



CANADIAN FORCES  
NON-PUBLIC FUNDS (NPF)

# EMPLOYEES PENSION PLAN

Pension Board  
Annual Report

2023



**CANADIAN FORCES NON-PUBLIC FUNDS (NPF)  
EMPLOYEES PENSION PLAN**  
PENSION BOARD ANNUAL REPORT  
**2023**

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# TABLE OF CONTENTS

MESSAGE FROM THE CHAIR	04
EXECUTIVE SUMMARY	06
INTRODUCTION	08
AT A GLANCE	10
PLAN OVERVIEW AND GOVERNANCE	11
PENSION BOARD DISCUSSION & ANALYSIS	12
1. PLAN FUNDING	14
2. INVESTMENTS	18
3. COMPLIANCE AND OVERSIGHT	22
4. STRATEGIC PLAN	24
PLAN MEMBERS	26
GLOSSARY	28

## MESSAGE FROM THE CHAIR



I am pleased to share with you the 2023 Pension Board Annual Report, which highlights another milestone year for the Pension Plan.

The predictable and lifelong benefits provided by the Pension Plan make it a valued component of the Canadian Forces Morale and Welfare Services (CFMWS) Employee Value Proposition for both past and current employees. The Pension Board members are committed to ensuring the sustainability of our Pension Plan as we consider our fiduciary duties to both current and future members.

This year marks two consecutive years of our Pension Plan being in very good health. It continues to be fully funded, meaning that it currently holds sufficient funds to deliver on all its current and future projected pension obligations. To complement this milestone, the Pension Plan's assets reached an all-time year end high, further demonstrating its resiliency in a year of economic uncertainty. These great achievements for the Plan are directly related to the strategic focus the Pension Board has taken to ensure long-term financial sustainability.

In this report, you will find an update on the Pension Board's continued endeavor towards its goals outlined in the 2022-2024 Pension Board Strategic Plan. This year saw a review of the Pension Plan's service providers, which led to a market review exercise and subsequent change in the Pension Plan's custodian, as well as the launch of a market review for record-keeper services. An updated investment strategy was implemented, and development of a new policy began - all with the aim of ensuring the sustainability and good governance of our defined benefit pension plan for years to come.

This past year saw some changes to the Pension Board with members' terms ending and the start of new ones. I would like to extend our thanks to our departing Board members Pierre Goulet, Bruce Ploughman and Michel Landry for their contributions to the Board's mission to deliver on the pension promise. I would also like to welcome Jo-Anne Gibson, Corinna Heilman and Dave Patel, as the Pension Board's newest members.

As the Pension Board looks ahead to 2024, our commitment to the ongoing mission to deliver on the promise of secure retirement income for current and future members remains clear and resolute.

Ian Poulter  
Chief Executive Officer, CFMWS and Pension Board Chair

## EXECUTIVE SUMMARY



In 2023, the central bank's continued pursuit to control inflation led to further tightening of monetary policy and capital markets saw a welcomed performance improvement following a challenging year in 2022. The high interest rate environment and improved investment performance led to the Pension Plan reaching new highs.

The Plan's assets surpassed its previous record achieved at year end of 2021 and finished 2023 at \$545.9M having achieved a net investment return of 12.8%. The growth in Fund value is attributed to the deployment of a new target asset mix following the completion of the Asset Liability Study initiated in 2022.

The implementation of a new target asset mix was a return to active management of the Pension Fund after having been passively managed temporarily. The new portfolio aims to enhance the Plan's long-term investment strategy by introducing a liability-driven investment approach.

A market search for custody services was initiated and completed in 2023. This led to the engagement and transition to a new Custodian offering a broader variety of investment options and facilitating the transition back to active management of the Pension Fund.

The Plan's funded solvency ratio at the end of 2023 remained healthy at 116.5%. This marks the second consecutive year of a solvency surplus. Since the level of surplus achieved continues to exceed the legislated limits, the Pension Plan's mandated pause on Employer contributions continues. Required special solvency payments remain at zero and regular Employer contributions would resume contingent on the results of the next actuarial valuation.

