan, resulting in an increase in the overall fund values. A summary of the change in market value of assets over the past year is summarized in the table below.

	RAA	SRAA
Market value at Mar 31, 2017	\$23,643,501	\$33,358,186
Member contributions	209,965	0
Investment income	1,258,493	1,621,984
Pension payments	(974,915)	(1,259,856)
Lump sum payments	0	0
Expenses	(169,378)	(208,970)
Market value at Mar 31, 2018	\$23,967,666	\$33,511,344

Funded Status

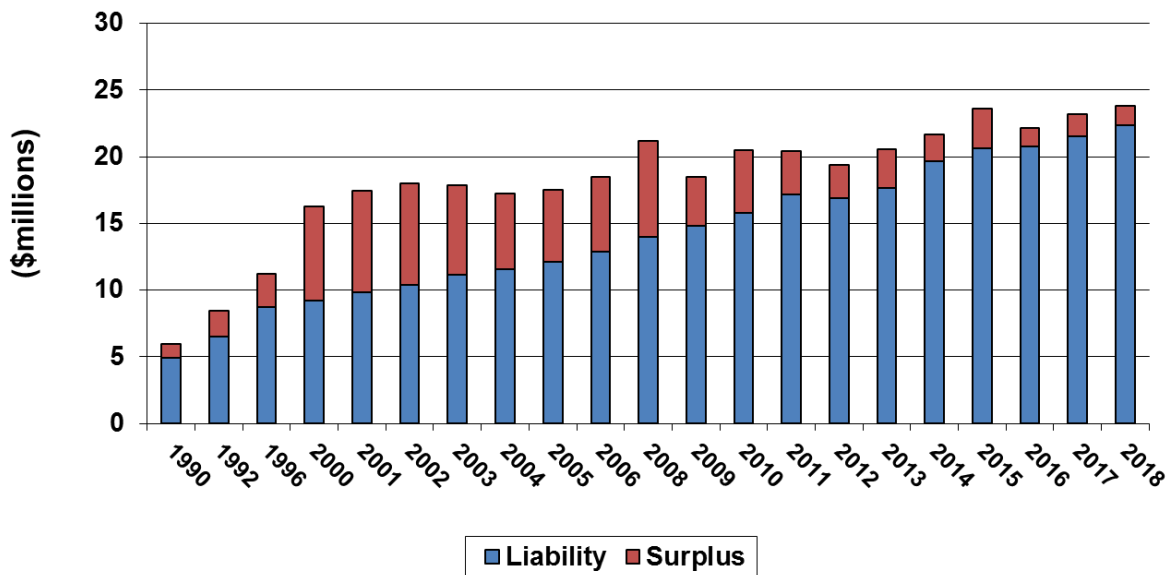
Aon, an independent actuary, determines the Plans' funded status by comparing the actuarial value of invested assets to the present value of all pension benefits that members have earned and are expected to earn in the future.

Following each election, a full actuarial funding valuation is performed for each plan and formal reports are produced by the actuaries. The RAA report is filed with the Canada Revenue Agency, who approves the range of contributions that may be deposited into the plan fund until the next formal actuarial funding valuation is filed.

