

Annual Report

NWT Legislative Assembly Pension Plans

MARCH 31, 2013

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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, 2013.

Over the twelve month period to March 31, 2013 the assets of the RAA earned a return of 9.1% and the assets of the SRAA earned a return of 9.4%, outperforming the benchmark by 1.5% and 1.2% respectively. The market value of the combined assets is approximately \$48.1 million which supports the payment of promised benefits and leaves a surplus of \$2.5 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 met six times to discuss pension related matters. Specifically, the Board undertook the following activities:

- Reviewed and approved the 2012-13 RAA audited financial statements;
- Reviewed and approved the 2012-13 annual governance report;
- Reviewed and approved the annual administration report;
- Reviewed the performance of its investments;
- Reviewed the performance of the Board's external advisors;
- Completed a formal request for proposal process for actuarial, administration and pension consulting services;
- Reviewed the results of the April 1, 2012 actuarial funding valuations;
- Participated in education sessions on the governance and operation of the pension plans;
- Conducted a self-assessment of our governance structure.

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,



Jackie Jacobson
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 as of March 31, 2013

Hon. Jackie Jacobson **Chair**

Frederick Blake Jr.

Robert Bouchard

Hon. Jackson Lafferty

Hon. David Ramsay

Advisors

Former Member

Brendan Bell

Actuaries

Aon Hewitt

Auditors

Avery, Cooper and Company

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, 2012 to March 31, 2013.

Following the election in October of 2011, the Board directed the actuaries to complete actuarial funding valuations for both plans as of April 1, 2012. The funding valuations are used to determine the funded status of the plan and the range of contributions that are required to fund the benefits. The funding valuations are based on a multitude of underlying assumptions about the future including both demographic and economic assumptions. Demographic assumptions include considerations such as the age at which Members will retire, the longevity of the pensioners and the proportion of Members that have a spouse. Economic assumptions include the expected future rate of return on assets and future increases to remuneration and pensions.

The Board met with the actuaries in November 2012 to review the proposed assumptions and the preliminary actuarial valuation results. The Board reviewed assumption sets with varying levels of conservatism and learned how the level of conservatism in the assumptions can affect the probability of future positive funding of the plan. The final assumptions selected by the Board represent a moderate level of conservatism, reflecting the Boards desire to ensure sound funding of the plan and a better than 50% chance of a positive future funding position of the plans.

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, 2012 report was tabled June 6, 2013 and is available on the Legislative Assembly website under Tabled Documents.

On March 31, 2013 there were thirty-eight (39) prior members or survivors of prior members receiving monthly pensions from the RAA and forty (41) from the SRAA. During the plan year, one former member elected to commence receiving their Assembly pension. Membership information at March 31, 2013 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	2	5
Pensioners	39	41

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, 2013 increase was 1.95%. The chart below provides a history of cost-of-living increases that have been applied to pension payments.