As part of the ongoing review of services to Plan members, a market search for third-party administration services was launched in 2023 with intended conclusion in 2024.

Further details on Pension Plan activity and updates on progress towards goals set in the 2022-2024 Pension Board Strategic Plan are available in this report.

# INTRODUCTION





The Canadian Forces Non-Public Funds (NPF) Employees Pension Plan (the Plan) is a defined benefit pension plan for the employees of the Staff of the Non-Public Funds (SNPF). The Plan is governed by the federal Pension Benefits Standards Act (PBSA), regulated by the Office of the Superintendent of Financial Institutions (OSFI) and subject to the Income Tax Act (ITA). As such, plan governance must be carried out in accordance with applicable laws, regulations, rules and professional standards.

The Pension Board Annual Report communicates to Plan members the significant pension governance activities undertaken by the Pension Board in 2023 to ensure legislative compliance and good governance practices.

## Role of the Pension Board

The Staff of the Non-Public Funds, Canadian Forces acts as both Plan Sponsor and Plan Administrator.

- As Plan Sponsor, SNPF is responsible for establishing, designing, amending or terminating the Plan.
- As Plan Administrator, SNPF is responsible for the oversight, management and administration of the Plan, including the investment of Plan assets.

Plan Administrator responsibility has been delegated to the Pension Board to ensure that fiduciary, and other obligations of the Plan are met, including selection and monitoring of third-party service providers.

The Pension Board also has authority to make recommendations on plan design and amendment.

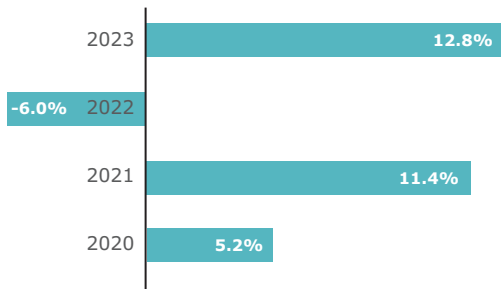
The Pension Investment Committee, a sub-committee of the Pension Board, has delegated responsibility to oversee asset performance and advise on the Pension Fund's investment policy.

# AT A GLANCE

## Plan Performance

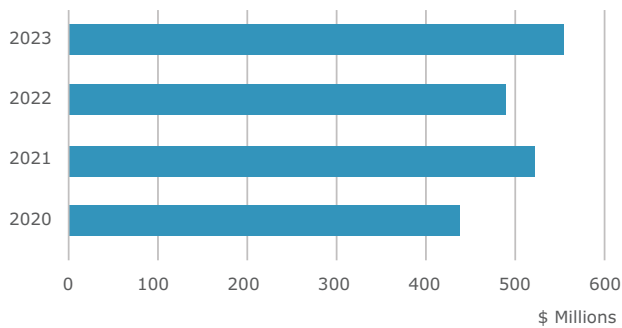
The net return for 2023 was 12.8%.

The Pension Plan saw significant improvements in market performance in 2023.



The Pension Plan's assets totaled \$545.9M.

Market rebound led to an increase from last year-end.



## Contributions and Payments

Pension benefit payments totaled \$20.1M.

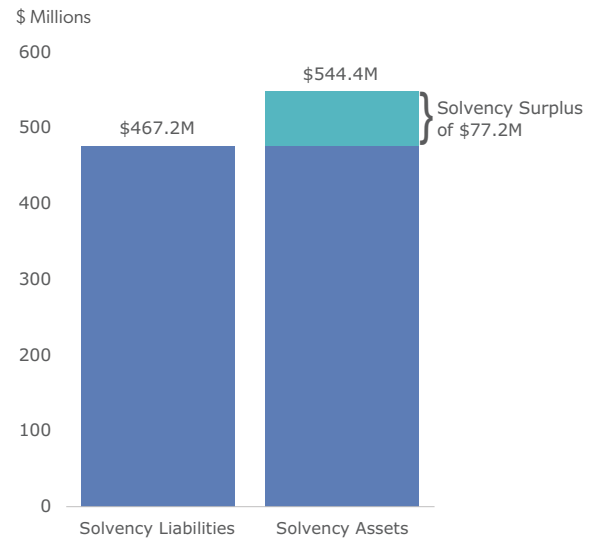
- Employee contributions totaled \$7.7M.
- Prior to the mandated pause on Employer contributions, the Employer had contributed \$6.2M in 2023.
- As of January 1, 2024, the average annual pension in pay is \$11.8K.



