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The Case for the Public Employees Benefit Agency (PEBA) as a Not-For-Profit Corporation to Empower Members

Prepared for the PEPP Board and MEPP Commission

April 2022 (Updated October 2022)

MNP

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Report Limitations

This report was prepared by MNP LLP ("MNP") at the request of the Public Employees Pension Board ("PEPB") and Municipal Employees' Pension Commission ("MEPC"). The two groups are herein referred to as the "Board and Commission". MNP undertook its work in consultation with the management team at the Public Employees Benefits Agency (PEBA).

Any use that a third party makes of this report or reliance thereon, or any decision made based on it, is the responsibility of such third party. MNP accepts no responsibility for damages, if any, suffered by any third party because of decisions made or actions taken based on this report.

The material in this report reflects MNP's best judgement considering the information available at the time of its preparation. MNP has relied upon the completeness and accuracy of all the information, data, advice, opinion, or representations obtained from public sources, comparative jurisdictions, reports prepared by other professional services firms, the Board and Commission and PEBA management. The findings in the report are conditional upon such completeness and accuracy of the information provided. MNP has not verified independently the completeness and accuracy of all of the information. All assumptions used in the financial analysis have been reviewed, accepted, and approved by PEBA management.

MNP reserves the right at its discretion to withdraw or revise the report should MNP be made aware of facts existing at the date of the report which were not known to MNP when it prepared the report. The findings are given as of the date hereof and MNP is under no obligation to advise any person of any change or matter brought to its attention after such date which might affect the report's findings and conclusions.

We understand the results of this study will be shared with other key stakeholders in the Government of Saskatchewan (GoS), pension plan members and other related stakeholders as appropriate.

Summary Assessment

April 2022
(Updated October 2022)

Mr. Louis Martel, Chair
Mr. Darren Henderson, Vice Chair
Public Employees Pension Board (PEPB)
110 – 1801 Hamilton Street
Regina, SK, S4P 4W3

Mr. Jeff McNaughton, Chair
Ms. Janice Wolfmueller, Vice-Chair
Municipal Employees' Pension Commission (MEPC)
110 – 1801 Hamilton Street
Regina, SK, S4P 4W3

Re: Analysis – Establishing the Public Employees Benefit Agency (PEBA) as a Not-For-Profit Corporation to Empower Members

Dear Sirs and Madam:

MNP is pleased to submit a report summarizing our analysis for the Board and Commission's proposed plan to establish PEBA as a not-for-profit corporation (NPC) to empower members. This summary assessment provides an overview of the key information in the report, plus a summary of our conclusions.

MNP Mandate

Under the direction of the Board and Commission, PEBA had completed foundational work on inter-jurisdictional research and comparative analysis of alternative models. PEBA had also developed detailed planning and business case analysis in terms of the future state model and its benefits.

PEBA, on behalf of the Board and Commission, asked MNP as an independent to review, refine and compile the information that has been completed to date into an analysis document that outlined a proposed business case for completing PEBA's journey to fulfill its service promise to members. MNP has reviewed and augmented existing work completed by the Board, Commission and PEBA management.

MNP's Summary Assessment

The establishment of PEBA as an NPC is about the Board and Commission completing their journey to independently deliver the highest quality service to members. **MNP has concluded that it is the next logical step in PEBA's evolution of continuous improvement for members.**

- Moving PEBA to an independent NPC provides plan members with the full authority over their pension plan through the Board and Commission. Plan **members do not have full control today.**
- What the Board and Commission have proposed is a "lift and shift" to move PEBA's pension administrator and investment functions, as they exist today, into a separate NPC. **What is being proposed would not change individual pension plan governance or entitlements for members.** There are also no changes proposed for services provided to the smaller pension and benefit plans that PEBA administers.

- This proposed next step in PEBA's journey is **consistent with best practice in Canada and Saskatchewan**. All other comparable provincial pension administrators in Canada have adopted some form of an independent corporate structure for their pension administration, with the exception of Prince Edward Island.
- MNP has identified that there are potential **opportunities for perceived or real conflicts** in today's structure.
- With the proposed change **members will continue to be served in the same way in the future**. The improvements for members are in terms of clarity in authority and unlocking PEBA's potential. Eventually the Board and/or Commission may be able to offer new or enhanced services to members.
- The primary rationale for advancing this initiative is qualitative in nature. There are quantitative opportunities as well. This initiative will provide **important flexibility for PEBA to respond to a dynamic and fast changing external environment, while also improving the organization's risk posture** in terms of governance, people and lower reliance on consultants.
- PEBA operates in an **unconventional structure** in which it is a part of the Ministry of Finance, but also accountable to the Board and Commission. The Government of Saskatchewan, plus the Board and Commission, have sufficient authority to significantly impact PEBA's priorities, operations and resources. However, each of those parties has a limitation on its authority. As a result, **no one body has the authority to oversee and provide good governance** to the whole of PEBA.

The Importance of Timing

Timing is a key part of this initiative. The opportunity to learn from the experience of other jurisdictions lowers risk for this initiative. The transition to an independent NPC in some other provinces was undertaken in response to a crisis or major problem. This is not the circumstance in Saskatchewan. In our discussions and analysis, MNP did not identify or hear about any significant underlying issues or problems at PEBA. **This is an opportune time to undertake the proposed change. It is a time of stability.** In fact, it is lower risk to implement a change of this nature during a time of stability.

We look forward to continued discussions with the Board and Commission, plus representatives from other stakeholder groups. It will be valuable to share the opportunity of this proposed initiative, the results of MNP's analysis and answer important questions. Please let us know how we may be of assistance.

Sincerely,

MNP LLP

MNP LLP
Regina, Saskatchewan

MNP Mandate

A Request for Proposal (RFP) was issued by PEBA on June 28, 2021, on behalf of the Board and Commission, for an independent review and assessment of the case for change. Under the direction of the Board and Commission, PEBA had completed foundational work on inter-jurisdictional research and comparative analysis of alternative models. PEBA had also developed detailed planning and business case analysis in terms of the future state model and its benefits. MNP has reviewed and augmented the existing work completed by PEBA management.

PEBA, on behalf of the Board and Commission, selected MNP as an independent, expert consultant to review, refine and compile the information that has been completed to date into an independent analysis that outlined a proposed case for completing PEBA's journey to fulfill its service promise to members. The document needed to address the specific needs and questions of a range of stakeholders including the Minister, Ministry officials, pension plan governing bodies, and pension plan members.

MNP's mandate was to complete an independent analysis to review the initiative based on the Board and Commission's proposed restructuring of its pension plan administration, including an articulation of the benefits, costs, employee, and employer impacts as well as further advice on governance and corporate services matters. The report was asked to include inter-jurisdictional comparisons, information on best practices, and a summary of PEBA's engagement plan.

This document may be used in stakeholder engagement, and in various discussions, to support transparency and accountability.

Assessment of the Strategic Opportunity

Continually Improving Member Service in a Dynamic Canadian Pension Landscape

The pension sector in Canada is dynamic and fast changing. The Board and Commission have demonstrated a strong awareness and understanding of how the pension industry is changing and evolving. This proposed plan is about unlocking opportunity and achieving PEBA's potential. The Board and Commission have demonstrated to MNP that they are strongly rooted in an understanding of the external environment. This includes:

- The evolving needs and expectations of members for quality programs, competitive investment returns, accessible benefit programs and seamless service delivery;
- Opportunities for technology and data to expand customized service delivery options to better serve plan members and their families;
- Identifying the primary strategies that are required to manage modern pension and benefit programs with foresight and professionalism; and
- Strong foundations and processes in place in terms of risk awareness and risk management.

There are a variety of business drivers that shape the pension and benefit administration sector in Canada. These drivers include life expectancies in concert with retirement preferences, which can influence in turn contribution rates, benefit ages or service requirements.

When it comes to assessing the business case of the Board and Commission to establish PEBA as an NPC, it is important to consider the external environment and the organization's capacity to proactively respond with strategic foresight and purpose. There is a valid rationale that PEBA as an NPC operating independently from GoS can be more responsive to the current and emerging business drivers in the external environment.

MNP has identified five dominate business drivers in the external environment that are key considerations for pension and benefit program administrators. These drivers include:

1. **Competition for Talent**: Competition for talent is not only about having adequate capacity, it is also about having critical capabilities in place that are in high demand. Illustrative examples of critical capabilities increasingly in demand are investments, cyber security and data analytics. Pension and investment administrators are required to have resident expertise in cybersecurity to address the intensifying risk in this area. In data analytics, sourcing, interpreting, and presenting data is a core competency needed for insights-driven management and governance.

   Investment talent continues to be a particularly challenging area to recruit and retain talent, particularly in the highly compensated areas of investment analysis, monitoring, reporting and in-house investment management. Attracting and retaining in-house investment management talent requires flexibility for performance-based incentives. Overall, hiring and retaining employees with both the needed experiences and skill-based knowledge is expected to be a significant challenge.

2. **Innovation and Leader in Investment Services:** PEBA was one of the first pension administrators in Saskatchewan to build an investment team with a base level capacity for administering a defined contribution pension plan. However, other Canadian public sector pension administrators have been able to grow their own in-house investment capability more fully. Talent that has been developed by PEBA has been recruited by other pension administrators in Saskatchewan. In the future, PEBA would benefit from added flexibility to attract and retain specialist roles based on the evolving marketplace and trends.
3. **Increasing Technology Intensity of the Pension Sector**: Pension plan and benefit plan administrators are faced with the imperative to invest in online services to both meet the demands of members and employers as well as to manage costs. Increased digital service delivery elevates priorities to strengthen the state of cybersecurity together with maintaining the trust of members (e.g., online accounts), employers and Trustees. Added to this are pressures to stay current with the latest technologies including cloud, artificial intelligence, and data analytics, the application of which extend beyond how services are offered to the automation of core functions (e.g., payment determinations) and the use of information in decisions.
4. **Diversification of Member Service Needs and Preferences**: Not only is diversity found in the demographics of membership in pension plans, but also in service preferences. Digitally enabled access to information and online, interactive services have been prominent in this regard. Yet, there also remains members who seek offline interactions, be it in-person or by phone, leading to such considerations as call desk solutioning with a CRM system. Across all these channels are the common needs for timely and personalized responses to inquiries along with resolutions.
5. **Evolution in Union and Employer Expectations**: Unions and employers are seeking evolution in means of access to, and the nature of, information among other supports. This is translating into expanded e-learning opportunities for members and employees, plus personalized planning and analysis for the member and employee. At the same time, unions and employers view quality pension and benefit programs with modern service as a competitive advantage in attracting and retaining their own talent through a part of their total rewards package.

MNP has observed that public sector pension and benefit administrators that operate independently from governments are better positioned to be responsive and proactive in addressing these external factors. The primary beneficiaries are plan members. Members expect their pension and benefit programs to be looking out for their best interest, while seamlessly undertaking their work quietly in the background. Fulfilling the promise to members in today's dynamic and changing pension environment requires clear governance and management models to ensure decisions can be made at the pace of member needs.

The Strategic Case for PEBA's Next Logical Step

Completing the Service Promise to Members

The establishment of PEBA as an NPC is about the Board and Commission completing its journey to independently deliver the highest quality service to members. MNP has concluded that it is the next logical step in its evolution of continuous improvement for members.

MNP has seen firsthand how the Board and Commission are focused on nurturing and growing a modern and sustainable pension administration entity that will ensure the needs of members are first. This initiative is strategically focused on unlocking opportunity and providing PEBA the flexibility to achieve its future potential.

What is being proposed is not changing individual pension plan governance. This is a "lift and shift".

The current governing bodies that represent members today will continue to effectively oversee plan members' pension savings tomorrow. Moving PEBA to an independent, NPC provides members with the full authority over their pension plan savings. Plan **members do not have full control today through their governance bodies.** The Board and Commission do not have the full authority to serve their members. What the Board and Commission have proposed is a "lift and shift" to move PEBA as it exists today into a separate, NPC.

This proposed next step in PEBA's journey is consistent with best practice in Canada and Saskatchewan. All other comparable provincial pension administrators in Canada have adopted some form of an independent corporate structure for their pension administration, except for Prince Edward Island. In addition, the other major pension plans in Saskatchewan including Saskatchewan Healthcare Employees' Pension Plan (SHEPP) and Saskatchewan Teachers' Retirement Plan (STRP) are both managed by an independent, NPC. This model has proven to work in Saskatchewan.

> *"This proposed next step in PEBA's journey is consistent with best practice in Canada and Saskatchewan."*

The proposed NPC will **continue to provide the same services to the smaller pension and benefit plans** PEBA supports on a cost-recovery basis. This will provide continuity in service for these plan members and allows clients who are members of multiple plans to continue to access services through a single administrator.

The Clarity of Independence.

Moving forward provides clarity. Today PEBA provides administrative services to 12 pension plans and 23 benefits plans in the province for more than 100,000 members. The PEBA team effectively works behind the scenes to ensure that hard working Saskatchewan members have access to their pension benefits as retirees, are safely and effectively preparing for the retirements of tomorrow's retirees and providing the essential employee benefits that families rely on each day. PEBA takes pride in its mandate. The team undertakes its work with humility and a commitment to service each day.

How does pension administration work today?

In fulfilling its responsibilities today, **PEBA operates well** and the organization provides strong service to its members. PEBA's service scores are above peer averages in the pension industry, as assessed by CEM Benchmarking. Both the Board and Commission have a key performance indicator that targets service satisfaction scores above 80 per cent. PEBA consistently exceeds targets in bi-annual members surveys.

The governance relationship, however, is unconventional. The Assistant Deputy Minister (ADM) reports and is accountable to GoS via the Deputy Minister and Minister of Finance; however over 80 per cent of PEBA's budget is approved by the Board and Commission. No funding comes directly from the provincial budget for PEBA's operations; all operations are funded by the pension and benefit plans PEBA administers. A simple example that underlines the lack of clarity and systemic challenges in the governance model today is that the GoS owns pension administration assets, however these have been paid for by pension plan member's money. Independence would help provide clarity in governance in a range of areas and help ensure that members are properly represented.

