MORNEAU SHEPELL

Members of the House of Assembly Retiring Allowances Act - Registered Pension Plan

Actuarial Valuation as at December 31, 2015 for Funding Purposes

August 2017

Business. Needs. People.

Table of Contents

Executive Summary

Purpose

This report presents the results of the actuarial valuation as at December 31, 2015 of the *Members of the House of Assembly Retiring Allowances Act* – Registered Pension Plan (the "Plan"). The Government of Newfoundland and Labrador (the "Government") retained the services of Morneau Shepell Ltd. ("Morneau Shepell") to perform this actuarial valuation. The last complete valuation that was filed with the Newfoundland and Labrador Office of the Superintendent of Pensions and the Canada Revenue Agency was performed as at December 31, 2012.

This report was prepared for the Government, the Newfoundland and Labrador Office of the Superintendent of Pensions and the Canada Revenue Agency for the following purposes:

> to determine the funded status of the Plan on the going-concern basis;

> to determine the funded status of the Plan on both solvency and hypothetical wind-up bases;

> to estimate the Government contributions required under the Plan during the period from this valuation date up to the next valuation in accordance with the Newfoundland and Labrador *Pension Benefits Act*, 1997; and

> to provide the information and the actuarial opinion required by the Newfoundland and Labrador *Pension Benefits Act*, 1997 and the *Income Tax Act* (Canada).

The *Members of the House of Assembly Retiring Allowances Act* (the "MHAPP") contains provisions relating to a registered pension plan as defined in the *Income Tax Act* (Canada) (the "ITA"), and a supplementary plan (the "SERP") which provides benefits in excess of the ITA limits. This report deals strictly with the registered portion of the Plan ("RPP").

The solvency and hypothetical wind-up basis have been updated from those used in the December 31, 2012 valuation to reflect market conditions as at the valuation date. In addition, changes were made to the Plan provisions and the actuarial assumptions on the going-concern basis.

Restriction on Use of this Report

This report was prepared for the Government of Newfoundland and Labrador. It will also be filed with the Newfoundland and Labrador Office of the Superintendent of Pensions and the Canada Revenue Agency. This report and any of its content may not be distributed, published, made available or relied upon by any other person, without the express written permission of Morneau Shepell, unless and only to the extent otherwise provided by applicable law.

Terms of Engagement

This report takes into account discussions with the client on the terms of engagement.

Section 1 – Actuarial Opinion

This opinion is given with respect to the *Members of the House of Assembly Retiring Allowances Act* – Registered Pension Plan. We performed a valuation of the Plan as at December 31, 2015, based on the Plan provisions and data as at that date. The Government has confirmed that, between December 31, 2015 and the date of this report, no subsequent events, modifications, or extraordinary changes to the membership or the Plan that would materially affect the results of this actuarial valuation have occurred, except as indicated in this report.

We hereby certify that, in our opinion, as at December 31, 2015:

- The Plan is not fully funded on the going-concern basis. The actuarial liabilities exceed the actuarial value of assets by $2,590,000.
- The Plan is not funded on the solvency basis. The actuarial liabilities exceed the value of assets by $15,280,000.
- The Plan assets would have been less than the actuarial liabilities by $15,280,000 if the Plan had been wound up on the valuation date.
- The solvency ratio, as defined under the Newfoundland and Labrador *Pension Benefits Act*, 1997, is 59.4%.
- The residual normal cost (i.e. normal cost less member required contributions) is equal to 74.4% of member contributions.
- In accordance with paragraph 41(2)(b) of the Regulations to the Newfoundland and Labrador *Pension Benefits Act*, the Plan is exempt from the funding requirements of section 35 of the *Pension Benefits Act*. Therefore, no going-concern or solvency deficiency payments are required.
- The Government's normal cost for the 12-month period following the valuation date is 74.4% of member required contributions. Member contributions are estimated to total $390,000 for the 12-month period following the valuation. The minimum Government contribution for the 12-month period following the valuation is estimated to be $290,000.

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.
- 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.

The assumptions that form the going-concern basis used in this report were reasonable at the time this actuarial valuation report was prepared and contributions were determined.

This actuarial valuation was performed in accordance with the going-concern and solvency standards prescribed under the Newfoundland and Labrador *Pension Benefits Act*.

The calculations in the actuarial valuation report have been prepared in accordance with subsection 147.2(2) of the *Income Tax Act* (Canada).

The recommendations and opinions are given exclusively from a financial viewpoint. This valuation report does not constitute a legal opinion on the rights and duties of the Plan Administrator, the Government or the members over the pension fund.

