



**CANADIAN FORCES NON-PUBLIC FUNDS (NPF)
EMPLOYEES PENSION PLAN**

PENSION BOARD ANNUAL REPORT 2022



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2022

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MESSAGE FROM ▶
THE CHAIR



I am pleased to share with you the 2022 Pension Board Annual Report, including highlights from the 2022-2024 Pension Board Strategic Plan.

The Pension Plan and the lifelong benefits it provides are a key part of the Canadian Forces Morale and Welfare Services (CFMWS) Employee Value Proposition. Ensuring the sustainability of our Plan, for both current and future members, is a significant responsibility and one that Pension Board members take very seriously.

The 2022-2024 Pension Board Strategic Plan sets a variety of goals, including continuing good governance, ensuring the long-term sustainability of the Pension Plan, and improving the Plan member experience. Supporting Pension Board members in the performance of their fiduciary duty to Plan members is also amongst the key strategic goals. As we work towards our goals, we look forward to providing updates to keep Plan members well informed on Pension Board activities.

This year, the Plan's strengthened funded status, as confirmed by our recent third-party valuation, is a key indicator of its overall health. Our Plan is fully funded as it currently holds sufficient funds to deliver on all of its current and future potential pension obligations. Maintaining this funded position is engrained in the strategy, with an evergreen review of investment processes and policy development.

Serving our Plan members, from current employees to pensioners, forms part of the Board's fiduciary duty, and safeguarding retirement income is a significant part of that. We are pleased to share that our pensioners will be issued a one-time ad-hoc indexation increase to address the cost of living increases from 2007 to 2022.

We are working to enhance the member experience by building engagement and providing more pension content on both our intranet and CFMWS.ca. Plan members can look forward to additional resources to help them better understand the overall pension offering and the lifelong benefit offered.

The Pension Board is committed to continuing in our mission to deliver on the pension promise, to serve our Plan members and strengthen the Plan's resiliency.

Ian Poulter
CEO, CFMWS and Pension Board Chair

EXECUTIVE SUMMARY ▶



Market volatility, fueled by the war in Europe and rising inflation, was a common trend throughout 2022. Central banks around the world reacted by raising interest rates to address inflationary pressures, which contributed to 2022 being another milestone year for the Pension Plan.

The Plan's funded solvency ratio continued to improve from 99.9% to 118.6% at the end of December 2022. This marks the end of a string of solvency deficit years and the first solvency surplus in over a decade.

The level of surplus achieved requires Employer contributions to be put on hold in accordance with the governing federal legislation, which mandates that surplus must be used to fund the Employer current service cost. Employer contributions would resume contingent on the results of the next actuarial valuation. Required special solvency payments are now nil, a welcomed result after over \$90M in special solvency payments were made by the Employer since 2010.

Recognizing the inflationary pressure felt by the Plan's pensioners, a portion of the solvency surplus will be utilized to address this concern. Pensioners will be granted a one-time ad-hoc indexation increase based on their date of retirement.

While increased interest rates have benefited the Plan's solvency position, the impact on the financial markets and investment returns was less favourable. The Plan's assets totaled \$490M at the end of 2022 and saw a net investment return of -6% for the year.

The Plan's diversified portfolio positioned it to partially mitigate the severity of market downturns felt throughout 2022. Real Asset investments led performance while Global Equity and Fixed Income investments were not immune to effects of market volatility, inflation and rising interest rates.

The Pension Investment Committee's Outsourced Chief Investment Officer (OCIO) market review, launched in 2021, resulted in the engagement of a new OCIO Investment Manager in the Fall of 2022. Due to obstacles encountered in the transition process, the Plan's investments were temporarily transitioned to passive management while a path forward was charted. The return to active management will consider the results of an Asset Liability Study initiated in November 2022, which aims to enhance the Plan's long-term investment strategy.

With a continued focus on forward thinking, the Pension Board's Strategic Plan for 2022 to 2024 was formalized and updates are available in this report.

INTRODUCTION ►



The Canadian Forces Non-Public Funds (NPF) Employees Pension Plan (the Plan) is a defined benefit pension plan sponsored by the Chief of Defence Staff 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 2022 to ensure legislative compliance and good governance practices.

Role of the Pension Board

The SNPF 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 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.

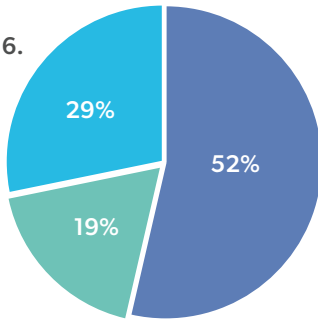
AT A GLANCE

Plan Membership

Membership increased to 4416.