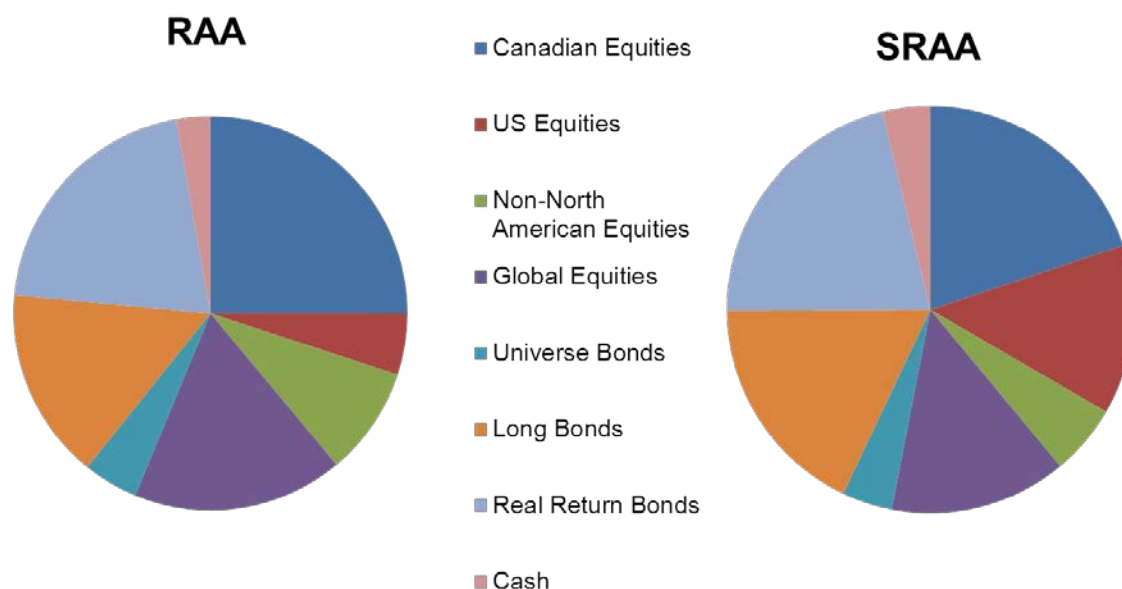
% COLA to Pension Payments 2002 - 2013



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, 2013 is summarized in the chart below.



Investment Performance

The RAA return for the year ending March 31, 2013 was 9.1%, which was greater than the policy benchmark return of 7.6%. Both security selection, particularly in Canadian equities, and asset allocation contributed to the strong one-year performance. All asset classes outperformed their respective benchmarks over the past year. For the four-year period ending March 31, 2013, the RAA had an annualized return of 10.9% which lagged the benchmark return of 11.4% by 0.5%.

Return on Investments %	2013	2012
Annual Return	9.1	3.5
Annual Benchmark	7.6	5.3
Four Year Annualized Return	10.9	4.4
Four Year Benchmark	11.4	4.2

The SRAA return for the same period was 9.4%, exceeding the policy benchmark of 8.2%. Again, security selection was positive for the period, however asset allocation detracted from performance. In particular, underweight positions in international and global mandates hurt performance. As with the RAA fund, all asset classes outperformed their respective benchmarks. For the four year period ending March 31, 2013, the SRAA had an annualized return of 10.6% which was 60 basis points under the benchmark return of 11.2%.

Return on Investments %	2013	2012
Annual Return	9.4	5.7
Annual Benchmark	8.2	6.3
Four Year Annualized Return	10.6	4.1
Four Year Benchmark	11.2	3.9

Financial Highlights

Following the election in 2011, many former members elected to commence receiving their pension or transfer the lump sum value to their personal RRSPs. In this fiscal year, however, there were no lump-sum payments and only one former Member retired and 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, 2012	\$19,932,924	\$26,030,017
Member contributions	197,378	0
Investment income	1,762,661	2,356,276
Pension payments	(721,061)	(1,001,510)
Lump sum payments	0	0
Expenses	(199,533)	(221,967)
Market value at Mar 31, 2013	\$20,972,370	\$27,162,816

Funded Status

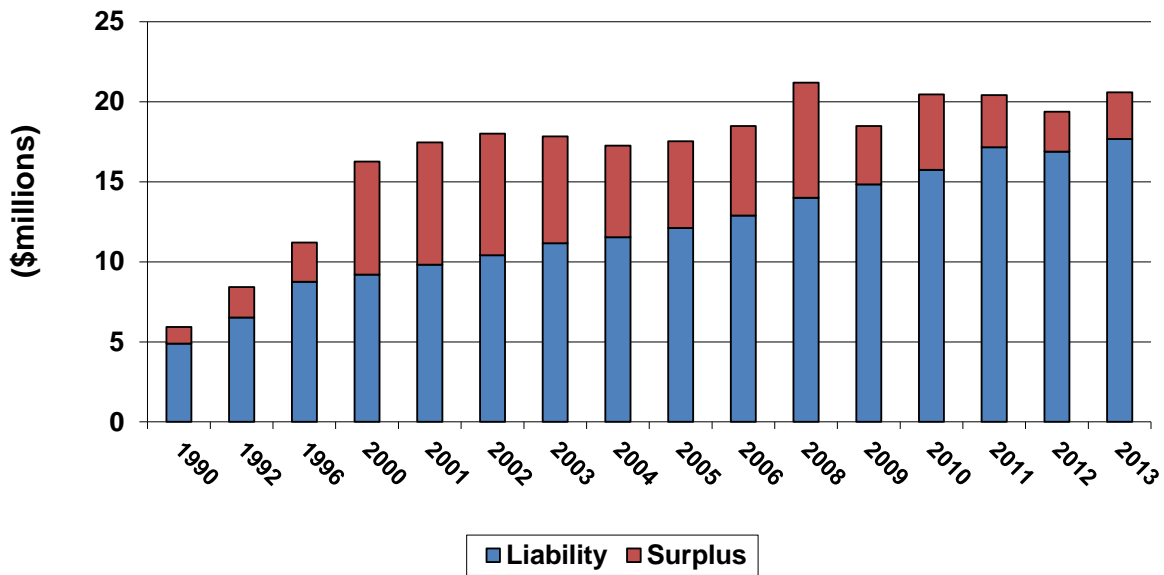
Aon Hewitt, an independent actuary, determines the Plans' funded status by comparing the actuarial value of invested assets to the present value of all pension benefits that members have earned and are expected to earn in the future.

