



# Municipal Retiree Benefit Trust

## Annual Report 2022

[mpp.pensionsbc.ca](http://mpp.pensionsbc.ca)



# Contents

- Celebrating the trust’s first year . . . . . 1**
  - Our work begins . . . . . 1
  - Funding for the trust. . . . . 1
  - Facing increased cost pressures . . . . . 1
  - A sustainable future . . . . . 2
  
- Valuation results. . . . . 3**
  - What is a valuation? . . . . . 3
  - How is the MRBT valuation different from a pension plan valuation? . . . . . 3
  - What is the MRBT’s funding target? . . . . . 4
  - What were the outcomes of the MRBT valuation? . . . . . 4
  
- Financial summary . . . . . 6**
  - Assets and liabilities . . . . . 6
  - Investment income . . . . . 8
  - Contributions. . . . . 9
  - Extended health benefits . . . . . 9
  - Accrued benefit obligations. . . . . 9
  
- Investments. . . . . 10**
  - Investment overview. . . . . 10
  - Responsible investing . . . . . 11
  
- Health coverage for retirees. . . . . 12**
  
- Who we are . . . . . 14**
  - Your 2022 trustees . . . . . 14
  - Agents and service providers . . . . . 17

# Celebrating the trust's first year

## *A message from your trustees*

The Municipal Retiree Benefit Board of Trustees is proud to present our first *Annual Report*. This report showcases the work we continue to do to make sustainable retirement health benefits accessible to current and future retired members of the Municipal Pension Plan (MPP).

### **Our work begins**

The Municipal Retiree Benefit Trust (MRBT) officially began its work managing the funding and governance of retirement group benefits on January 1, 2022. The trust was created by the MPP plan partners as part of the MPP redesign. It provides more flexibility in funding retirement group benefits, making the program more sustainable.

### **Funding for the trust**

The initial funding for the trust came from a one-time transfer of \$100 million from employer contributions in 2021. Ongoing funding comes from two sources:

- › Continuing employer contributions of 0.6 per cent of active member salary
- › Premiums paid by retired members

The money in the trust accumulates and earns investment income over time.

In December 2022, at the request of the MPP plan partners, the Municipal Pension Board of Trustees announced it would transfer an additional amount of up to \$70 million to supplement the initial funding. The first \$20 million was transferred in December 2022, with the remainder to be transferred by 2024.

### **Facing increased cost pressures**

In 2022, we saw an increase in the cost of providing group benefits to retired members. This was a result of several factors, including:

- › Provider cost increases
- › Inflation
- › Higher usage by members and beneficiaries enrolled in the program

As a board, we are working to ensure the group benefits program remains affordable for members in the face of these cost pressures.

## **A sustainable future**

Actuarial valuations are one of the tools we use to plan for a sustainable future. The MRBT has now completed its first valuation. Results show that as at December 31, 2022, the trust had enough money to fund 31.3 years of benefits at the current benefit and subsidy levels. Based on the valuation results and MRBT's funding policy, the MRBT board has decided not to make any material changes to retirement group benefits at this time.

In the coming year, we will continue to assess our options for enhancing the long-term sustainability of the trust. In addition to regular valuations, we seek expert advice from service providers and monitor program use, investment returns and industry trends.

For more information, read the "Valuation results" section of this report.

# Valuation results

MRBT's first valuation shows that as at December 31, 2022, the trust had enough money to fund 31.3 years of benefits at the current benefit and subsidy levels.

Based on the valuation results and MRBT's funding policy, the MRBT board has decided not to make any material changes to retirement group benefits at this time.

## What is a valuation?

At least every three years, a valuation of the trust is performed by an independent actuary (a specialist in financial modelling, statistics and risk management). The actuary compares current assets as well as expected future contributions, premium payments and investment returns against the projected cost of future benefits. The valuation determines how many years of funding the trust is expected to be able to maintain the current benefit and subsidy levels.

