

Annual Report

NWT Legislative Assembly Pension Plans

MARCH 31, 2017

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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, 2017.

Over the twelve month period to March 31, 2017 the assets of the RAA earned a return of 8.8% and the assets of the SRAA earned a return of 9.0%, underperforming the benchmark by 0.9% and 0.7% respectively. The market value of the combined assets is approximately \$57.0 million which supports the projected payment of promised benefits and leaves a surplus of \$4.1 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 18th Legislative Assembly met five times to discuss pension related matters. Specifically, the Board undertook the following activities:

- Received a presentation on Governance, Environment and Socially Responsible Investing from Aon Hewitt;
- Received a presentation on pension trends from Aon Hewitt;
- Reviewed and approved the RAA Audited Financial Statements;
- Reviewed the performance of the actuaries, investment consultant, investment managers, external auditor and fund custodian;
- Adopted a funding policy and established a target funding level for both pension plans; and
- Received a presentation on the 2016 actuarial funding valuation and funded status from Aon Hewitt.

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 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, 2016 to March 31, 2017.

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 draft funding policy. This funding policy defines the Assembly's funding objectives, in order to appropriately balance the interests of the stakeholders.

At its annual pension meeting in November 2016 the Board adopted this funding policy and established a funding target of 110% for both of the pension plans. They were also provided information about socially responsible investing.

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, 2016 report was tabled February 21, 2017 and is available on the Legislative Assembly website under Tabled Documents.

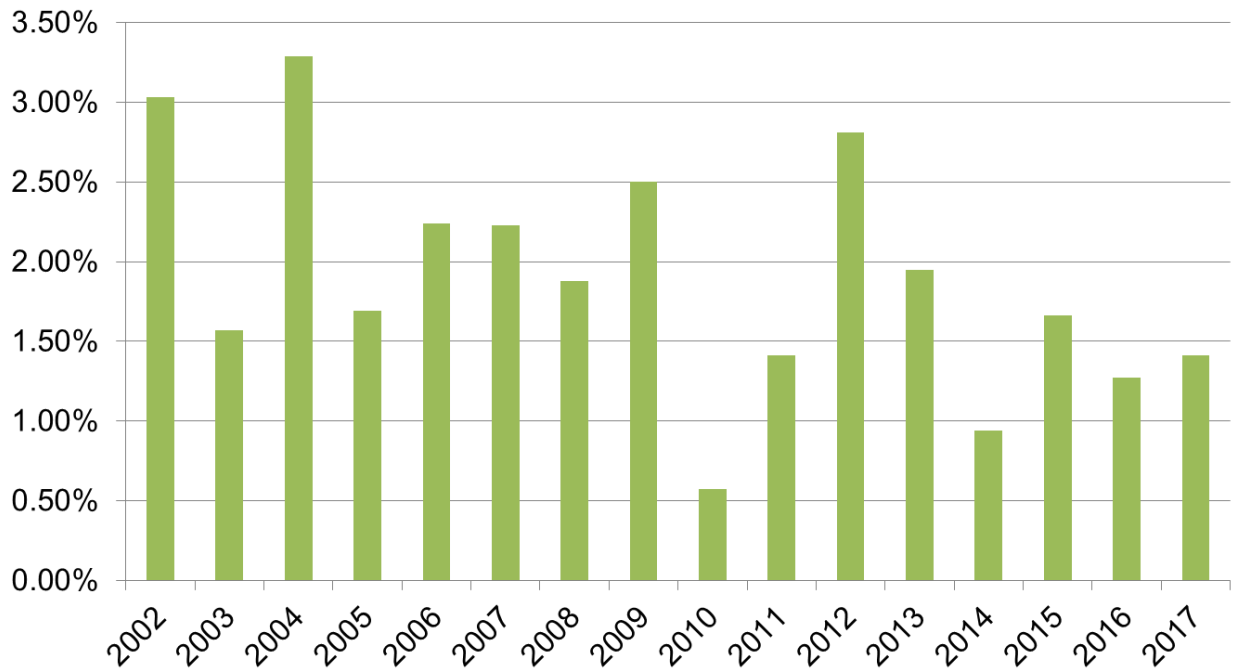
On March 31, 2017 there were forty-five (45) prior members or survivors of prior members receiving monthly pensions from the RAA and forty (49) from the SRAA. Membership information at March 31, 2017 is outlined in Table 1: Summary of Membership Information.