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.

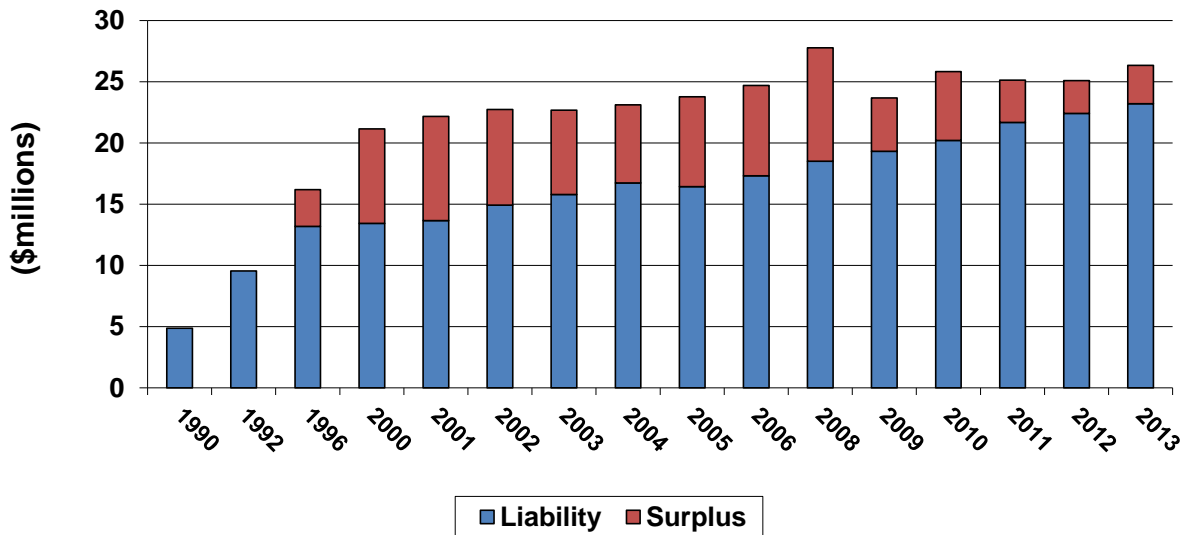
The April 1, 2012 actuarial funding valuations confirmed that both plans continue to be fully funded. The RAA had a surplus of \$2.4 million with plan liabilities totaling \$16.9 million. The SRAA had a surplus of \$2.7 million with plan liabilities totaling \$22.4 million.

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, 2013 have confirmed that both plans continue to have a surplus. At March 31, 2013, the RAA had an estimated surplus of \$2.9 million with an accrued liability of \$17.7 million. The SRAA had an estimated surplus of \$3.1 million with an associated accrued liability of \$23.2 million. 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 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.