- Average age of active members is 44.1 years.
- Average age of retirees is 72.2 years.

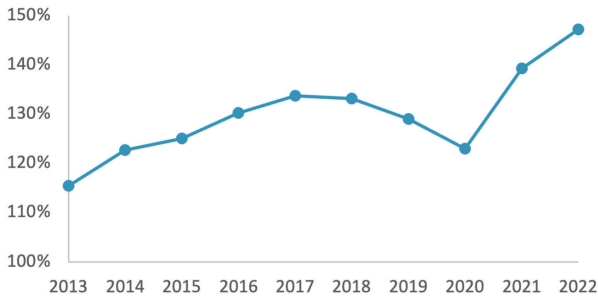
- Deferred
- Active & Disabled
- Retirees (inc. survivors)



Actuarial Valuation

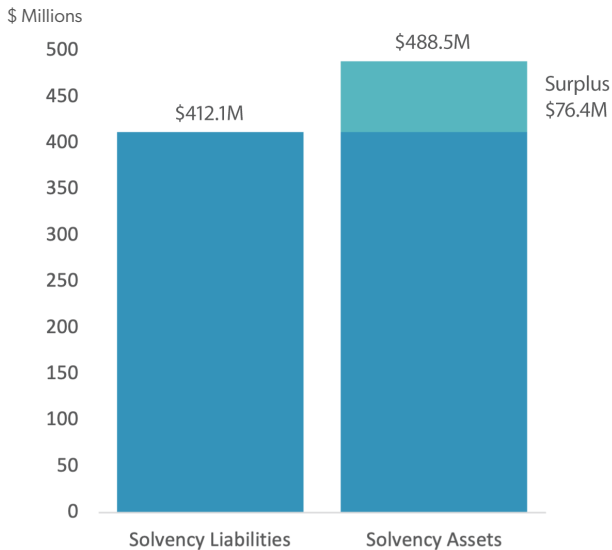
Going concern ratio continues to rise.

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.



From a solvency standpoint, the Plan is fully funded.

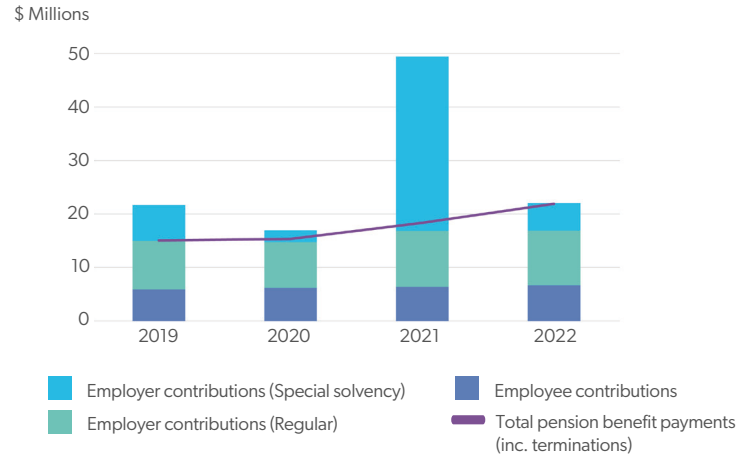
If the Pension Plan closed tomorrow, it would be able to pay all of the benefits it owes to the Plan's members.



Contributions

Employee contribution rate remains unchanged.

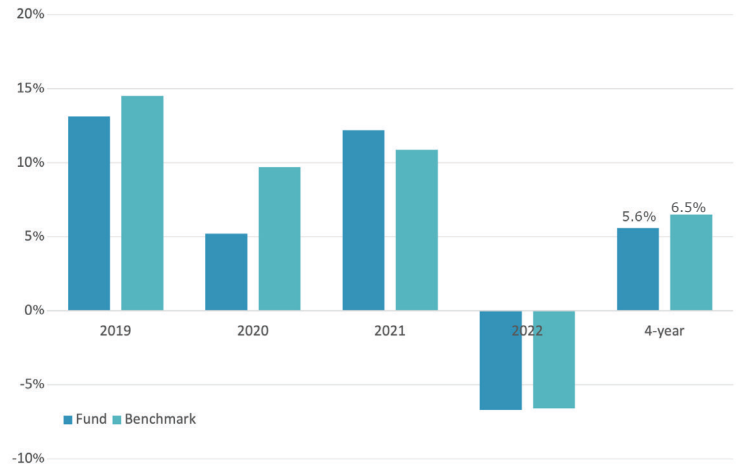
The Employer has made both required contributions and special solvency payments in 2022.