MNP has identified that there are opportunities for perceived or real conflicts in today's structure. **It is important to underline that MNP is not aware of any current material governance issues.** This is an opportunity to be proactive and forward looking to ensure members are always in control.

How would pension administration be different in the future?

In terms of member service, members should expect to see no difference as a result of this change in governance in the short-term. The improvements for members are in terms of clarity in authority. In the proposed future state, PEBA would be established as an NPC structured to deliver solely on the member's interests. **A new structure would complete PEBA's promise to its members and align to best practices that have proven successful in other provinces.** PEBA would have a Board of Directors whose sole focus is PEBA operations and service to members. The PEBA Board of Director's mandate will include ensuring continuous improvement of service for members and cost-effective management of pension funds.

The Board and Commission would continue to provide direct oversight for member's pension funds, retaining all the same responsibility they have today to set investment policy and strategy. The Board and Commission would continue to contract investment management through qualified investment firms and have the same authority to oversee and manage performance. PEBA works today as a partner to support the Board and Commission with the management and oversight of investment managers. This would continue. In addition, the establishment of an NPC would provide flexibility and options for the Board and Commission to assess the value for members of bringing portions of lower risk, less intensive investment management in-house within PEBA. Other comparators to PEBA in Canada have been able to achieve significant cost savings for members through undertaking prudent and incremental in-house management with strong governance oversight.

Proven models lower transition risks for PEBA. The advantages of learning directly from other public pension administrators.

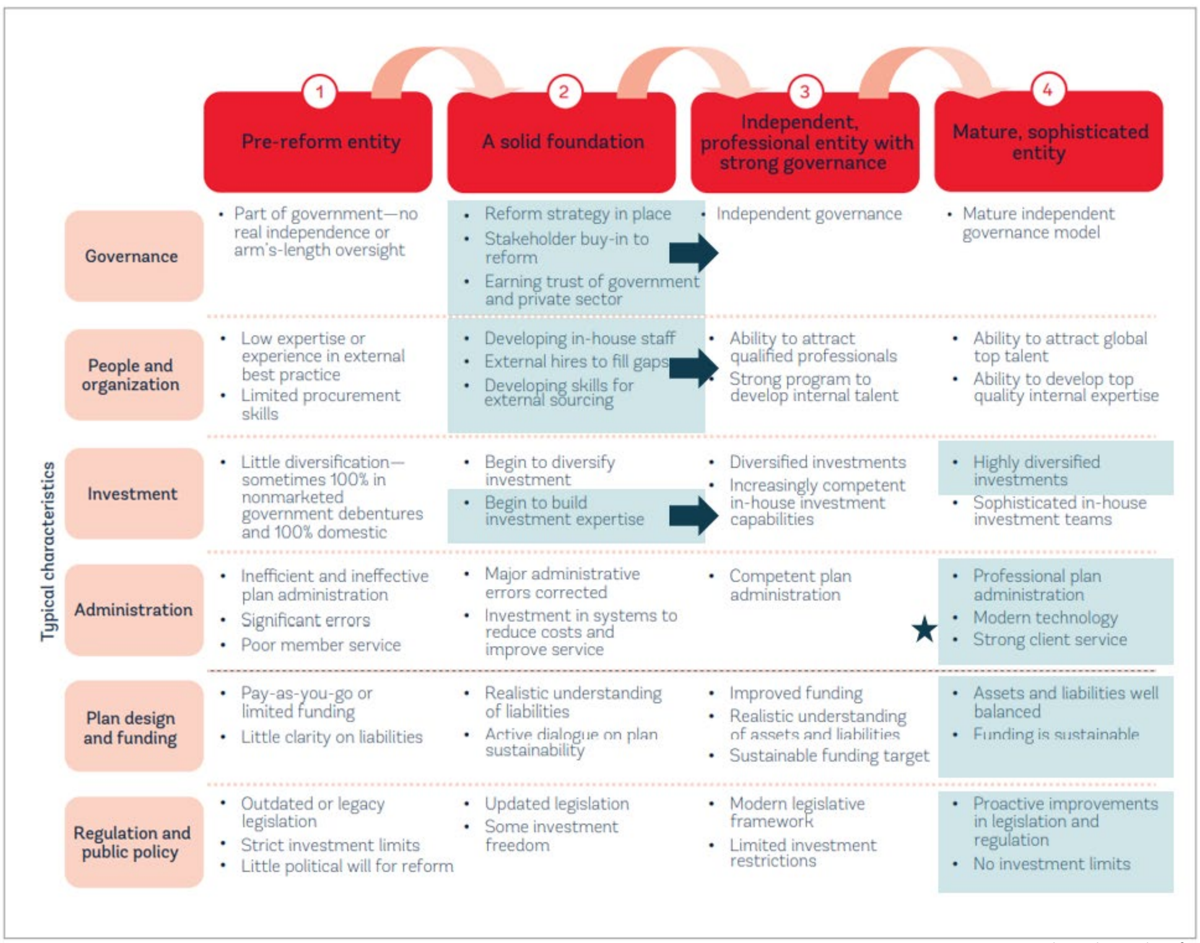
Being structured as an independent pension administrator to serve member's interest is the standard in Canada. To support the development of this business case, MNP and PEBA spoke directly with the CEOs in key comparator provinces. In addition, MNP drew on its experience working directly with other public pension administrators in Canada. MNP has gained an understanding of their specific circumstances, the rationale for them to change structures, the approach they undertook, and most importantly the lessons learned they gained from the journey.

In addition, other large public sector pension plans in Saskatchewan are successfully operated as an NPC including SHEPP and the STRP.

Unlocking PEBA's Future Potential by Adopting Canadian Best Practice for Pension Administration

The Board and Commission are proposing that PEBA be provided the flexibility to adopt Canadian best practices for pension administration. The following diagram is from the World Bank's 2017 report entitled "The Evolution of the Canadian Pension Model: Practical Lessons for Building World-class Pension Organizations". The diagram provides a maturity index for pension administrators. PEBA's current position on the maturity index is highlighted in the blue boxes.

Maturity Index for Canadian Pension Administrators – World Bank (2017)



★ *PEBA is currently in the midst of a technology modernization program*

MNP has identified PEBA to be a mature, sophisticated entity today in terms of administration, plan design and funding, regulation and pension policy. PEBA is partially mature and sophisticated in terms of investments. There are three areas where MNP has identified PEBA is lagging other comparators in Canada by having a solid foundation. This in the areas of governance, people and organization, plus the depth of use for in-house investment teams. Evolving PEBA to an NPC would provide the flexibility for PEBA to unlock its future potential and mature in each of these three specific areas. This maturity index model has affirmed the direction of the Board and Commission based on Canadian best practice and provides context for the value proposition for stakeholders.

Enhanced Opportunities to Implement PEBA's Strategic Plan

Proceeding with a "lift and shift" of PEBA into an NPC will provide enhanced opportunities to implement its strategic plan. MNP held extensive conversations with the PEBA leadership team to understand and explore how additional flexibility will improve the achievement of the organization's strategic priorities.

MNP has determined that PEBA operating as an NPC would have the opportunity to better fulfill its mission, vision and values which include:

MNP has identified these potential improvements in two categories. The first focuses on strategies to support member service. The second category focuses on strategies for business operations.

Enhancing Strategic Priorities Focused on the Member

- Continue the path to enhance digital portals and planning tools to better serve plan members; reduce the need for paper-based processes.
- Strengthening member and stakeholder engagement on an on-going basis.
- Evaluate and consider potential product offerings that would support the needs and goals of members.
- Enhancing Board and Commission governance and reporting to improve accountability and control for members.

Better Supporting Strategic Priorities for Business Operations
• Streamlining reporting and decision making with added clarity in governance roles, modernized governance, and expanded focus on data-driven reporting. • Implementation of a product development framework to proactively respond to the evolving needs of members. • Ability to more completely assess PEBA capital asset and finance models to ensure optimal efficiency and planning of internal corporate resources. • Advancing the data analytics strategy to move PEBA from a metrics-driven organization to a data-driven organization with actionable insights to better inform decisions. • Develop greater awareness of PEBA as a leader in the pension industry and as a great place to work.

Summary of the Stakeholder Value Proposition

The Board and Commission, together with senior management at PEBA, have given considerable thought to building a value proposition that balances the needs and interest of a broad group of stakeholders. Through our work together, MNP has asked extensive questions of the team to understand the proposed "lift and shift" an independent NPC.

Through our discussions the Board and Commission have been consistently focused on the plan member. The needs and interests of the member have been at the core of our conversations and work together. In developing this initiative, the Board and Commission have been consistent and purposeful to serve the best interests of members. Through our independent analysis, MNP believes a clear and compelling case has been provided in advancing and serving the interests of members. This section of the business case, and the balance of the report, provides context for this conclusion.

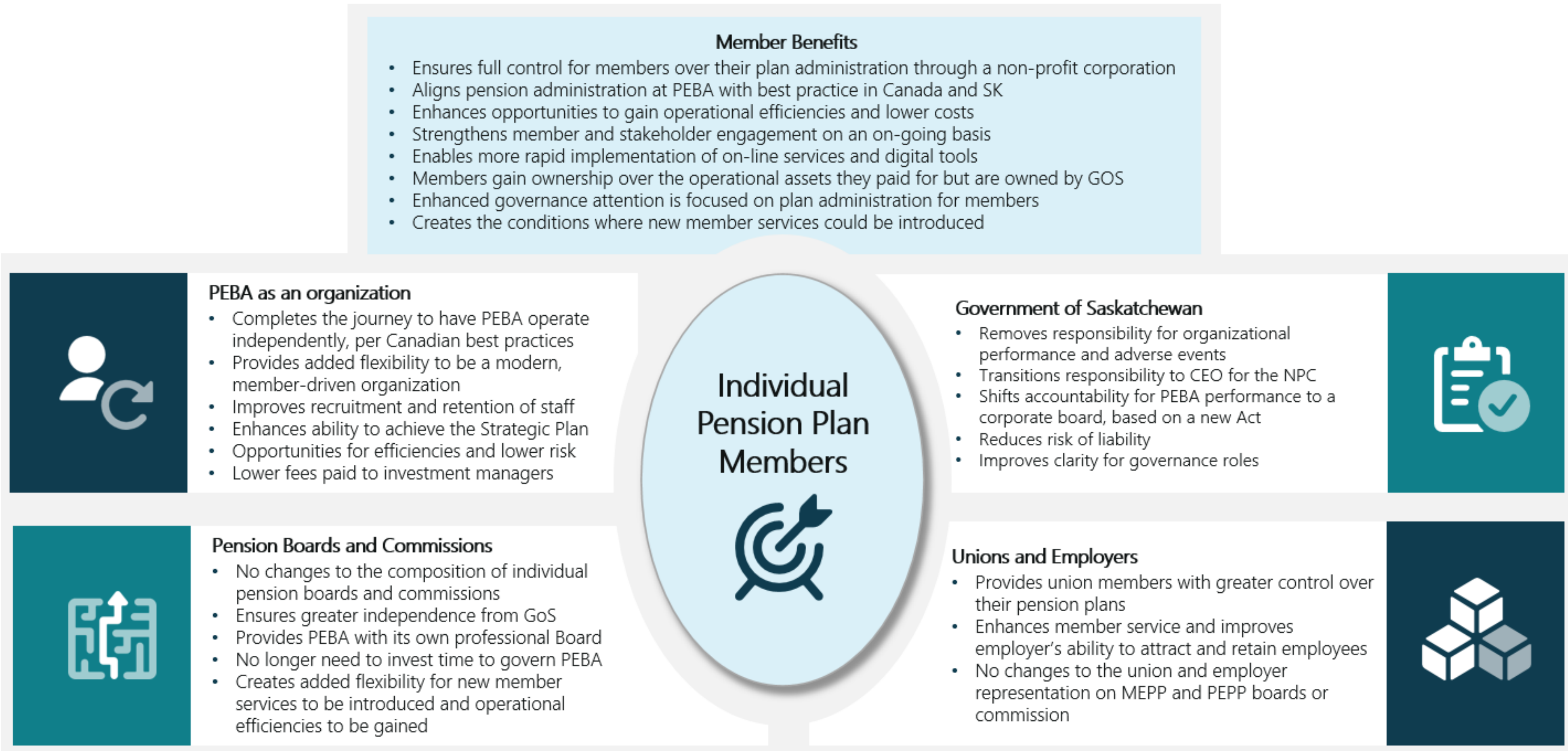
In meeting the needs of plan members, the Board and Commission have also considered the important needs and interests of a broader range of stakeholders including: PEBA as an organization; the individual pension boards and commissions (which includes the individual boards or commissions for all the pension plan and benefits plans under PEBA's administration); the Government of Saskatchewan; plus, unions and employers. PEBA's track record has been built on steadily meeting the needs and interests of the each of the distinct and important stakeholders.

> "*In developing this initiative, the Board and Commission have been consistent and purposeful to serve the best interests of members.*"

MNP has prepared the following Stakeholder Value Proposition Map to provide a summary of the key benefits of this next step for each key stakeholder group.

Stakeholder Value Proposition Map

The following diagram provides a summary of the key benefits for a diverse range of key stakeholders:



Additional details on the benefits to stakeholders are outlined below.

Plan members are at the Core

The Board and Commission have placed plan members at the core of the planning and design for a new NPC. The key benefit of the proposed change is that it ensures members have full control over their plan administration in a corporation that is separate from government. The proposed model has been proven to work effectively in Canada. The Board and Commission's plans for an NPC have been informed by best practices in other provinces and is similar to changes with other Saskatchewan pension administrators including SHEPP and STRP.

MNP has identified that the NPC would have added flexibility to gain operational efficiencies and lower investment costs. Having more autonomy will strengthen the culture of member and stakeholder engagement. In addition, plan members would gain direct ownership over the assets that they have paid for but are currently owned by GoS. PEBA would also have additional flexibility to make important investments into on-line services and digital tools to better serve members. Finally, the NPC would provide the conditions for the Board and Commission to consider new member services in the future.