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 next actuarial valuation will have to be performed not later than as at December 31, 2018.

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

Stephen Kelloway, FSA, FCIA
Principal

Robert Kerr, FSA, FCIA
Senior Consultant

MORNEAU SHEPELL LTD
7071 Bayers Road
Suite 3007
Halifax NS B3L 2C2

August 2017

Section 2 – Going-Concern Funded Status

Going-Concern Funded Status

The funded status of the Plan on the going-concern basis is determined by comparing the actuarial value of the assets to the actuarial liabilities. The actuarial liabilities are based on the benefits earned up to the valuation date assuming the Plan continues indefinitely.

Table 2.1 – Going-Concern Funded Status

	December 31, 2015	December 31, 2012
	$	$
Actuarial value of assets		
Market value	21,470,000	14,410,000
Receivables / (payables)	1,020,000	380,000
Total	22,490,000	14,790,000
Actuarial liabilities		
Active members	2,490,000	5,750,000
Deferred vested members	5,630,000	3,110,000
Non-vested terminated members	490,000	130,000
Retired members and beneficiaries	16,470,000	10,670,000
Total	25,080,000	19,660,000
Actuarial surplus (unfunded liability)	(2,590,000)	(4,870,000)
Funding ratio	89.7%	75.2%

The going-concern statement of financial position shown in Table 2.1 identified a going-concern deficiency of $2,540,000. Please refer to Section 4 for more details on the funding requirement.

Changes in Actuarial Basis

The following changes were made to the going-concern actuarial basis for this valuation:

- The assumed rate of inflation has been reduced to 2.25% per year from 2.50% per year. In conjunction with this change, the future increases in the YMPE and ITA maximum pensionable benefit limits have been reduced by 0.25% to 3.00% per year.
- The discount rate has been reduced to 6.50% per year from 6.75% per year.
- The salary assumption changed from a level 3.25% per year to 0.00% for the first 4 years, and 3.00% thereafter.
- Based on recommendations from the Members' Compensation Review Committee ("MCRC"), effective April 1, 2017:
    - The additional salary provided to MHA's who hold a minister's position has changed from $54,072 to $48,665; and
    - The additional salary expected to be paid to members who do not hold a minister or legislative office position has decreased from $20,940 to $5,200. This reflects both a change in the number of positions and the accompanying compensation.

A summary of the going-concern assumptions and methods used in the valuation can be found in Appendix A.

Reconciliation of Going-Concern Funded Status

An unfunded actuarial liability is the excess of the actuarial liability over the actuarial value of assets. A surplus is the excess of the actuarial value of assets over the actuarial liability. The change in the Plan's going-concern financial position is the net result of several factors, which are summarized in the table below:

Table 2.2 – Reconciliation of Going-Concern Funded Status

	$	$
Actuarial surplus (unfunded liability) as at December 31, 2012		**(4,870,000)**
Expected changes in funded status		
Interest on surplus (unfunded liability)	(1,050,000)	
Cost of service accrued (greater)/less than contributions received	(40,000)	
Additional in-transit contributions due to recognition of additional SERP benefit amounts previously paid from RPP	30,000	
Interest on outstanding contributions in-transits	(80,000)	
Total		(1,140,000)
Expected surplus (unfunded liability) as at December 31, 2015		**(6,010,000)**
Actuarial gains (losses) due to the following factors		
Investment return on market value of assets	3,720,000	
Salary increases lower than expected	160,000	
Retirement experience	680,000	
Termination experience	1,540,000	
Mortality experience	(110,000)	
Loss due to service purchases (reciprocal transfer agreement)	(1,880,000)	
Data changes	(130,000)	
Other factors	(50,000)	
Total		3,930,000
Other gains (losses)		
– Change in economic assumptions (inflation and discount rates)	(700,000)	
– Change in salary increase rate assumption	130,000	
– Changes recommended by MCRC	60,000	
– Total		(510,000)
Actuarial surplus (unfunded liability) as at December 31, 2015		**(2,590,000)**

Sensitivity Analysis on the Going-Concern Basis

The table below illustrates the effect of a 1% decrease in the discount rate on the going-concern actuarial liabilities. With the exception of the discount rate, all other assumptions and methods used for the going-concern valuation were maintained.

