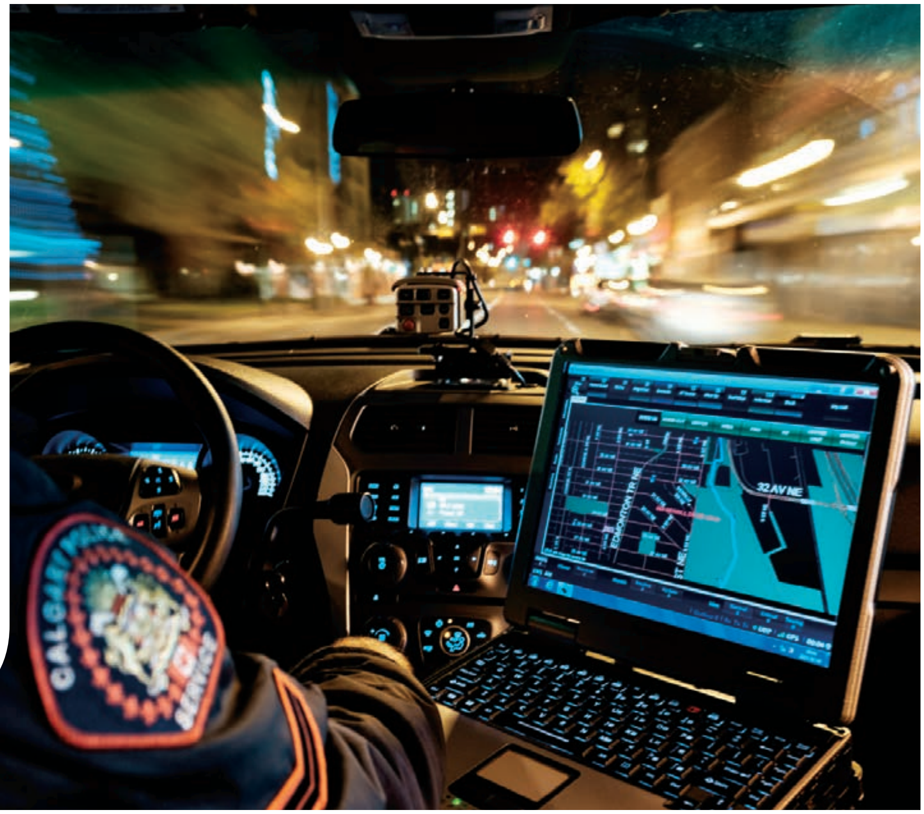
SPECIAL FORCES PENSION PLAN MEMBER NEWS

October 2015



Message from the SFPP Board Chair

At the time of preparing this newsletter for you, the Board and staff at SFPP are still waiting to hear whether the new government has any policy position to share with respect to public sector pensions in Alberta. We will update you as soon as we have a chance to meet with Joe Ceci, President of Treasury Board and Minister of Finance.

By the time you receive this newsletter, however, the government will have already tabled its first provincial budget, which may or may not impact SFPP. If anything does result from the budget, we will have to discuss it in a future issue because of the timing of this newsletter.

It is a good reminder, however, that factors external to a pension plan, including a provincial budget or a change in government, can potentially have an impact on the financial health of a pension plan like SFPP. Our Pension Simplification feature on Page 3 of this edition identifies some of the key external factors that can make a difference to pension plans like ours.

Mostly the factors we discuss are economic or demographic in nature, but political factors can also influence a plan that is as closely tied to government as ours. SFPP is governed by provincial legislation called the *Public Sector Pension Plans Act* (PSPPA) and its regulations. The Minister is the trustee and administrator of SFPP and as such he, with Cabinet, has ultimate authority over the Plan.

On Page 4 of this newsletter, we offer a simple explanation of our complex governance structure and talk a little about the challenges faced by the SFPP Board as a result. We have indicated in earlier newsletters that SFPP would like to move to an improved governance system, more independent from the government and would like to provide some background to that discussion.

Finally, we promised to keep you up-to-date on our discussions with Plan sponsors and we have provided some information on that in this edition. We have done work with our actuary to identify funding risks to the Plan and to discuss ways for dealing with any future adverse events. Take a minute to read about that on Page 2 and remember to always check for updates at **www.sfpp.ca.**

Enjoy the rest of fall and keep warm this winter.

Roger Rosychuk, Chair, SFPP Board

IN THIS ISSUE

Planning for the future – a discussion with sponsors

We have mentioned in earlier newsletters that the SFPP Board has been meeting with its sponsor group to talk about the best options for keeping the Plan financially healthy for many years to come. Also on the agenda is a discussion about how we could make the Plan meet the needs of members in retirement in a way that is fair and equitable to all.

