

Annual Report

NWT Legislative Assembly Pension Plans

MARCH 31, 2016

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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, 2016.

Over the twelve month period to March 31, 2016 the assets of the RAA earned a return of -1.1% and the assets of the SRAA earned a return of -0.4%, outperforming the benchmark by -2.3% and -1.2% respectively. The market value of the combined assets is approximately \$54.6 million which supports the projected payment of promised benefits and leaves a surplus of \$6.5 million allowing the Legislative Assembly the option to continue its contribution holiday.

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 17th Legislative Assembly met four times to discuss pension related matters. Specifically, the Board undertook the following activities:

- Reviewed and approved the amended Statement of Investment Policies for the RAA and SRAA;
- Received a briefing on a proposal to change the pension structure;
- Reviewed and approved the RAA Audited Financial Statements;
- Received an update on the status of amendments to *the Legislative Assembly Retiring Allowance Act* and the *Supplementary Retiring Allowance Act* regarding changes to the definition of “child”;
- Reviewed and approved the Statements of Entitlement Upon Termination of Membership for Members of the 17th Assembly;
- Approved the appointment of Paul Delorey, former Speaker and Member of the Legislative Assembly, as pension advisor to the Board of Management;
- Received a pension funding update from Aon Hewitt.

I would like to thank the members of the Board of Management of the 17th Legislative Assembly for their diligence in the administration of your pension plans, and can assure you that the Board of Management of the 18th Legislative Assembly 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 17th Assembly, April 1 – October 25, 2015

Hon. Jackie Jacobson **Chair**
Robert Bouchard
Frederick Blake Jr.
Hon. Jackson Lafferty
Hon. David Ramsay

Board of Management of the 18th Assembly, December 17, 2015 – March 31, 2016

Hon. Jackson Lafferty **Chair**
Frederick Blake Jr.
Hon. Robert C. McLeod
Hon. Wally Schumann
Cory Vanthuynne

Advisors

Former Speaker and Member

Paul Delory

Actuaries

Aon Hewitt

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, 2015 to March 31, 2016.

With the election in November 2015, there were a number of new members appointed to the Board of Management. These members attended a full day of in-depth training on the two plans and their operation in order to be able to discharge their responsibilities in an informed manner. The first pension meeting of the Board took place in May 2016 and included meetings with both investment managers as well as the actuary and investment consultant.

The Board also reviewed a proposal to introduce a funding policy. A funding policy attempts to define the Assembly's funding objectives, in order to appropriately balance the interests of the stakeholders. At present, a final version has not yet been adopted.

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, 2015 report was tabled November 2, 2016 and is available on the Legislative Assembly website under Tabled Documents.