Table 2.3 – Sensitivity of Actuarial Liabilities on the Going-Concern Basis

	December 31, 2015	Discount rate 1% lower
	$	$
Actuarial liabilities		
Active members	2,490,000	2,940,000
Deferred vested members	5,630,000	6,690,000
Non-vested terminated members	490,000	490,000
Retired members and beneficiaries	16,470,000	18,150,000
Total	25,080,000	28,270,000
Increase in actuarial liabilities		3,190,000

Section 3 – Solvency and Hypothetical Wind-Up Funded Status

Solvency Funded Status

A solvency valuation is a hypothetical valuation prescribed by the Newfoundland and Labrador *Pension Benefits Act*, 1997. As all benefits have been included, the Plan's solvency financial position is identical to the wind-up financial position.

The following table shows the Plan's solvency position as at December 31, 2015. For comparison, the financial position as at December 31, 2012 is also shown.

Table 3.1 – Solvency Funded Status

	December 31, 2015	December 31, 2012
	$	$
Solvency assets		
Market value of assets	21,470,000	14,410,000
Receivables / (payables)	1,020,000	380,000
Provision for expenses	(180,000)	(150,000)
Total	22,310,000	14,640,000
Solvency liabilities		
Active members	4,450,000	9,230,000
Deferred vested members	10,200,000	5,280,000
Terminated members with pending payouts	490,000	130,000
Retired members and beneficiaries	22,450,000	14,390,000
Total	37,590,000	29,030,000
Assets less liabilities on the solvency basis	(15,280,000)	(14,390,000)
Solvency ratio	59.4%	50.4%

Solvency Ratio

The solvency ratio is equal to the ratio of the solvency assets to the solvency liabilities as indicated in table 3.1.

Hypothetical Wind-Up Funded Status

Since all benefits have been valued, if the Plan had been liquidated as at December 31, 2015 and assuming that the asset liquidation value had been equal to the market value, the hypothetical wind-up funded status would have been similar to the solvency funded status shown in table 3.1.

Sensitivity Analysis on the Solvency Basis

The table below illustrates the effect on the actuarial liabilities of using discount rates 1% lower than those used for the solvency valuation. All other assumptions and methods, as used in the solvency valuation, were maintained.

Table 3.2 – Sensitivity of Actuarial Liabilities on the Solvency Basis

	December 31, 2015	Discount rates 1% lower
	$	$
Actuarial liabilities		
Active members	4,450,000	5,520,000
Deferred vested members	10,200,000	12,590,000
Non-vested terminated members	490,000	490,000
Retired members and beneficiaries	22,450,000	25,260,000
Total	37,590,000	43,860,000
Increase in actuarial liabilities		6,270,000

Incremental Cost on the Solvency Basis

The incremental cost on the solvency basis represents the present value of the expected aggregate change in the solvency liabilities from December 31, 2015 to December 31, 2018, adjusted for expected benefit payments in the inter-valuation period. This incremental cost is $3,670,000 as at December 31, 2015.

Subsequent Events

Other than the salary recommendations from the MCRC, which have been reflected in this valuation, no additional subsequent events that would materially affect the results of this actuarial valuation have occurred since the date of the valuation.

Section 4 – Normal Cost and Amortization Payments

Normal Cost

The table below summarizes the estimated going-concern cost of pension benefits being earned in the twelve-month period after the valuation date (the normal cost).

Table 4.1 – Normal Cost

	2016	2013
	$	$
Normal cost	680,000	810,000
Less member contributions	390,000	410,000
Residual normal cost	290,000	400,000
Residual normal cost as a % of member contributions	74.4%	97.6%

Reconciliation of Government's Normal Cost

The factors contributing to the change in the normal cost are shown below:

Table 4.2 – Reconciliation of Government's Normal Cost

	% of member contributions
Government's normal cost as at December 31, 2012	97.6
Demographic factors	(7.3)
Change in economic assumptions (discount rate / inflation rate)	4.9
Change in salary assumption	(12.7)
MCRC recommendations	(8.1)
Government's normal cost as at December 31, 2015	74.4

Sensitivity Analysis on the Going-Concern Basis

The table below illustrates the effect on the normal cost of using a discount rate 1% lower than the one used for the going-concern valuation. All other assumptions and methods, as used in the going-concern valuation, were maintained.

Table 4.3 – Sensitivity of Normal Cost on the Going-Concern Basis

	2016	Discount rate 1% lower
	$	$
Normal cost	680,000	830,000
Increase in normal cost		150,000

Government Funding Requirements

Effective January 2016, Government's normal cost in respect of on-going service accruals is 74.4% of the required members' contributions.

The Plan is exempt from the funding requirements set out in section 35 of the Newfoundland and Labrador *Pension Benefits Act*. There are no legislative requirements to make amortization payments to liquidate the Plan's going-concern unfunded liability or solvency deficiency (nor are Government contributions required to cover any normal cost funding deficit). However, the following table demonstrates the fixed annual payments that would be required over various periods in order to eliminate the going-concern unfunded liability of $2,590,000.

