



Stakeholders Consultation Group (SCG) – Action Items

Questions arising from the October 25, 2013 meeting

Please note: The items written in italics below are questions submitted by stakeholders at the close of the October 25, 2013 SCG meeting. The LAPP Board response, which follows each question was developed and approved by the Board at its November 15 meeting. The questions may have been paraphrased for clarity and, if there were multiple questions submitted on the same topic, may have been combined for efficiency.

Stakeholder Question: *What is being done to develop an on-line calculator for members to estimate how their pensions will change with the government's proposal?*

Board response: Online pension calculators are developed and maintained by Alberta Pension Services Corporation (APS). The Board advised APS and government officials early on that stakeholders and members would be asking for pension estimators to help explain the proposed changes. Government decided that because the proposals are just options for consideration right now, and not necessarily the changes members will end up with, APS should not provide calculators yet. Instead, Government prefers that stakeholders use the different pension scenarios outlined in the FAQs on the government website as a guide to estimating how plan benefits will impact them and based on that, respond to the Minister on what they think of the proposed changes. Once the Minister has received the feedback and considered the input he will make a final decision on plan benefit changes and then calculators will be developed. Government says it will provide the calculators in plenty of time for members to calculate their benefits before the proposed date of change, which is January 1, 2016.

The pension examples, with calculations, are provided on the website. If you are reading this document electronically, you can click on the blue links to get the calculation to go with each example. If you are reading this report on paper you can find a pdf of the examples and calculations on line at the following url: <http://finance.alberta.ca/publications/pensions/sustainability/pension-examples-pspp-lapp.pdf>

Examples on the government website:

- **Example 1 - Jim retires at age 60:**
Jim retires at the end of 2020 at age 60 with 25 years of pensionable service. His highest average salary is \$75,000 and the average of the year's maximum pensionable earnings (YMPE) under Canada Pension Plan is \$55,000.
- **Example 2 - Ella retires at age 64:**
Ella retires at the end of 2020 at age 64 with 24 years of pensionable service. Her highest average salary is \$47,000 and the average of the year's maximum pensionable earnings (YMPE) under Canada Pension Plan is \$55,000.
- **Example 3 - Gerry retires at age 55:**
Gerry retires at the end of 2013 at age 55 with 35 years of pensionable service. His highest average salary is \$62,000 and the average of the year's maximum pensionable earnings (YMPE) under Canada Pension Plan is \$48,600.
- **Example 4 - Jill retires at age 65:**
Jill retires December 31, 2017 at age 65 with 19 years of pensionable service. Her highest average salary is \$60,000 and the average of the year's maximum pensionable earnings (YMPE) under Canada Pension Plan is \$52,000.
- **Example 5 - Bill retires at age 64:**
Bill becomes employed on July 1, 2015 and retires December 31, 2016 at age 64 with 1 ½ years of pensionable service. His highest average salary is \$50,000 and the average of the year's maximum pensionable earnings (YMPE) under Canada Pension Plan is \$51,000.
- **Example 6 - Lily retires at age 67:**
Lily reaches 35 years of pensionable service at the end of 2014 and continues to work until the end of 2020 retiring at age 67. Her highest average salary is \$70,000 and the average of the year's maximum pensionable earnings (YMPE) under Canada Pension Plan is \$55,000. In 2016, Lily decided to start contributing to the pension plan again (with the elimination of the 35-year service limit), and therefore she has 40 years of pensionable service when she retires.

Because she retires at age 67, Lily is not affected by the elimination of unreduced early retirement. By choosing to contribute to the pension plan for her post-2015 years of service, she benefits from the elimination of the 35-year service cap and adds 5 more years to her pensionable service.
- **Example 7 - Roger retires at age 62:**
Roger retires at the end of 2020 at age 62 with 15 years of pensionable service. His highest average salary is \$65,000 and the average of the year's maximum pensionable earnings (YMPE) under Canada Pension Plan is \$55,000.

Stakeholder Question: *Identify the Board's "ideal" governance structure and considerations.*

Board response: The Board has identified the overall structure it prefers for the Local Authorities Pension Plan and it does not differ much from what it has been asking of Government for several years. As part of its report to the Minister in March, 2013, the Board outlined its recommendations for governance and those are identified below. As for the considerations, it is important to note that to simply outline a structure for governance and the principles on which governance should be based is not enough to make it happen or ensure its effectiveness. There are many important considerations to be addressed to ensure governance works as the sponsors (employers and employee representatives) will need it to work over many years to come. Because of all those considerations, the Board asked for the Minister to set up a task force that would bring all players to the table to hash out the details and get the work done. Instead, government will be naming the sponsors and they will be expected to arrive at a joint sponsorship agreement. It is unclear how this process will roll out and what role, if any, the LAPP Board will have in the process.