Depending on the valuation results, the board may choose to:

- › Increase or decrease subsidy levels
- › Enhance or reduce the benefits covered by the benefits program
- › Maintain current subsidy and benefit levels

The board reviews premium rates annually. Rates are not directly affected by the valuation results. However, premium rates can be affected by changes to claiming patterns and demographics. These changes may then influence future valuation results.

## How is the MRBT valuation different from a pension plan valuation?

In some ways, MRBT's valuation is similar to a valuation done for a pension plan. As with a pension valuation, the actuary relies on certain demographic and economic assumptions to project the expected future costs of the group benefits program. These expected future costs are then compared against how much funding the trust currently has and how much it expects to receive in the future from contributions, premium payments and investment returns.

However, the MRBT is different from most pension plans because the future benefits available through the trust are not guaranteed. This affects how the MRBT funding policy considers the financial health of the trust. To determine the trust's financial health, the MRBT board must determine how long it can continue to provide the same subsidy levels and benefits based on current assets, contributions and investment returns. Unlike a pension plan, there is no "funded ratio" to consider.

## **What is the MRBT's funding target?**

The MRBT board has determined that an appropriate funding target is approximately 35 years at current benefit and subsidy levels. This ensures benefits are sustainable for current and future generations of retirees.

The trust began accumulating assets on January 1, 2022. This will help sustain the current level of benefits longer than the previous funding model. However, the board anticipates that retiree benefit costs will increase faster than contributions. That means the trust will come under financial pressure.

The MRBT board is guided by the trust's funding policy. The policy tells the board when it can enhance the benefit program and when it must reduce the benefits available. One of the board's goals is to use the target of 35 years to manage financial pressure over time and avoid significant benefit changes at any one time. We will provide you with more information about this in the future.

## **What were the outcomes of the MRBT valuation?**

George & Bell Consulting Inc., MRBT's actuary, completed the first valuation of the benefits of the trust as at December 31, 2022.

The actuary reviewed the recent benefits program experience and recommended valuation assumptions to the MRBT Board of Trustees. Most of the demographic assumptions (e.g., retirement rates, termination rates) were selected to be consistent with the MPP. Other assumptions required for retiree health benefits were also developed.

The valuation is most sensitive to the following assumptions:

- › Expected return on assets
- › Active member salary growth and changes to the number of active members
- › Cost of retiree health claims
- › Health care inflation

As at December 31, 2022, the actuary has projected that until 2034, the MRBT contributions will be more than the costs of the program at the current benefit and subsidy levels. After that, the actuary anticipates assets to continue to grow based on investment returns, supplementing the contributions until 2045. At that point, the cost of the current program will begin to draw on the accumulated assets. Based on this valuation and its assumptions, the actuary has projected that the accumulated assets can fund the plan as currently designed for 31.3 years from the valuation date.

## *Valuation results*

It is important to note that if the accumulated assets are used up in the future, it does not mean that the benefits program would end. However, the program would need to return to a pay-as-you-go basis, as it was before the trust was formed. That means the board would need to adjust retiree benefit levels and subsidy levels annually to align with anticipated contributions.

The December 31, 2022, valuation was the first valuation for the MRBT. The results show that the current funding levels are expected to allow the current benefit and subsidy level to continue within the target range. Because of this, the MRBT board is not recommending any material changes to retirement group benefits at this time.

# Financial summary

This financial summary covers 15 months from October 1, 2021 (the start of the MRBT Joint Trust Agreement) to December 31, 2022.

## Assets and liabilities

As at December 31, 2022, the trust's total assets were \$157.2 million and total liabilities were \$20.1 million. This means the net assets available for benefits were \$137.1 million. This money will be used over the long term to provide sustainable access to group benefits.

Net assets increased during this period because of contributions received. During the first three quarters of 2022, net asset growth was slow. Regular contributions received were offset by investment losses. During the last quarter, net asset growth increased because of improved market conditions and an additional \$20 million contribution from MPP.

