PENSION PLAN SUSTAINABILITY GUIDE

IT IS VERY IMPORTANT FOR YOU TO READ THIS GUIDE

to understand the reasons why MEPP is exploring possible pension plan design changes for the future. The Management Employees Pension Board (MEPB or the Board) wants to hear and consider member and employer opinions about any possible changes. Focus groups will be conducted to provide more education and hear opinions directly. Any change to the plan will apply to benefits earned after the effective date of the change.

PURPOSE – WHY A PENSION PLAN SUSTAINABILITY GUIDE?

The Board feels that a critical point has been reached with respect to the pension plan. They feel that changes may be required to ensure that the plan is financially viable and sustainable well into the future.

Ensuring a sustainable plan is important to all of us. You, as a plan member, are anticipating a pension in retirement. Employers want to offer a competitive benefit that delivers on the promises made.

This guide is an open and frank discussion about the challenges faced by MEPP. It explores possible alternatives that members can consider to help sustain the plan in the long-term.

The Board is concerned about the steady increase in required contributions in recent years. The Board wants to find out how you feel about the contribution level and whether you would welcome the opportunity to explore alternatives to better contain the escalation of future costs.

How did we get to this point? The pension fund has experienced financial losses over the past few years that have required additional contributions to fund the promised benefits. As well, low interest rates have impacted the investment returns we are able to generate. Once the economy recovers and interest rates increase again, some of the financial pressure will be reduced. However, the time has come to seriously look at mitigating future contribution increases.

This guide explains the issues we are facing, some options we can examine and the process we will be using to hear member and employer feedback.

Be aware … we are not alone. Many pension plans face issues similar to MEPPs. They are in various stages on the path to sustainability. We will be reviewing what other plans have done and are doing. But we also want to take a leadership role in setting the tone for a sustainable future: one that is responsive to the needs of MEPP members and employers.

What do we mean by a "sustainable pension plan"? Here's the definition the Board has been working with:

A sustainable pension plan is one that can consistently, over the long-term, deliver an appropriate range of benefits within an acceptable range of costs.

Is MEPP changing?

Maybe. We all want the plan to last for the long-term – for your lifetime at the very least. Given the issues we face today, change may be necessary. But you – your opinions and concerns are an important part of it. Read this guide to learn more.

WHAT YOU WILL FIND IN THIS GUIDE

For ease of understanding, this newsletter briefly describes some of the benefits available from MEPP. If there are any errors, misunderstandings or conflicts, the official legislation, contracts, plan documents and policies govern.

1. ABOUT MEPP

MEPP is a “defined benefit” pension plan. This means your benefit at retirement is a predetermined pension paid for as long as you live. The amount of the pension is based on a formula that includes your service and pensionable salary. This type of pension plan:

- Helps you prepare for your retirement because you can estimate your future pension income.
- Provides you with a predetermined pension at retirement for as long as you live, regardless of market conditions and how long you live.
- Is paid for by member and employer contributions and by investment earnings.

Your MEPP pension is an important part of your retirement savings and may be the largest part of your retirement income. But it will likely not be your only source of income in retirement. For some members, the *Income Tax Act* will put a cap on their MEPP pension. In order to ensure that members receive a pension without a cap, a Supplementary Retirement Plan for Public Service Managers is available to MEPP members.

Other sources of retirement income may include:

- Government Benefits – Canada Pension Plan and Old Age Security.
- Personal Savings – Registered Retirement Savings Plan, Tax Free Savings Account, other personal savings and investments.
- Other sources of income such as benefits from a previous employer’s pension plan, earnings from part-time work, or earnings from a business.

Government Benefits and the MEPP pension provide you with predetermined pensions paid for as long as you live. The other sources of income may end before your death, or may form part of your estate.