Clarity of Purpose and Sustainability for PEBA

The proposed change completes the journey for PEBA to operate independently. Establishing an independent NPC under the oversight of a Board of Directors provides the opportunity to improve enterprise governance with a focus on continuous improvements. This has the potential to improve performance, identify efficiencies and improve the risk posture for the organization. PEBA will have added flexibility to be a modern, member driven organization in the long-term. A key organizational risk is the attraction and retention of experienced staff to serve members. PEBA would be able to adopt human resource approaches that are better aligned to the financial services industry. The result would be better retention, improved enterprise competencies and improved enterprise performance. Operating as an NPC is an important step to addressing a range of business risks including staffing.

Clarity of Authority for the Board and Commission

It is important to underline that there are no changes being proposed to the composition of individual pension boards or commissions. A new Corporate Board would be created for PEBA. This change will provide the opportunity for the Board and Commission to place greater attention and focus on the strategic issues related to their respective pension plans. The hope is that a greater focus on pension plan-specific issues will lead to continuous improvements in plan governance and improved plan performance for members.

Clarifies Responsibility for the Government of Saskatchewan

According to the *Financial Administration Act* Section 64, PEBA operates under the direction of the Minister of Finance, however no public funds are allocated for PEBA's operations. MNP has learned that PEBA operates with a high degree of independence from GoS today. It is trusted and steady. The GoS would have its perceived and real responsibilities removed under the proposed transition. This will provide simplicity to GoS. In addition, some plan members and stakeholders likely perceive that GoS has more responsibility, accountability, or indemnification than it has today. Without consulting legal opinion, it is reasonable to expect that GoS indemnifies PEBA in the case of fraud or a cyber incident.

The creation of an NPC provides clarity for all stakeholders during a time of stability. Authority and responsibility will reside with the Corporate Board and the CEO. The NPC will assume liability and risk. This move helps to protect the public interest and all taxpayers in the province.

Timing is an important part of this opportunity. The organization can more successfully make the proposed transition in stable circumstances now, versus considering change in response to a crisis as has occurred in other provinces.

Peace of Mind and Clarity for Unions

Pensions are an important topic for unions in Canada. Security and quality of life are key priorities for unions and their members. There are several circumstances in Canada of public sector trade unions being concerned or impacted by unilateral government action affecting their pension plans. The new structure will provide clarity on governance authority and roles and ensure that the Board and Commission have authority and control. Trade unions are well represented on the Board and Commission. Union representatives are informed and highly engaged to ensure the interests of unions and their members are protected. The Boards and Commission have proactive plans in place to engage with union leaders on the transition to an NPC.

MNP believes that the proposed plans outlined by the Board and Commission provide meaningful benefits to all key stakeholders. Plan members gain control over their service provider. All stakeholders are likely to be better served and protected. Plus, the proposed NPC helps protect the public interest and taxpayers in the province. This is a preferred time to make the proposed transition with stable circumstances that can best support implementation.

Models Evaluated

Alternative Models Evaluated

Evolving the delivery of pension administration in Canada is not new. Based on the dynamic external environment and forces outlined earlier in the report, the models of pension administration have continually advanced. Saskatchewan is currently the only jurisdiction, aside from Prince Edward Island, to not have an independent pension administrator for provincial government pensions. Before recommending a model for the Board and Commission, MNP considered a range of potential delivery models.

Description of Models

MNP identified five primary models for consideration and analysis when assessing paths forward based on Canadian best practice and the goals of the Board and Commission. These models include:

1. Crown Corporation Model

An alternative model could be a Treasury Board Crown Corporation given the not-for-profit nature of the enterprise (as opposed to a Commercial Crown Corporation under the mandate of Crown Investments Corporation). A Treasury Board Crown Corporation model would require that the organization report to a Minister of the Crown. This model does not provide the clarity in governance or accountability that the Board and Commission are seeking. This model does not have the degree of independence compared to other Canadian best practices. There remains the potential risk in the future for political direction or interference in this model. Remaining an agent of the Crown may limit PEBA's ability to realize opportunities for cost savings in various areas.

2. Established as a Not-For-Profit Corporation under The Not-for-profit Corporations Act/Business Corporations Act

There is an opportunity to establish the not-for-profit corporation under *The Not-for-profit Corporations Act, 1995/Business Corporations Act*. These Acts sets out the rules for the incorporation and registration of not-for-profit and business corporations in Saskatchewan.

This model would allow the new Corporate Board the ability to address operational priorities identified by the Board and Commission related to talent retention and enterprise level initiatives. It would also allow the NPC the ability to remain independent of GoS. However, establishing the NPC under these Act(s) would require that the NPC be subject to all the terms of that Act and could be subject to interpretation. This jeopardizes administrative and operational control, as well as efficiency and clarity of governance.

3. Each Plan Establishes a Separate NPC

In this option, the Board and Commission would create separate NPCs to manage administration and investment services of their respective plans. The plans currently have the legislative authority to purse this model. This option would allow for clear lines of accountability and governance but would create duplication.

However, the key limitation of this model is that it would not allow the organizations to realize operational efficiencies or cost savings through enterprise level initiatives. This model would be a step backward and unwind the efficiencies and organizational capacity that PEBA has developed as an integrated pension and investment services administrator. If the recommended joint trustee model is not adopted, the plans may pursue this model independently. It is unclear how the services that PEBA provides to these plans would be managed in this situation. This scenario would likely result in a more complex operating environment. Economies of scale would be eroded, and pension plans would need to compete in recruiting PEBA staff.

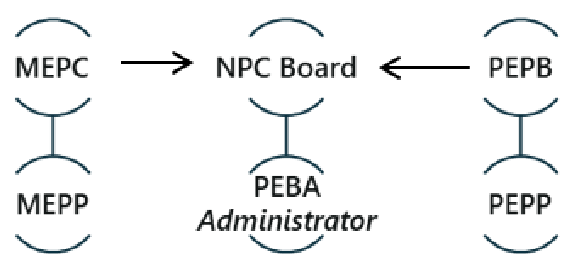
4. Establish a Not-For-Profit Investment Corporation Only

In this option, administrative services provided to plans would remain part of PEBA. PEBA would remain a division of the Ministry of Finance and continue to report to GoS, as well as the Board and Commission. The Investment Services Branch of PEBA would transfer out of GoS and create a separate investment management corporation. The employees and the responsibilities of the Investment Services Branch of PEBA would transfer to the corporation. This option would allow the investment services corporation added flexibility to attract and retain top talent that is critical for investment advisory and allow the corporation to operate independently from government. However, like other models considered, this model does not offer the governance clarity or independence sought based on Canadian best practice.

6. Statutory Not-For-Profit Corporation (Recommended Model)

The option recommended by the Board and Commission is the establishment of a statutory NPC that is governed by a Corporate Board. The balance of control of the NPC will be split equally between the Board and Commission. There would be no changes to the existing board and governance structures of the Board or Commission. The NPC would still provide administration and investment services to the other pension and benefit plans PEBA currently manages through charging a fee based on cost recovery.

MNP believes that establishment by statute is most clearly aligned with Canadian best practices and best satisfies the criteria established by MNP. Creation through a statute allows the GOS and the NPC to tailor the statute to contain only the terms relevant to the structure of the NPC. The model also allows PEBA to mitigate current risks related to governance and talent retention. It also provides the flexibility for the organization to realize future opportunities and respond to the dynamic external pension environment with the greatest agility.



This model provides the governance clarity that is being sought by the Board and Commission and would be best aligned to the interests of members. The pension plans will continue to be subject to the *Pension Benefits Act, 1992*.

There are design decisions related to Board governance of the NPC that will need to be considered. This is discussed in more detail in the Considerations and Implications section.

Approach to Analyzing Models

In analyzing the opportunities and constraints that exist in the models, MNP has considered a range of criteria reflecting the interests and needs of various stakeholders. As part of MNP's review, a summary-level analysis of alternative models that could be used was conducted by understanding the alignment of alternative models to a set of criteria.

Definition of the Criteria

MNP identified the criteria through conducting research on best practices in Canadian pensions, interviewing the Board and Commission Chairs and Vice-Chairs, speaking with other jurisdictions and consulting with MNP's governance and pension experts.

- **Clarity in Governance and Accountability:** A governance structure that provides clear lines of accountability and decision-making authority to help manage risk.
- **Retain and Attract National Class Talent:** Ability of the model to attract and retain national class talent through competitive pay and promising career opportunities.
- **Independence from Government Direction:** Ability of the model to allow PEBA to make administration and investment decisions based solely on their mission and without the potential for Government interference.
- **Operational Efficiency:** Ability of the model to generate efficiencies and optimize resource usage through enterprise level initiatives.
- **Cost effectiveness:** The model's ability to lower total costs for plans and members through realizing savings opportunities such as developing in-house expertise and reducing reliance on consultants.
- **Responsiveness to External Drivers:** The model's organizational agility to respond to a dynamic pension environment and rapidly evolving client needs.

Evaluation of Models Based on MNP Criteria

MNP developed the following summary assessment of the alternative models relative to set of independent criteria:

Alternative Models	Clarity in Governance & Accountability	Ability to Retain National Class Talent	Independence from Government Direction	Administrative Efficiency	Cost Effectiveness	Responsiveness to External Environment
Crown Corporation		✓		✓		✓
Established Under Business Corporation Act		✓	✓			✓
Plans Establish Separate Non-profit Corporations	✓	✓	✓			✓
Establish Investment Corporation Only		✓		✓	✓	✓
Statutory Non-Profit Corporation (Recommended Model)	✓	✓	✓	✓	✓	✓

MNP has determined that the NPC is the model that is most likely to deliver on the priorities and outcomes identified by the Board and Commission. It also the organizational model that is best suited to contribute to the achievement of the benefits outlined in the Stakeholder Value Proposition section of the report.

Best Practice Case Studies

PEBA has an advantage in terms of the proposed transition. There are important opportunities to learn from other pension administrators to better serve the interests of members and lower transition specific risks. Except for Prince Edward Island, all provinces in Canada have undertaken reforms to independently administer public pensions and facilitate investment management. PEBA has explored and assessed alternative models in Canada.

Highlighted below is a case study on three comparator organizations in Canada that are of relative size in terms of assets and members for PEBA. MNP completed additional research of publicly available information through each organization's websites and annual report. MNP, together with the Acting Assistant Deputy Minister who leads PEBA, held virtual interviews with the CEOs in each of these organizations. The research and interviews helped better inform the case for change for PEBA and to ensure that lessons learned are proactively incorporated into the initiative.

The three case studies are provided below for Vestcor Inc, Provident[10] and the Nova Scotia Pension Services Corporation.

Comparator Name and Location	**Vestcor Inc., Fredericton, New Brunswick (NB)**
Key Statistics	• Formed in July 2016. • Approximately $19.4 billion in assets and 103,300 individual pension plan and benefit program members; serve more than 130 employer groups.
Previous Structure & Governance	• Under the previous model the provincial government had responsibility for governance and operations of pension administration and investment management.
Current Structure & Governance	• Created an independent not-for-profit corporation for pension investment administration. • Vestcor Inc. is owned by Vestcor Corp which is a joint trustee model designed with 50-50 ownership between the Teacher's and public service pension plans (New Brunswick Teachers' Pension Plan and the province's Public Service Shared Risk Plan). • Ensured the fiduciary duty was focused on the member with no profit motive.
Rationale for Change	• Conflicts of interest had arisen in the past according to government. • NB was in a position where their public pension program was underfunded; faced external challenges in financial markets a decade ago as a result of the market downturn in 2008. • Reached an agreement to adjust contribution rates and ratios. • Addressing the funding position provided the opportunity to update the governance model. • Ensure that members continue to receive great service that is cost efficient.

Transition Approach	• Approach was a "lift and shift". • Identified that a joint trustee relationship would be most effective. • Set up a multi-stakeholder governance working group to define the future state governance model. • Difference in asset size between the two main plans but decided on a 50-50 ownership model. • Focused on continuing to use an in-house investment management group. • Service model is flexible to provide investment management or administration services to some pension plans, but not all plans. • Consciously chose a brand that did not have New Brunswick in the name in order to provide flexibility to potentially provide services to additional pension plans. • Full transparency and accountability in reporting remained.
Lessons Learned	• It is good to be open and upfront about any costs that may change as a result of the transition. • A small number of staff were reluctant to leave government; important to be flexible; provided a one-year option for staff to return to government. • Communication is key. There is a large number of stakeholders to keep informed and bring along in the journey.
Relevance to PEBA	• PEBA is proposing a "lift and shift" to provide continuity in operations and member service. MNP has reviewed and outlined operational considerations in this report. • Proposed creating a Governance Working Group to define the governance model for the new organization. • MNP has identified potential cost changes of implementing a new model based on best available information. • Plan to provide flexibility for staff to return to government if a position is available. • Developed a proactive stakeholder engagement plan that is comprehensive.

Comparator Name and Location	Provident[10], St. John's, Newfoundland and Labrador (NL)
Key Statistics	• Formed on March 31, 2015. • Approximately $10.9 billion in assets and over 55,000 members; serve 40 employer groups.
Previous Structure & Governance	• Under the previous model the provincial government had responsibility for governance and operations of pension administration and investment management.
Current Structure & Governance	• Created an independent not-for-profit private sector corporation for pension administration and oversight of the public service pension plan fund. • Joint trustee governance model. • Ensured the fiduciary duty was focused on stakeholders; no profit motive.
Rationale for Change	• Broad pension reform initiative supported by the government and five of the largest unions to maintain the defined benefit pension plan to be fully funded in 30 years. • NL was in a position where their public pension program was significantly underfunded. • Government and members needed to provide an injection of capital. • Reached an agreement to adjust eligibility and benefit levels. • Potential for real or perceived conflicts of interest and political direction. • Service standards did not exist, and service levels were inconsistent. Lack of resourcing and gaps in investment oversight. • Significant push from unions to change governance to a joint sponsored model. As a result of pension reform, government would reduce their liabilities under the jointly sponsored model whereas surplus and deficits are shared between the employer and plan members • Ensure that members receive great service that is cost efficient.
Transition Approach	• Identified that a joint trustee relationship would be most effective. Established a joint sponsorship agreement. • No implementation planning was completed. The first step was to hire a CEO for the new not-for-profit organization (NPO). CEO lead operations planning and implementation. • The first nine months were focused on building the structure and operations for the new entity. • Established clear roles, responsibilities, and goals between the Board and CEO. • Identified an organizational structure, compensation model and competencies. Assessed the ability of individual staff to fulfill the roles. • Transparency and accountability in reporting.