As discussed on Page 4 of this newsletter, there are external factors that can help or hinder a defined benefit pension plan. Many of them are playing out today in a way that complicates the goal of providing an adequate pension at an affordable cost over different generations of Plan members.

Of course, the number one goal continues to be that we have sufficient funds to pay out the pensions owed to members on retirement. But we also want to make sure that every member paying into the Plan is able to receive a value equivalent to other members based on length of service and the number of years they are paying into the Plan.

To achieve these goals, a key priority for the Board is to put risk management tools in place to keep the level of funding where it needs to be and to review Plan design to see if pension benefits are meeting the varied needs of all types of Plan members.

These are the items we are discussing with sponsors and you will be hearing more about these discussions in newsletters to come. No decisions have been made and if it appears there is a need for any changes to the Plan, you will be advised well in advance of it happening.

Part of the discussion we are having is about finding the best way to protect against another economic shock like 2008, when the global economic crisis hit the financial sector pretty hard. Like SFPP, many plans around the world were not left with enough investment assets to cover the estimated cost of future pension benefits.

For SFPP, this meant raising contribution rates to get the money needed. For many other plans, it meant reducing pension benefits or even converting the plans to less desirable pension systems.

Fortunately SFPP's financial position has improved since then and if all goes well for a few more years we may be fully funded. There are no guarantees that will happen, however. A look back at history shows that the seven years of positive growth we have just experienced is already a long cycle for equity markets.

What we have to do is prepare for the possibility of another 2008, while we hope it never happens. If we don't prepare we could be stuck with excessive contribution rate increases or unavoidable cuts to pension benefits. We have tested these scenarios with our actuary and learned the probability is higher than we would like in the event of any economic shock.

Contribution rates are already costing members and employers a combined 28% of payroll on an annual basis (with the province paying 1.25% towards the pre-1992 unfunded liability in addition to that). For members that means 13.45% of your annual income is already going toward your pension and your employer is more than matching that with contributions totaling 14.55% of your monthly pay cheques.

What we don't want to do is take more money from members and employers to finance a downturn in the economy, especially when economic times are hard. Instead we will keep looking for other ways to weather the occasional storms and keep the Plan strong over the long term.

This is what we are discussing with sponsors and we appreciate the time and effort they are contributing on your behalf to keep the Plan secure and helping us to provide pension benefits that are affordable for all. We will share developments with you in the next newsletter and through updates online at **www.sfpp.ca**.

Ask Liz a question

Q. I've heard SFPP is planning to change pension benefits. Is that true?

A. There are no plans to change pension benefits at this time. Currently the Board and sponsors are assessing risks to the Plan as part of a prudent strategy to manage risk and are having preliminary discussions only. At some point in the future, if a decision is made to make changes to the Plan, members will be advised well in advance.

If you have any questions, please don't hesitate to contact us.

Questions? Email **ask.liz@sfpp.ca**
Liz Doughty is the Plan Board Manager for SFPP

Your pension simplified – external factors impact the Plan

Every newsletter we focus on one aspect of the SFPP pension to help you understand your pension a little better. This time we explain how external realities can impact the Plan.

There are a lot of external factors that impact whether a defined benefit pension plan like SFPP will be able to meet its long term pension obligations.

A plan is considered fully funded when it has enough money coming in to cover the estimated costs of member pensions – both those owed today and those owed in the future. These costs are known in the pension world as pension liabilities (what the Plan owes). The costs are covered by collecting payroll contributions and pooling the money in an investment fund that makes more money over time (what the Plan earns).

The external factors that influence the Plan are those that impact either what the Plan earns or what the Plan owes. Most of these factors are either economic (relating to finances) or demographic (relating to people). Few of these factors are easy to predict or control and all can make a difference to whether the Plan is financially secure or at risk.

Economic factors

Most economic factors impact the revenue side of the pension balance sheet, affecting what the Plan can make in investment returns. When the economy is in recession and stock markets are unstable, the Plan may not make enough to cover estimated costs.

This is what happened unexpectedly in 2008 when a global recession resulted in heavy investment losses, leaving pension plans like SFPP in a deficit position (with high unfunded liabilities). It also hit individual retirement savings hard, resulting in those without defined benefit pension plans having to put off retirement until their savings could be rebuilt.

Another economic factor is interest rates. When rates are low, like they are today, it makes it hard to earn money on less risky investments like bonds. That means a lot more money needs to be set aside today to cover future pension costs.

Demographic factors

Demographic factors tend to impact what the Plan owes, presenting challenges on the cost side of the pension balance sheet.