Plan Performance

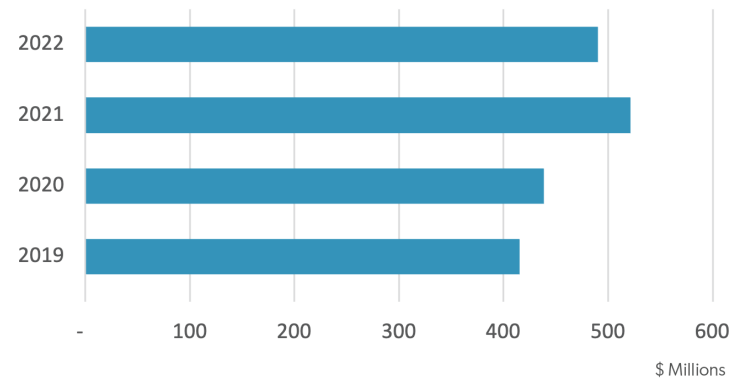
The 4-year average return was 5.6%.

The 2022 market conditions affected the Plan, which underperformed benchmark by 0.9%.



The Plan's assets totaled \$490M.

Market volatility led to a decrease from last year-end.



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 OSFI and the Canada Revenue Agency (CRA) is in good standing.

Plan amendments – The most recent plan amendment was filed in 2018.

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 the manual 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 2022, the annual review of the Governance Manual resulted in only minor administrative changes.

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 2022/2023, the organization operating expenses totaled \$0.9M and in 2022, Fund-paid investment management fees totaled \$1.8M, for a total operating cost of \$2.7M.

PENSION BOARD DISCUSSION & ANALYSIS ▶



Pension Board Membership

The Pension Board Chair, five CFMWS Executives, two Plan Member Representatives (CATI and CATII) and one Retiree Representative are responsible for overseeing and administering the Plan.

The previous CATI and CATII Plan Member Representative terms ended which led to the recruitment and onboarding of two new Pension Board members in 2022.

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 newly appointed CATII Plan Member Representative completed the School of Pension Investment Management (SPIM) course offered to new Pension Board members in 2022. The new CATI Plan Member Representative is expected to complete the SPIM course in 2023.

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. A slight decrease in scores was noted in the self-evaluations for 2022. The impact of Pay Equity legislation is a concern of the Pension Board.

The Board identified a need to establish forward-looking goals and the Board committed to developing a rolling 3-year Strategic Plan for the period from 2022 to 2024, which was realized in 2022 as the Pension Board Strategic Plan.

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.

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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.

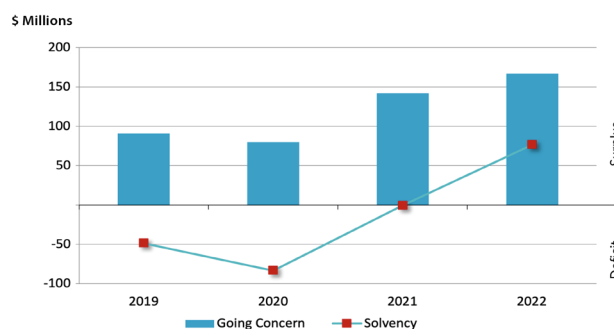
The valuation results of 2021 showed the Plan on the cusp of being fully funded from a solvency standpoint. In order to prepare for the 2022 valuation results, and the possible implications of a fully funded status at various solvency levels, a preliminary valuation was done as of July 2022.

A formal actuarial valuation was conducted as at December 31, 2022. The next valuation is scheduled for December 31, 2023.

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 2022, the Plan's going concern reported a surplus for the twelfth consecutive year, with a funded position of 147.2% or \$167M surplus.



The solvency-funded position was 118.6% or \$76.45M surplus. The 3-year average solvency ratio of 103.4% results in there being no minimum annual special payments for 2023.

The increase in the solvency ratio, previously 99.9%, reflects an increase in interest rates.

The Employer current service contribution rate for 2023 is 118.8% of employees' contributions (or an estimated \$8.3M), down from 152.3% in 2022. The decrease in current service contributions results from positive changes in valuation assumptions.

Per the ITA 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, the Employer contributions have ceased as of the filing of the 2022 valuation results. The pause on Employer contributions remains in place, pending the results and filing of the next valuation in 2024.