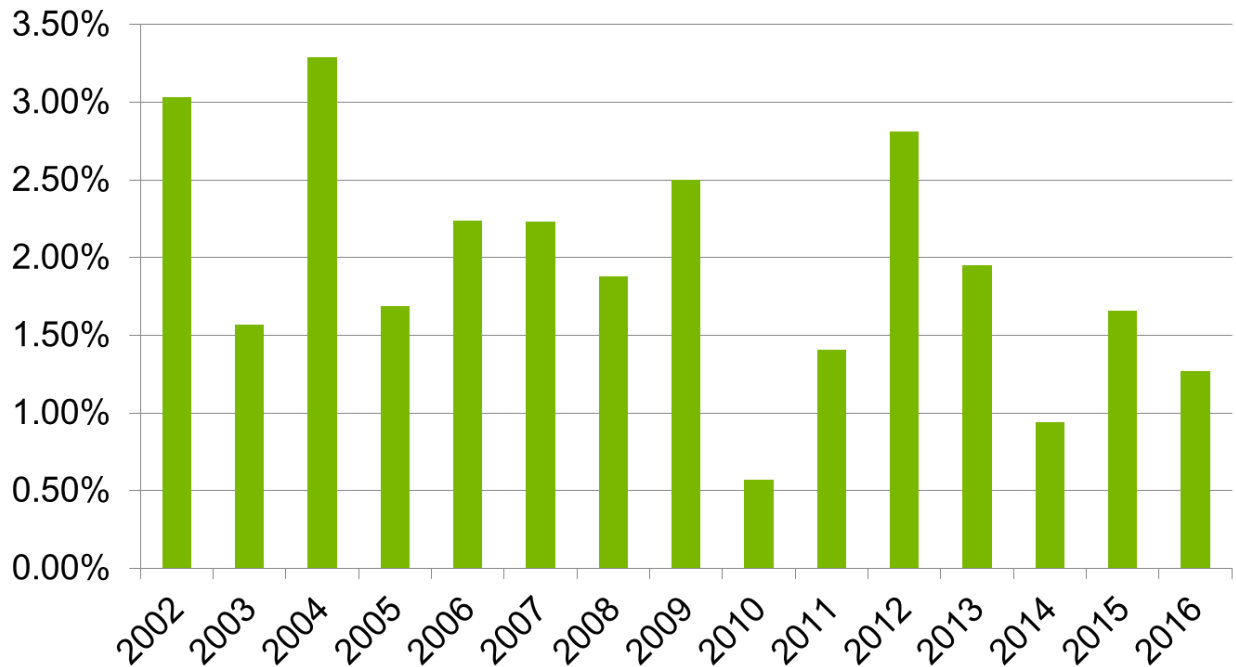
On March 31, 2016 there were thirty-eight (45) prior members or survivors of prior members receiving monthly pensions from the RAA and forty (49) from the SRAA. Membership information at March 31, 2016 is outlined in Table 1: Summary of Membership Information.

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, 2016 increase was 1.27%. The chart below provides a history of cost-of-living increases that have been applied to pension payments.

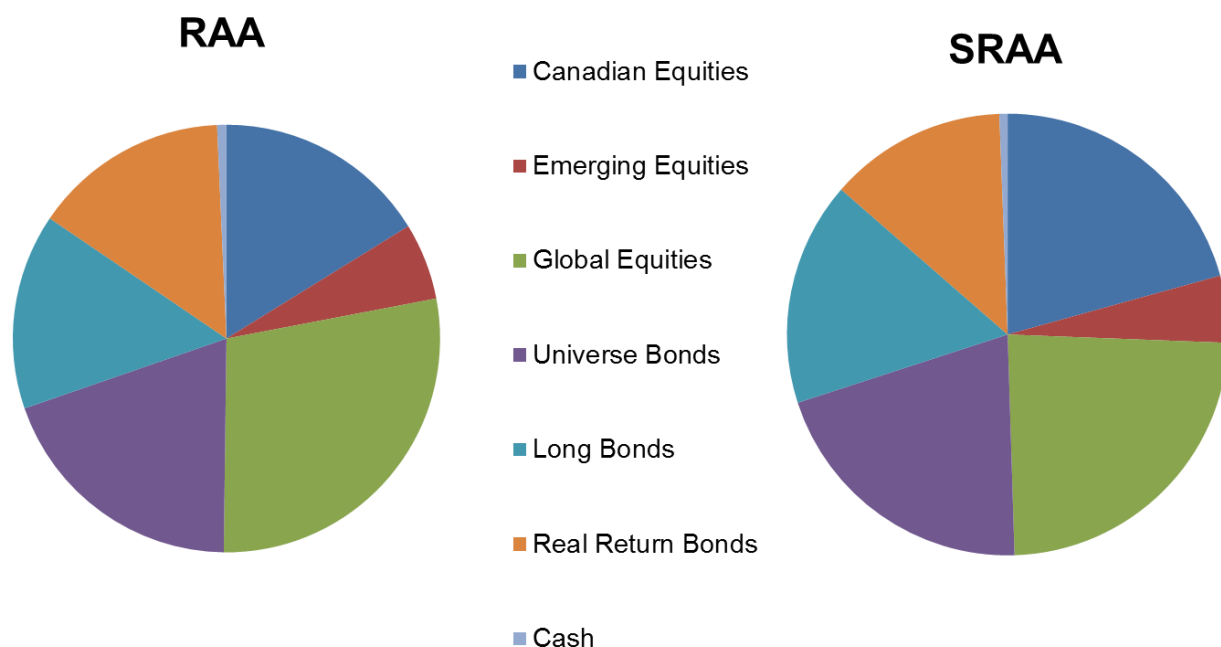
% COLA to Pension Payments 2002 – 2016



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, 2016 is summarized in the chart below.