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, 2017 increase was 1.41%. The chart below provides a history of cost-of-living increases that have been applied to pension payments.

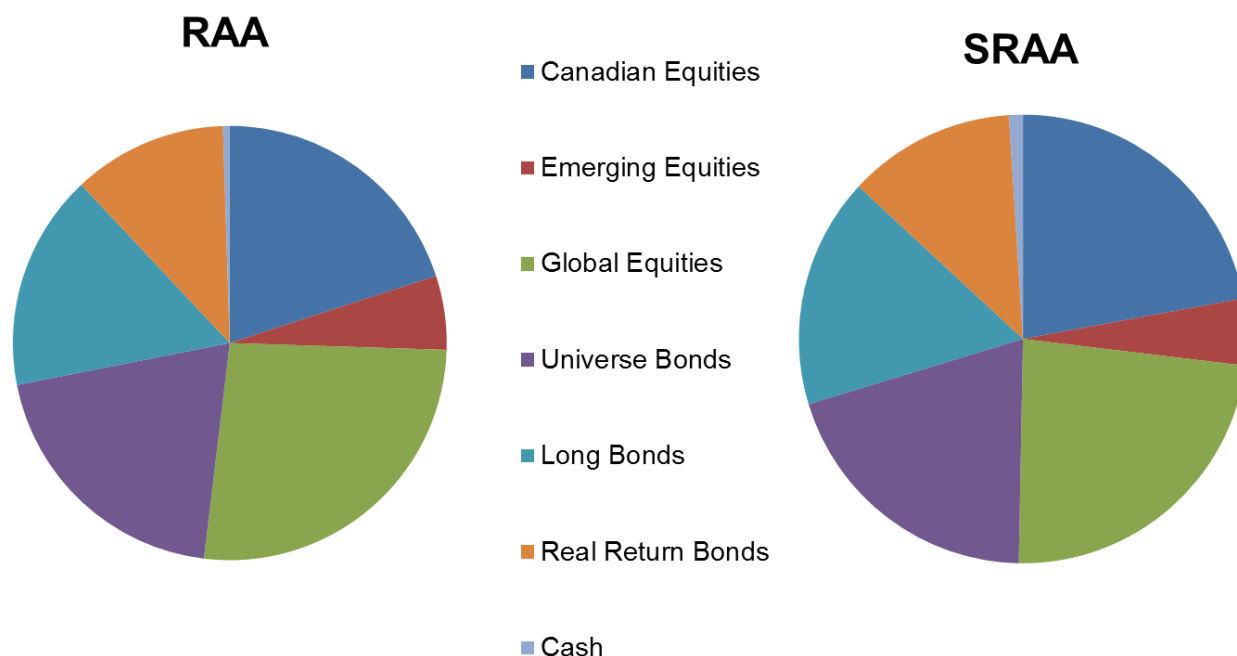
% COLA to Pension Payments 2002 – 2017



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, 2017 is summarized in the chart below.