Lessons Learned	• Ensure that implementation is considered throughout the planning process to prepare the organization to be successful. • Ensure any underlying management or organizational issues and problems that are not known today are public. • Have a solid strategic communications plan. • Respect that the member is the true stakeholder in this journey. • Proactive meetings with unions and employers to build understanding and a shared commitment. • Success is best achieved with a positive, long-term relationship with government. • Constant reminder with all stakeholders as to "why" reform happened
Relevance to PEBA	• The Board and Commission have been clear that this initiative is specifically focused on clarity of governance and organizational viability. MNP has not identified any underlying management or organizational issues at PEBA. • PEBA has developed a strategic communications plan focused on sharing information openly and sustaining long-term relationships with members, unions, employers and other stakeholders.

Comparator Name and Location	**Nova Scotia Pension Services Corporation, Halifax, Nova Scotia**
Key Statistics	• Formed on April 1, 2013 • Approximately $13 billion in assets and over 74,000 members • Provides pension administration and investment management services to the trustees of the Public Service Superannuation Plan (PSSP) and the Teachers' Pension Plan (TPP), plus provides administration services for some closed legacy plans and for MLAs, deputy ministers, and provincial judges.
Previous Structure & Governance	• Replaced the former Nova Scotia Pension Agency which was created in 2008 as a special operating agency. CEO of the Agency reported to the Minister and Deputy Minister. • Prior to 2008, the Department of Finance had direct responsibility for pension administration and investment management of the PSSP and the TPP (and for MLAs, deputy ministers, and provincial judges). • The TPP moved from sole trusteeship by the Minister to a corporate joint trusteeship model in 2006. • The PSSP moved from sole trusteeship by the Minister to a corporate joint trusteeship model in 2013.
Current Structure &	• Created as an independent NPO for pension administration and investment management.

Governance	• Co-owned by the corporate trustees of the PSSP and the TPP. • The board of NS Pension has equal representation from the corporate trustees of the PSSP and the TPP. • No profit motive. NS Pension's operating costs are primarily allocated between the PSSP and the TPP (with a modest amount billed to the Province for servicing the closed legacy plans, MLAs, deputy ministers, and provincial judges).
Rationale for Change	• Removal of government involvement in pension administration and investment management eliminates actual and perceived conflicts of interest. • Unions wanted members to have more accountability and control of their pension funds. • Ensure that members continue to receive great service that is cost efficient.
Transition Approach	• Identified that a co-ownership structure (the corporate trustees of the PSSP and the TPP of NS Pension) would be most effective. • Established clear roles and responsibilities between the NS Pension board and the CEO of NS Pension. • Transparency and accountability in reporting remained – e.g. via regular updates given to the PSSP and TPP corporate trustees by the NS Pension Board members and the NS Pension CEO, and through reconciliation of the annual budgets of the PSSP and TPP corporate trustees with the annual budget of NS Pension.
Lessons Learned	• Remain focused on the member value proposition. • Ensure open communication with unions to represent members' interests. • There was very little change for the member. • The foundation for change is based on trusted relationships and working together. • Important that each of the corporate trustees have a respected board chair who acts with independence, and that the elected co-chairs (one from each trustee board) of the NS Pension board are also respected and work together collaboratively. • Maintain on-going communication with union and government leadership even after implementation.
Relevance to PEBA	• The Board and Commission, assisted by MNP, have outlined a strong value proposition to members. • PEBA will be engaging with unions to share information and understand more the interests of members. • The goal is to provide continuity of service and service levels for members. • PEBA is focused on enhancing the existing strong relationships with unions and employers through this process. • There is a commitment to develop a governance model based on best practices. • PEBA is committed to on-going, open communication and dialogue with members, unions, employers, government leadership and other stakeholders.

In addition to these three comparators from other provinces, the joint trustee model for governance is consistent with best practices from other Saskatchewan based pension administrators. As an example, a summary of the governance model at SHEPP is highlighted below.

Governance Summary: The Saskatchewan Healthcare Employees Pension Plan (SHEPP)
SHEPP is the largest defined benefit pension plan in Saskatchewan with over 50 participating employers, 59,000 members and \$8.9B in assets. SHEPP is jointly trusteed by a Board consisting of equal representation from employers and employees. The Board is the administrator for the plan and currently employs approximately 50 staff based in Regina. SHEPP staff manage both member and investment services. SHEPP operates independently of Government and is governed by the Board of Joint Trustees who act in the best interest of plan members. SHEPP has two Partner Committees an Employer Partner Committee and a Union Partner Committee. These Committees are collectively responsible for plan design. SHEPP is subject to the *Saskatchewan Pension Benefits Act 1992* which safeguards the plan from undue loss and guarantees equitable treatment of plan members.

Considerations and Implications

Through meetings with the Board and Commission Chairs and Vice-Chairs, plus PEBA management, MNP has identified a set of considerations and implications that are valuable context for the transition to an NPC. We have identified these into five categories:

1. Governance Considerations and Implications;
2. Operational Considerations and Implications;
3. Employee Considerations and Implications;
4. Considerations and Implications for Smaller Pension and Benefit Plans; plus
5. Financial Considerations and Implications.

The intent of this section is to identify a range of considerations and implications with relevance to the key stakeholder groups.

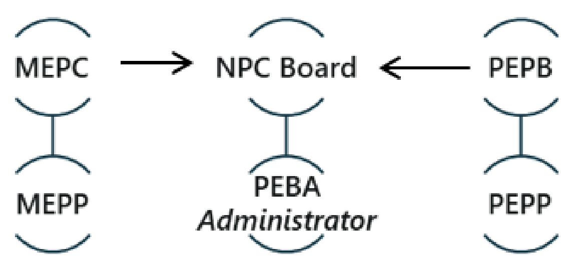
1. Governance Considerations and Implications

The 2017 World Bank report concluded that governance is the single most important factor in the success of Canadian pension organizations. The report included interviews with 25 senior leaders in the Canadian pension industry.

The current governance model for PEBA lacks clarity in terms of authority and roles and responsibilities. Achieving clarity is a driving factor for establishing an NPC for both the Board and Commission. Developing a strong, clear and effective governance model aligned to the changing external environment and best practices will ensure PEBA is ready to meet increasing client demands in the dynamic and rapidly changing pension landscape.

Proposed Model for the NPC

MNP agrees with the importance of achieving greater clarity in governance and accountability. The establishment of the NPC provides greater clarity to all stakeholders regarding who has accountability for pension administration.



The model proposed for the new NPC is depicted in the accompanying structure. It is expected that the Board and Commission will jointly control the NPC and have an equal interest in its control. This model is like Vestcor Corp. which is the pension administrator for the public sector pensions in New Brunswick. The joint trustees in that case are the New Brunswick Public Service Pension Plan (NBPSPP) and the New Brunswick Teachers' Pension Plan (NBTPP).

The entity will be governed by a newly created Corporate Board. This provides the opportunity to build a governance model that is 'fit for purpose' and aligned to the goals and objectives of the NPC. The Board and Commission have indicated their support for the establishment of a new Corporate Board for PEBA as an NPC.

Key Considerations for the Identification of a Governance Model

There is a broad range of considerations to define an effective, member driven governance model for the new NPC. It will be important to identify a governance model that is specific to the Saskatchewan context. MNP discussed the following key considerations with the Board and Commission, plus PEBA management that would need to be determined in the future:

- Corporate Board size, diversity and composition including the role for independent, skill-based directors and/or representative appointments.
- Define a Corporate Board recruitment and selection process.
- Confirm the balance of control for the NPC
- Identify independence requirements for the Corporate Board.
- Collective competencies and qualifications of the Corporate Board based on a skills matrix.
- Consider representation from other plans if they joined later.
- Define governance principles, mandate and culture.
- Develop a Board Mandate.
- Identify roles & responsibilities for a range of positions including the Board, the Chair, Vice-Chair, Committee Chairs, and other key roles.
- Define a committee structure and Committee Mandates.
- Determine a performance and accountability model for Directors centred on the member and the achievement of outcomes.

Recommended Process to Define the Governance Model

To date a comprehensive, future state governance model has not been developed or proposed. This provides the opportunity for key stakeholders to work in collaboration to identify and propose a governance model that will best accomplish the objectives and outcomes outlined by the Board and Commission.

The definition of the appropriate governance model will be a key priority. **MNP is proposing that foundational aspects of the Corporate Board structure and model (described as Phase 1) be identified and completed by January 2022.** As part of establishing the NPC through statute, this is required as part of designing and developing enabling legislation.

As part of our analysis, MNP is recommending the following process to develop an effective governance model for an NPC.

1. Develop a mandate for a representative Governance Working Group.
2. Appoint members of the Governance Working Group.
3. Identify an expert external facilitator and advisor to navigate the required decisions and support the development of a governance model for the new NPC.
4. Form a representative Governance Working Group. Establish up front a set of guiding principles and objectives agreed upon by the Governance Working Group to guide its work.
5. The Governance Working Group is proposed to oversee the following:
   - Research and identify a range of governance options and identify best practices; and
   - Assess governance options and evaluate the suitability for PEBA.
6. Engage with stakeholders; revise the governance approach as appropriate, plus build buy-in and support for a proposed model.

The deliverable for the Governance Working Group is proposed to include a recommended governance model delivered in a two-phased approach. Phase 1 is proposed to be delivered by January 2022. The timing for the completion of Phase 2 has flexibility and can be determined after the completion of Phase 1.

Phase 1:
Definition of Governance Structure, Roles and Responsibilities

Objective: Identify the proposed governance structure, mandate, plus key roles and responsibilities that would be necessary to support the enabling draft legislation.

It will be important for the legislation to include a broad framework for governance to provide flexibility for the evolution of the organization.

Complete by January 2022

Phase 2:
Definition of Governance Policies

Objective: Clearly define the governance operations of the organization.

It is anticipated that governance policies will include, but not be limited to the following: recruitment and selection, mandates, roles and responsibilities, committee structures, performance and accountability, board meetings, conflict of interest, board member composition, compensation, disclosure, and more.

The Board and Commission are committed to a professional and independent process to identify a governance model based on Canadian best practices in the pension industry. They have developed an illustrative depiction of governance responsibilities for the future state which are outlined in Appendix B.

2. Operational Considerations and Implications

There are a range of operational considerations that will have to be managed through the transition process. MNP has divided the discussion on operational considerations and implications into four key sections:

- Human resources;
- Corporate services;
- Information technology; and
- Service delivery.

Based on the best practices of other jurisdictions, establishing an agreement with GoS to retain access to specific services for a period after the transition date will support operational business continuity for the organization.

MNP expects there will be ongoing investment required in developing the organization's operational capabilities and capacity over the medium term to realize the benefits the new structure enables and support the achievement of strategic priorities. It is expected the organization will be able to realize benefits related to increased employee engagement and the retention of national class talent over the medium to long term.

Human Resources Implications

There are no significant changes to overall organizational design required that were identified in our analysis. The new NPC is expected to maintain PEBA's current organizational structure after enactment. The NPC will also adopt the current HR manual from the GoS. The future CEO would have the discretion to review the organizational structure and HR policies at a later date.

Maintaining organizational consistency will support business continuity for employees, the pension plans and pension plan members and is consistent with the "lift and shift" approach.

As a result of moving outside of GoS, MNP has identified that the corporation will need to develop internal capability or seek external support in the following human resource functions. It is anticipated that GoS will continue to provide interim support for these functions as part of the transition agreement. MNP has reflected the costs associated with developing these capabilities in the financial implications section.

Payroll Management, Compensation and Classification Services

- It is anticipated that the NPC will maintain access to the GoS payroll management services until a replacement system has been procured. This means the NPC will continue to be tied to the GoS classification and compensation system. To develop a compensation and classification system that is better aligned with the financial services and comparable pension organizations, the NPC will need to procure compensation and classification support and a new payroll management system in the years following enactment.

Staffing and Recruitment Services, Employee Benefits

- Staffing and recruitment has largely been delegated from the Public Service Commission (PSC) to PEBA over the last five years. PEBA currently has in-house staffing and recruitment expertise that supports managers through the recruitment process. This expertise will remain with the NPC after transition. In alignment with the procurement of a payroll management system, the NPC may need to procure a staffing application to replace the use of the GoS system referred to as Taleo. It is anticipated the corporation will need to procure a contract to maintain employee benefits for staff.

Legal Services

- The Ministry of Justice provides legal advice, including legislative drafting, legislative interpretation, litigation and contract preparation for PEBA. The Board and Commission retain their own legal counsel for board work and outside legal counsel for specialized investment contract work, primarily related to infrastructure, private equity, and hedge funds. The NPC will be required to retain legal services.

Corporate Services

As a result of moving outside of GoS, MNP has identified that the NPC will need to develop internal capability or seek external support in the following corporate services functions. It is expected that interim support for some of these functions can be negotiated as part of the transition agreement with GoS. MNP has reflected the costs associated with these in the financial implications section.

Procurement Services

- The Ministry of SaskBuilds and Procurement currently provides procurement services related to PEBA specific initiatives. PEBA currently manages RFP services that are engaged directly by the Board or Commission. It is expected the NPC will be required to develop or augment in-house expertise related to RFPs, standing offers and the purchase card program.