## Actuarial Valuation

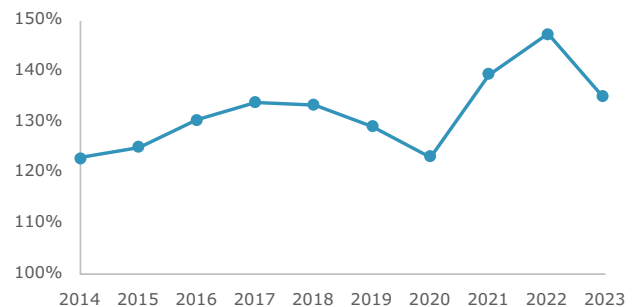
From a solvency standpoint, the Plan is fully funded.

If the Pension Plan closed as of the valuation date, it would be able to pay all of the benefits it owes to the Plan's members.



Going concern ratio remains healthy.

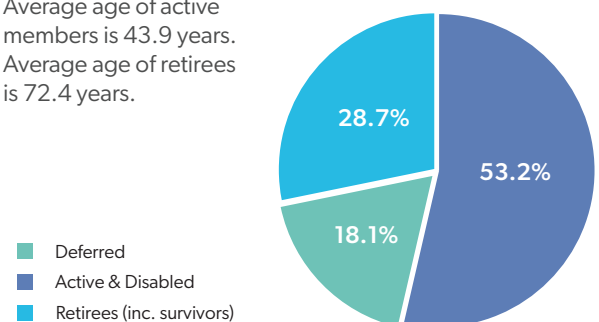
If the Pension Plan continued indefinitely, it would be able to pay for Plan members' pensions as they retire over time. This shows that the Plan is in very good health.



## Plan Membership

Membership increased to 4,531.

- Average age of active members is 43.9 years.
- Average age of retirees is 72.4 years.



# PLAN OVERVIEW AND GOVERNANCE

## Plan Design and Sustainability

**Alignment with Employer Objectives** – The objective of the Plan is to serve as an attraction for talent recruitment and provide its members with a secure defined pension benefit at a reasonable cost to SNPF.

**Registration Status** – The Plan’s registration with the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Revenue Agency (CRA) is in good standing.

**Plan amendments** – The most recent plan amendment was filed in 2023 to allow for issuance of a one-time ad hoc indexation increase.

**Plan sustainability** – The Plan still serves its goal of attracting and protecting employees with secure retirement income.

## Governance Structure/Process

### Governance Structure

Good governance safeguards the Plan by having in place a structured process for overseeing, managing and administering the Plan to ensure compliance with all applicable legal and fiduciary requirements, and other obligations of the Plan. The activities of the Pension Board and its agents and advisors ensure that those objectives continue to be met.

### Governance Manual

The Governance Manual defines the responsibility and accountability framework for all parties involved in the governance process. Effective application of governance practices ensures the Plan is consistently managed in the best interests of Plan members, retirees and survivors, and is compliant with the good governance guidelines established by the Canadian Association of Pension Supervisory Authorities (CAPSA).

In 2023, the annual review of the Governance Manual resulted in administrative updates to reflect changes in service providers and their mandates.

### Plan Operating Expenses

To minimize the impact of operating expenses on the Pension Fund, only investment management fees are paid from the Fund, with the remaining operating expenses paid by the organization.

In fiscal year 2023 - 2024, the organization operating expenses totaled \$0.9M and in 2023, Fund-paid investment management fees totaled \$0.9M, for a total operating cost of \$1.8M.