Investment Performance

The RAA return for the year ending March 31, 2017 was 8.8%, which was less than the policy benchmark return of 9.7%. Canadian and Global Equities and Real Return bonds did not outperform their respective benchmarks, while the remaining asset classes (Emerging Market Equities, Universe Bonds and Long Bonds) outperformed or met their respective benchmarks over the past year. For the four-year period ending March 31, 2017, the RAA had an annualized return of 9.4% which exceeded the benchmark return of 8.0% by 1.4%.

| Return on Investments % | 2017 | 2016 |
|-----------------------------|------|------|
| Annual Return | 8.8 | -1.1 |
| Annual Benchmark | 9.7 | -2.3 |
| Four Year Annualized Return | 9.4 | 9.5 |
| Four Year Benchmark | 8.0 | 7.5 |

The SRAA return for the year ending March 31, 2017 was 9.0%, which was less than the policy benchmark return of 9.7%. The respective asset classes performed similarly to the RAA. For the four year period ending March 31, 2017, the SRAA had an annualized return of 9.8% which exceeded the benchmark return of 8.8% by 1.0%.

| Return on Investments % | 2017 | 2016 |
|-----------------------------|------|------|
| Annual Return | 9.0 | -0.4 |
| Annual Benchmark | 9.7 | -1.2 |
| Four Year Annualized Return | 9.8 | 9.9 |
| Four Year Benchmark | 8.8 | 8.4 |

Financial Highlights

In this fiscal year, there were no significant 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, 2016 | \$22,629,101 | \$32,000,478 |
| Member contributions | 218,421 | 0 |
| Investment income | 1,937,362 | 2,821,227 |
| Pension payments | (965,339) | (1,245,405) |
| Lump sum payments | 0 | 0 |
| Expenses | (176,044) | (218,114) |
| Market value at Mar 31, 2017 | \$23,643,501 | \$33,358,186 |

Funded Status

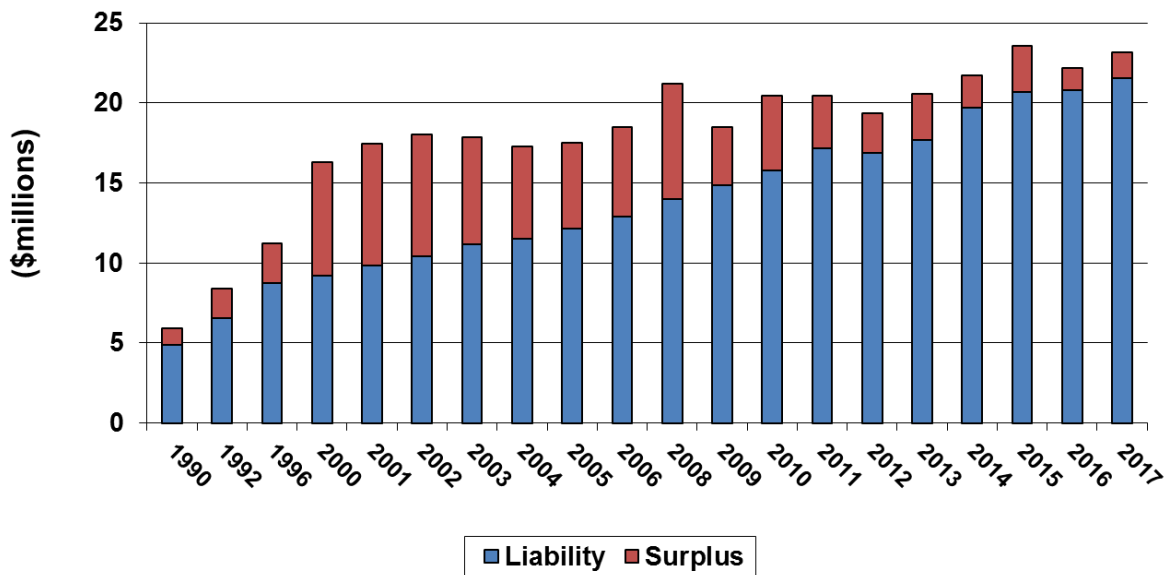
Aon Hewitt, an independent actuary, determines the Plans' funded status by comparing the actuarial value of invested assets to the present value of all pension benefits that members have earned and are expected to earn in the future.