Table 4.4 – Amortization of Going-Concern Unfunded Liability

	Over 15 years	Over 20 Years	Over 25 Years
	$	$	
Fixed annual payments	270,000	230,000	210,000

These amortization payment schedules are provided for illustrative purposes only.

Appendix A – Going-Concern Actuarial Basis

Asset Valuation Method

The value of invested assets used to determine the going-concern financial position is the market value, adjusted for payments due to and payable from the pension fund. This method was also used in the previous valuation.

Actuarial Cost Method

The actuarial liability and normal cost on a going-concern basis were calculated using the "Projected Accrued Benefit (or Projected Unit Credit) Actuarial Cost Method". The actuarial liability is equal to the present value of benefits earned by members for service prior to the valuation date, taking relevant factors into account as indicated in the assumptions below.

The total normal cost is equal to the present value of benefits expected to be earned by members in the year following the valuation date. The Government's normal cost rate is determined as the residual normal cost divided by the expected member contributions for the same period. This rate will tend to be stable over time if the demographic characteristics of the active Plan membership remain stable and the members' contribution rate does not change. All other things being equal, a reduction in the expected period to retirement will result in an increasing normal cost rate.

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

Actuarial Assumptions

The main actuarial assumptions employed for the going-concern actuarial valuation are summarized in the following table. The assumptions used in the previous valuation have also been provided for comparison. All rates and percentages are annualized unless otherwise noted.

Table A.1 – Going-Concern Actuarial Assumptions

	December 31, 2015	December 31, 2012
Discount rate	6.50%	6.75%
CPI increases	2.25%	2.50%
Salary increases	0.00% for 4 years, 3.00% thereafter	3.25%
YMPE increases	3.00%	3.25%
Mortality	Male: 75.0% of the CPM2014 Public Sector Table with generational projection using improvement scale CPM-B Female: 92.6% of the CPM2014 Public Sector Table with generational projection using improvement scale CPM-B	Male: 75.0% of the CPM2014 Public Sector Table with generational projection using improvement scale CPM-B Female: 92.6% of the CPM2014 Public Sector Table with generational projection using improvement scale CPM-B
Termination of employment	8% per year upon vesting (5 years of service), ceasing upon reaching eligibility for an unreduced pension under the SERP	8% per year upon vesting (5 years of service), ceasing upon reaching eligibility for an unreduced pension under the SERP
Disability	nil	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 65	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 65
Married %	At retirement or death: 90%	At retirement or death: 90%
Spousal age difference	Male is 3 years older than female	Male is 3 years older than female
Administrative expenses	Implicitly recognized in the discount rate	Implicitly recognized in the discount rate

The elements considered in the development of the discount rate assumption for going-concern purposes are summarized in the table below:

Table A.2 – Discount Rate

	%
Expected rate of inflation	2.25
Expected real return on assets	4.14
Value added for rebalancing and diversification	0.42
Value added for active management	0.19
Margin for adverse deviations	(0.20)
Expenses	(0.30)
Discount rate	6.50

Committee Assumption

For this valuation, it was assumed that members currently not appointed to a Secretarial/Committee position will have such appointment at death or retirement and an additional $5,200 has been added to their 2016 salaries for the calculation of benefits. The prior valuation added an additional $20,940. The reduced amount is based on the reduction in the number of positions and accompanying compensation provided by the 2016 MCRC recommendations.

Mortality

The Canadian Pensioners Mortality RPP 2014 Public Sector Mortality Table, and the CPM improvement scale B, which varies by gender, age and calendar year, were used for this valuation. Adjustment factors of 0.75 and 0.926 for males and females, respectively, were also applied to the mortality table to take into account the level of pensioner benefits. The same mortality assumption was used at the last actuarial valuation.

Termination

The termination assumption used in this valuation is consistent with the last valuation, such that 8% of all members are now assumed to terminate each year after vesting, until they are eligible for unreduced retirement under the SERP. In this manner, roughly 29% of members are assumed to leave office every four years.

Appendix B – Solvency and Wind-Up Actuarial Basis

Asset Valuation Method

The value of assets used to determine the solvency and wind-up financial position is the market value, adjusted for payments due to and payable from the pension fund, less an allowance for wind-up expenses. This method was also used in the previous valuation.

Actuarial Cost Method

The solvency and wind-up liability is determined using the Accrued Benefit (or Unit Credit) Actuarial Cost Method. The liability is equal to the actuarial present value of all benefits earned by members for service prior to the valuation date assuming the Plan is wound up on the valuation date (and treating all members as if vested).