# PENSION BOARD DISCUSSION & ANALYSIS

## Pension Board Membership

The Pension Board Chair, six CFMWS Executives, two Plan Member Representatives (Category I and Category II) and one Retiree Representative are responsible for overseeing and administering the Plan.

The previous Retiree Representative's term ended which led to the recruitment of a new Pension Board member.

The Retiree Representative and Sr. Vice President PSP were onboarded in 2023. The Chief Financial Officer's onboarding was scheduled for completion in January 2024.

The Pension Investment Committee welcomed a new external representative, following the retirement of a long-standing external representative.

### **Pension Board and Pension Investment Committee Members (as at December 31, 2023)**

**Ian Poulter**, Chief Executive Officer, Pension Board Chair

**Julie Peckham**, Chief Operating Officer, Pension Board member and Pension Investment Committee Chair

**Robin Ross**, Chief Human Resources Officer, Pension Board and Pension Investment Committee member

**Dave Patel**, Chief Financial Officer, Pension Board and Pension Investment Committee member

**Bruce Pickard**, Chief Information Officer, Pension Board member

**Jill O'Neill**, Sr. Vice President SISIP, Pension Board and Pension Investment Committee member

**Corinna Heilman**, Sr. Vice President PSP, Pension Board member

**Jacques Béland**, Sr. Manager PSP, Category II Employee representative of the Pension Board

**Michael Pyniansky**, Sr. Accounting Clerk, Category I Employee representative of the Pension Board

**Jo-Anne Gibson**, Retiree representative of the Pension Board

**Elizabeth Springer**, External member of the Pension Investment Committee

**Debra Alves**, External member of the Pension Investment Committee

## **Pension Board Education**

The Pension Board strives to ensure members are knowledgeable regarding their Board roles and responsibilities. New Pension Board members are required to attend an educational course on governance principles and responsibilities within the first year of membership.

The Category I Plan Member Representative completed the School of Pension Investment Management (SPIM) course offered to new Pension Board members in 2023. The Chief Financial Officer and Sr. Vice President PSP are expected to complete the SPIM course in 2024.

## **Pension Board Performance**

The Pension Board conducts an annual self-evaluation based on the best practices of public retirement systems and identifies critical issues and significant achievements. Although a slight decrease in scores was noted in the self-evaluations for 2023, the rating remains satisfactory. Options for additional education resources were explored with implementation intended for 2024.

## **Pension Board Liability Insurance**

Pension Board members, acting on behalf of SNPF, in accordance with the Governance Manual and in proper pursuit of their duties are normally indemnified against any loss or damage arising out of legal action taken against them. The NPP Consolidated Insurance Program and the SNPF Indemnification Policy provide Directors and Officers Liability coverage for defence, penal coverage and litigation expenses.

In 2023, a new fiduciary liability insurance was obtained for members of the Pension Board and Pension Investment Committee.

# 01

## PLAN FUNDING



## Valuation Report and Assumptions

The pension valuation report determines the annual contributions required to fund the current service cost of the Plan as well as special payments required to fund any solvency deficiency.

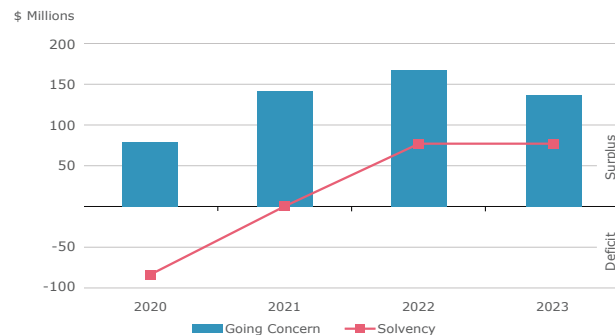
A formal actuarial valuation was conducted as at December 31, 2023. The next valuation is scheduled for December 31, 2024.

## Funded Position

The funded status compares the Plan's assets to its liabilities (i.e., pension obligations), and is a key measure of the current financial health of the Plan. The Plan must be funded on both going concern and solvency basis.

At year-end 2023, the Plan's going concern reported a surplus for the thirteenth consecutive year, with a funded position of 134.3% or \$138.8M surplus.