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.

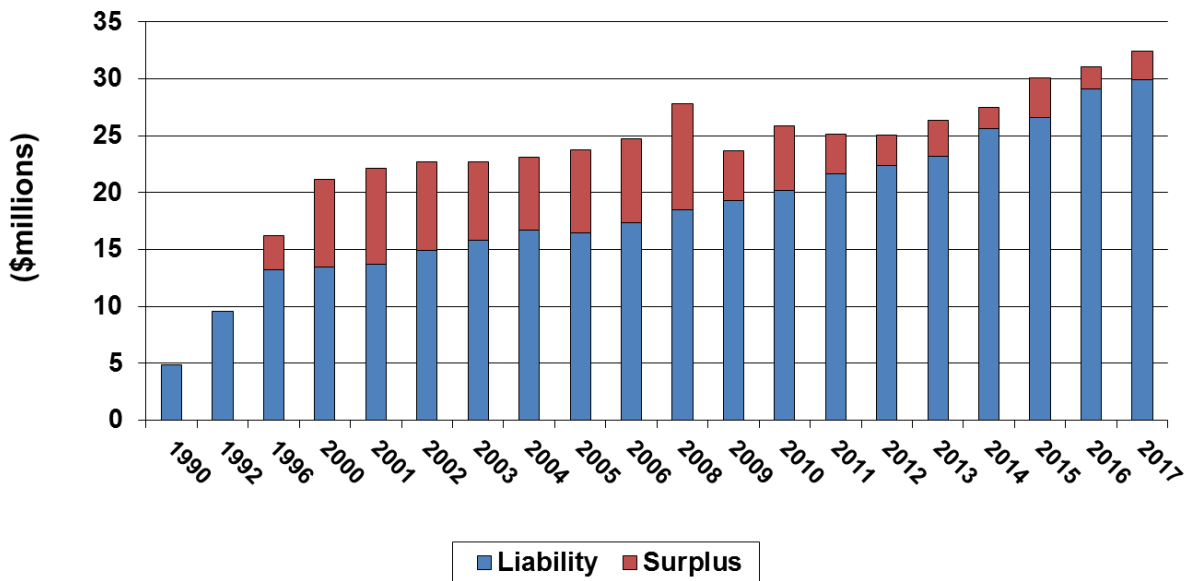
The April 1, 2016 actuarial funding valuations confirmed that both plans continue to be fully funded. The RAA had a surplus of \$1.4 million with plan liabilities totaling \$20.8 million. The SRAA had a surplus of \$2.0 million with plan liabilities totaling \$29.1 million.

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, 2017 have confirmed that both plans continue to have a surplus. At March 31, 2017, the RAA had an estimated surplus of \$1.6 million with an accrued liability of \$21.5 million. The SRAA had an estimated surplus of \$2.5 million with an associated accrued liability of \$29.9 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 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

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, 2017

| 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 | 2014-2015 review deferred due to election | 2014/2015 report May 10, 2016 42-18-2016 2015/2016 report November 28 & 29, 2016 91-18-2016 |
| Self-Assessment of Governance Structure | Annually. | Consultant provides forms | Board completes assessment | 2014/15 review deferred due to election | 2014/2015 May 10, 2016 42-18-2016 2015/2016 November 28 & 29, 2016 91-18-2016 |
| Strategic Plan and Risk Assessment | Every 3-4 years | Consultant provides advice | Board determines strategic and risk plan | | November 28 & 29, 2016 91-18-2016 |
| Plan and Communications Review | | | | | |
| Review Plan Text | Ongoing. | Law Clerk monitors developments | Board reviews/acts on advice | | November 28 & 29, 2016 92-18-2016 |
| Review member entitlement statements as regulated by pension legislation | Ongoing. | Plan Administrator monitors legislation and member feedback | Board receives/acts on advice | | November 28 & 29, 2016 92-18-2016 |
| Review Statement of Investment Policies and Goals | Ongoing. | Investment Advisor provides advice as necessary | Board reviews/acts on advice | | November 28 & 29, 2016 95-18-2016 |