TAKE THE TIME TO LEARN ABOUT YOUR PLAN

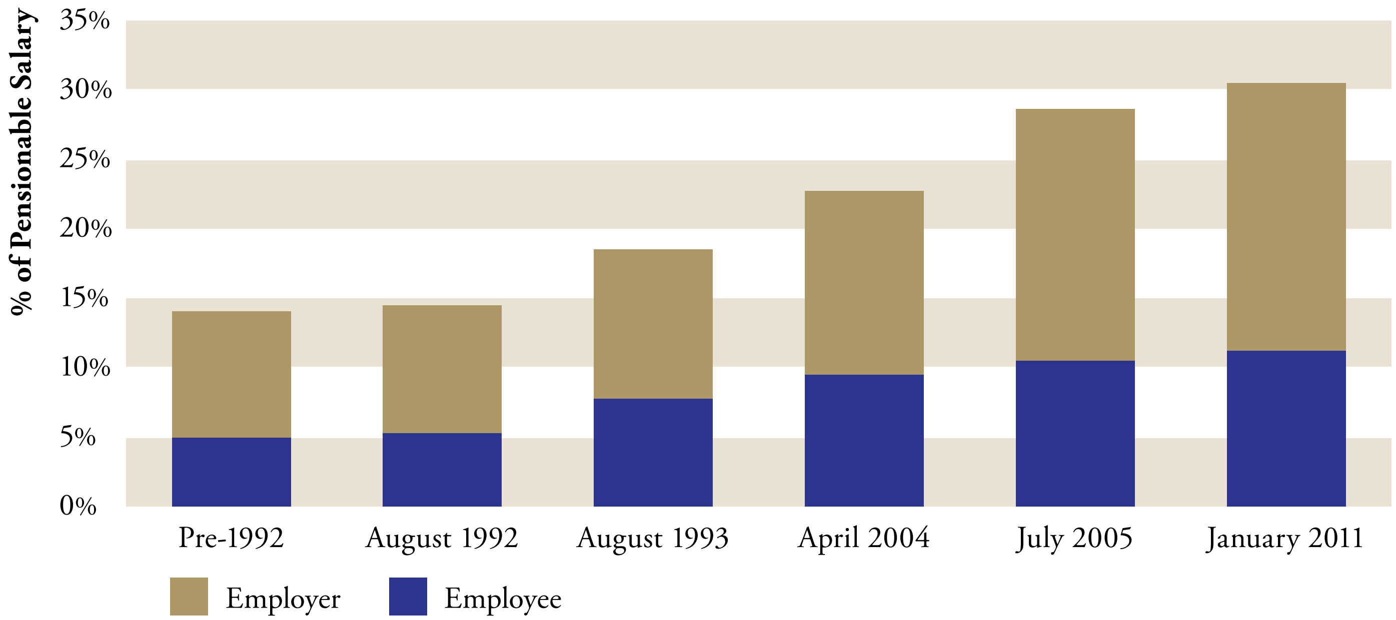
Go to www.mepp.ca for all the details. Take the time to review your annual pension statement to understand the benefits you have already earned.

2. THE CHALLENGES FACING MEPP

CONTRIBUTIONS

The challenges facing MEPP can be summarized in one sentence: Contributions are at an all-time high. Is that a concern, or not? The Board is very interested to know what you think.

THE FOLLOWING CHART SHOWS HOW CONTRIBUTIONS HAVE GROWN IN RECENT YEARS:



Current Member Contribution Rate – 11.16% (per cent) (2012 rate)
Current Employer Contribution Rate – 19.14% (per cent) (2012 rate)

A FEW OBSERVATIONS ABOUT THIS CHART:

- Total contributions today are at 30.3% of your pensionable salary, the highest they have ever been.
- Before 1992, total contributions were 14%. The contribution rate has more than doubled in the last 20 years. Contributions are expected to increase further in the future.
- Ten years ago, your portion of the contribution was 42%. Your employer's portion was 58%. Today, you contribute 37% and your employer contributes 63%.
- The 30.3% contributions paid today include 9.4% for financial obligations required to fund benefits from the past. These past service contributions could increase over the short term but are expected to decrease as time goes on.