The solvency-funded position was 116.5% or \$77.2M surplus. The 3-year average solvency ratio of 112.2% results in there being no minimum annual special payments for 2024.



The Employer current service contribution rate for 2024 is 122.8% of employees' contributions (or an estimated \$9.7M), up from 118.8% in 2023.

Per the Income Tax Act and applicable legislation, Employer contributions must cease if a pension plan's solvency ratio exceeds 105% and its going concern ratio exceeds 125%. As both the Plan's solvency and going concern ratios exceed these thresholds for another year, the pause on Employer contributions that began as of the filing of the 2022 valuation results, continues with the filing of the 2023 valuation results. The pause on Employer contributions remains in place, pending the results and filing of the next valuation in 2025.

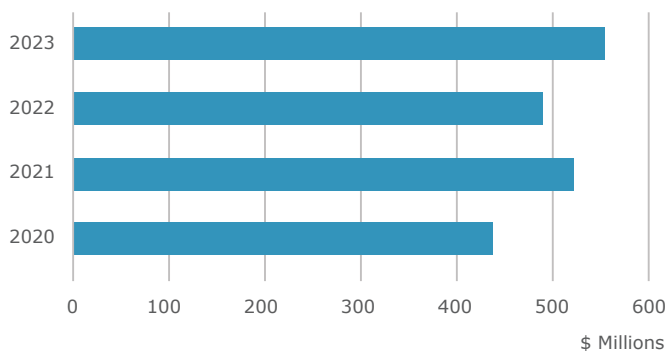
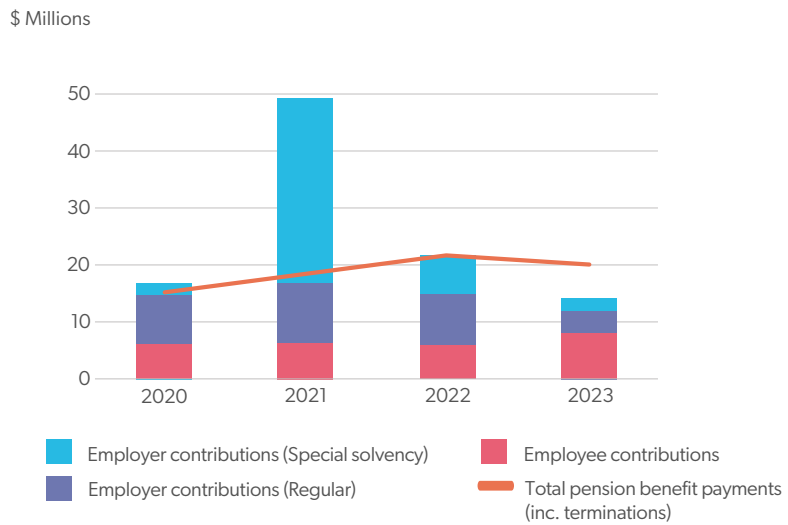
## Pension Fund In-flow

Regular pension contributions totaled \$11.9M, with members contributing \$7.7M. The Employer contributed \$4.2M prior to the mandated pause on Employer contributions coming into effect.

Solvency deficit special payments by the Employer, prior to the filing of the 2022 valuation report, totaled \$2.0M. Top-up payments for underfunded termination and death payouts were then nil due to the Plan's strong funded position.

## Pension Fund Out-flow

Pension-related payments from the Fund totaled \$20.1M, comprised of \$13.7M in retirement and survivor benefits, \$6.4M in lump sum refunds to terminated employees and beneficiaries. In addition, \$0.9M in investment management fees were paid for from the Fund.



## Pension Assets

The Plan's assets totaled \$545.9M as at December 31, 2023, an increase of \$55.9M over the previous year.





