

March 15, 2017

CONFIDENTIAL

Maureen McCarthy, Director
Pension Administration Division, Department of Finance
Government of Newfoundland and Labrador
P.O. Box 8700
St. John's, NL A1B 4J6

RE: Members of the House of Assembly Pension Plan (the "Plan" or "MHAPP") – Plan Design Comparisons

Dear Maureen:

As requested, following is a high-level comparison of the key benefit provisions as recommended by the Members' Compensation Review Committee ("MCRC") and those proposed by the Liberal Caucus. Notably, the MCRC recommendation was to continue to provide retirement benefits on a Defined Benefit ("DB") basis, versus the proposed Defined Contribution ("DC") basis of the Liberal Caucus.

We have also examined Government's expected savings under each option, and have estimated the additional impact expected from the MCRC recommended changes in earnings for certain positions.

The following table provides a high-level summary of the key benefit provisions of each proposed Plan design.

	MCRC Recommendation	Liberal Caucus
Effective	MHAs first elected on or after November 30, 2015	MHAs elected on or after November 30, 2015
Type of Plan	Defined Benefit	Defined Contribution
Provides benefits in excess of Income Tax Act limits applicable to Registered Pension Plans?	Yes	No
Annual benefit accrual rate (when determining DB pension)	2.5%	N/A
Pension integration with CPP	Pension is reduced at age 65 by 0.6% of the average Year's Maximum Pensionable Earnings ("YMPE") for each year of service	N/A
Maximum pension	With 20 years of service (50% of Salary Base)	N/A
Salary Base (when determining DB pension)	Average of the best 3 years	N/A
Vesting	After completing 5 years of service and serving in 2 General Assemblies	2 years of service
Retirement Age (subject to vesting)	Age 60, with no ability to retire at an earlier age	Age 55
Annual Member Contribution	9% of earnings	9% of earnings
Annual Government Contribution	Variable, based on amount required to fund benefits	9% of earnings
Portability of Service	No longer allowed	N/A
Indexing	None	N/A
Survivor Benefits	60% of the deceased Member's pension entitlement	Individual account balance, Government portion subject to vesting
Re-Elected Members (after break in service)	Plan design based on date first elected	Plan design based on date of re-election

Assumptions, Data, and Methods

For the purposes of these costings, we have used an "Aggregate" actuarial cost method, whereby the present value of all projected benefits, in respect of all service that will be accrued by an individual, is determined as the actuarial liability. In this fashion, the present value of the total projected benefit that an individual is expected to receive is held as the liability, and the difference in liability between each design scenario represents the present value of the total expected savings for the current group of MHAs.

The assumptions used are detailed in Appendix A, and represent the most recent actuarial basis used for the March 31, 2016 Public Accounts disclosures, with the exception of the assumed rate of salary increase. To maintain consistency with prior work that was done for the Members' Compensation Review Committee ("MCRC"), no salary increases are assumed over the next four years.

We have also calculated the additional savings that is expected due to the MCRC recommended changes in compensation for certain legislative positions and reductions in Ministerial earnings effective April 1, 2017.

All costings are based on our preliminary December 31, 2015 actuarial valuation of the MHAPP, and all amounts are calculated as at that date.

The data used is summarized in Appendix B.

Costing Results

The MCRC recommendation results in a total expected reduction in Aggregate liabilities of \$3,570,000. The MCRC recommended changes to compensation for certain legislative positions and reductions in Ministerial earnings effective April 1, 2017 result in an additional expected reduction in Aggregate liabilities of \$810,000.

The Liberal Caucus proposal results in a total expected reduction in Aggregate liabilities of \$5,200,000. The MCRC recommended changes to compensation for certain legislative positions and reductions in Ministerial earnings effective April 1, 2017 result in an additional expected reduction in Aggregate liabilities of \$650,000.

Commentary

A key focus of the current review of the Plan has been curtailing the growth of the Plan's unfunded liability. This issue is discussed at length in our Report to the Newfoundland and Labrador Members' Compensation Review Committee 2016 ("MCRC Report"). Our MCRC Report also provides in-depth commentary and discussion on the choice to provide retirement benefits on either a defined benefit or defined contribution basis. We refer you to the MCRC Report for a complete discussion of these issues.

Actuarial Opinion

In our opinion, for the purposes of this report:

- The membership data on which the valuation is based are sufficient and reliable for the purposes of the valuation.