Investment Performance

The RAA return for the year ending March 31, 2016 was -1.1%, which was greater than the policy benchmark return of -2.3%. All asset classes outperformed or met their respective benchmarks over the past year. For the four-year period ending March 31, 2016, the RAA had an annualized return of 9.5% which exceeded the benchmark return of 7.5% by 2.0%.

Return on Investments %	2016	2015
Annual Return	-1.1	16.8
Annual Benchmark	-2.3	14.8
Four Year Annualized Return	9.5	10.7
Four Year Benchmark	7.5	9.5

The SRAA return for the year ending March 31, 2016 was -0.4%, exceeding the policy benchmark of -1.2%. As with the RAA fund, all asset classes outperformed or met their respective benchmarks. For the four year period ending March 31, 2016, the SRAA had an annualized return of 9.9% which exceeded the benchmark return of 8.4% by 1.5%.

Return on Investments %	2016	2015
Annual Return	-0.4	17.5
Annual Benchmark	-1.2	15.7
Four Year Annualized Return	9.9	11.5
Four Year Benchmark	8.4	10.4

Financial Highlights

Pension and lump sum payments from the two plans increased in the 2015 fiscal year due to the election in November 2015. Many former members elected to commence receiving their pension or transfer the lump sum value to their personal RRSPs. As a result, the market value of assets for the RAA decreased during the year, with benefit payments exceeding contributions, coupled with negative investment income. The level of lump sum payments in the coming year is expected to be closer to zero. The SRAA does not allow for lump sum transfers to a personal RRSP so payments out of the fund were much lower in the past fiscal year than they were for the RAA. Despite this, the market value of the SRAA decreased due to poor investment returns. 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, 2015	\$26,206,262	\$33,410,749
Member contributions	219,816	0
Investment income	(297,593)	(105,971)
Pension payments	(836,555)	(1,120,491)
Lump sum payments	(2,511,124)	0
Expenses	(151,705)	(183,808)
Market value at Mar 31, 2016	\$22,629,101	\$32,000,479