# 02

## INVESTMENTS

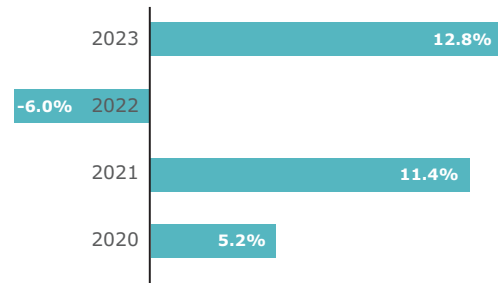
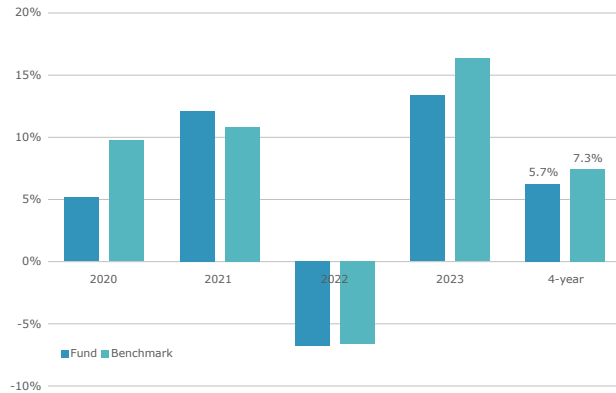


## Investment Objective

The investment objective of the Plan is to achieve a total annual rate of return, after disbursement of investment management fees, resulting in the Plan being fully funded on a solvency basis.

The 4-year return was 5.7% versus the policy benchmark at 7.3%.

Gross returns, net of cash inflow for 2023 was at 13.4%, and one-year returns net of investment management fees were 12.8% in 2023, up from -6.0% in 2022.



## Investment Performance Monitoring

The Pension Investment Committee, chaired by the Chief Operating Officer, monitors fund management and investment performance on a regular basis and reports to the Pension Board at each meeting.

The Pension Investment Committee believes that investing using an active management approach will allow the Fund to meet the investment objective at an acceptable degree of risk for the Plan Sponsor.

At the end of 2022, funds were temporarily invested in passively managed assets as the Pension Investment Committee worked through transitioning to a new Outsourced Chief Investment Officer and new custodian in 2023. Following the completion of the service provider transitions, the Fund was transitioned from temporary passively managed assets to actively managed investments.