Maureen McCarthy
March 15, 2017

- The assumptions are appropriate for the purposes of the valuation.
- The methods employed in the valuation are appropriate for the purposes of the valuation.

This report has been prepared, and our opinion given, in accordance with accepted actuarial practice in Canada.

Actuarial valuation results are only estimates. Actuarial valuations are performed based on assumptions and methods that are in accordance with sound actuarial principles. Emerging experience differing from these assumptions may result in gains or losses, which may affect future contribution levels. These gains or losses will be revealed in future actuarial valuations.

The undersigned are available to provide supplementary information and explanation, as appropriate, concerning this report.

If you have any further questions or would like any further information, please do not hesitate to contact us.

Yours truly,



Stephen Kelloway, FCIA
Principal

This report has been peer reviewed by Simon Chiasson, Senior Analyst.

Copy: Donna Brewer, Government of Newfoundland and Labrador

Appendix A - Assumptions and Methods

Actuarial Cost Method

The actuarial liability was calculated using an Aggregate cost method. In this manner, the liability is equal to the present value of the total projected benefit that will be received in respect of all service for the current group of active MHAs (excluding one active MHA who is in receipt of a pension because she is over age 71).

The age for valuation purposes has been calculated by rounding to the nearest birthday.

Actuarial Assumptions – Accounting Basis

The main actuarial assumptions employed for the actuarial valuation are summarized in the following table. All rates and percentages are annualized unless otherwise noted.

Table A.1 –Actuarial Assumptions – Accounting Basis

	December 31, 2015
Discount rate for RPP (expected return on assets)	6.50%
Discount rate for Supplementary Plan (cost of borrowing at 31.03.16)	3.70%
CPI increases	2.25%
Salary increases	0% for 4 years, 3.00% thereafter
YMPE, MP Limit, and DB Limit increases	3.00%
Mortality	<p>Male: 75.0% of the CPM2014 Public Sector Table with generational projection using improvement scale CPM-B</p> <p>Female: 92.6% of the CPM2014 Public Sector Table with generational projection using improvement scale CPM-B</p>
Termination of employment	8% per year upon vesting (5 years of service), ceasing upon reaching eligibility for an unreduced pension
Disability	Nil
Retirement	Upon reaching eligibility for an unreduced pension, 8% per year for members under 60, 60% per year for members between 60 and 64, 100% upon reaching age 65
Married %	At retirement or death: 90%
Spousal age difference	Male is 3 years older than female
Administrative expenses	Implicitly recognized in the interest rate

Committee Appointment Assumption

For the December 31, 2015 valuation, it was assumed that Members (excluding Ministers) currently not appointed to a Secretarial/Committee position will have such appointment at death or retirement and an additional \$17,300 has been added to their 2016 salaries for the calculation of benefits. This amount is based on the average currently paid in respect of these positions, as provided by Government.

In reflecting the impact of the change in compensation for various legislative appointments recommended by the MCRC, it was assumed that 33% of Members (excluding Ministers) currently not appointed to a Secretarial/Committee position will have such appointment at death or retirement and an additional \$15,700 has been added to their 2016 salaries for the calculation of benefits. This reflects the fact that there are now substantially fewer positions available, and the revised amounts that will be payable.

Appendix B - Data

Description of Membership Data

Our valuation is based on data provided to us by the Government's Pensions Administration Division. The data was compiled as at December 31, 2015.

There are a several outstanding data questions with Government which are yet to be resolved. However, we do not believe these items to be material in relation to the current exercise and deem the data sufficient for this analysis.

We have taken the following steps to review the data to ensure its completeness, accuracy and consistency with the data used in the December 31, 2012 funding valuation:

- > Basic data checks were performed to ensure that age, salary and service data were reasonable for the purposes of the analysis.
- > The membership was reconciled with the December 31, 2012 funding valuation and queries were submitted to the Government.

Summary of Membership Data

The following tables were prepared using data provided by the Pensions Administration Division regarding the active members, retirees and former members of the Plan.