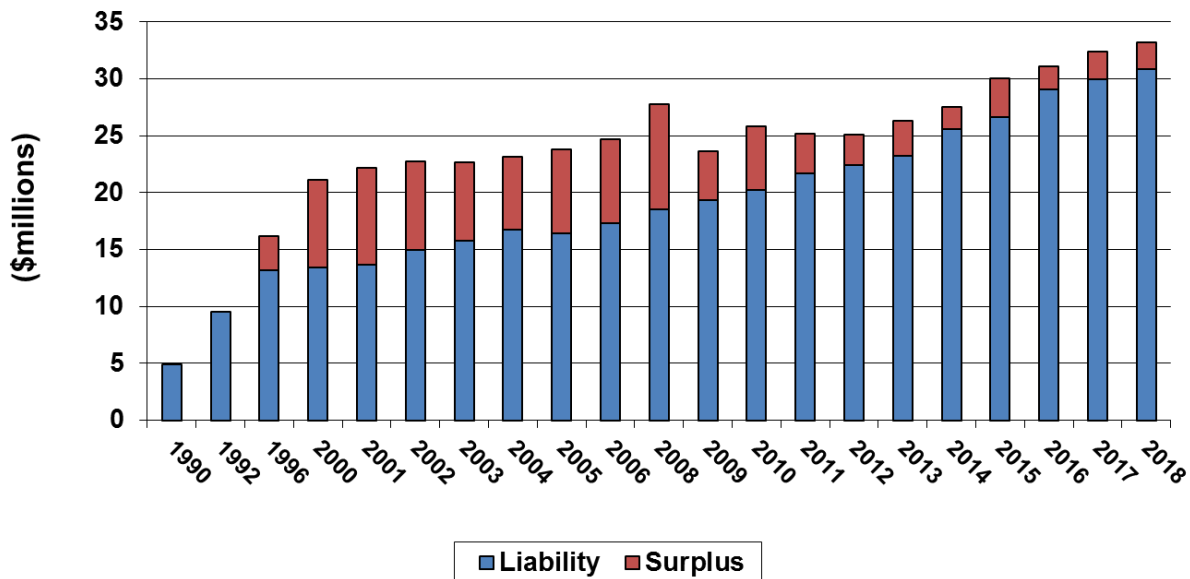
The April 1, 2016 actuarial funding valuations confirmed that both plans continue to be fully funded. The RAA had a surplus of \$1.4 million with plan liabilities totaling \$20.8 million. The SRAA had a surplus of \$2.0 million with plan liabilities totaling \$29.1 million.

Although formal actuarial valuations are generally only performed following each election, the actuary presents the estimated funded position of the plans to the Board once each year. The actuarial estimates at March 31, 2018 have confirmed that both plans continue to have a surplus. At March 31, 2018, the RAA had an estimated surplus of \$1.5 million with an accrued liability of \$22.3 million. The SRAA had an estimated surplus of \$2.4 million with an associated accrued liability of \$30.8 million. These estimates use the same assumptions as adopted for the actuarial valuation at April 1, 2016. The following charts summarize the estimated accrued liability and surplus since 1990 for both plans.

RAA Accrued Liability versus Surplus



SRAA Accrued Liability versus Surplus



The Board has seen some stability in the level of surplus over the last several years, mainly due to excess asset returns. The historical surplus has been used to allow the Assembly to take a contribution “holiday”. In other words, the surplus has been used to pay for Assembly contributions to fund new benefits earned by Members for over a decade. The Board recognized that as the surplus was depleted, the Assembly would be required to resume cash contributions to the plans. The Board developed a formal funding policy to guide the current and future Boards in strategic decisions surrounding the appropriate level of cash contributions and contribution “holidays” using surplus in future years. The Board will commence contributions to the plans in 2018-2019 plan year.

Fund Audit

Ashton Chartered Accountants audited the Statement of Changes in Net Assets Available for Benefits and the Statement of Obligations for Pension Benefits as at March 31, 2017. The financial statements are the responsibility of the Board of Management and the auditor's responsibility is to express an opinion on these financial statements.

The audit was conducted in accordance with Canadian generally accepted auditing standards. The auditors reported that, in their opinion, the statements present fairly, in all material respects, the Net Assets Available for Benefits as at March 31, 2017 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

A copy of the audited financial statements of the Legislative Assembly Retiring Allowances Fund is available on the Legislative Assembly website under Tabled Documents.

Appendix

Plan Activity Chart – Fiscal Year Ended March 31, 2018

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Board Mandate					
Annual Governance Report	Annually.	Director of Corporate Services prepares report	Board reviews/acts on report	Approved	January 19, 2018 186-18-2018
Self-Assessment of Governance Structure	Annually.	Consultant provides forms	Board completes assessment	Completed	January 19, 2018 186-18-2018
Strategic Plan and Risk Assessment	Every 3-4 years	Consultant provides advice	Board determines strategic and risk plan	No changes to report	January 19, 2018 185-18-2018
Plan and Communications Review					
Review Plan Text	Ongoing.	Law Clerk monitors developments	Board reviews/acts on advice	No changes to report	January 19, 2018 179-18-2018
Review member entitlement statements as regulated by pension legislation	Ongoing.	Plan Administrator monitors legislation and member feedback	Board receives/acts on advice	No changes to report	January 19, 2018 180-18-2018
Review Statement of Investment Policies and Goals	Ongoing.	Investment Advisor provides advice as necessary	Board reviews/acts on advice	Approved proposed administrative amendments	January 19, 2018 184-18-2018
Monitor Pension and Tax legislation	Ongoing.	Actuary advises Board of changes	Board reviews/acts on advice provided	No changes to report	N/A
Monitor Case Law	Ongoing.	Law Clerk/Actuary advise Board of developments	Board reviews/acts on advice	No developments to address	N/A