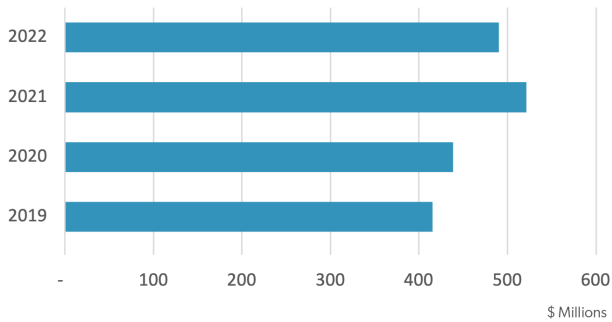
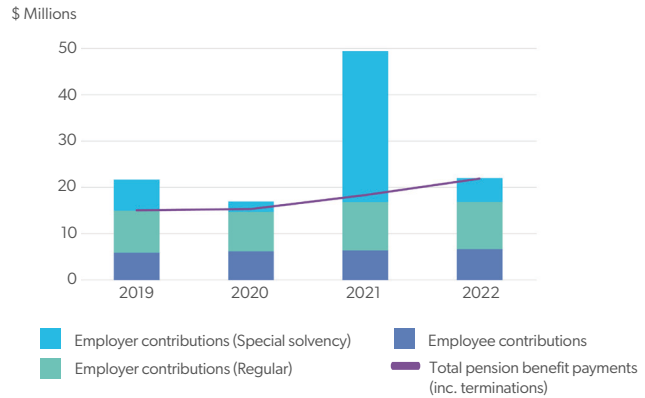
Pension Fund In-flow

Regular pension contributions totaled \$16.9M, with members contributing \$6.7M and the Employer contributing \$10.2M, resulting in an approximate 40/60 current service cost split.

Solvency deficit special payments by the Employer totaled \$4.7M and top-up payments for underfunded termination and death payouts totaled \$0.5M, resulting in total solvency-based payments of \$5.2M.

Pension Fund Out-flow

Pension-related payments from the Fund totaled \$22M, comprised of \$13M in retirement and survivor benefits, \$9M in lump sum refunds to terminated employees and beneficiaries. In addition, \$1.8M in investment management fees were paid for from the Fund.



Pension Assets

The Plan's assets totaled \$490M as at 31 December 2022, a decrease of \$31.4M over the previous year.



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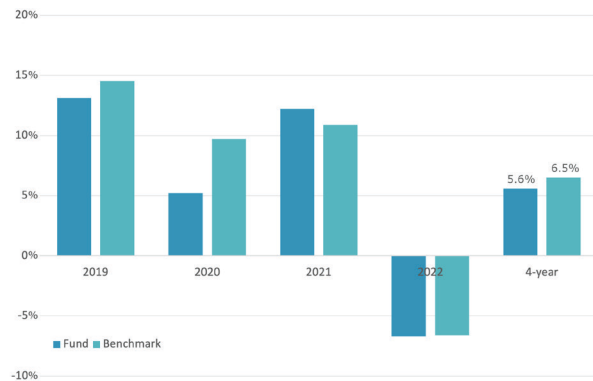
INVESTMENTS ►

Investment Objective

The investment objective of the Plan is to achieve a total annual rate of return, net of investment fees, which exceeds the rate of increase in the Consumer Price Index by at least 4% over a ten-year period. Performance is measured using a rolling four-year period.

The 4-year return was 5.6% versus the policy benchmark at 6.5%.

Gross returns, net of cash inflow for 2022 was at -6.7%, and one-year returns net of investment management fees were -6.0% in 2022, down from 11.4% in 2021.

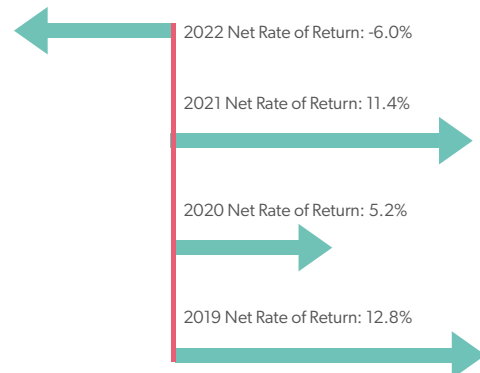


Investment Performance Monitoring

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.

Due to barriers encountered in the OCIO transition, the funds are temporarily invested in passively managed assets. Once the barriers are resolved and the transition is complete, the intention is to return to actively managed investments.