These tables show the following:

- B.1 A summary of the Plan membership data as at Dec. 31, 2015
- B.2 Distribution of active members based on age and service as at Dec. 31, 2015
- B.3 Distribution of deferred vested members as at Dec. 31, 2015
- B.4 Distribution of pensioners as at Dec. 31, 2015

Table B.1 – Plan Membership Summary

	December 31, 2015
Active members	
Number	39
Average age	48.8
Total pensionable earnings	\$4,576,475
Average pensionable earnings	\$117,346
Average years of pensionable service:	
• Member service	2.8
• Minister service	0.5
• Other service	0.5
Deferred members in RPP and SERP	
Number	6
Average age	45.9
Total annual pension:	
• Total	\$363,677
• From RPP	\$192,988
• From SERP	\$170,689
Average annual pension:	
• Total	\$60,613
• From RPP	\$32,165
• From SERP	\$28,448
Total annual offset at age 65:	
• Total	\$27,406
• From RPP	\$1,774
• From SERP	\$25,632
Average annual offset at age 65 ¹ :	
• Total	\$4,568
• From RPP	\$591
• From SERP	\$4,272

¹ Only those with offsets at age 65 are included in the average.

Table B.1 – Plan Membership Summary

	December 31, 2015
Deferred members in RPP but retired in SERP	
Number	21
Average age	55.2
Total annual pension:	
• Total	\$996,375
• From RPP	\$496,862
• From SERP	\$499,513
Average annual pension:	
• Total	\$47,446
• From RPP	\$23,660
• From SERP	\$23,786
Total annual offset at age 65:	
• Total	\$52,939
• From RPP	\$9,761
• From SERP	\$43,177
Average annual offset at age 65¹:	
• Total	\$3,529
• From RPP	\$976
• From SERP	\$2,878

¹ Only those with offsets at age 65 are included in the average.

Table B.1 – Plan Membership Summary

	December 31, 2015
Pensioners and survivors	
Number	140
Average age	72.1
Total annual pension:	
• Total	\$6,484,034
• From RPP	\$1,330,567
• From SERP	\$5,153,467
Average annual pension¹:	
• Total	\$46,315
• From RPP	\$30,943
• From SERP	\$36,810
Total annual offset at age 65:	
• Total	\$91,103
• From RPP	\$17,502
• From SERP	\$73,601
Average annual offset at age 65²:	
• Total	\$4,555
• From RPP	\$1,250
• From SERP	\$3,680
Non-vested terminated members	
• Number	14
• Average age	55.1
• Accumulated contributions with interest	\$490,536

¹ Members with no RPP are excluded in the average.

² Only those with offsets at age 65 are included in the average.

Table B.2 – Age/Service Distribution for Active Members as at December 31, 2015

Age	Years of pensionable service					Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 +	
Under 35	4	-	-	-	-	4
35 - 39	3	1	-	-	-	4
40 - 44	3	-	-	-	-	3
45 - 49	7	1	-	-	1	9
50 - 54	6	3	1	-	-	10
55 - 59	3	1	-	-	-	4
60 +	4	-	-	1	-	5
Total	30	6	1	1	1	39

Notes: The age is rounded down to the nearest integer.

Years of service means the number of years credited for pension plan purposes, rounded down to the nearest integer.

Table B.3 – Distribution of Deferred Vested Members as at December 31, 2015

Deferred in RPP and SERP				
	Total Pension		Age 65 Offset	
Age	Number	Average annual pension	Number	Average annual pension
Under 45	2	<>	2	<>
45 - 49	3	55,566	3	4,076
50 - 54	1	<>	1	<>
55 - 59	-	-	-	-
60 +	-	-	-	-
Total	6	60,613	6	4,568
Deferred in RPP but retired in SERP				
	Total Pension		Age 65 Offset	
Age	Number	Average annual pension	Number	Average annual pension
Under 45	-	-	-	-
45 - 49	3	67,226	2	<>
50 - 54	8	53,277	4	4,040
55 - 59	8	37,810	4	2,411
60 +	2	<>	-	-
Total	21	47,446	15	3,529

Notes : <> Certain figures not shown to protect confidentiality.

Table B.4 – Distribution of Pensioners as at December 31, 2015

Pensioners and Survivors				
Age	Total Pension		Age 65 Offset	
	Number	Average annual pension	Number	Average annual pension
Under 55	-	-	-	-
55 - 59	3	52,846	1	5,378
60 - 64	21	62,102	19	4,512
65 - 69	37	49,421	-	-
70 - 74	36	44,181	-	-
75 - 79	19	48,750	-	-
80 - 84	12	27,603	-	-
85 - 89	8	29,723	-	-
90 +	4	26,753	-	-
Total	140	46,315	20	4,555

Notes : <> Certain figures not shown to protect confidentiality.