Each member's age has been calculated by rounding to the nearest birthday.

Actuarial Assumptions

The primary actuarial assumptions employed for the solvency and wind-up actuarial valuations are summarized in the following table. For comparison, the assumptions used for the last valuation are also included in the table. All rates and percentages are annualized unless otherwise noted.

In accordance with Directive #9 to the Newfoundland and Labrador *Pension Benefits Act*, 1997, the commuted value payable to members assumed to elect a transfer value is not less than the estimated premium required to purchase the accrued pension from an insurance company.

Table B.1 – Solvency and Wind-Up Actuarial Assumptions

	December 31, 2015	December 31, 2012
Discount rates		
> Active members not eligible for immediate retirement under the RPP	Annuity purchase: 3.13% Transfer value: 2.10% for 10 years and 3.70% thereafter	Annuity purchase: 2.96% Transfer value: 2.40% for 10 years and 3.60% thereafter
> Pensioners, deferred pensioners and active members eligible for immediate retirement under the RPP	Annuity purchase: 3.13%	Annuity purchase: 2.96%
Salary increases (used for incremental cost calculations)	0.00% for 4 years, 3.00% thereafter	3.25%
Mortality	CPM2014 Combined Table with generational projection using improvement scale CPM-B Sex distinct	1994 Uninsured Pensioners Mortality Table with Generational Projection using Scale AA. Sex distinct
Retirement	Age that maximizes the value of the pension. All members assumed to retire at the earliest date that they meet the eligibility requirements	Age that maximizes the value of the pension. All members assumed to retire at the earliest date that they meet the eligibility requirements
Married %	90%	90%
Spousal age difference	Male is 3 years older than female	Male is 3 years older than female
Wind-up expenses	$180,000	$150,000

For active members not eligible for immediate retirement each member's solvency and wind-up liability is, at a minimum, equal to the estimated cost to purchase an annuity from an insurance company.

Choice of Assumptions

Settlement of Benefits

The assumptions used to value the members' benefits settled by a lump sum transfer are in accordance with the Plan provisions, the applicable legislation as well as the Canadian Institute of Actuaries' Standards of Practice for pension commuted values.

The assumptions used to value the benefits of members and beneficiaries settled by the purchase of annuities with an insurance company are in conformity with the educational note dated January 28, 2016 prepared by the Canadian Institute of Actuaries. These assumptions are based on an estimate of the premium that would be required by an insurer to guarantee payment of the pensions.

Provision for Fees

Allowance has been made for administrative, actuarial, and legal costs which would be incurred if the Plan were to be wound up, based on sufficient and reliable data. It is assumed that the wind-up date, the calculation date and the settlement date are coincident. Expenses related to the resolution of surplus and deficit issues are not taken into account. The amount of expenses is only an approximation and may differ significantly from real expenses incurred on plan wind-up, for example, in case of litigation or bankruptcy and eventual replacement by a third-party administrator.

Incremental Cost

The incremental cost on the solvency basis is based on the actuarial method and assumptions described below. The method used to calculate the incremental cost is as follows:

1. Projected solvency liabilities as at December 31, 2018, plus the expected benefit payments between December 31, 2015 and December 31, 2018, discounted to December 31, 2015;

   Less

2. Solvency liabilities as at December 31, 2015.

The projected liabilities as at December 31, 2018 take into account:

- Expected decrements and related changes in membership status between December 31, 2015 and December 31, 2018;
- Accrual of service to December 31, 2018; and
- Projection of pensionable earnings to December 31, 2018.

The actuarial assumptions used to calculate the incremental cost are as follows:

The assumptions used to calculate the projected solvency liabilities as at December 31, 2018 in item 1. above correspond to those used for the solvency valuation as at December 31, 2015, taking into account the method of settlement applicable to each member as at December 31, 2018.

However, we assume that the discount rates remain at the levels applicable as at December 31, 2015 and that the select period is reset as at December 31, 2018 for discount rate assumptions that are select and ultimate.

We also assume that the Standards of Practice for the calculation of commuted values and the guidance for estimated annuity purchase costs in effect as at December 31, 2015 remain in effect as at December 31, 2018.

The rates used to discount items in 1. above to December 31, 2015 correspond to those used for the solvency valuation as at December 31, 2015. However, these rates are adjusted to take into account the method of settlement applicable to each member as at December 31, 2018.

No new entrants were considered between December 31, 2015 and December 31, 2018.

Appendix C – Assets

Description of Plan Assets

CIBC Mellon Global Securities Service provides administrative and custodial services for the pension fund.