This picture is typical of many public pension plans in Canada – that is, many other plans are experiencing increased contributions. However, very few, if any, exceed 30% of pay, as MEPP does currently. Also, the member and employer portions are typically split 50/50.

Total contributions are projected to increase to as high as **37.8%** in **2014** if there are no changes to the plan.

THE FOLLOWING TABLE PROVIDES CONTRIBUTION RATES FOR A FEW COMPARABLE PLANS:

Plan	Total Contributions % of salary	Member Share %	Employer Share %
MEPP	30.3	37	63
Alberta Public Service Pension Plan (PSPP)	21.6	50	50
Alberta Local Authorities Pension Plan (LAPP)	21.0	48	52
Alberta Universities Academic Pension Plan (UAPP)	25.7	48	52
Alberta Teachers' Retirement Fund (ATRF)	21.9	52	48
Ontario Public Service Pension Plan	14.4	50	50
B.C. Public Service Pension Plan	18.1	46	54
Federal Public Service Pension Plan	18.9	35	65

Plans across the country are asking the same questions as MEPP. When it comes to contribution levels, how high is too high? Several have initiated pension reviews. At least two provinces, Ontario and New Brunswick, have enacted changes this past year.

Bill C-45 recommends significant changes to the Federal Public Service Pension Plan including an increase in member cost sharing from 35% to 50% over time.

Many public sector plans face the risk that, in the absence of a concerted effort to engage stakeholders in ensuring pension plan sustainability, there will be increased pressure for legislated solutions.

WILL CONTRIBUTIONS CONTINUE TO INCREASE?

It's one thing to realize how high MEPP contributions are getting. It's another to realize that they could well rise further. There are several factors that could push contributions higher:

- The MEPP design encourages people to retire early. Early payment of benefits increases the length of time benefits are paid and therefore significantly increases the cost of the plan. There are many baby boomer members approaching retirement.
- Pensioners are living longer and the pension is paid for as long as they live. A longer benefit payment period adds to plan costs.
- These two factors – early retirement and longer life spans – are also changing the ratio between the contribution period and the collection period. It used to be that contributions were made for 40 years and benefits were collected for about 15. Now it is very possible that contributions could be made for 30 years or less, while benefits could be collected for 30 years or more. Clearly, if this trend continues, contributions will have to increase.
- As the plan matures and more members retire, the ratio of contributing members to members drawing pensions decreases. This means that there are fewer members supporting the benefits paid to pensioners and other members. Therefore, fewer members are contributing to the financial sustainability of the plan.
- Continuing low interest rates and the weak economic outlook mean that the plan's investments could struggle in the short term. The plan has only two sources of income to cover benefits: investments and contributions. If investments do not perform well, contributions must rise.
- Some features of the plan are more beneficial to some members. For example:
    - Early retirement benefits favour those who retire early. The benefits are paid for in part by the contributions of those who continue working to age 65 and beyond.
    - The pension for a single member is paid for as long as the member lives, or for at least 10 years. The pension for a married member will continue to be paid on a reduced basis to their spouse after death for as long as the spouse lives. Therefore, the married member has a more valuable benefit.
    - While these benefits do not directly cause contributions to rise, they can create inequities when some members get benefits that others don't.

ISSUES SPECIFIC TO MEMBERS

Contributions have increased and could continue to increase. As a member, you currently contribute 11.16% of pensionable salary. Your employer contributes an additional 19.14% of pensionable salary, for a total of 30.3%.

The 30.3% of pensionable salary being contributed towards benefits could be applied to purchase a different basket of retirement savings. Also, the plan could be changed to a lower contribution formula for a lower benefit overall. A range of options is presented in the next section.

