

Policy Statement

The *Employment Pension Plans Act* (EPPA) requires a written governance policy to be established in respect of the structures and processes for overseeing, managing, and administering a pension plan registered under the EPPA. This policy provides a summary of the governance structure for the Public Service Pension Plan (PSPP or Plan) and PSPP Corporation as administrator and trustee of the Plan and Plan fund.

This policy was prepared in accordance with section 42(1) of the EPPA and section 53 of the *Employment Pension Plans Regulation*, and is consistent with Schedule 2 of the *Joint Governance of Public Sector Pension Plans Act* (JG Act).

Governance Framework

In 2018, the Government of Alberta enacted the JG Act to allow PSPP to become jointly governed by those who contribute to it – employers (represented by the Government of Alberta as the largest participating employer, and the University of Alberta and the University of Calgary), and employees (represented by the Alberta Union of Provincial Employees and the University of Alberta Non-Academic Staff Association). The jointly sponsored governance structure allows employers and plan members to share the risks and rewards of plan sponsorship.

On March 1, 2019, the Plan transitioned to the jointly sponsored governance structure which saw the creation of two new entities to oversee and make decisions about the Plan and the Plan fund:

1. PSPP Sponsor Board – responsible for Plan design, including benefits, rules, eligibility, and Plan funding and setting contribution rates.
2. PSPP Corporation – Administrator and trustee of the Plan and Plan fund.

Pursuant to the JG Act, PSPP Corporation is governed by a Board of Directors (the Corporate Board) which is responsible for overseeing the activities of PSPP Corporation.

The Plan, subject to certain exemptions granted under the EPPA Exemption Regulation, also became a registered pension plan under the EPPA. The EPPA and its regulations set out the minimum standards that registered pension plans, such as PSPP, must meet. The Alberta Superintendent of Pensions has regulatory oversight over plan compliance with the EPPA. The Plan is also subject to the *Income Tax Act* (Canada) and its regulations.

On November 22, 2019, PSPP Corporation became a public agency subject to the *Alberta Public Agencies Governance Act* (APAGA) and a Provincial corporation subject to the *Financial Administration Act* and the *Fiscal Planning and Transparency Act*. Pursuant to APAGA, PSPP Corporation is required to establish a Mandate and Roles Document (MRD) to describe the mandate of PSPP Corporation, its relationship with the Government of Alberta as represented by the President of Treasury Board and Minister of Finance, its governance and operational structure, and the respective roles and responsibilities. The MRD is currently under development.

Purpose of the Governance Framework

The governance framework outlines the processes in place to support the prudent management of the Plan and Plan fund. The governance structures described in this policy ensure there is accountability of decision makers, and that decisions are made by the person or entity with the most appropriate knowledge or skill. The goal is to ensure that PSPP Corporation meets its responsibilities as administrator and trustee in accordance with applicable legislation.

Authority

The authorities of the PSPP Sponsor Board and PSPP Corporation and the Corporate Board are prescribed in the JG Act and summarized in this policy. The Government of Alberta has the ability to legislate changes to the Plan's overall governance structure by amending the JG Act. In the event of any conflict between this policy and the requirements of the JG Act, the JG Act shall prevail.

Roles & Responsibilities

PSPP Sponsor Board

The PSPP Sponsor Board is a representative, unincorporated body consisting of eight members appointed directly by specified sponsor organizations. The roles, responsibilities and authorities of the PSPP Sponsor Board are expressly set out in the JG Act, and are in respect of setting the benefits provided by the Plan by making and amending the provisions of the Plan (plan text), setting contribution rates, setting the funding policy, and setting rules relating to the participation and withdrawal of employers.

The PSPP Sponsor Board also has authority to provide the following directions to PSPP Corporation:

- reviewing the proposed annual budget of PSPP Corporation and providing directions in relation to the budget;
- making rules in respect of the remuneration paid to the Corporate Board members;
- making rules respecting the costs, charges and expenses that may be charged to the Plan fund by PSPP Corporation, subject to PSPP Corporation being entitled to charge all amounts reasonably expended in carrying out its roles, responsibilities, duties, functions, and obligations; and
- making rules respecting the entering into, by PSPP Corporation, of agreements for the reciprocal transfer or portability of pension benefits between the Plan and other pension plans.

The PSPP Sponsor Board is required by the JG Act to consider the interest of pensioners in carrying out its responsibilities.

PSPP Corporation

PSPP Corporation is a provincial statutory corporation without share capital. It operates on a cost recovery basis, with all expenses incurred being recovered from the Plan fund.