### NET ASSETS (\$ THOUSANDS)



Total assets are primarily made up of:

- › Investments (\$136.4 million)
- › Contribution receivables (\$12.3 million)
- › Prepaid expenses to the group benefit carrier (\$8.3 million)

## Financial summary

Liabilities include:

- › Accounts payable to the group benefit carrier (\$9.9 million)
- › Retired member group benefit obligation (\$5.6 million)
- › Other accounts payable and accrued expenses (\$4.5 million)

**FINANCIAL SUMMARY (\$ THOUSANDS)**  
*for the 15-month period ended December 31*

	2022
<b>Increase in assets</b>	
Investment income (loss)	\$ (10,404)
Contributions	201,642
<b>Total increase in assets</b>	<b>191,238</b>
<b>Decrease in assets</b>	
Retired member group benefits	52,136
Administration costs	1,454
Other administration/operating costs	528
<b>Total decrease in assets</b>	<b>54,118</b>
<b>Increase in net assets</b>	<b>137,120</b>
<b>Net assets at beginning of period</b>	—
<b>Net assets at end of period</b>	<b>\$ 137,120</b>

## Investment income

During 2022, the trust lost \$10.4 million on its investments, returning -8.3 per cent against an industry benchmark of -9.5 per cent. In the first quarter of the fiscal year, investment markets fell with the Russian invasion of Ukraine, continued COVID lockdown in China and rising interest rates. The second quarter continued downward as the geopolitical instability and elevated inflation rates slowed economic growth. Central banks aggressively raised policy rates to fight inflation.

The trust saw positive returns in the third quarter because of private equity and real assets. In the last quarter of the fiscal year, equity markets began to rebound as inflation growth slowed and generated investment income.

It's important to remember that the MRBT Board of Trustees takes a long-term view toward investing. Investment losses in any one year are expected to be balanced by future investment returns over the long term.

### INVESTMENT INCOME (LOSS) (\$ THOUSANDS)

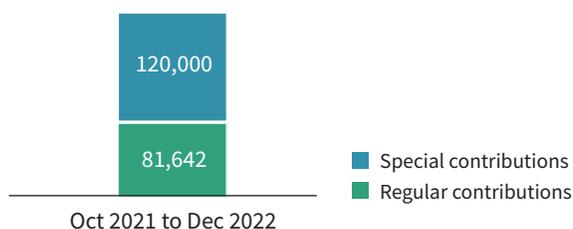


## Contributions

In December 2021, \$100 million of seed money was transferred from MPP employer inflation adjustment account (IAA) contributions to establish the MRBT. Another \$20 million was transferred in December 2022, and a further \$50 million will be transferred before December 31, 2024.

In 2022, \$81.6 million of regular MPP employer IAA contributions was transferred to the MRBT. This is equivalent to 0.6 per cent of active member salaries.

### CONTRIBUTIONS (\$ THOUSANDS)



## Extended health benefits

### EXTENDED HEALTH BENEFITS (\$ THOUSANDS)

	2022
Extended health care claims	103,396
Premiums paid by retirees	(54,596)
Claims adjudication costs	3,337
<b>Total group benefits cost</b>	<b>52,136</b>

## Accrued benefit obligations

The accrued benefit obligation is the amount the trust would be required to pay out if it was closed. Because benefits are not guaranteed, the trust's accrued benefit obligation is set equal to the net assets available to pay the obligations.

As a result, MRBT's financial statements will always show a nil surplus or deficit.