There's also the issue of what happens if the economy improves and investment returns improve and the contributions turn out to be more than what was actually needed. Right now, there is no mechanism to improve benefits if this type of situation occurs.

ISSUES SPECIFIC TO EMPLOYERS

As an employer, you have slightly different issues to consider.

- How is MEPP impacting your ability to attract and retain the talent in your organization?
- Does the member contribution rate deter new hires?
- If early retirement benefits were reduced, how might your retention of valuable employees be impacted?
- How are contribution rates affecting your ability to meet your budgets?
- How will your answers to these questions be impacted if contribution rates continue to rise?

3. DESIGN OPTIONS TO CONSIDER

Right now, although there are definite issues that must be addressed, there is no guarantee that the plan will change and no predetermined direction for any such change.

We have outlined four alternative design options that cover a very broad array of possible solutions. Over the coming months, we will be looking for feedback through focus groups regarding these possibilities.

IF THERE IS A CHANGE TO MEPP, only benefits earned after the effective date of the change will be impacted. The Board is not contemplating any changes to benefits that have already been earned before the date of change.

The alternatives for your consideration are summarized as follows:

OPTION A Defined Benefit Plan – MEPP with increased retirement age, reduced early retirement and cost of living benefits. All other benefits would remain the same.

OPTION B Defined Benefit Plan – MEPP with a reduced benefit formula (from 2% to 1.4% of average pensionable salary for each year of service) and increased retirement age.

OPTION C – Defined Contribution Plan

OPTION D – Target Benefit Plan

OPTIONS C AND D ARE QUITE DIFFERENT FROM MEPP

OPTION C is a Defined Contribution Plan.

- Your contributions are deposited into a personal account.
- Employer contributions are also deposited into the same account.
- You choose the investments for all of the contributions, yours and your employer's.
- At retirement, the total balance in your account is available to you.
- You have several options for using that account balance, including:
  - Purchase of a pension (or "annuity") from an insurance company, paid for as long as you live.
  - Transfer of the funds to a Registered Retirement Income Fund (RRIF) where a regular payment schedule is set up.
- Option C does not give you any guarantees as to how much your account will provide when you retire. The value will depend on total contributions and investment earnings.

OPTION D, the Target Benefit Plan, provides a predetermined pension based on a formula. However, benefits can vary, if needed, to keep the plan financially sustainable. Contributions are a fixed per cent of pensionable salary and would rarely increase or decrease. Unlike MEPP, the benefit formula instead of the contribution formula would be adjusted to meet funding requirements.

Basically, a Target Benefit Plan is a cross between a Defined Benefit Plan like MEPP and the Defined Contribution Plan described in Option C:

- Defined Benefit (MEPP) (where the benefit is predetermined) and
- Defined Contribution (where the contributions are fixed).

The actual benefit from a Target Benefit Plan depends on how much the contributions can afford.

THE ONE THING THAT ALL FOUR ALTERNATIVES HAVE IN COMMON is that they are considered equally "sustainable". Back to our definition ... they are considered equally likely, over the long term, to deliver an appropriate range of benefits for an acceptable range of costs. The expected range of benefits and the expected range of costs do vary considerably among the alternatives, however.

The following table provides a comparison of the design options with MEPP.

Through the focus groups, we will be asking members –

- What are the pros and cons, in your view?
- Which alternative, in total, is most appealing to you?
- Which alternative do you think would have the broadest appeal to other members?

PLAN DESIGN OPTIONS – COMPARISON TO MEPP: BENEFIT FORMULA

MEPP

At age 65 or at age 60 with 5 years service you receive an income for the rest of your life based on this predetermined formula:

2% multiplied by your average pensionable salary multiplied by your service.

Average pensionable salary means the average over the best 5 consecutive years when your pensionable salary is the highest.