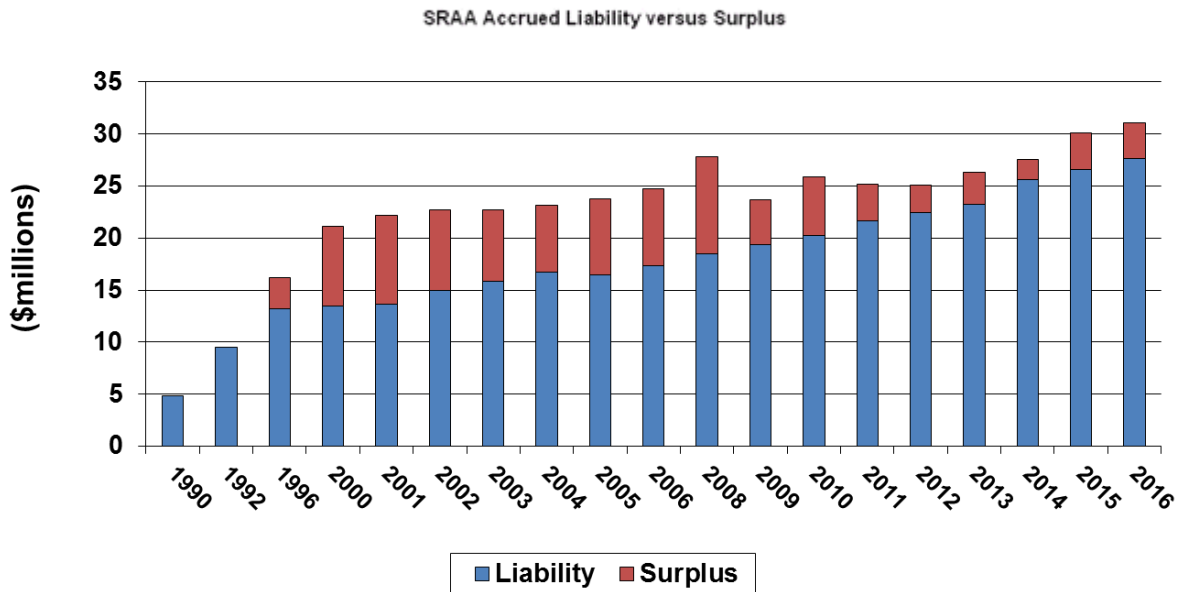
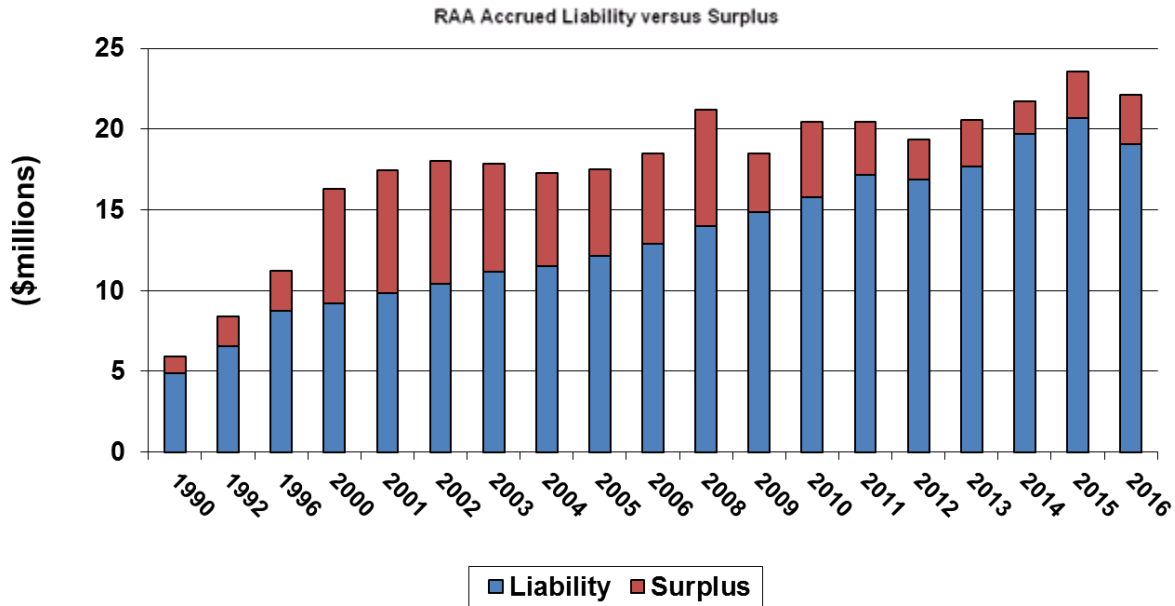
Funded Status

Aon Hewitt, 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, 2012 actuarial funding valuations confirmed that both plans continue to be fully funded. The RAA had a surplus of \$2.4 million with plan liabilities totaling \$16.9 million. The SRAA had a surplus of \$2.7 million with plan liabilities totaling \$22.4 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, 2016 have confirmed that both plans continue to have a surplus. At March 31, 2016, the RAA had an estimated surplus of \$3.1 million with an accrued liability of \$19.1 million. The SRAA had an estimated surplus of \$3.5 million with an associated accrued liability of \$27.7 million. These estimates use the same assumptions as adopted for the actuarial valuation at April 1, 2012, except that the a revised mortality assumption, reflecting improvements revealed as part of the Canadian Institute of Actuaries Pensioner Mortality Study. The following charts summarize the estimated accrued liability and surplus since 1990 for both plans.



The Board has seen a continued decrease in the level of surplus in the plans over the last few years. The decrease in surplus is due, in part, to poor market performance and to the lower interest rate environment. 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 recognizes that as the surplus is depleted, the Assembly will be required to resume cash contributions to the plans. The Board has engaged the actuaries to assist in the drafting of 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.