Lease Management and Facilities Services

- PEBA has no direct relationship with the landlord of the current office. The office is a lease between GoS and Harvard Property Management. GoS also provides day-to-day maintenance services to PEBA for such things as moving furniture, cleaning carpets, electrical and carpentry. The landlord provides cleaning and security services. The NPC will be required to negotiate a sublet from GoS of the current office space and the associated day-to-day services to maintain that space. It is expected this will be part of the transition agreement.

Banking Services

- The NPC will need to replace all the services that are currently provided through the GoS banking vendor and administered through the Provincial Comptrollers Office (PCO). This will need to be completed ahead of the enactment date as access to the current banking services will not be able to be maintained.

Information Technology

PEBA currently manages its own information technology independently from GoS. As a result, there will not be a significant change in the expertise PEBA has to develop in this critical area. As mentioned above, MNP has identified that the NPC will need to procure an HRIS system after it transitions out of GoS. PEBA will also be required to purchase cyber security insurance as an NPC. More information on the requirements of this purchase is included in the Financial Implications section.

Service Delivery Implications

MNP has identified that there are no expected changes to front line service delivery because of the "lift and shift" transition. Plan members can expect full continuity in access to services related to their pension and benefit plans. As outlined in the Risk Management section of this document, management of risk related to the transition will be required to ensure business continuity.

3. Employee Considerations and Implications

The establishment of the NPC through a "lift and shift" is intended to have minimal effects on current PEBA staff. This means it is intended that there be no material impacts on staff employment conditions during the transition period and immediately after. It is expected that as the entity matures under the direction of a Corporate Board, new performance management and HR policies will be adopted that align to the priorities of the board.

Approximately 82 per cent of the current 137 PEBA staff are in-scope employees. To achieve minimal impact on staff as intended, MNP understands that PEBA will be required to engage with Labour Relations, the Ministry of Justice, the PSC and SGEU about transferring staff and maintaining the current Collective Bargaining Agreement for in-scope staff in the short-term following the enactment date.

It is anticipated that in the medium term the NPC will create their own chapter with SGEU and bargain their own agreement separate from GoS. This proposed approach provides stability for staff during the transition period and a commitment to developing a new collective agreement with SGEU.

Separate to the mechanisms for transfer, PEBA will need to develop an internal change management and communications plan to effectively support the change. This could include development of internal communications materials, information sessions and all staff meetings. The objective will be to engage staff in the transition and provide an understanding of the transition process, timing and implications for staff.

4. No Proposed Changes for Other Pension and Benefit Plans

PEBA provides services to 23 benefit plans and 12 pension plans in total. Please see Appendix A for an overview of the other pension and benefit plans that PEBA provides services to. It is proposed that the establishment of the new NPC be jointly owned by the Board and Commission. To achieve continuity of service for plan members, avoid disruption and adhere to the "lift and shift" principle, MNP understands the jointly owned NPC will continue to provide the same services to the other plans on a cost-recovery basis. MNP understands that any costs associated with the establishment of the NPC as outlined in the Financial Considerations section will be absorbed by the Board and Commission and will not result in any incremental cost to the smaller plans. **There are no proposed changes in services or costs to these plans.** Taking this approach provides continuity in service for members and allows clients who are members of multiple plans to continue to access services through a single administrator.

5. Financial Considerations and Implications

The following section of the report provides an overview of the anticipated financial changes and implications for the transition and operations of a new NPC. The numbers provided below are based on MNP's best estimates from information available at this point in time. The financial operations model for PEBA would change in the future as it would be separate from GoS systems. This will provide flexibility to the NPC. In specific areas it as anticipated that additional costs will be incurred. It is possible to forecast some specific budget implications. In other areas it is more challenging to estimate the costs because future policy decisions from a Corporate Board that does not exist today will provide material context and direction.

Overview of the Current State Financial Model for PEBA

In the current state, GoS provides funding to PEBA through a Revolving Fund. This provides PEBA a $19 million line of credit to pay day-to-day administrative expense and purchase capital assets. All expenses are paid by the PCO Central Accounts Payable Division. All capital assets are purchased through the Revolving Fund and through the *Financial Administration Act* and then owned by GoS.

PEBA utilizes an independent accounting system, Microsoft Great Plains, that is also used to record all invoices paid by the PCO resulting in a duplication of processing. This system is used to create all reporting for the Revolving Fund, including financial statements.

> *"Over the past five years, $1 million in avoidable interest has been charged and paid by the Revolving Fund."*

Each of the individual pension plans under PEBA's administration repays day-to-day expenses monthly and repays all capital assets as they are amortized through their useful life. GoS charges interest on balances in the Revolving Fund using rates that align with the useful life of the capital assets. These range from 1 to 10 years, and 30 days for working capital. Over the past five years, one million dollars in avoidable interest has been charged and paid by the Revolving Fund. This unnecessary cost is a symptom of the current governance model. It is a non-value-added expense for an organization that has ample access to additional working capital.

The PCO also provides internal audit services for expenses paid out of the Revolving Fund to ensure compliance with applicable policies.

Currently the Revolving Fund has its own set of financial statements that are required to be tabled 120 days after year-end (March 31). These statements fall under the Public Sector Accounting Standards as the Revolving Fund is considered part of GoS Summary Financial Reporting.

In addition, the Revolving Fund financial statements are audited by the Office of the Provincial Auditor because several of the plans under administration are funded annually by the General Revenue Fund.

Future State Financial Model

PEBA has a strategic orientation to think and operate at an enterprise level, rather than the individual pension plan level, to capture economies of scale. This mindset will continue and evolve. To transition PEBA into its own NPC, several corporate financial management and operational decisions will need to be made, including a funding model, capital asset management, financial control systems, financial reporting, and accounts payable administration. These changes are manageable and are part of standard operations for an independent entity and would not be complex to set up and administer.

The NPC will no longer utilize the existing revolving fund as it transitions out of GoS. This means there will be changes to the way the NPC funds operations and purchases capital assets. These responsibilities will be assumed by the existing PEBA finance team.

As an NPC, the pension plans will develop and approve the annual budgets for their respective plans. A portion of that budget will be pre-paid by these plans to the NPC to cover the day-to-day expense of the plans. On a quarterly basis, a full reconciliation will be completed to compare the pre-paid funding to actual payments. This new funding model is expected to result in operational efficiencies as there is no longer a duplication of invoice processing that is seen in the current state and interest expenses incurred today would be eliminated.

All new capital assets will also be funded by the plan(s) through cash requests by the NPC, then expensed to the plans over the asset's useful life. The NPC will also be required to purchase any assets from GoS that currently have an outstanding unamortized ownership.

Financial Reporting and Auditing

It is expected that an independent auditor will be selected through a formal RFP who will audit the corporate financial statements. This auditor will be independent of PEBA and contracted directly with the Corporate Board. It is anticipated that the Office of the Provincial Auditor will be required to review the audit file and form an opinion as several of the plans administered utilize public funds. In addition, the Provincial Auditor will continue to provide an opinion on the entity's legislative compliance and internal controls.

Identifiable Operating Cost Implications

The following table provides an overview of identifiable cost implications for the transition to an independent organization. PEBA Management and MNP have worked together to identify if cost changes would be one time based for organizational setup or if they would be recurring annually.

Category	Type	MNP Analysis and Potential Implications
Corporate Insurance	Recurring	An independent PEBA operating as an NPC will require comprehensive corporate liability insurance based on the advice of a commercial insurance broker. In the current state model, liability for insurable events is covered by GoS. This cost has been estimated by management to be approximately $125,000 to $150,000 per year.
Directors and Officers Liability Insurance	Recurring	It is best practice for boards of directors and executive officers to have Directors and Officers liability insurance. Insurance policies typically insure for errors and omissions, plus provide coverage for defence costs settlements and wrongful allegations. The cost of the insurance policy is based on the potential degree of risk and size of the NPC. Management has estimated the annual cost to be approximately $6,500 to $10,000 per year based on a comparator entity in Saskatchewan.
Cyber Insurance	Recurring	In today's digital organizations, it is imperative to have cyber insurance. Businesses can be held liable in the event there is a

Category	Type	MNP Analysis and Potential Implications
		cyberattack or data breach or related incident that breaches privacy or causes damage to clients, members or third parties. Cyber insurance policies can provide a range of coverage including financial loss, business interruption, loss or corruption of data, reputation recovery, legal expense recovery and more. Management has estimated the annual cost to be approximately $40,000 to $60,000 per year based on a comparator entity in Saskatchewan.
Legal Services	One-Time & Recurring	PEBA uses primarily Saskatchewan Justice today for legal support and advice. In the future state, PEBA would not be eligible to use legal support from Justice. MNP estimates that there will be higher legal costs to establish the NPC and then costs will decrease based on annual operational requirements. The one-time legal costs to support transition could range from $400,000 to $600,000 depending on the degree of negotiations and complexity. MNP estimates that annual legal costs could range from $250,000 to $380,000. MNP anticipates that PEBA management would consider the value and benefits of hiring an in-house counsel if expenditures were to occur at these levels.
External Auditor	Recurring	PEBA is currently audited by the Saskatchewan Provincial Auditor. In the future state, the Corporate Board will need to retain an independent external auditor to audit the financial operations of the NPC. MNP estimates that the cost of an external auditor would range from $50,000 to 70,000 per year.
Administrative Resources for Board Operations	Recurring	With the creation of a new Corporate Board, it is anticipated that PEBA will require up to two administrative resources to support the leadership and operations of the Board. Management has estimated that the salary, benefits, and overhead costs for these individuals to be $160,000 to $200,000 annually.
EFAP Contract	Recurring	PEBA plans to contract an independent Employee Family and Assistance Plan (EFAP) provider and administrator for its internal staff program. Management has estimated the annual costs for this service at $20,000 to $30,000 per year.
Office Lease	Recurring	PEBA currently leases commercial space at 1801 Hamilton Street in Regina. It is anticipated that PEBA will remain in its current location

Category	Type	MNP Analysis and Potential Implications
		until its current 10-year lease expires. They are currently in year six. Prior to the lease's expiration, PEBA will evaluate its alternatives for commercial space moving forward. MNP does not anticipate that there will be a change in office lease costs because of the decision to transition to an NPC. Any changes will be made because of regular business operations. As a result, we have estimated a zero-cost change for this amount.
Document Storage	Recurring	PEBA currently has approximately 2,000 boxes at Crown Storage and is covered under the contract and rates for GoS. A new storage contract would need to be negotiated with the current provider or a competitor. This could have a potential cost impact of $20,000 to $25,000.
HRIS System	Recurring	In the future state PEBA would require its own HRIS systems separate from the PSC. Management has estimated that the annual costs for licensing and support would range from $70,000 to $90,000.
Professional Fees	One-Time	PEBA would incur an increase in management effort and time to support the transition while also maintaining operations. It would be valuable to budget for professional fees to augment capacity and expertise in specific areas to assist with the establishment and early operations of the entity. MNP anticipates that support will be specifically required in terms of collective bargaining, program management and management consulting support. Based on other transitions we have been involved in, MNP estimates one-time costs of $190,000 to $380,000. These expenses would be at the discretion of the Corporate Board and management.

Summary: Identifiable Operating Cost Implications

The following table provides a table that summarizes the operating cost implications outlined above:

Category	Estimated One-Time Costs	Estimated Recurring Costs
Corporate Insurance		$125,000 to $150,000
Directors and Officers Liability Insurance		$6,500 to $10,000
Cyber Insurance		$40,000 to $60,000
Legal Services	$400,000 to $600,000	$230,000 to $360,000
External Auditor		$50,000 to $70,000
Administrative Resources for Board Operations		$160,000 to $200,000
EFAP Contract		$20,000 to $30,000
Office Lease		No change
Document Storage		$20,000 to $25,000
HRIS System		$70,000 to $90,000
Professional Fees	$190,000 to $380,000	n/a
Total Estimated Costs	**$590,000 to $980,000**	**$721,500 to $995,000**

The Board and Commission are aware of these potential cost changes. They have considered these implications in their analysis in terms of the value proposition for members and stakeholders.

Purchase of Unamortized Capital Assets

In the current state model, the capital assets for PEBA are capitalized and owned by the GoS. Members of the individual pension plans currently pay for the costs of the capital assets as they are amortized each year to PEBA. Under the proposed plan, members are not expected to incur additional costs for the existing capital assets. Clarifying the governance model provides the opportunity for members to have ownership over their service assets in the future. Capital assets purchased in the future would be responsibility of the NPC and no longer be funded by GoS.

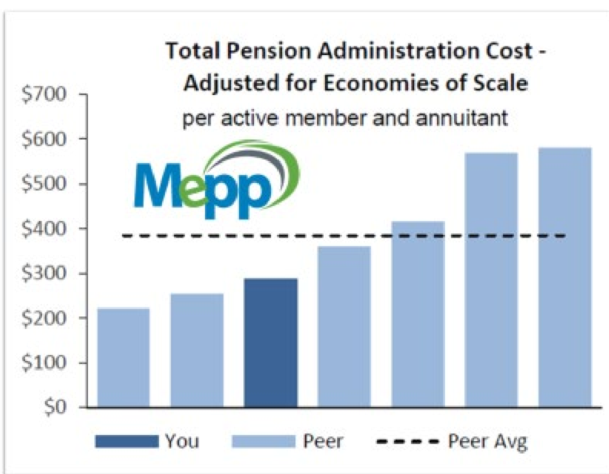
With the creation of the NPC, MNP is proposing that the Board and Commission would proportionately fund the purchase of the remaining assets that have not yet been amortized and are currently under the ownership of GoS. Smaller pension plans would not be expected to provide capital to purchase these assets. This will transfer ownership of the assets to the NPC. The assets will continue to be amortized and expensed to the PEPP, MEPP and the other individual plans by the NPC over their useful life similar to today. As of March 31, 2021, the net book value of the capital assets that would need to be purchased is $16.95 million, which includes computer hardware, software, furniture and equipment and other items. For a listing of current capital assets, please see Appendix C.