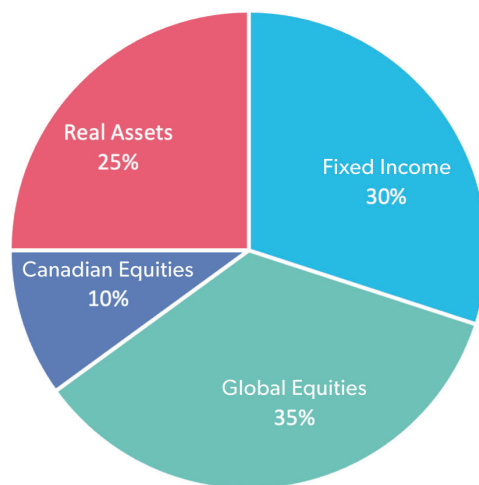


Investment Policy

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. 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. There were no required changes to the SIPP in 2022 as the most recent iteration permits passive investments within the policy's allocation targets.





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COMPLIANCE AND OVERSIGHT ►

Governance of the Plan must be compliant with the PBSA and ITA legislative requirements and it is also expected by OSFI to adhere to the CAPSA good governance guidelines.

No plan amendments were filed with the regulator in 2022.

Compliance Status (2022 filings for 2021 returns)

COMPLIANCE ITEM	COMPLIANCE STATUS	DATE
a. Filing of Solvency Information Return with OSFI	Yes	15 February 2022
b. Filing of actuarial valuation and actuarial report with OSFI/CRA	Yes	21 June 2022
c. Valuation assumptions and methods with regulations	Yes	21 June 2022
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	30 June 2022
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	29 June 2022
j. Member communication with regulatory requirements e.g. member statements	Yes	27 June 2022
k. Pension Assessment Remittance	Yes	24 October 2022

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 the Fall of 2022, the OCIO market review launched in 2021 concluded with the appointment of a new investment manager.

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 2022 fairly presented the financial position of the Plan.

The financial statements were approved by the CEO and filed with OSFI on 30 June 2023.



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STRATEGIC PLAN ▶

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

Recent years have seen the Plan operating under challenging circumstances. The global COVID-19 pandemic of 2020-2022 has proven that the Plan can, and did, withstand an unprecedented global upheaval. Despite this resiliency, it is crucially important to continue safeguarding the Plan in an ever-changing world.

In 2022, the Pension Board developed 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.

Many activities working towards the goals, both short term and long term in scope, were initiated in 2022. The following are highlights of the accomplishments.

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

The OCIO market search was completed along with the annual SIPP review. An Asset Liability study was initiated with the outcome to be determined in 2023.

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

An assessment of resourcing needs was completed which resulted in the recruitment of additional staff dedicated to the Pension Plan. 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 review of service standards with third-party service providers was conducted to explore refinement possibilities. Performance assessment is ongoing.

Goal 4: Improve the Plan member experience.

Additional pension content was made available on CORE with a review of member engagement opportunities ongoing.

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

Newly appointed Board members were seamlessly onboarded with both internal tools and external education offerings. The availability of external education and development opportunities is under review.

PLAN MEMBERS ►

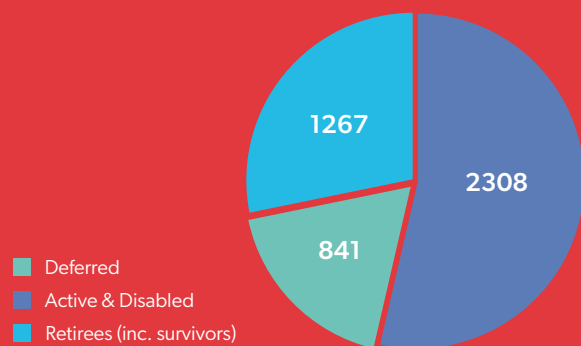


Plan Membership

Active membership in the Pension Plan increased by 0.6% in 2022 compared to 2021.

The number of new entrants in the Plan saw a slight increase in 2022 but remains steady at pre-pandemic levels.

The Plan saw 76 new retirements in 2022, which is a slight decrease from 2021, but is a return to a pre-pandemic annual volume.



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.

A member experience strategy is in development 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 2022 were issued to 3,010 active and deferred plan members, and their spouses. Pension statements were issued to 1,263 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 356 terminating or retiring members.

Unlegislated – The Pension Board Annual Report was published for all active members on CORE, and to pensioners and deferred members on CFMWS' website, to inform them of the Plan's financial status and Board activity.



CFMWS

STAFF OF THE
NON-PUBLIC FUNDS,
CANADIAN FORCES