Fund Audit

Avery Cooper and Company audited the Statement of Changes in Net Assets Available for Benefits and the Statement of Obligations for Pension Benefits as at March 31, 2013. 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, 2013 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, 2013

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	Completed	November 13, 2012 121-17-2012 November 14, 2012 132-17-2012
Self-Assessment of Governance Structure	Annually.	Consultant provides forms	Board completes assessment	Completed	November 14, 2012 133-17-2012
Strategic Plan and Risk Assessment	Every 3-4 years	Consultant provides advice	Board determines strategic and risk plan	Aon Hewitt delivered presentation on pension trends and a proposal for asset mix study	November 13, 2012 125-17-2012 & 126-17-2012
Plan and Communications Review					
Review Plan Text	Ongoing.	Law Clerk monitors developments	Board reviews/acts on advice	Mid-Term Review	N/A
Review member entitlement statements as regulated by pension legislation	Ongoing.	Plan Administrator monitors legislation and member feedback	Board receives/acts on advice	Board reviews Members pension statements and makes recommendation	November 13, 2012 128-17-2012
Review Statement of Investment Policies and Goals	Ongoing.	Investment Advisor provides advice as necessary	Board reviews/acts on advice	Completed	November 14, 2012 131-17-2012
Monitor Pension and Tax legislation	Ongoing.	Actuary advises Board of changes	Board reviews/acts on advice provided	No changes to report	N/A

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
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	Reviewed preliminary April 1, 2012 actuarial valuation results	November 13, 2012 122-17-2012
Decide Frequency of Valuation Reports	Annually	Actuary provides information and advice	Board reviews advice and sets policy	Decision made that solvency report not required	November 13, 2012 123-17-2012
Approve Valuation Report	As required.	Actuary provides information and advice	Board reviews advice and sets policy	Completed	November 13, 2012 122-17-2012
Approve Actuarial Method and Assumptions	As required	Actuary provides information and advice	Board reviews advice and sets policy	Completed	November 13, 2012 122-17-2012
Approve Financial Statements	Annually.	Director of Corporate Services prepares statements	Board reviews and approves statements	Completed	May 31, 2012 71-17-2012
Review Performance of Actuary	Annually.	Clerk formulates report and advice	Board considers advice and determines action	Formal RFP process completed	November 12, 2012
Review Performance of External Auditor	Annually.	Director of Corporate Services formulates report and advice	Board considers advice and determines action	Not completed	
Performance of Asset Management					
Monitor Investment Performance	Ongoing.	Investment Advisor provides advice	Board considers advice and determines action	Completed	November 13, 2012 124-17-2012

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
Confirm or Amend Investment Strategy	Ongoing.	Investment Advisor provides advice	Board considers advice and determines action	Board requested and received proposal from Aon Hewitt to conduct asset mix study	November 13, 2012 125-17-2012
Review Content and Appropriateness of SIP&P	At least annually.	Investment Advisor provides advice	Board considers advice and determines action	Completed	November 14, 2012 131-17-2012
<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	Completed	November 13, 2012 124-17-2012 November 14, 2012 130-17-2012
Review Performance of Custodian	Annually.	Director of Corporate Services provides advice	Board considers advice and determines action	Board approves signing authorities to provide direction to custodian	November 13, 2012 129-17-2012
Review Performance of Investment Consultant	Annually.	Director of Corporate Services provides advice	Board considers advice and determines action	Formal RFP process completed	November 12, 2012

Activity	Frequency	Initiation	Completion	Status	Board Minute or Meeting Date
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 Pension Administration Report	November 13, 2012 127-17-2012
Distribution of Plan Member Communication	Ongoing.	Plan Administrator	Board monitors quality and timeliness	Completed	Active: October 2012 Pensioners: December 2012 Annual Report mailed July 2012
Member Feedback	Ongoing.	Plan Administrator monitors and advises Board	Board reviews advice	No feedback	N/A
Hiring/Terminating Agents/Advisors					
Actuary	As required.	Clerk formulates advice	Board reviews advice	Renewed four-year contract	February 11, 2013 155-17-2013
Auditor	As required.	Clerk formulates advice	Board reviews advice		
Custodian	As required.	Clerk formulates advice	Board reviews advice		
Investment Manager	As required.	Clerk formulates advice	Board reviews advice		
Investment Consultant	As required.	Clerk formulates advice	Board reviews advice	Renewed four-year contract	February 11, 2013 155-17-2013
Lawyer	As required.	Clerk formulates advice	Board reviews advice		