# Investments

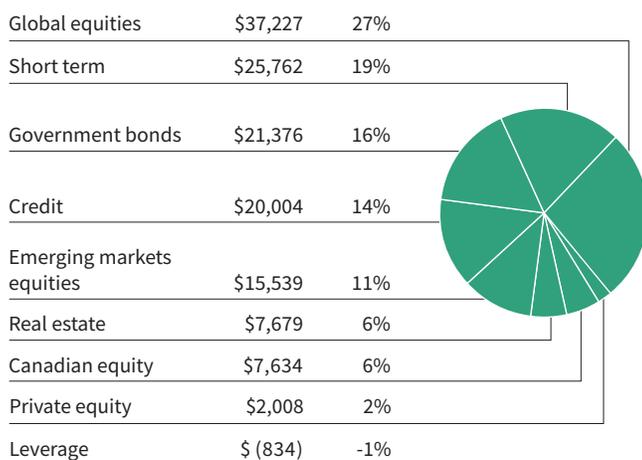
## Investment overview

The MRBT Board of Trustees is responsible for overseeing an investment portfolio of \$136.4 million, as at December 31, 2022. The board's priority is to ensure the trust is secure and stable over the long term so that current and future retired members have access to post-retirement group benefits.

The board oversees and monitors the performance of its investment management agent, the British Columbia Investment Management Corporation (BCI). The board sets the investment beliefs and financial goals of the trust through the Statement of Investment Policies and Procedures, and BCI puts them into action.

In the year ended December 31, 2022, the trust's investment portfolio grew by \$36.4 million due to ongoing MPP employer contributions.

**INVESTMENT HOLDINGS<sup>1</sup> (\$ THOUSANDS) (%)**  
as at December 31, 2022



<sup>1</sup> Asset classifications vary from the financial statements for performance reporting

## **Responsible investing**

Responsible investing is a part of the board's investment approach and beliefs. Responsible investing means considering environmental, social and governance (ESG) factors when making investment decisions. These factors can be company-specific, like board compensation or employee safety. They can also be widespread and systemic, like climate change, water management and data security. Both the board and BCI believe that responsible investing is essential to understanding and managing the risks and opportunities associated with long-term investments, and part of the duty of growing the trust in a sustainable way.

Climate change is one of the most significant social and economic risks the world faces today. BCI's Climate Action Plan outlines the steps BCI is taking to manage climate change risk in the portfolio, integrate climate change information into decision making and capitalize on investment opportunities from the long-term transition to a lower-carbon economy. The report also affirms BCI's commitment to taking actions that support the global goal of achieving net-zero emissions by 2050.

To learn more about BCI's ESG and Climate Action Plan activities, visit [bci.ca/ESG](https://bci.ca/ESG).

# Health coverage for retirees

Retired members and beneficiaries who receive a pension from MPP have access to group coverage for extended health care and dental care.

The extended health care plan is a supplemental plan that extends beyond what is covered by Medical Services Plan of BC. It includes coverage for prescription drugs and other expenses, such as medical aids and supplies, as well as the cost of some services. Extended health care coverage is subsidized based on years of service.

Two non-subsidized group dental plans are also available: essential and enhanced. Enrolment is optional but provides members with access to the MRBT's group premium rate, which may be better than coverage available from an individual plan.

Group benefits are not funded by member contributions and are not guaranteed.

## ENROLMENT IN EXTENDED HEALTH CARE AND DENTAL COVERAGE

*for the period ended December 31*

	<b>2022</b>
Dental only	2,318
Extended health care only	14,925
Both	74,511
<b>Total participants</b>	<b>91,754</b>

## Health coverage for retirees

### PREMIUM RATES AND SUBSIDIES—EXTENDED HEALTH CARE

monthly rates effective February 1, 2022

<b>Pensionable service of retired member</b>	<b>Single</b>	<b>Couple</b>	<b>Family</b>
Under 2 years (full premium)	\$70.00	\$140.00	\$273.00
2 years to under 4 years	59.50	129.50	262.50
4 years to under 6 years	49.00	119.00	252.00
6 years to under 8 years	38.50	108.50	241.50
8 years to under 10 years	28.00	98.00	231.00
10 years or more	17.50	87.50	220.50
Beneficiary/surviving spouse receiving a pension	70.00	140.00	273.00

### PREMIUM RATES AND SUBSIDIES—DENTAL

monthly rates effective February 1, 2022

	<b>Single</b>	<b>Couple</b>	<b>Family</b>
Essential dental	\$25.97	\$49.50	\$ 83.26
Enhanced dental	47.23	89.49	126.63

# Who we are

## Your 2022 trustees

Board membership includes trustees who served during 2022.