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Plan Funding/Accounting					
Review Funding Position	Annually.	Actuary provides information and advice	Board reviews advice and sets policy	Approved fund contribution for 2018-19	January 19, 2018 184-18-2018
Decide Frequency of Valuation Reports	Annually	Actuary provides information and advice	Board reviews advice and sets policy	No changes to report.	N/A
Approve Valuation Report	As required.	Actuary provides information and advice	Board reviews advice and sets policy	No changes to report.	N/A
Approve Actuarial Method and Assumptions	As required	Actuary provides information and advice	Board reviews advice and sets policy	No changes to report.	N/A
Approve Financial Statements	Annually.	Director of Corporate Services prepares statements	Board reviews and approves statements	Approved	May 29, 2018 140-18-2018
Review Performance of Actuary	Annually.	Clerk formulates report and advice	Board considers advice and determines action	Agreed performance is sufficient	January 20, 2018 188-18-2018
Review Performance of External Auditor	Annually.	Director of Corporate Services formulates report and advice	Board considers advice and determines action	Agreed performance is sufficient	January 20, 2018 191-18-2018
Performance of Asset Management					
Monitor Investment Performance	Ongoing.	Investment Advisor provides advice	Board considers advice and determines action	Agreed performance is sufficient	January 19, 2018 178-18-2018 & 182-18-2018
Confirm or Amend Investment Strategy	Ongoing.	Investment Advisor provides advice	Board considers advice and determines action	No changes required	January 19, 2018 184-18-2018

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Review Content and Appropriateness of SIP&P	At least annually.	Investment Advisor provides advice	Board considers advice and determines action		January 19, 2018 184-18-2018
<ul style="list-style-type: none"> ■ Approve Asset Mix ■ Approve Benchmarks ■ Approve Investment Restrictions and Quality Standards ■ Approve Investments Outside of Asset Class Ranges of a Minor and Temporary Nature ■ Approve Investments Outside of List of Eligible Investments 					
■ Approve Securities Lending					
Review Performance of Investment Manager(s)	Annually.	Investment Advisor provides advice	Board considers advice and determines action	Agreed performance is sufficient	January 19, 2018 178-18-2018, 182-18-2018 & 183-18-2018
Review Performance of Custodian	Annually.	Director of Corporate Services provides advice	Board considers advice and determines action	Agreed performance is sufficient	January 20, 2018 187-18-2018
Review Performance of Investment Consultant	Annually.	Director of Corporate Services provides advice	Board considers advice and determines action	Agreed performance is sufficient	January 20, 2018 190-18-2018
Administration					
Provide Plan interpretations and provide other guidance as needed to the administrator	As required.	Law Clerk provides advice as needed	Board reviews advice provided	Not required	N/A

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Communication					
Content of Communication Materials (annual statements)	Ongoing.	Plan Administrator prepares changes to materials	Board reviews and approves changes	Board approved Members pension statements	January 19, 2018 180-18-2018
Distribution of Plan Member Communication	Ongoing.	Plan Administrator	Board monitors quality and timeliness	Governance and administration reports tabled once approved by the Board. Governance reports sent to former members with annual pension statements	NA
Member Feedback	Ongoing.	Plan Administrator monitors and advises Board	Board reviews advice	None received	N/A
Hiring/Terminating Agents/Advisors					
Actuary	As required.	Clerk formulates advice	Board reviews advice	1 year contract extension approved	January 20, 2018 189-18-2018
Auditor	As required.	Clerk formulates advice	Board reviews advice	External auditor from previous year retained.	January 20, 2018 191-18-2018
Custodian	As required.	Clerk formulates advice	Board reviews advice	Contract is on-going	N/A
Investment Manager	As required.	Clerk formulates advice	Board reviews advice	Contract is on-going	N/A
Investment Consultant	As required.	Clerk formulates advice	Board reviews advice	1 year contract extension approved	January 20, 2018 189-18-2018

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Lawyer	As required.	Clerk formulates advice	Board reviews advice	Law Clerk provides service	N/A