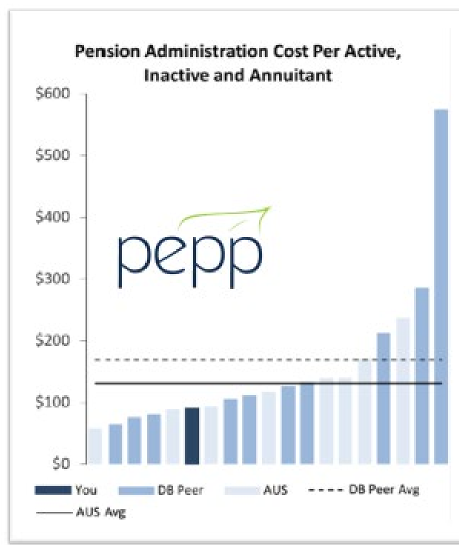
It is anticipated that approximately 80% of these are assets will be paid for by the Public Employees Pension Plan (PEPP) and the Municipal Employees' Pension Plan (MEPP) over the useful life with the balance being expensed to the smaller pension plans. It is expected that MEPP and PEPP would finance the book value purchase of all the capital assets at the time of transition to an NPC. The NPC would then recover the remaining 20 per cent balance from the other individual plans and allocate the proceeds to the Board and Commission as they are amortized and expensed in future years.

MNP believes that this proposed approach will have a limited cost impact to plan members if the asset were purchased directly by MEPP and PEPP using existing financial sources.

Baseline Pension Administration Cost Per Member for MEPP and PEPP

The two graphs below provide a snapshot of the pension administration costs per member, provided by PEBA, for the PEPP and the MEPP. The 'dark blue' on each chart shows where MEPP and PEPP are in terms of cost per active member and annuitant. The graphs show that MEPP and PEPP are solidly below the average cost per individual relative to their peer organizations.





MEPP data is from CEM report in 2021. The PEPP data is from CEM report in 2017.

These comparisons underline the economies of scale provided by PEBA today and the investments it has made into technology and digital client service.

MNP worked with PEBA to develop an estimate of the incremental cost per member resulting from the net new ongoing operational costs that can be quantified for the NPC. Using the mid-point of estimated recurring costs, the ongoing NPC operational costs could add an incremental cost per member to PEPP of $6.37 and MEPP of $16.23 per year (using membership numbers and expense from March 31, 2021) or approximately 6.5 per cent increase for both. This is the equivalent of $0.53 per month for a PEPP member, and $1.35 per month for a MEPP member. With these increases in operational costs, **MEPP and PEPP would remain below the peer average on cost per member.** It is important to note that this is an estimate of cost per member that was not verified with CEM Benchmarking Inc. who completed the original cost per member calculations above.

No Direct Financial Costs to GoS

MNP does not foresee any direct costs to GoS to support the transition to the NPC. There will indirect costs associated with management time and internal support primarily at the Ministry of Finance to remain aware of the MNP transition and provide oversight on behalf of GoS. There is also anticipated to be legal support time from Saskatchewan Justice to lead the development of draft legislation and agreements to transition authority and assets to the new NPC.

MNP believes that the costs outlined above are reasonable estimates based on the assumptions provided by management and the information available at the time of our analysis.

> *"MNP does not foresee any direct costs to GoS to support the transition to an NPC."*

Additional Potential Future Operating Cost Items for Consideration

MNP has considered the potential for increases in remuneration and compensation for Corporate Board members and staff that might occur with the creation of an independent organization. The Board and Commission are proposing the development of a new Corporate Board for the NPC. In the current state in terms of staff, PEBA falls under PSC policies and salary ranges for human resources management.

Moving to an NPC will provide PEBA with enhanced flexibility to address the recruitment and retention of staff. MNP's Risk Analysis and Management Plan identifies that PEBA faces a risk in the future that it could lose highly qualified and experienced staff, coupled with competition for future resources within the national marketplace. This risk is more likely to occur in the medium to long-term. MNP does not see a higher immediate risk to recruitment and retention overall as result of the move to an NPC.

It will be critical for the Board and Commission to ensure that reliable, third-party analysis and recommendations are sought in terms of any changes related to compensation for board members, management, and staff. Using an independent third-party will be key for transparency and accountability with members.

In the section entitled Governance Implications earlier in this report, MNP outlined that the Governance Working Group would recommend as part of its mandate a range of policies including board member compensation. MNP would recommend that this working group identify and consider market-based information and data in terms of board compensation for comparable entities in Canada in proposing its policy.

In the new model, PEBA would have the flexibility to update its compensation policies to align with the pension and investment markets. MNP would recommend that the organization seek independent advice on market-based compensation policies. This reduces the risk that PEBA loses highly qualified staff to other comparable organizations. Updating compensation policies can be important for PEBA to attract and retain national quality talent to provide sustainable member driven services into the future.

It is important to underline that the future risks to PEBA in terms of retention and attraction exist whether it remains in the current model or whether it moves to an NPC. Staying in the status quo does not resolve this risk. In fact, the status quo will increase risk in this important area.

MNP is not able to accurately estimate the potential future costs for compensation. Estimating the future costs for compensation would require two key components. The first is the completion of a market-based analysis for comparable entities in the pension industry in Canada. This analysis has not been completed. The second is that the future Corporate Board will be responsible for establishing the compensation philosophy and policies for the organization. The Corporate Board will need to decide on a range of factors including where it wants to be in the market. For example, from a market percentile basis the board will need to determine if they want the organization to be a "P100" employer that pays top of the national market or whether it is placed elsewhere in terms of 75th percentile, 50th percentile or some other position in the market. Without these two important components, MNP is unable to estimate the compensation costs in the future as part of this analysis.

Potential for New Sources of Revenue

Additional economic benefits and economies of scale could be realized by offering services to pension plans currently not served by PEBA or by seeking new employers to join the PEPP or MEPP plans.

Growth also has a significant positive impact on risk management. Diversification of employers and plan members may support improved capabilities and capacity to manage risk.

The current PEBA model limits the ability to seek new business and make PEBA attractive as an administrator for additional pension plans. The close association of PEBA with the GoS would likely deter other plans and employers from considering a business relationship with PEBA. An NPC would provide the Board of Directors with the opportunity to consider strategies related to revenue growth and is likely to increase the potential level of interest from other pension plans.

Potential Savings Opportunities: In-House Investment, Borrowing Costs

All investment management is currently outsourced for the pension plans. This practice is rooted in the current compensation framework for PEBA. The organization does not have the flexibility today to be competitive in terms of attracting in-house investment managers. The ability to offer a competitive compensation framework with the financial services industry would allow the NPC the ability to consider attracting and retaining highly skilled experts in investment management to serve the needs of members.

If PEBA were to bring a portion of investment management in-house, it would be done prudently and on an incremental basis with strong governance oversight. PEBA estimates that 80 per cent or more of investment management would continue to be provided by external investment managers based on the nature of the pension plan's investment mix. There is an opportunity to consider managing lower risk, less management intensive assets in-house. The potential benefit is that in-house management for a portion of the portfolio would likely result in reduced management fees for members. The consulting firm CEM Benchmarking Inc. reports that Canadian pension funds on average manage 23 per cent of their assets internally.

Management has indicated that in 2020-2021, PEPP and MEPP paid over $70 million dollars to external investment managers. Research from the firm CEM Benchmarking indicates that insourced investment management can reduce costs by 10 per cent to 50 per cent depending on the asset class. If PEPP and MEPP managed one-quarter of their assets in-house and realized savings of 30 per cent (middle of the 10 to 50 per cent range) per cent per year, savings could be approximately three to five million dollars per year.

In addition, PEBA is estimated to save approximately $250,000 annually in avoidable interest costs to the Revolving Fund if the they governance model is clarified and the financial model is changed.

GST and PST Implications

Historically, with the existing structure of PEBA and the pension plans they administer as being considered provincial government entities for GST/HST purposes, the GST/HST has never been a cost to the organizations.

The federal Minister of Revenue and Province of Saskatchewan negotiated through the reciprocal tax agreement ("RTA") which provincial entities will not be required to pay GST/HST on goods and services acquired. The RTA could be subject to change at any time. Where such a change should occur and/or PEBA and the administered pension plans are removed from approved list of the Saskatchewan provincial entities, PEBA is treated the same as other NPC's and pension entities for GST/HST purposes and will be required to pay the tax.

As an NPC, the services provided by PEBA will be considered GST/HST taxable and will require tax to be collected. However, PEBA will recover all the GST/HST paid on taxable expenditures. This change would require GST/HST registration and create filing obligations that were not required previously. The result is the GST/HST will be a cash-flow management process but does not result in unrecovered GST/HST. The GST/HST remains neutral for PEBA in comparison to how it operates currently.

Should the pension plans be required to begin paying GST/HST (e.g., no longer a provincial entity for GST/HST purposes), they will only be eligible to recover a partial rebate of 33% of the tax paid. The pension plans could also have specific filing obligations as an investment plan with a presence (1) in the HST provinces and/or Quebec based on the current legislation. The impact would be an additional amount of HST or Quebec Sales Tax for activities deemed to be present in the HST provinces or Quebec tied to the plan member's residency. The adjustment is generally small for many pension plans where plan members are principally resident in Western Canada. This type of filing obligation may not be required (2).

In terms of cost to the pension plans, the net GST/HST cost after the pension rebate is 3.35% (5% GST x 67% unrecoverable portion). The pension rebate provides 1.65% recovery of the 5% GST paid. The incremental cost to each plan member should not be material overall. While this would be a new obligation for these plans, it would place the plans on parity with similar plans already required to pay GST/HST.

MNP reviewed an analysis prepared by PEBA management to better understand the anticipated GST impacts on the plans. For the PEPP plan, the potential incremental GST costs may result in 2.2 basis points of additional expense averaged over a 10-year period. This would be approximately a 3% change in overall costs. For the MEPP plan, the potential incremental GST costs may result in 4.0 basis points of additional expense averaged over a 10-year period. This would also be approximately a 3% change in overall costs.

MNP does not anticipate there will be any changes to the PST as a result of transition to an NPC.

[1] The presence in a HST participating province is determined by the domicile of pension plan members residing in those provinces.

[2] Where less than 10% and $100 million in the value of assets (defined contribution plans) or of accrued liabilities (defined benefit plans) in respect of members resident in HST provinces and/or Quebec, the plan will not be considered a selected listed financial institution.

Risk Analysis and Management

Approach to Assessing Risk

Risk is an inevitable reality in organizational change. The primary responsibility of Boards and senior management teams is to be aware of their principal risks so they can work proactively to mitigate them and achieve organizational objectives. MNP has invested a significant amount of time considering and analyzing risk as part of our assessment. The following is an example of specific activities undertaken to assess risk:

- Interviewed Board and Commission Chairs and Vice-Chairs regarding potential risks and mitigation;
- Convened a workshop with the senior management team at PEBA for risk identification and analysis;
- Interviewed CEOs of comparator sized entities in Nova Scotia, New Brunswick, and Newfoundland to understand the risks they incurred and mitigated through the transitions of their organizations, including lessons learned for Saskatchewan; plus
- Provided independent analysis and consideration throughout the project by MNP.

MNP has utilized its risk management methodologies, tools and enterprise risk professionals to assess and inform its risk assessment of the initiative. The overall level of risk awareness and consciousness in the organization is strong.

Identification of Risks in Three Distinct Views

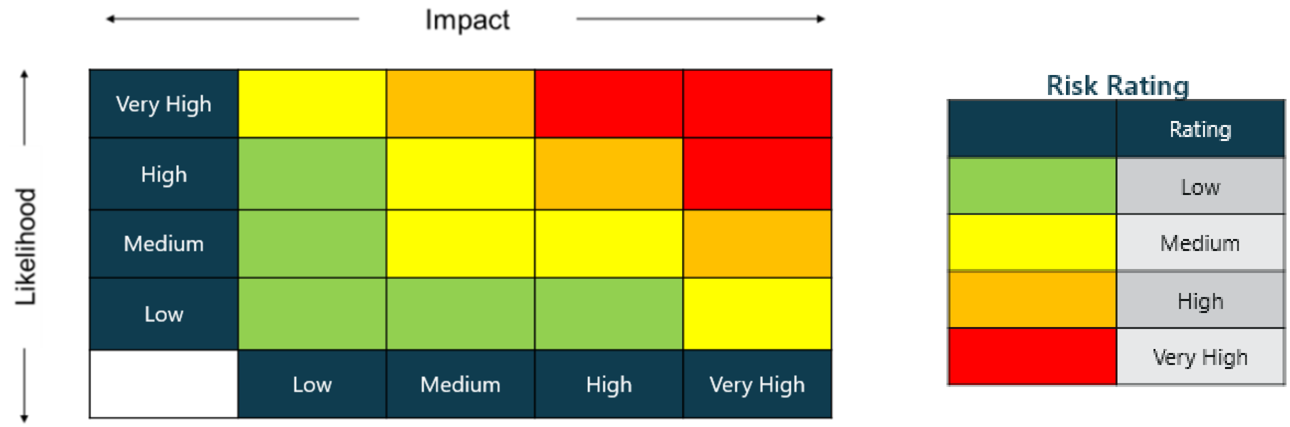
Through our assessment process, MNP identified three distinct periods to categorize risks for the initiative as the Board and Commission explore *transitioning* through a 'lift and shift' to an NPC. The approach to risk management has been divided into three separate views:

These three views will provide a comprehensive overview of risks and mitigation for this initiative.

Risk Categorization Model

MNP has followed its existing methodologies and accepted industry standards to rate and assess risk. The risk categorization model that has been utilized is below. The risk rating (colour) is calculated by applying the following formulae: Risk = Likelihood x Impact.

MNP Risk Categorization Model



This risk model has been applied in our analysis of the three specific risk views below.

View 1 - Overall Impact to Key Corporate Risks

Like any organization, there is risk present in the business activities that PEBA conducts and in the service, it provides members. Successful management of risk is critical for achieving PEBA's strategic plan and in ensuring the ongoing sustainability of services. PEBA, as well as the Board and Commission, have thorough risk management plans and practices in place to manage risk.