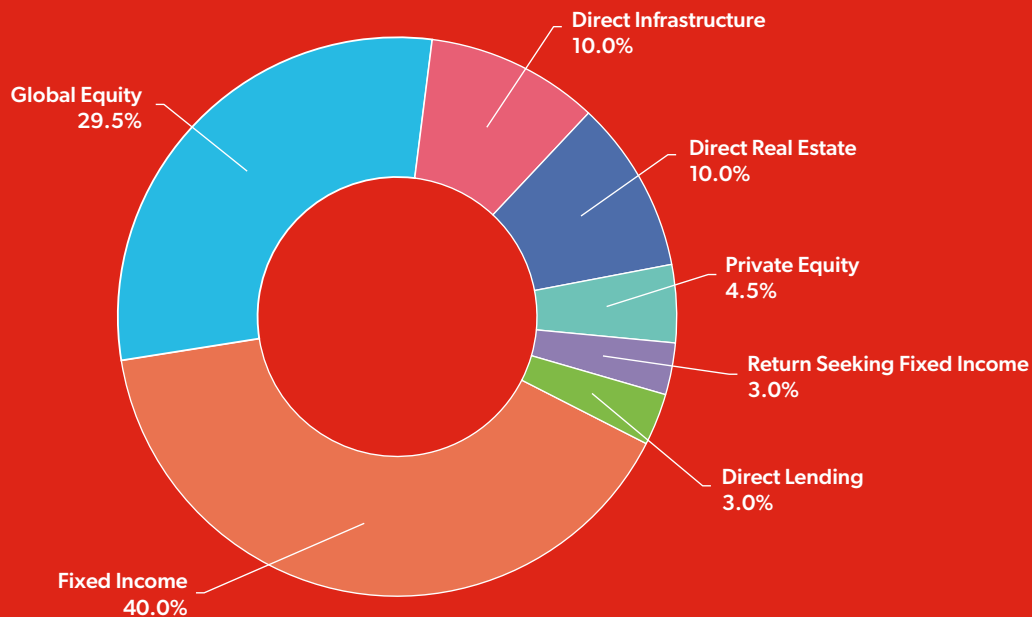
## Investment Policy

The Investment Policy Benchmark Portfolio has been established for two purposes. The first purpose of the Investment Policy Benchmark Portfolio is to provide a benchmark for the evaluation of the total return of the Fund as well as the return for each asset class. A second purpose is to provide a reference for future long-term requirements at a risk level acceptable to the SNPF, CF. This Benchmark Portfolio will shift when market conditions permit greater time-horizon matching of Plan Assets with Plan Liabilities.

The Statement of Investment Policies and Procedures (SIPP) utilizes a diversified portfolio approach and a defensive strategy as the best means of maximizing investment returns while minimizing the risk of investment loss and excessive volatility.

The Pension Investment Committee reviews the SIPP on an annual basis and, if required, recommends changes to the Pension Board for approval. In 2023, the Asset Liability Study initiated in 2022, was completed and resulted in the approval of a new target asset mix for the Fund. The new target asset mix aims to align the Plan's assets more closely to its liabilities. The SIPP was updated to reflect the change in target asset classes and investment objective.

As funds are deployed to new target asset classes, the investment allocations may be outside of target ranges until transition from the prior asset mix to the new one is complete.





# 03

## COMPLIANCE & OVERSIGHT

Governance of the Plan must be compliant with the Pension Benefits Standards Act and Income Tax Act legislative requirements and it is also expected by the Office of the Superintendent of Financial Institutions (OSFI) to adhere to the Canadian Association of Pension Supervisory Authorities (CAPSA) good governance guidelines.

A plan amendment to allow for issuance of a one-time ad hoc indexation increase was filed with the regulator in 2023.

### Compliance Status (2023 filings for 2022 returns)

COMPLIANCE ITEM	COMPLIANCE STATUS	DATE
a. Filing of Solvency Information Return with OSFI	Yes	February 15, 2023
b. Filing of actuarial valuation and actuarial report with OSFI and Canada Revenue Agency	Yes	June 26, 2023
c. Valuation assumptions and methods with regulations	Yes	June 26, 2023
d. Plan asset selection and investment process with regulations	Yes	Ongoing
e. Documentation with regulations	Yes	Ongoing
f. Filing of Annual Information Return with OSFI	Yes	June 30, 2023
g. Remediation of reports of material non-compliance	No reports of non-compliance.	N/A
h. Governance with CAPSA pension governance guidelines	Yes	Ongoing
i. Filing of audited financial statements	Yes	June 30, 2023
j. Member communication with regulatory requirements e.g. member statements	Yes	June 30, 2023
k. Pension Assessment Remittance	Yes	September 6, 2023

## Service Provider Monitoring

**Service Provider Evaluation** – Service provider performance is monitored periodically and evaluated annually. Service providers with low or unsatisfactory ratings are asked to provide an acceptable remediation plan, or their service contract/agreement is terminated.

**Third-party Provider Agreements** – In early 2023, a custodian market review was launched. The review concluded over the summer, which resulted in the appointment of a new custodian. The Fund was transitioned, and benefit payment service conversion was complete by the end of 2023.

In addition, a market search for a third-party pension administrator/record-keeper was initiated in December 2023, with the intent to solidify a new contract with the current provider or transition to a new provider by the end of 2024.

## Audit of Financial Statements

The Chief Financial Officer is responsible for preparing the Plan's financial statements in accordance with Canadian accounting standards for pension plans. An annual audit of the financial statements is conducted in accordance with Canadian generally accepted auditing standards, and considers internal controls, appropriateness of accounting policies, and reasonableness of accounting estimates in order to determine if the financial statements are free from material misstatement due to fraud or error.

Audit results were presented to the NPP Audit Committee for review and, in the external auditor's opinion, the financial statements for 2023 fairly presented the financial position of the Plan.

The financial statements were approved by the Chief Financial Office and filed with the Office of the Superintendent of Financial Institutions on June 28, 2024.