Learn about the trustees and their backgrounds at [mpp.pensionsbc.ca](http://mpp.pensionsbc.ca).



***Bonnie Pearson, chair***

Appointed by: Municipal Employees' Pension Committee

Board term: January 2022–current



***Lyn Kocher, vice-chair***

Appointed by: Government of British Columbia and

Union of British Columbia Municipalities

Board term: January 2022–current



***Lorne Burkart***

Appointed by: Municipal Employees' Pension Committee

Board term: January 2022–current



***John Burrows***

Appointed by: Municipal Employees' Pension Committee

Board term: November 2022–current



***Dean Levangie***

Appointed by: Government of British Columbia and

Union of British Columbia Municipalities

Board term: January 2022–current



***Diana Lokken***

Appointed by: Government of British Columbia and

Union of British Columbia Municipalities

Board term: January 2022–current

*Who we are*



***Gary MacIsaac***

Appointed by: Government of British Columbia and  
Union of British Columbia Municipalities  
Board term: January 2022–December 2022



***Janice Morrison***

Appointed by: Municipal Employees' Pension Committee  
Board term: January 2022–November 2022



***Tom Stamatakis***

Appointed by: Municipal Employees' Pension Committee  
Board term: January 2022–current

**TRUSTEE REMUNERATION**

for the year ended December 31, 2022

Name	Meetings attended/scheduled	Total remuneration paid <sup>1</sup> (\$)	Remuneration by payee (\$)	Remuneration payee
Pearson, Bonnie, chair	6/6	\$ 12,738.46	\$ 12,738.46	Board member
Kocher, Lyn, vice-chair	6/6	9,213.96	9,213.96	Board member
Burkart, Lorne	6/6	2,417.41	488.91	Board member
			1,928.50	BC Nurses' Union
Levangie, Dean	6/6	1,831.60	1,831.60	Health Employers' Association of BC
Lokken, Diana	6/6	4,653.10	4,653.10	Board member
Maclsaac, Gary	4/6	1,248.30	1,248.30	Union of BC Municipalities
Morrison, Janice	4/5	1,330.00	1,330.00	Board member
Stamatakis, Tom	6/6	2,116.60	2,116.60	British Columbia Police Association
<b>Total</b>		<b>\$ 35,942.73</b>		

<sup>1</sup> Includes per diems for attended meetings. Does not include expenses incurred by trustees while carrying out business of the board (e.g., travel).

## **Agents and service providers**

### **British Columbia Investment Management Corporation (BCI)**

BCI provides investment management services to the MRBT Board of Trustees.

### **BC Pension Corporation**

BC Pension Corporation provides benefit administration and financial and communication services to the MRBT Board of Trustees.

### **Cubic Health Inc.**

Cubic Health Inc. provides quarterly and annual analysis on usage and population health to the MRBT Board of Trustees to assist in benefit plan design and ongoing management.

### **George & Bell Consulting**

George & Bell Consulting provides benefit consultation and actuarial services to the MRBT Board of Trustees.

### **Hatch Law**

Hatch Law provides legal advice and services to the MRBT Board of Trustees.

### **Healthcare Benefit Trust**

Healthcare Benefit Trust provides secretariat services to the MRBT Board of Trustees.

### **Pacific Blue Cross**

Pacific Blue Cross administers the group extended health coverage and insured dental plan coverage for the MRBT.

Email: [contact@bcmrbt.ca](mailto:contact@bcmrbt.ca)  
Mail: Municipal Retiree Benefit Trust Secretariat  
c/o Healthcare Benefit Trust  
Attention: Terri Thompson, Board Secretary  
350-2889 East 12th Avenue, Vancouver, BC V5M 4T5

Cover photo: Retired member Larry McHale