We have relied upon the audited financial statements provided by the Province of Newfoundland and Labrador for the following information.

Changes to Plan Assets

The following table shows changes to the Plan assets during the three years prior to the valuation date, based on the audited financial information provided by Government.

Table C.1 – Reconciliation of Market Value of Assets

	2013	2014	2015
January 1	**14,407,000**	**17,845,000**	**19,845,000**
Plus			
Member contributions	498,000	467,000	490,000
Member service purchase contributions	150,000	-	640,000
Government contributions	417,000	407,000	451,000
Government contributions back payment	-	-	-
Investment income	3,416,000	2,222,000	1,457,000
	4,481,000	3,096,000	3,038,000
Less			
Pensions paid	964,000	1,026,000	1,204,000
Lump sum refunds	16,000	-	85,000
Administration fees	63,000	70,000	124,000
	1,043,000	1,096,000	1,413,000
December 31	**17,845,000**	**19,845,000**	**21,470,000**

The December 31, 2015 asset value is adjusted (as an in-transit) to reflect the amount due from General Accounts of $870,000 to reimburse the RPP for pension payments made in respect of benefits payable under the SERP, plus $150,000 for Government contributions less than the required normal cost from January 1, 2013 to December 31, 2015.

Return on Assets

The Plan assets earned the following annualized rates of return, net of investment management fees and other expenses charged to the fund:

Table C.2 – Investment Return (net of expenses)

Year	Market Value Basis	Investment Gain / (Loss)*
2013	23.3%	2,380,000
2014	12.1%	955,000
2015	6.7%	(13,000)

** Relative to the 2012 going-concern valuation assumption of 6.75% per year.*

Appendix D – Membership 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.

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

- Basic data checks were performed to ensure that age, salary and service data were reasonable for the purposes of the valuation.
- The membership was reconciled with the previous valuation and queries were submitted to the Government.
- A reconciliation was prepared in order to follow the changes concerning some of the active members, retirees and vested members.

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:

D.1 A summary of the Plan membership data as at Dec. 31, 2015 and Dec. 31, 2012

D.2 Changes in the Plan membership

D.3 Distribution of active members based on age and service as at Dec. 31, 2015

D.4 Distribution of deferred vested members as at Dec. 31, 2015

D.5 Distribution of pensioners as at Dec. 31, 2015

Table D.1 – Plan Membership Summary

	December 31, 2015	December 31, 2012
Active members		
Number	39	48
Average age	48.8	51.2
Total pensionable earnings	$4,480,812	$5,229,294
Average pensionable earnings	$114,893	$108,944
Average years of pensionable service:		
• Member service	2.8	5.4
• Minister service	0.5	1.9
• Other service	0.5	0.5
Deferred members in RPP and SERP		
Number	6	4
Average age	45.9	48.1
Total annual pension	$192,988	$65,533
Average annual pension	$32,165	$16,383
Total annual offset at age 65	$1,774	$3,207
Average annual offset at age 65[1]	$591	$802
Deferred members in RPP but retired in SERP		
Number	21	14
Average age	55.2	56.1
Total annual pension	$496,862	$275,185
Average annual pension	$23,660	$19,656
Total annual offset at age 65	$9,761	$8,881
Average annual offset at age 65[1]	$976	$987
Pensioners and survivors		
Number[2]	43	25
Average age	66.2	64.7
Total annual pension	$1,330,567	$871,522
Average annual pension	$30,943	$34,861
Total annual offset at age 65	$17,502	$18,495
Average annual offset at age 65[1]	$1,250	$1,423
Non-vested terminated members		
Number	14	5
Average age	55.1	55.3
Accumulated contributions with interest	$490,536	$134,077

1. *Members terminating prior to 1998 and limited partners do not have offsets at age 65. Only those with offsets at age 65 are included in the average.*

2. *One sitting MHA who is over age 71, and therefore in receipt of a pension in accordance with the Income Tax Act, is reflected in the pensioners statistics shown.*

Table D.2 – Changes in Plan Membership

	Active Members	Non-Vested Terminated Members	Deferred RPP / Deferred SERP	Deferred RPP / Retired SERP	Pensioners and Survivors	Total
Members at December 31, 2012	**48**	**5**	**4**	**14**	**25**	**96**
New members	27					27
Return to active status						0
Terminations:						
• Deferred pensions	(4)		4			0
• Pending settlement	(10)	10				0
• Refund or transfer	(2)	(1)				(3)
Deaths						0
New limited members (Marriage Breakdowns)				3		3
Retirements in SERP	(8)		(2)	10		0
Retirements in RPP	(12)			(6)	18	0
Members at December 31, 2015	**39**	**14**	**6**	**21**	**43**	**123**

Table D.3 – Age/Service Distribution for Active Members as at December 31, 2015

	Years of Pensionable Service					
Age	**0 - 4**	**5 - 9**	**10 - 14**	**15 - 20**	**20 +**	**Total**
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 - 64	4			1		5
65 +						0
Total	30	6	1	1	1	39

Notes : The age has been calculated by rounding to the nearest birthday.
Years of service means the number of years credited for pension plan purposes, rounded to the nearest integer.