# 04

## STRATEGIC PLAN





CFMWS believes that offering a defined benefit plan provides employees the most secure income protection after retirement.

In 2022, the Pension Board formalized a three-year strategic plan that sets goals in key areas of focus to ensure the long-term sustainability of the Pension Plan and continued secure retirement income for its Plan members.

The following are highlights of the accomplishments of 2023.

***Goal 1: Ensure the long-term sustainability of the Pension Plan.***

The Asset Liability Study, initiated in 2022, was completed, which resulted in the approval of a new portfolio asset mix. A review of options stemming from the Plan's improved funded position concluded with issuance of an ad hoc indexation increase for pensions in pay as of January 1, 2024, covering the years 2007 to 2022 for pensioners who retired prior to 2023.

***Goal 2: Ensure the governance framework enables proactive and agile delivery to respond to industry changes and fiduciary obligations.***

Board members were recruited and onboarded with a seamless transition. All compliance activities were completed by the prescribed deadline.

***Goal 3: Invest in administrative and financial services to meet the evolving needs of Plan members.***

A custodian Request For Proposal (RFP) was initiated and concluded with the appointment of a new custodian. A third-party administrator RFP was initiated and will conclude in 2024. Exploring pension service efficiencies, improvement opportunities and refining service standards were focuses in the RFP development.

***Goal 4: Improve the Plan member experience.***

Additional pension content was made available on CORE, on CFMWS' website and mailed to Plan members. A review of member engagement and educational opportunities continues.

***Goal 5: Invest in the development and education of Pension Board members.***

Newly appointed Board members were onboarded using internal tools and a search for external education resources was completed.

# 05

## PLAN MEMBERS



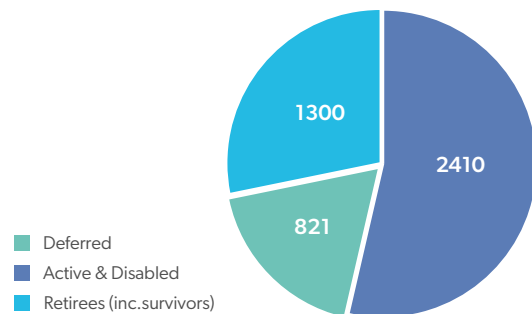
## Plan Membership

Active membership in the Pension Plan increased by 4.8% in 2023 compared to 2022.

The number of new entrants in the Plan saw a slight increase in 2023 but remains steady.

The Plan saw 61 new retirements in 2023, which is a slight decrease from 2022.

The average annual pension in pay increased from \$9.9K as of January 1, 2023 to \$11.8K as of January 1, 2024. The increase is attributed to the ad hoc indexation increase approved by the Pension Board following the 2022 valuation.



## Member Education

The objective of education and awareness initiatives is to increase members' understanding of their pension plan, assist in retirement readiness, and provide transparency on the financial stewardship of the Plan.

Member experience continues to be reviewed to fully utilize available tools and technology to push the bar forward on member education and retirement preparedness.

## Member Communications

**Legislated** - Member communication includes annual member statements, pension options on termination/retirement, and notification of plan amendments.

Individual pension statements for 2023 were issued to 3,002 active and deferred plan members, and their spouses. Pension statements were issued to 1,278 retired members and their spouses. Member statements include both personal pension information as well as information on the Plan's financial position.

Pension options were issued to 288 terminating or retiring members.

Plan members were sent a letter detailing the Plan's improved health and providing notice of the plan amendment to issue a one-time ad hoc indexation increase.

**Unlegislated** – The Pension Board Annual Report and The Pension Board Strategic Plan 2022-2024 Summary were published for all active members on CORE, and to pensioners and deferred members on CFMWS' website. This informed Plan members on the Plan's financial status and Board initiatives and activities. Pensioners also received communication, by mail, advising them of the change in the Plan's custodian.

## GLOSSARY

Definitions of key terms used throughout this report can be found online on CORE or at [www.cfmws.ca/pension](http://www.cfmws.ca/pension).