The one we hear most about is referred to as "longevity risk," which simply means that people are living longer than predicted and can be expected to draw a pension for many more years than originally believed. Extending the time people collect their pensions adds hundreds of thousands of dollars to the cost of providing pensions.

Another demographic factor is the high number of baby boomers retiring now and set to retire over the next 10 years. Statistics Canada reported in September that the number of people aged 65 and over in Canada now outnumber children aged 14 and under. It is projected that by 2024, 20% of the population in Canada will be 65 and older.

This increased aging of the population impacts SFPP and other pension plans because as the Plan "matures" it will have a growing number of retirees compared to active (paying) members. This means more people will be taking money out of the Plan than will be putting money in.

Maturity risk can also be increased by other economic and demographic factors that impact workforce planning or other political pressures in the public sector. Wage freezes mean no salary growth in contribution revenues and hiring freezes or layoffs result in fewer active members to pay into the Plan.

All of these external factors can seriously impact the financial health of the Plan and threaten its ability to continue delivering adequate, affordable pensions in the future. The challenge is to manage these risks, even when they can't be predicted, and keep the Plan sustainable over time.

To do this, the SFPP Board works with its actuary to assess all risks to the Plan and develop a risk management strategy for addressing challenges as they arise. The Board is also meeting with Plan sponsors, representatives of police associations and employers to look at options for how to fund the Plan in case of an extreme financial event.

Huge economic or demographic shifts can cause serious funding challenges for the Plan and, without a strategy in place, could result in contribution rate increases, unavoidable pension benefit reductions or both. The Board and sponsors continue to meet to discuss options for building resiliency and equity into the Plan so such reactions are not required.

UPCOMING TOPICS SIMPLIFIED

How much is enough?
Understanding retirement income adequacy.

What's fair for all?
The importance of building equity into the Plan.

Risk? What risk?
Understanding pension risks and challenges.

SFPP looks to improve on governance structure

As mentioned in the Message from the Chair on Page 1, the Minister of Finance is the official trustee and administrator of Special Forces Pension Plan. As a result, the Minister, with Cabinet, is the only one that can make changes to the Plan and amend the legislation that governs it, the *Public Sector Pension Plans Act* (PSPPA).

The Minister has delegated some of his responsibilities as trustee and administrator, which means there are many "partners" involved in governing the Plan. This makes the governance structure complex and sometimes less than efficient for effective governance.

The Board has been delegated certain functions by the Minister which includes making sure actuarial valuations are conducted at least once every three years, to evaluate Plan funding, and setting contribution rates. The Board also establishes the target cost of living adjustments (COLA) to be provided for all service after 2000 and requests the transfer of assets from the Indexing Fund to pay for COLA.

It is the Board's job to consult with the Minister on any changes proposed for the PSPPA and to set general policy guidelines on the investment and management of the SFPP Fund. But while the Board can provide guidelines on how SFPP members' money is invested, it has no control over the investments or the cost of providing investment services.

Instead the Minister has delegated to AIMCo (Alberta Investment Management Corporation), a crown corporation of the government, the responsibility and authority to invest the pension money. He has also delegated to Alberta Pensions Services Corporation (APS) the administration of the Plan, which includes the collection of Plan contributions and the payment of SFPP pensions.

Because there are a number of different organizations involved in the governance and operations of the Plan, ongoing communication, cooperation and collaboration is required of all parties. For that reason, the Board has operating protocols with APS and with AIMCo that detail how the organizations will work together.

The SFPP Board also has a **Mandate and Roles** document with the Minister of Finance to document the roles and responsibilities of both entities.

The Board would like to improve the governance structure of SFPP to give sponsors, those employers and members who pay into the Plan, more of a direct role in governing the Plan.

Various communications with the previous Minister have identified this goal and the hope is governance discussions will continue toward a Plan that is more independent from government with a greater ability to have sponsors involved in making decisions affecting funding, investments and administration of the Plan.

Watch for more information in future newsletters and don't forget to visit the website at **www.sfpp.ca**.

SFPP EMPLOYERS

The City of Calgary

The City of Camrose

The City of Edmonton

The City of Lacombe

The City of Lethbridge

The City of Medicine Hat

The Town of Taber

CONTACT US

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special forces pension plan

If you have questions about any information in this newsletter, how the Plan is run, or if you would like to submit comments or future topics suggestions, please send an email to **board@sfpp.ca**.

If you have questions related specifically to your benefits, please contact the SFPP Member Services Centre: active or deferred members may call 1-877-809-SFPP (7377) and pensioners may call 1-877-422-4748.