The transition to NPC should improve the overall risk posture of PEBA and the individual plan members. The move to an NPC will enhance mitigation of critical people and governance risks that are currently identified and being actively managed by PEBA. These are described in more detail below.

Summary of View 1 – Overall Impact to Key Corporate Risks

Category	Risk Area	Risk Description and Commentary	Current Risk Rating by MNP	NPC Model Risk Rating by MNP	Mitigation & Analysis
People	Resource Retention	There is a risk that loss of highly qualified and experienced staff, coupled with competition for resources within the marketplace. PEBA's ability to effectively deliver its mandate and service to members is at higher risk in the medium to long-term. Although MNP does not see an	Likelihood = High Impact = High	Likelihood = Medium Impact = Low	Significant Net Improvement In the new model, PEBA would have the flexibility to update its compensation policies to align with the pension and investment markets. MNP would recommend that the organization seek independent advice on market-based

		immediate risk, this will likely increase over time.			compensation policies. This reduces the risk that PEBA loses highly qualified staff to other comparable organizations. It allows PEBA to attract and retain national quality talent to provide sustainable member driven services into the future.
People	Key Person Risk	Key individuals in executive leadership or investment management are critical to the continuity and success of PEBA. If the organization were to lose key individuals in critical roles, this could present significant short to medium term risk to the organization. *We are conscious that Saskatchewan has a smaller market from which to draw key persons with pension industry experience.*	Likelihood = High Impact = High	Likelihood = Medium Impact = Medium	Net Improvement In the new model, PEBA would have added flexibility to retain and develop key individuals. Market based compensation is one component. Having an independent operating model will also be more attractive for national calibre individuals for key person roles. Key person risk is higher for PEBA compared to other organizations due to the complexity of the pension, benefits and investment industries.
Governance/ Leadership	Governance and Accountability	It is not clear today who has what authority over setting the direction and making strategic decisions specific for PEBA. The governance model is not clear which may lead to confusion, competing direction, conflicts of interest, or political interference. *MNP is not aware of any urgent issues resulting from the governance model.*	Likelihood = Medium Impact = High	Likelihood = Low Impact = Low	Significant Net Improvement Establishing a stand-alone NPC under the oversight of an independent Board of Directors will improve enterprise governance and provide clear accountability for members. It also eliminates a range of risks inherent in the current governance structure. There is lower transition risk to improve the

					governance model during a time of stability such as today. This will mitigate the potential for governance risk in the future.

View 2 – Transition Period Risks

Through our interviews, workshops and independent analysis, MNP identified and rated a series of potential risks related to the transition period to establish an NPC.

The transition to an NPC appears to be manageable based on the identified risks and the capabilities of the Board and Commission and PEBA. MNP has identified a series of mitigation activities to support the navigation of these risks.

The following table provides a summary of the risks identified, their rating and the key mitigation activities.

Summary of View 2 – Transition Period Risks

Transition Period Risk	Rating Prior to Mitigation Activities	Mitigation Activities
1. Key person departure compromises business continuity during the transition period.	Likelihood = Medium Impact = Medium	• Identify key persons who would present the greatest risk. • Ensure Acting ADM has role stability and security in the transition period. • Ensure Chairs and Vice-Chairs remain highly engaged and retain lead governance roles.
2. Unclear governance and decision-making framework for the transition period results in implementation delays or challenges.	Likelihood = Medium Impact = High	• Develop a Transition Period governance model and terms of reference with clear roles and authority for the Board and Commission, GoS, the Acting ADM and others. • Ensure roles and authorities are aligned to moving the organization to the future state. • Develop a project plan for the transition period that identifies decision milestones. • Develop a RACI chart to clarify roles.

3. Organizational capacity and capabilities at PEBA are not sufficient to successfully execute the transition and maintain current business needs. Senior leadership underestimate the effort required to implement the new organization.	Likelihood = Low / Medium Impact = Medium	• Establishment of a Transition Committee in PEBA with delegated responsibility for the transition period. • Seek advice on the development of a program management framework for the transition period. • Provide a budget for supplemental professional fees and resources if required. • Develop a plan to estimate and track resource allocation and workload management.
4. Development of a governance model for the NPC that does not have the support of key stakeholders. Governance model would need to include the Board of Directors size, structure, design, roles, policies, authorities, and more.	Likelihood = Low Impact = High	• Retain an independent firm with expertise in governance and the pension industry to facilitate, recommend and develop a governance model.
5. The appointment process for the new Corporate Board is not carried out professionally which diminishes the transition to a clear and independent governance model.	Likelihood = Low Impact = High	• Develop a Board skills matrix prior to the recruitment and selection period to identify the qualifications and competencies of Board members. • Identify a list of potential candidates with an interest in serving and supporting the objectives of the NPC. • Consider hiring an independent firm to assist in board recruitment and selection.
6. Staff resistance to change resulting in diminished service levels, potential work stoppage, or other disruptions prior to transition.	Likelihood = Low / Medium Impact = Medium	• Development of change management and communications plan. • Proactive communications including various materials, information sessions, town hall meetings, etc.
7. PEBA is unable to reach an agreement with GoS for access to key services and systems during the transition period which results in increased costs and pressures on resources.	Likelihood = Low Impact = Medium	• Ensure PEBA continues to have access to current systems and supports from GoS. • Hold regular project status update meetings at an executive level to support transparent, one team communication and collaboration.

View 3 – Risks for Operating the New Organization

The risks in this third view are related to once the new organization is established and operational. At this stage, it would mean that PEBA has been through the approval of a new NPC, through the transition period and is now operating as a standalone NPC.

Based on the collective capabilities of the Board and Commission and PEBA, the transition to an NPC appears manageable given the current risk profile and mitigation strategies planned and/or currently in place. MNP has identified a series of mitigation activities to support the navigation of these risks.

The following table provides a summary of the risks identified, their rating and the key mitigation activities.

Summary of View 3 – Risks for Operating the New Organization

Risks for Operating the New Organization	Rating Prior to Mitigation Activities	Mitigation Activities
1. Skills gaps or capacity gaps in key organizational functions results in an inability to meet expectations of the new corporate board and members. This includes financial reporting, IT, human resources, legal, actuarial, corporate secretary, and investment services.	Likelihood = Low Impact = Medium	• The current PEBA team is professional and skilled. • PEBA management has acknowledged that expectations will continue to increase with a new Corporate Board and organization. • Ensure the governance model is designed to clearly define expectations for management.
2. The Board does not receive sufficient information to exercise effective oversight of the new organization.	Likelihood = Low Impact = Medium	• PEBA management to assess needs and proactively support the Corporate Board. • Chair and Committee Chairs to provide clear direction on their expectations from management. • A thoughtful and clear governance model clearly defines the roles and expectations for the Board and management.
3. The NPC design and ownership structure constrains future business growth which compromises the potential realization of longer-term benefits.	Likelihood = Low Impact = Medium	• Seek independent legal advice on the design of the governance structure. • Ensure the ownership model is clear and understood. • Ensure the management structure is aligned to the goals and opportunities of the new organization.

4. Accountability mechanisms do not link corporate priorities to key performance indicators and employee responsibilities which impacts long-term organizational performance.	Likelihood = Medium Impact = Medium	• Development of a corporate accountability framework between the Corporate Board and management. • Provide short-term and long-term incentives to the senior management team linked to performance. • Review and update role descriptions to align to the mandate and direction of the organization and its strategic plan.
5. Staff performance and behaviours do not align to the expectations of the new organization.	Likelihood = Low Impact = Medium	• Development of change management and communications plan. • Proactive communications including various materials, information sessions, town hall meetings, etc. • Update role descriptions in the organization.
6. There is a work stoppage due to an inability to reach a new collective bargaining agreement.	Likelihood = Low Impact = High	• Maintain proactive, positive relationships with the union. • Engage with union leadership on the proposed change and the benefits for union members. • Develop a collaborative approach for reaching a new collective agreement.
7. The Board is not equipped to govern the new organization due to skill and competency gaps, lack of training, or unclear mandate and committee structures.	Likelihood = Low Impact = High	• Develop a Board skills matrix prior to the recruitment and selection period to identify the competencies and qualifications of Board members. • Identify a list of potential candidates with an interest in serving and supporting the objectives of the NPC. • Consider hiring an independent firm to assist in board recruitment and selection.

Accountability and Performance Management

As part of MNP's analysis, we sought to understand changes in accountability and management that would result from PEBA's transition to an NPC. Ultimately, the establishment of the NPC will result in significant clarity in accountability and management structures compared to the current state. As the NPC matures, it is expected to further develop its accountability and performance framework to follow best practices with that of other comparable Canadian pension organizations.

The establishment of the entity will drive clarity in PEBA's accountability and management structure. This is expected to improve overall organizational performance.

The establishment of the NPC with oversight from a Board of Directors will enable clear direction for PEBA. A single Corporate Board overseeing the organization will help mitigate risk during times of uncertainty and provide clarity about the future direction of the organization.

In the current state, each of the Board, the Commission and GoS have sufficient authority to significantly impact PEBA's priorities, operations, and resources. However, each of those parties also has a limitation on its authority such that *no one body has the authority to oversee the whole of PEBA*. As an NPC, the Corporate Board will set the operational budget and strategic direction of the organization through the annual planning process, providing clarity to management and staff. The Corporate Board will also provide direction during periods of risk and uncertainty. The NPC will continue to use a systematic and detailed approach to evaluating, measuring, and monitoring operational risks and ensuring compliance to applicable legislation and regulations.

The organization will also be able to realize the benefits of pursing enterprise level initiatives. In the current model, undertaking enterprise level initiatives must be negotiated between the Board, the Commission and GoS. This can cause roadblocks in pursuing large scale changes that are necessary in today's technological intensive pension industry.

As the NPC matures, it may also adopt human resource policies that are better aligned to other comparable pension organizations. MNP expects that overall changes in human resource policy and performance expectations will help improve PEBA's performance and the services it provides plan members.

Pension plan members will continue to be well represented by the Board and Commission respectively. The governance for the pension plans is not changing.

There are no proposed changes to the current roles or structure of the Board and Commission. These bodies will continue to serve as the representative bodies of members for their respective plans and act in the best interest of their plan members. These bodies may be able to spend more time focusing on initiatives specific to their plans with the establishment of the Corporate Board who will oversee enterprise specific initiatives.

The plans that are administered by the entity will still be subject to provincial legislation and regulations. Annual Reports will still be tabled in the Legislature.

The pension plans administered by the NPC will continue to be subject to the *Pension Benefits Act, 1992* of Saskatchewan. This legislation will continue to protect the interests of members. In addition, the MEPP and PEPP plans will also continue to be subject to regulatory oversight by the Financial and Consumer Affairs Authority of Saskatchewan. It is important to understand that this means that there will be no change in how investments are regulated for plan members. Investments will still be subject to the same standards and oversight that is currently in place.

> *"There will be no change in public reporting requirements and transparency for plan performance."*

There will be no change in public reporting requirements and transparency for plan performance. Given the NPC will continue to administer plans which contain public money, it will continue to have to meet accountability and reporting requirements consistent with that responsibility. This includes providing annual reports that are tabled in the legislature by the Minister of Finance. The Provincial Auditor will also review the entity's audit file and form an audit opinion. In addition, the Provincial Auditor will continue to provide an opinion on the entity's legislative compliance and internal controls. For members, there will be no change in transparency on the performance and management of their investments.

Implementation Roadmap

MNP has reviewed PEBA's existing implementation considerations material and discussed the material with the PEBA team. We have used this information to develop the following implementation roadmap. The roadmap has been divided into four areas of work which are depicted in 'swimlanes'. Within each swimlane, the specific pieces of work are plotted against the expected timeframes in which the work will occur. The four areas are:

Communication and Engagement

Building understanding amongst stakeholders about what the establishment of the entity means to them and informing them about important milestones.

Governance and Accountability

Establishing the governance model through legislation and designing the accountability framework that will guide the entity.

Operational and Human Resources

Facilitating a transition agreement with the Government of Saskatchewan that ensures seamless service delivery, minimal impact on staff and allows the NPO time to build capacity.