Table D.4 – Distribution of Deferred Vested Members as at December 31, 2015

Deferred in RPP & Deferred in SERP				
	Total Pension		Age 65 Offset	
Age	Number	Average Annual Pension	Number	Average Annual Pension
Under 45	2	<>	1	<>
45 - 49	3	$28,770	2	<>
50 - 54	1	<>		
55 - 59				
Total	6	$32,165	3	$591
Deferred in RPP & Retired in SERP				
	Total Pension		Age 65 Offset	
Age	Number	Average Annual Pension	Number	Average Annual Pension
45 - 49	3	$32,431	2	<>
50 - 54	8	$28,187	4	$728
55 - 59	8	$17,412	4	$675
60 +	2	<>		
Total	21	$23,660	10	$976

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

Table D.5 – Distribution of Pensioners as at December 31, 2015

Pensioners and Survivors				
	Total Pension		Age 65 Offset	
Age	Number	Average Annual Pension	Number	Average Annual Pension
Under 55				
55 - 59	1	<>		
60 - 64	19	$33,555	14	$1,250
65 - 69	13	$34,481		
70 - 74	9	$19,970		
75 - 79	1	<>		
80 - 84				
85 - 89				
90 +				
Total	43	$30,943	14	$1,250

Appendix E – Summary of Plan Provisions

Introduction

This valuation reflects the provisions of the registered pension plan ("RPP") portion of the *Members of the House of Assembly Retiring Allowances Act* (the "Plan"), sponsored by the Government of Newfoundland and Labrador, as at December 31, 2015. This valuation also reflects the salary recommendations as stated in the Member Compensation Review Committee's report on MHA Salaries, Allowances, Pensions and Services dated November 2016.

The Member Compensation Review Committee recommended changes to be made in respect of benefits payable under the SERP, however these changes do not impact liabilities under the RPP.

The following is a summary of the RPP's main provisions in effect on December 31, 2015 and the recommendations of the Member Compensation Review Committee. It is not intended as a complete description of the Plan.

Eligibility for Membership

A member may join the Plan on being elected to a term of service in the House of Assembly. All members must join the Plan when elected for a second or subsequent term of service in the House of Assembly.

Contributions

Members are required to contribute 9.0% of salary, up to the maximum allowed under the ITA, to the registered pension plan. Members elected prior to the 44th General Assembly are not required to contribute to the Plan after they have accrued 17 years of Member and Minister service. Members elected after the 43rd General Assembly are not required to contribute to the Plan after they have accrued 20 years of Member and Minister service.

The Government (as Plan sponsor) contributes an amount based on the advice of an actuary.

Retirement Dates

Registered Pension Plan

A member is eligible to retire under the RPP at the earlier of age 60 or the completion of 30 years of credited service. The member must serve in two General Assemblies, and for at least five years.

Supplementary Pension Plan

A member first elected before January 1, 2010 is eligible to retire under the supplementary plan when the total of the years of Member service and the member's age are greater than or equal to 60 (55 for the Premier). The member must serve in two General Assemblies, and for at least five years.

A member first elected between January 1, 2010 and November 29, 2015 is eligible to retire under the supplementary plan at age 55 with an unreduced pension, or as early as age 50 with a reduced pension. The member must serve in two General Assemblies, and for at least five years.

A member first elected on or after November 30, 2015 is eligible to retire under the supplementary plan at age 60 with an unreduced pension, or as early as age 50 with a reduced pension. The member must serve in two General Assemblies, and for at least five years.

Disability Retirement

A member who is unable to perform his or her duties may be retired on account of disability. The disability must be medically certified as likely to be permanent, and approved by the Minister of Finance.

Retirement Benefits

Normal Retirement

Upon retirement, a member who was first elected after the 43rd General Assembly will be entitled to the sum of the following three benefits:

<u>Retirement Benefits if Elected After the 43rd General Assembly</u>

1. MHA Service:

   2.0% of the average of the member's best three years of MHA salary times MHA service up to 20 years.

2. Minister Service:

   2.0% of the average of the member's best three years of Minister salary times Minister service up to 20 years.