In a nutshell, the Board's recent work on governance (a small part of a long legacy of work dating back many years) proposes the following for LAPP:

- The LAPP Board of Trustees should be the legal Trustee and Administrator of LAPP (Currently the Minister is Trustee)
- The Plan Sponsors should be clearly defined and their role clearly separated from the role of the Trustees (Currently the Minister is the Sponsor, but the sponsors should be employers and employees who contribute to the plan)
- LAPP should have a bicameral structure with:
 - a Fiduciary Board of Trustees to manage the plan, with discretion to oversee the LAPP Fund and oversee the administration of Plan benefits
 - A representative Sponsor Board to make decisions on plan design and oversee the pension deal

Determining exactly how to achieve this structure is no simple matter, however.

The Board also believes Governance should be based on the following five principles for effective governance as they were outlined in the 1999 Cortex Report on Establishing Effective

Pension Governance Arrangements. The report was commissioned by Alberta Finance.

1. The functions of the sponsor and trustee must remain separate;
2. Parties exposed to significant risk through the pension plan must have the authority and capacity to manage their risk exposure;
3. From the outset, parties exposed to significant risk must have direct and active involvement in establishing the pension deal;
4. The pension deal must provide for an alignment of interests among affected parties; and
5. Mechanisms must exist for transparent accountability.

Other considerations, which the Board endorsed for further consultation with stakeholders and agreed should be discussed with the Minister , included:

- LAPP should be governed by a Plan Text and Sponsorship Agreement, both of which should be established and controlled by the Sponsors;
- Those who bear the risk should govern the Plan: the governing documents should state clearly that members and employers are solely responsible for the funding of the Plan and that the Government is not responsible for financially backstopping the Plan.

Other information on LAPP Governance proposals can be found in the information posted on the LAPP website.

Stakeholder Question: *Is the cost of the new computer upgrade for APS advisable given current funding concerns?*

Board response: The decision to proceed with a computer upgrade for Alberta Pension Services at this juncture was a decision made by the corporate board of Alberta Pensions Services (APS), which reports to the Minister. The Minister is the sole shareholder of APS and he approves the APS budget and its spending decisions. The LAPP Board has no oversight of APS under the current governance structure. However, because LAPP will pay the lion's share of the project through its share of the funding formula (about \$40 million of the \$58 million project) APS has been diligent in reporting to the LAPP Board on the progress of the project and its plans for implementation. The computer project, called Next Generation, will help to automate many of the functions that are still being done manually in the organization. It will also

replace outdated technology being used today and it is expected to improve service levels and enhance reporting. At the time the project was begun, (RFPs were done in 2011), there was no indication the government was planning to reform pensions and make changes to plan benefits. The challenging aspect for the LAPP Board is that at the same time APS was planning a systems overhaul, AIMCo was doing the same thing, approved by its Corporate board which answers to the Minister as the sole shareholder of AIMCo. Under the current governance structure, LAPP's Board had no ability to direct either organization to wait, or to do the projects in smaller bites, or to stagger the projects.

Stakeholder Question: *What is joint trusteeship and how does it work?*

Board response: As partly explained in the governance question above, joint-trusteeship is a form of pension governance where the employer and employee sponsors are given responsibility for managing the pension plan. This means that both employers and employees share in the risks and the benefits of the pension plan, setting the benefits and deciding how to cover the costs. The particulars of the joint-trusteeship are typically set out in a trust agreement signed by both parties which sets out the pension deal. Although LAPP has a Board of Trustees, the Minister is actually identified in legislation as the sole trustee of the plan and the Board only advises the minister on plan benefits and makes decisions in other areas that have been delegated by the Trustee.

Stakeholder Question: *Can the attendee list be provided in the meeting package?*

Board response: The Board is working on a new registration process for the SCG meetings so that we have a better idea of who will be attending meetings. This allows us to plan better for space, food allergies and any special needs. We can ask attendees as part of that process whether they agree to identify themselves and their organization on an attendee list so that we can provide that list with your meeting package. In addition, not everyone knows who is speaking during question periods and it would be very helpful to everyone in the room if when you do speak you would stand and identify yourself and your organization. We will try to remind you of this during the meeting.

If you have any questions, please contact:
Sheri Wright, VP Stakeholder Relations,
LAPP Corp. at: sheri.wright@lapp.ca