Financial

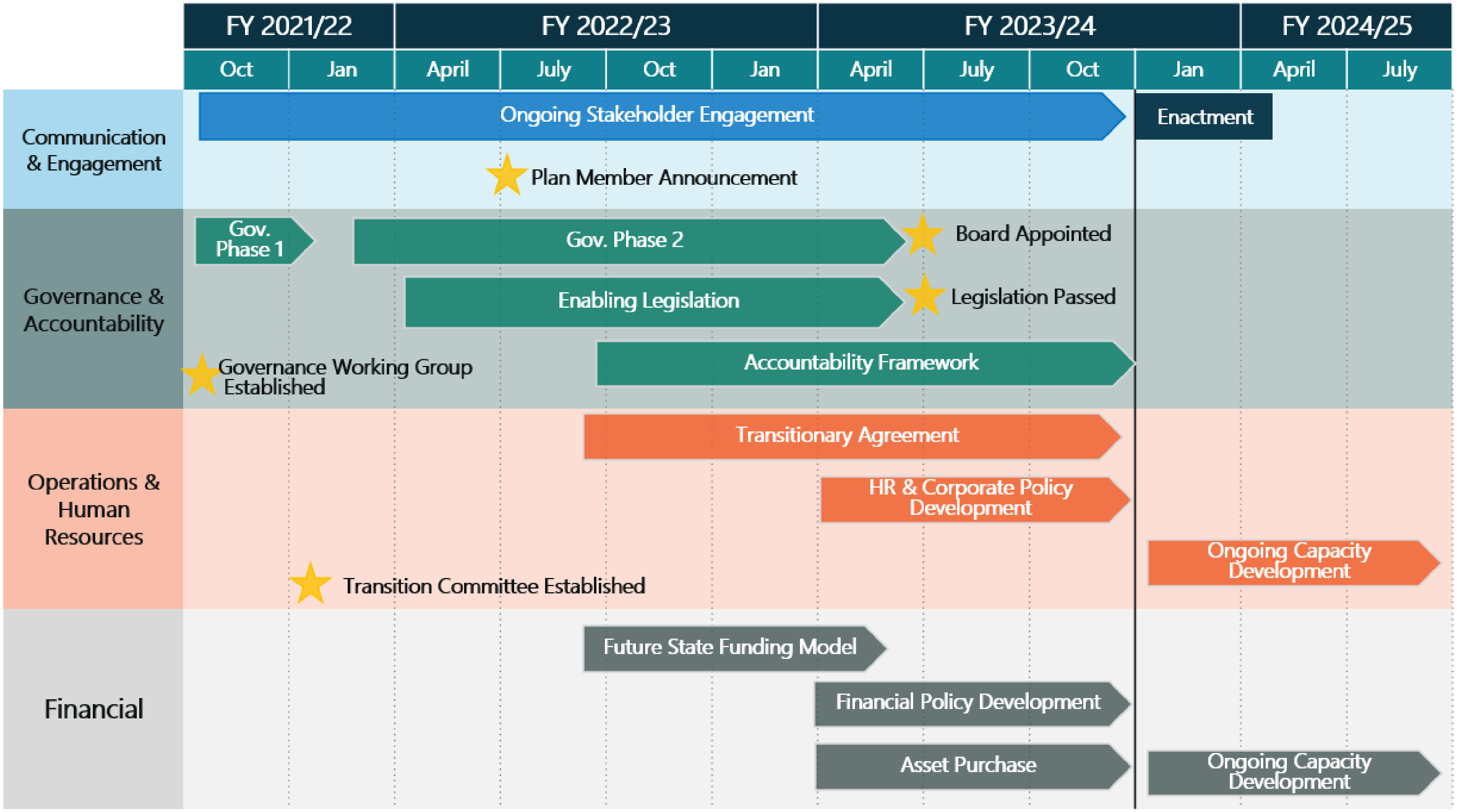
Designing the funding model that will support the success of the new entity and development of corporate financial policies and procedures.

MNP recommends that a *Transition Committee* be established in January of 2022. The Transition Committee will consist of members of PEBA's leadership team who will work under the direction of the Board and Commission. MNP recommends the Committee develop a detailed transition plan, transition governance model and terms of reference to support the successful implementation of the initiative. The transition plan will:

- Describe specific deliverables required within each area of work;
- Outline the approval process for each deliverable, reflecting current legislation;
- Determine when each deliverable needs to be completed and approved;
- Articulate the roles and responsibilities for various committee members in implementing the plan including the level of authority; and
- Oversee the development of the Transition Agreement to be negotiated with GoS.

Successful implementation of the transition plan will require the use of a clear program management framework and for the committee to be supported with adequate human resources and consulting support.

Implementation Roadmap



The roadmap provides a logical and clear outline for consideration by key stakeholders to advance this initiative. Additional contextual details on each individual are of work or 'swim lane' is outlined below.

Communication and Engagement

- **Stakeholder Engagement:** Ongoing engagement with stakeholders will occur during the transitionary period. Engagement will initially focus on building support for the new governance structure and then subsequently transition to communicating key milestones and details of the change to stakeholders. Through out the engagement process, communication will assure members and employers that PEBA's services will continue uninterrupted.
- **Plan Member Announcement:** An announcement regarding the establishment of the NPC to members is anticipated to occur in spring 2022. The purpose of the announcement will be to inform members of the change and build support for the NPC.

Governance and Accountability

- **Board Structure:** An independent advisor will be retained to advise on the development of a corporate board structure for the NPC. As outlined in the Governance section, it is necessary for foundational aspects of the Corporate Board structure are determined by January of 2022.
- **Enabling Legislation:** The establishment of the NPC will require enabling legislation. The legislation is expected to be introduced in the Fall of 2022.
- **Accountability Framework:** Drawing from the foundational structure established in legislation, an accountability framework will be created. The framework will clearly link corporate priorities to key performance indicators and organizational roles and responsibilities.

Operations and Human Resources

- **Transition Agreement**: Like the practice of other jurisdictions, it is anticipated that PEBA will negotiate an agreement with the GoS that enables a seamless transition to the NPC. It is likely the agreement will include retaining use of key HR systems and advisory support until capacity is further developed.
- **HR and Corporate Policy Development:** Existing HR policies will be reviewed and updated to ensure alignment to the new model.
- **Ongoing Capacity Development:** After the establishment of the NPC, there will be a focus on developing capacity. This includes through procuring vendors for key HR systems and functions (such as HRIS, total rewards, EFAP, etc.).

Financial

- **Future State Funding Model:** The transition will require the establishment of a new funding model. Alignment will be sought from key stakeholders (Board, Commission) on the design of the new funding model and the operational requirements of the model.
- **Financial Policy Development:** The committee will review existing financial policies and update them to ensure they align to the expectations and needs of the NPC. It is expected that new policy and processes will need to be developed in the areas of financial reporting and internal controls.
- **Asset Purchase:** The NPC will be required to purchase assets from the GoS that that have an outstanding unamortized ownership. The NPC will expense the assets to the plans over their useful life.
- **Ongoing Capacity Development:** After the establishment of the NPC, there will be a focus on developing the capacity of the Finance team to meet the continued expectations of the new Corporate Board.

Stakeholder Engagement Approach

MNP has reviewed PEBA's existing stakeholder engagement framework and discussed the material with the PEBA team. The overall objective of PEBA's engagement is to build support to proceed with the establishment of the NPC. Depending on the audience, engagement will also seek to assure stakeholders that pension services will continue uninterrupted. MNP has summarized PEBA's stakeholder engagement approach by audience type below.

It is important that PEBA is committed to engaging in a long-term dialogue with stakeholders over the course of the transition. Substantive and ongoing dialogue will help to build understanding and comfort with the initiative, ensure important feedback is incorporated, and serve as a method for keeping stakeholders informed of key milestones.

Audience	Objective & Approach	Timing
Governing Bodies (Board and Commission)	Engagement with these bodies will seek to assure them of PEBA's readiness to proceed with a transition to an NPC. Conversations will be led by the Board and Commission Chairs. .	Fall 2021 (*Completed*)
Employers Unions	Engagement with these bodies will seek to build the case for change and assure them that all existing arrangements will be honoured. Conversations will be led by the Board and/or Commission Chair and supported by PEBA's ADM and Board/Commission members.	Initial Engagement: October 2021 *(Completed)* Follow up Engagement: Winter 2022 *(Completed)* Follow up Engagement: Spring 2022
Plan Members	A plan member announcement will aim to clarify the benefit to members of the change and assure members that there are no changes to service or plan provisions. The approach will be informed by the key stakeholder engagement in October 2021 and developed in consultation with the GoS. PEBA's existing communication infrastructure – which includes member websites, social media channels, newsletters and bulletins – will be utilized.	May 2022 (Plan Member Announcement)

Service Providers & Vendors	Engagement with these bodies will seek to assure them that all existing arrangements will be honoured. Conversations will be led by PEBA's contract and relationship owners, and will occur in advance of the member announcement.	May 2022 (Engagement)
PEBA Employees	Informing PEBA employees on the change will aim to assure employees that there will be no material changes to employment status. It will also inform employees about the future state design of the organization. Management employees are already aware of the changes under consideration, and will be provided confidential updates in the lead-up to the decision. Employees will be informed at an all-staff meeting, and ongoing information and support will be provided.	May 2022 (Announcement to Staff)

Approval Process

There are five milestones that form the critical path for the establishment of the NPC. The Transition Committee will be responsible for overseeing the achievement of key milestones. These milestones are depicted below.

The approval process will require additional discussion and confirmation with the key stakeholders.

Appendix A – Background on PEBA

Agency Overview

The Public Employees Benefits Agency (PEBA, the Agency) was established in 1983 as a branch of the Department of Revenue and Financial Services to administer GoS employees' pension and benefit plans. In 1987, PEBA transferred to the Ministry of Finance.

PEBA administers programs that cover a broad range of employees including employees of the GoS, most provincial crown corporations and municipal governing bodies. PEBA stakeholders also include Saskatchewan cities, towns, villages, rural municipalities, school divisions, regional libraries, colleges and other designated organizations and agencies, as well as numerous trade unions representing plan members.

PEBA provides services to several pension and benefit plans. A significant portion of PEBA's efforts are directed toward the Public Employees Pension Plan (PEPP) and the Municipal Employees' Pension Plan (MEPP). The Public Employees Pension Board (the Board) and the Municipal Employees' Pension Commission (the Commission) have the statutory authority and responsibility to administer these pension plans. Several of the strategic initiatives referenced in this plan come at the direction of the Board or the Commission.

Relationship with Clients

PEBA also administers the following pension and benefits plans, some of which are established by statute and some by collective agreement. Some of these plans are governed by boards; others are directed by the government.

- Anti-Tuberculosis League Superannuation Plan
- Capital Pension Plan
- Judges of the Provincial Court Superannuation Plan
- Liquor Board Superannuation Plan
- Members of the Legislative Assembly Benefits
- Public Service Superannuation Plan
- Saskatchewan Pension Annuity Fund
- Saskatchewan Transportation Company Employees Superannuation Plan
- Crown Investments Corporation of Saskatchewan Benefits Plan
- Extended Health Care Plan
- Extended Health Care Plan for Certain Other Employees
- Extended Health Care Plan for Certain Other Retired Employees
- Extended Health Care Plan for Retired Employees
- Government of Saskatchewan and Canadian Union of Public Employees Local No. 600-3 and Local No. 600-5 Benefit Plans' Surplus Fund
- Government of Saskatchewan and Saskatchewan Government and General Employees' Union Benefit Plans' Surplus Fund
- Government of Saskatchewan Scheduled Aircraft Plan
- Government of Saskatchewan Unscheduled Aircraft Plan
- Public Employees Deferred Salary Leave Plan
- Public Employees Dental Plan

- Public Employees Disability Income Plan
- Public Employees Group Life Insurance
- Saskatchewan Government Insurance Service Recognition Plan
- Saskatchewan Water Corporation Retirement Allowance Plan
- SaskEnergy Retiring Allowance Plan
- SaskPower Designated Employee Benefit Plan
- SaskPower Millennium Plan
- SaskPower Severance Pay Credits Plan
- SaskPower Supplementary Superannuation Plan
- SaskTel Retirement Gratuity Plan
- Water Security Agency of Saskatchewan Retirement Allowance Plan
- The Power Corporation Superannuation Plan
- The SGI Superannuation Plan

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Appendix B: Illustrative Governance Roles and Responsibilities

The following table was prepared by the Board and Commission to provide initial guidance on the division of governance roles and responsibilities in the future state model. The table compares the governance roles and responsibilities of the NPC Board to the Board and Commission

	NPC Board	PEPB and MEPC
Selection of CEO	✓	X
Corporation HR policies, incl. compensation policy	✓	X
Approval of Corporation budget	✓	X
Approval of Corporation strategic plan and annual business plan	✓	X
Approval of Corporation KPI's	✓	X
Approval of Corporation risk plan	✓	X
Approval of Corporation annual report and financial statements	✓	X
Engagement of Corporation auditor	✓	X
Approval of new clients (e.g., a new pension plan)	✓	X
Approval of new services to members (e.g., TFSA, VPLA, ALDA)	✓	✓
Approval of PEPP's and MEPP's budget	X	✓
Approval of PEPP's and MEPP's strategic plan	X	✓
Approval of PEPP's and MEPP's KPI's	X	✓
Approval of PEPP's and MEPP's risk plan	X	✓
Approval of PEPP's and MEPP's annual report and financial statements	X	✓
Matters related to the investment of PEPP's and MEPP's fund (e.g., asset mix, portfolio construction, manager selection)	X	✓
Matters related to the funding or benefit structure of PEPP and MEPP	X	✓
Matters related to the interpretation of PEPP's and MEPP's statutes	X	✓
Engagement of PEPP and MEPP auditor	X	✓

Engagement of service providers (actuarial services, Strategic Investment Consultant)	X	✓
Approval of service agreements between PEBA and PEPP/MEPP	✓	✓
Approval of service agreements between PEBA and other clients	✓	X

Appendix C: Current Capital Assets

At the end of March 31, 2021, the audited financial statements reported capital assets net book value of $16.95M. These can be broken down into the following asset types:

Computer Hardware - $482,000

- This consists primarily of I.T. network infrastructure and desktop hardware that exceeds the current capital asset threshold.
- These costs are allocated as general overhead, of which PEPP and MEPP receive approximately 80 per cent of total costs. The remaining 20 per cent are allocated to all the other pension and benefit plans.

Computer Software - $267,000

- This consists of software purchased and not developed internally. Examples are the financial reporting software and related budget and forecast tools.
- These costs are also allocated as general overhead, of which PEPP and MEPP receive approximately 80 per cent of total costs. The remaining 20 per cent are allocated to all the other pension and benefit plans.

Furniture & Equipment - $853,000

- These assets are made up of primarily office furniture such as desks, board room tables and equipment and kitchen appliances for PEBA offices.
- These costs are allocated as general overhead, of which PEPP and MEPP receive approximately 80 per cent of total costs. The remaining 20 per cent are allocated to all the other pension and benefit plans.

System Development - $13.4M

- This asset class is primarily made up of Penfax 5.0 which is the member management system that allocates pension benefits to members. These costs are also allocated directly to PEPP and MEPP.
- None of the costs of Penfax is allocated generally to all plans. The payroll module is allocated to each plan that payroll is administered and allocated on a prorated module based on the number of retirees in each plan.

Leasehold Improvements - $2.0M

- This asset class is made up of various renovations to the space PEBA leases at 1801 Hamilton Street.
- These costs are allocated as general overhead, of which PEPP and MEPP receive approximately 80 per cent of total costs. The remaining 20 per cent are allocated to all the other pension and benefit plans.

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