| Activity | Frequency | Initiation | Completion | Status | Board Minute or Meeting Date |
|--|--------------|---|--|---|--|
| Monitor Pension and Tax legislation | Ongoing. | Actuary advises Board of changes | Board reviews/acts on advice provided | No changes to report | November 28 & 29, 2016 94-18-2016 |
| 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 | | November 28 & 29, 2016 93-18-2016 |
| 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 | | November 28 & 29, 2016 93-18-2016 |
| Approve Actuarial Method and Assumptions | As required | Actuary provides information and advice | Board reviews advice and sets policy | | November 28 & 29, 2016 93-18-2016 |
| Approve Financial Statements | Annually. | Director of Corporate Services prepares statements | Board reviews and approves statements | | May 29, 2017 140-18-2017 |
| Review Performance of Actuary | Annually. | Clerk formulates report and advice | Board considers advice and determines action | 2014/15 review deferred due to election | 2014/2015 May 11, 2016 48-18-2016 2015/16 November 30, 2016 108-18-2016 |
| Review Performance of External Auditor | Annually. | Director of Corporate Services formulates report and advice | Board considers advice and determines action | 2014/15 review deferred due to election | 2014/15 May 11, 2016 50-18-2016 2015/16 November 30, 2016 110-18-2016 |

| Activity | Frequency | Initiation | Completion | Status | Board Minute or Meeting Date |
|--|--|------------------------------------|--|---|--|
| Performance of Asset Management | | | | | |
| Monitor Investment Performance | Ongoing. | Investment Advisor provides advice | Board considers advice and determines action | 2014/15 review deferred due to election | 2014/15 May 11, 2016 45-18-2016 2015/16 November 28 & 29, 2016 95-18-2016 |
| Confirm or Amend Investment Strategy | Ongoing. | Investment Advisor provides advice | Board considers advice and determines action | | 2014/15 May 11, 2016 45-18-2016 2015/16 November 28 & 29, 2016 95-18-2016 |
| Review Content and Appropriateness of SIP&P | At least annually. | Investment Advisor provides advice | Board considers advice and determines action | 2014/15 review deferred due to election | 2014/15 May 11, 2016 45-18-2016 2015/16 November 28 & 29, 2016 95-18-2016 |
| <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 | During this fiscal year the Board received presentations on “pension trends” and the topic of social, ethical and governance investing | | | | |

| 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 | 2014/15 review deferred due to election | 2014/15 May 11, 2016 45-18-2016 2015/16 November 28 & 29, 2016 95-18-2016 |
| Review Performance of Custodian | Annually. | Director of Corporate Services provides advice | Board considers advice and determines action | 2014/15 review deferred due to election | 2014/15 May 11, 2016 47-18-2016 2015/16 November 28 & 29, 2016 95-18-2016 |
| Review Performance of Investment Consultant | Annually. | Director of Corporate Services provides advice | Board considers advice and determines action | 2014/15 review deferred due to election | 2014/15 May 11, 2016 49-18-2016 2015/16 November 30, 2016 109-18-2016 |
| 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 28 & 29, 2016 92-18-2016 |

| Activity | Frequency | Initiation | Completion | Status | Board Minute or Meeting Date |
|---|--------------|---|---------------------------------------|---|----------------------------------|
| 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 to December 31, 2017 | November 30, 2016 111-18-2016 |
| Auditor | As required. | Clerk formulates advice | Board reviews advice | External auditor from previous year retained. | November 30, 2016 110-18-2016 |
| 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 to December 31, 2017 | November 30, 2016 111-18-2016 |
| Lawyer | As required. | Clerk formulates advice | Board reviews advice | Law Clerk provides service | N/A |