PSPP Corporation is responsible for managing and investing the Plan fund and for carrying out and performing all of the duties, functions and responsibilities of an administrator under the EPPA except to the extent that responsibility has been expressly assigned to the PSPP Sponsor Board pursuant to the JG Act. The EPPA provides that PSPP Corporation, in its capacity as administrator, stands in a fiduciary capacity to the members of the Plan and others entitled to benefits. This means that PSPP Corporation must act in the best interest of Plan members and others entitled to benefits when exercising authorities granted to PSPP Corporation through legislation and within the governance structure.

PSPP Corporation responsibilities include, without limitation:

- Ensuring Plan compliance with the JG Act, EPPA, and other applicable legislation
- Having an actuarial valuation of the Plan prepared at least every three years, or more frequently as directed by the PSPP Sponsor Board
- Arranging for and overseeing external service providers as may be required
- Making payments from the Plan fund in respect of Plan costs
- Communicating with Plan members and employers
- Establishing and maintaining a Plan website

PSPP Corporation is also responsible for providing or arranging for all support, services and advice required by the PSPP Sponsor Board.

The CEO of PSPP Corporation, subject to any directions or limitations as may be imposed by the Corporate Board from time to time, is authorized to enter into transactions and execute agreements, which agreements shall be binding upon PSPP Corporation.

PSPP Corporation Board of Directors (Corporate Board)

PSPP Corporation is governed by a board consisting of eight members nominated by certain sponsor organizations and appointed by an order of the Lieutenant Governor in Council. Pursuant to the JG Act, the Corporate Board is responsible for:

- overseeing the activities of PSPP Corporation
- making bylaws governing the business and affairs of PSPP Corporation
- approving Board policies and applicable corporate policies as recommended by committees of the Board

The Corporate Board ensures effective oversight of PSPP Corporation through regular reporting and Corporate Board approval of the following:

- PSPP Corporation Strategic Plan
- PSPP Corporation annual Business Plan which sets out the PSPP Corporation annual budget
- PSPP Corporation Financial Statements

- Plan Financial Statements
- Accounting valuation assumptions
- PSPP Annual Report
- Assumptions to be used in the actuarial valuation of the Plan
- Statement of Investment Policies and Procedures (SIPP) including the asset mix of the Plan fund
- Pension Services Agreement
- Investment Management Agreement
- PSPP Corporation CEO appointment, termination, compensation, goal setting and performance evaluations.

To assist with its oversight responsibilities, the Corporate Board established three standing committees. The Terms of Reference for each committee is publicly available on the Plan website.

- Finance and Audit Committee – oversees the audit of the Plan and the PSPP Corporation's financial statements.
- Investment Committee – oversees the investment and performance of the Plan fund.
- Governance and Human Resources Committee (GHRC) – ensures there are good governance procedures and policies in place to support the Corporate Board and PSPP Corporation. The GHRC also leads human resource processes with respect to the recruitment and evaluation of the CEO.

Legislated Service Providers

Alberta Pensions Services Corporation (APS) – APS provides pension administration services to the Plan. PSPP Corporation is required by the JG Act to engage APS as its exclusive pension administration services provider. The terms and conditions of the services provided are outlined in a Pension Services Agreement between APS and PSPP Corporation.

Alberta Investment Management Corporation (AIMCo) – AIMCo provides investment management services in relation to the Plan fund. PSPP Corporation is required by the JG Act to engage AIMCo as its exclusive investment manager. The terms and conditions are currently outlined in a temporary Ministerial Order, which remain in effect until such time as PSPP Corporation and AIMCo reach an agreement on an Investment Management Agreement.

Although pension administration and investment functions are required by the JG Act to be contracted to APS and AIMCo, PSPP Corporation is responsible for overseeing the services provided.

Performance Measurement and Monitoring

PSPP Corporation

The CEO of PSPP Corporation is accountable to the Corporate Board for the overall performance of PSPP Corporation. PSPP Corporation's performance is measured against the annual business plan approved by the Corporate Board. The CEO's individual performance is

measured against annual goals approved by the Corporate Board that reflect PSPP Corporation's strategic and business plans. The GHRC evaluates the CEO's performance annually and makes recommendations regarding the assessment to the Corporate Board. PSPP Corporation has an internal process for annual performance evaluation of all other staff.

Corporate Board

The Corporate Board conducts self-evaluations of the Corporate Board and its committees. The GHRC is responsible for establishing and administering the annual evaluation process. The self-evaluation process is designed to assist Corporate Board and committee members with assessing their collective performance and determining where weaknesses may benefit from additional measures.