3. Other Service:

   For a member first elected before the 46th General Assembly, 2.0% of the average of the member's best three years of MHA salary and Minister salary times years of other service.
   For a member first elected after the 45th General Assembly, 2.0% of the average of the member's best three years of MHA salary times years of other service.

Upon retirement, a member who was first elected prior to the 44th General Assembly will be entitled to the sum of the following three benefits:

Retirement Benefits if Elected Prior to the 44th General Assembly

1. Member Service:

   2.0% of the average of the member's best three years of MHA salary times Member service up to 17 years.

2. Minister Service:

   2.0% of the average of the member's best three years of Minister salary times Minister service up to 17 years.

3. Other Service:

   2.0% of the average of the member's best three years of MHA salary and Minister salary times years of other service.

CPP Offset

The above pensions shall be reduced at age 65 by 0.6% of the average of the Years Maximum Pensionable Earnings ("YMPE") over the three years preceding retirement times the years of service as a Member of the House of Assembly between January 1, 1998 and December 31, 2004.

Disability Pension

In the case of disability retirement, the pension payable is the pension accrued to the date of disability retirement.

Maximum Pension under the *Income Tax Act*

The total pension payable to a member under the registered pension plan shall not exceed the maximum pension as determined under the *Income Tax Act*.

Survivor Benefits

Death Before Retirement

If a member dies after serving in two General Assemblies and for at least five years, and before their normal retirement date and before any pension payments have begun, the member's spouse is entitled to one of the following two benefits:

Pre-Retirement Death Benefits

1. a monthly survivor pension equal to 60% of the member's entitlement,

   or

2. a lump sum payment equal to the greater of the following:

   a) the commuted value of the member's entitlement assuming termination,

      or

   b) the commuted value of the survivor pension noted above.

If there is no eligible spouse but there are dependent children, or the surviving spouse dies leaving dependent children, the survivor benefit will be paid equally to such children until the age of 18, or 24 if still in school.

In the case of a member who dies without a spouse or dependent children, the member's beneficiary will receive a lump-sum payment equal to the commuted value of the pension.

Death After Retirement

The normal form of payment is a lifetime pension for members without a principal beneficiary and a joint and survivor 60% pension for members with a principal beneficiary. When monthly pension payments cease, the amount, if any, by which the member's contributions with interest at the date the pension commenced exceeds the total of all benefit payments made shall be paid to the member's beneficiary.

If there is no surviving spouse but there are dependent children under the age of 18, or 24 if still in school, 60% of the pension received by the member will be paid equally to each eligible child.

Termination Benefits

If a member's service terminates for any reason before serving in two General Assemblies and for at least five years, a refund of the member's contributions with interest.

If a member's service terminates for reasons other than death or retirement after serving in two General Assemblies and for at least five years, a commuted value transfer or a deferred lifetime pension at normal retirement date.

Appendix F – Employer Confirmation Certificate

With respect to the actuarial valuation report of the *Members of the House of Assembly Retiring Allowances Act* - Registered Pension Plan as at December 31, 2015, we hereby confirm that to the best of our knowledge:

- the data regarding Plan members and beneficiaries provided to Morneau Shepell constitutes a complete and accurate description of the information contained in our files;
- copies of the official text of the Plan and all amendments to date were provided to Morneau Shepell;
- the amount of Plan assets as set out in Appendix C provides an accurate and complete description of the Plan's assets; and
- there are no subsequent events nor any extraordinary changes to the membership other than those listed in the December 31, 2015 actuarial valuation report on the Plan, which would materially affect the results.

Province of Newfoundland and Labrador

Signature

Janice Butt
Name (printed)

Director, Pensions + Debt Management
Title

Nov 17/17
Date

MORNEAU SHEPELL

Morneau Shepell is the only human resources consulting and technology company that takes an integrative approach to employee assistance, health, benefits, and retirement needs. The Company is the leading provider of employee and family assistance programs, the largest administrator of retirement and benefits plans and the largest provider of integrated absence management solutions in Canada. Through health and productivity, administrative, and retirement solutions, Morneau Shepell helps clients reduce costs, increase employee productivity and improve their competitive position. Established in 1966, Morneau Shepell serves approximately 20,000 clients, ranging from small businesses to some of the largest corporations and associations in North America. With almost 4,000 employees, Morneau Shepell provides services to organizations across Canada, in the United States, and around the globe. Morneau Shepell is a publicly-traded company on the Toronto Stock Exchange (TSX: MSI). For more information, visit morneaushepell.com.

MENTAL HEALTH PARTNER

Business. Needs. People.