Aon Hewitt is currently preparing a new actuarial valuation as at March 31, 2016, reflecting the membership changes as a result of the November 2015 election, and updating the assumptions to reflect the current market environment. The results of this valuation will be presented to the Board in the November 2016 meeting.

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, 2016. 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, 2016 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, 2016

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	Deferred due to election	N/A
Self-Assessment of Governance Structure	Annually.	Consultant provides forms	Board completes assessment	Deferred due to election	N/A
Strategic Plan and Risk Assessment	Every 3-4 years	Consultant provides advice	Board determines strategic and risk plan	Deferred due to election	N/A
Plan and Communications Review					
Review Plan Text	Ongoing.	Law Clerk monitors developments	Board reviews/acts on advice	Board recommends passage of draft legislation regarding amendments to definition of dependent child	May 26, 2015 441-17-2015
Review member entitlement statements as regulated by pension legislation	Ongoing.	Plan Administrator monitors legislation and member feedback	Board receives/acts on advice	Board reviewed and approved Members Entitlement Upon Termination of Membership pension statements.	August 26, 2015 461-17-2015

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Review Statement of Investment Policies and Goals	Ongoing.	Investment Advisor provides advice as necessary	Board reviews/acts on advice	Board reviewed and approved amendments to the RAA and SRAA SIPs	May 26, 2015 438-17-2015
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
Plan Funding/Accounting					
Review Funding Position	Annually.	Actuary provides information and advice	Board reviews advice and sets policy	Board receives pension fund update and agreed to recommend to the 18 th Assembly Board to start employer contributions	September 29, 2015 473-17-2015
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	Next valuation scheduled for 2016	N/A
Approve Actuarial Method and Assumptions	As required	Actuary provides information and advice	Board reviews advice and sets policy	Next valuation scheduled for 2016	N/A
Approve Financial Statements	Annually.	Director of Corporate Services prepares statements	Board reviews and approves statements	Completed	May 26, 2015 440-17-2015

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Review Performance of Actuary	Annually.	Clerk formulates report and advice	Board considers advice and determines action	Deferred due to election	N/A
Review Performance of External Auditor	Annually.	Director of Corporate Services formulates report and advice	Board considers advice and determines action	Deferred due to election	N/A
Performance of Asset Management					
Monitor Investment Performance	Ongoing.	Investment Advisor provides advice	Board considers advice and determines action	Deferred due to election	N/A
Confirm or Amend Investment Strategy	Ongoing.	Investment Advisor provides advice	Board considers advice and determines action	Board received an update on a proposal from SunLife to change the pension structure	May 26, 2015 439-17-2015
Review Content and Appropriateness of SIP&P	At least annually.	Investment Advisor provides advice	Board considers advice and determines action	Deferred due to election	N/A
<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 	Board approved and adopted the amendments to the RAA and SRAA SIPs as a result of the asset mix review and recommendations that were undertaken and put forth the previous year. May 26, 2015 438-17-2015				

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Review Performance of Investment Manager(s)	Annually.	Investment Advisor provides advice	Board considers advice and determines action	Deferred due to election	N/A
Review Performance of Custodian	Annually.	Director of Corporate Services provides advice	Board considers advice and determines action	Deferred due to election	N/A
Review Performance of Investment Consultant	Annually.	Director of Corporate Services provides advice	Board considers advice and determines action	Deferred due to election	N/A
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
Communication					
Content of Communication Materials (annual statements)	Ongoing.	Plan Administrator prepares changes to materials	Board reviews and approves changes	Board approved Members pension statements	November 24, 2014 372-17-2014
Distribution of Plan Member Communication	Ongoing.	Plan Administrator	Board monitors quality and timeliness	Deferred due to election	N/A
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	Contract expires Dec. 31, 2016	N/A
Auditor	As required.	Clerk formulates advice	Board reviews advice	External auditor from previous year retained.	N/A

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
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	Contract expires Dec. 31, 2016	N/A
Lawyer	As required.	Clerk formulates advice	Board reviews advice	Law Clerk provides service	N/A