All Corporate Board and committee members are required to individually complete questionnaires evaluating the effectiveness of the Corporate Board and applicable committees on an annual basis. Individual responses are aggregated and presented to the Corporate Board or respective committee for review and discussion. Ratings and comments are not individually identified in the consolidated results.

The GHRC also receives a copy of the consolidated results for review and has the authority to make any necessary recommendations to the Corporate Board in response to identified gaps or opportunities.

APS & AIMCo

Performance targets and other service levels for legislated service providers are outlined in the Pension Services Agreement for the administration of the Plan, and the SIPP for the investment of the Plan fund. PSPP Corporation receives quarterly and other regular reporting from APS and AIMCo in relation to service levels and compliance. PSPP Corporation also uses a scorecard to assess performance of legislated service providers.

APS and AIMCo each provide PSPP Corporation with an independent benchmarking report in which fees are compared with those of Canadian peers.

Information and Reporting

PSPP Corporation receives regular reporting from legislated service providers in accordance with service agreements. Reporting from APS includes, but is not limited to, reports on legal and legislative compliance, Plan text compliance, write-offs and settlements, service dashboards and administrative service costs. Reporting from AIMCo includes, but is not limited to, reports on net cash flows, fund values, investment returns, investment strategy, economic analysis, changes in key investment personnel, compliance certificates and investment management fees.

The above information, as well as briefing notes and reports from its committees and PSPP Corporation on various Corporate Board business, are reported to the Corporate Board and its committees at meetings for information, discussion, or decision. Meeting minutes approved by the Corporate Board are the official record of the Corporate Board's decisions and proceedings.

When urgent issues arise between meetings, the CEO contacts the Corporate Board Chair and/or relevant Committee Chair to determine appropriate action.

Information regarding the Plan and PSPP Corporation is available on the PSPP website. Mass email notifications and online news updates are used to disseminate information to Plan members and/or employers.

Code of Conduct

PSPP Corporation and the Corporate Board have publicly available codes of conduct for employees and Corporate Board members. The Codes are compliant with the Government of Alberta's *Conflicts of Interest Act* and outlines the procedures to disclose and address conflicts of interest. The codes are reviewed at least once every three years.

Corporate Board members and PSPP Corporation staff are required to make an annual declaration regarding their compliance with their respective codes of conduct.

Experience, Knowledge and Skills Required

The Corporate Board adopted a Skills Matrix and Competency Guidelines document outlining the skills and competencies required for a Board member to effectively carry out its responsibilities. The competencies required of the Board are linked to the Board's responsibilities. The Skills Matrix is completed annually by individual Corporate Board members and then aggregated to show the skill set of the Board as a whole.

When there is a vacancy on the Corporate Board, the Guidelines document and most recent Skills Matrix are provided to sponsor organizations for consideration when making nominations as well as to the Government of Alberta when making appointments. The JG Act states that the Lieutenant Governor in Council may reject a nomination to ensure the Corporate Board is comprised of individuals who, in aggregate, have the full range of skills, knowledge and experience necessary to be able to effectively lead PSPP Corporation in carrying out its roles, responsibilities and authorities under the JG Act.

Corporate Board members are encouraged to continue developing the knowledge and skills required to properly fulfill their responsibilities and may do so in accordance with the Education policy adopted by the Corporate Board.

PSPP Corporation has job descriptions for each position and makes recruitment and selection decisions based on the job description.

Risk Management

PSPP Corporation has developed a complete enterprise risk management framework for the PSPP Corporation to understand material risks to the Plan and PSPP Corporation, risk exposure, mitigation and action required.

The following policies and measures are currently in place:

- PSPP Funding Policy Statement – established by the PSPP Sponsor Board to ensure that sufficient assets are accumulated to meet the cost of accrued benefits and guide decisions about the funding of the Plan, and document funding controls and risks to the Plan's financial health.
- SIPP – establishes eligible investments, asset class weights and the amount of discretion given to fund managers to ensure that the Plan fund is managed within an appropriate and prudent level of risk. A Responsible Investment policy was established by the Corporate Board to supplement the SIPP.
- Expenditure and Accounting Officer Policy – PSPP Corporation policy setting out financial approval and limit controls.

Dispute Resolution for Those Entitled to Benefits under the Plan

PSPP Corporation has established a process for individuals who disagree with an interpretation or application of Plan provisions made by the service provider. The Dispute Resolution Policy is available on the PSPP website.

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