BENEFIT FORMULA EXAMPLE

Average Pensionable Salary = $100,000
Service = 25 years

2% x $100,000 = $2,000
Multiplied by
25 years of service ($2,000 x 25)

= $50,000 a year

BENEFIT FORMULA

OPTION A MEPP with Increased Retirement Age, Reduced Early Retirement and Cost of Living Benefits	The same formula as current MEPP.
OPTION B MEPP with Reduced Benefit Formula and Increased Retirement Age	The reduced benefit formula would be 1.4% of average pensionable salary instead of 2% multiplied by your service.
OPTION C Defined Contribution Plan	There is no predetermined benefit formula based on average pensionable salary or service. The plan would provide a lump sum benefit based on member and employer contributions plus investment earnings.
OPTION D Target Benefit Plan	The benefit formula would be 1.4% of average pensionable salary for each year of service (based on the average pensionable salary over the member's career instead of the highest 5 years best earnings – current MEPP). Career average salary would be updated if affordable based on contributions and plan experience.

PLAN DESIGN OPTIONS – COMPARISON TO MEPP: EARLY RETIREMENT PENSION

MEPP

You are eligible to retire and receive your full benefit formula pension if you meet one of these three conditions:

- You are at least 55 and your years of service plus your age equal 80 points or more.
- You have reached age 60 and you have at least 5 years of service.
- You have reached age 65.

IF YOU RETIRE BEFORE you meet one of these conditions, your pension is reduced 3% for each year of early retirement.

EARLY RETIREMENT PENSION	
OPTION A MEPP with Increased Retirement Age, Reduced Early Retirement and Cost of Living Benefits	The age plus service rules for an unreduced early retirement pension increase from 80 to 85 points. The age 60 plus 5 years of service rule for an unreduced early retirement pension would not be offered. The reduction on earlier retirement would be increased to approximately 6% per year (current MEPP reduction is 3% per year).
OPTION B MEPP with Reduced Benefit Formula and Increased Retirement Age	The age plus service rules for an unreduced early retirement pension would be 80 points, the same as current MEPP. The age 60 plus 5 years of service rule for an unreduced early retirement pension would not be offered. The reduction on earlier retirement would be 3% for each year of early retirement, the same reduction as current MEPP.
OPTION C Defined Contribution Plan	As there is no predetermined benefit, there is no age or date when an unreduced retirement pension is payable.
OPTION D Target Benefit Plan	The age plus service rules for an unreduced early retirement pension would be 80 points, the same as current MEPP. The age 60 plus 5 years of service rule for an unreduced early retirement pension would not be offered. The reduction on earlier retirement would be 3% for each year of early retirement, the same reduction as current MEPP.

MEPP

You and your employer both contribute to MEPP. Your MEPP contributions are 11.16% of your pensionable salary.

Your employer contributes 19.14% of your pensionable salary for a total member and employer contribution of 30.3%.

Contributions may continue to increase in the future.

	CONTRIBUTIONS
OPTION A MEPP with Increased Retirement Age, Reduced Early Retirement and Cost of Living Benefits	Contributions would be lower than current MEPP because benefits are reduced. Beginning contributions to A, B, C, and D would be about the same. In the event that plan experience requires an adjustment, contributions would change. Benefits would remain the same.
OPTION B MEPP with Reduced Benefit Formula and Increased Retirement Age	Contributions would be lower than current MEPP because benefits are reduced. Beginning contributions to A, B, C, and D would be about the same. In the event that plan experience requires an adjustment, contributions would change. Benefits would remain the same.
OPTION C Defined Contribution Plan	Contributions would be lower than current MEPP. Beginning contributions to A, B, C, and D would be about the same. However, contributions in C would be fixed and would not change.
OPTION D Target Benefit Plan	Contributions would be lower than current MEPP. Beginning contributions to A, B, C, and D would be about the same. However, contributions in D would be fixed. In the event that plan experience requires an adjustment, contributions would be unchanged and benefits adjusted.

PLAN DESIGN OPTIONS – COMPARISON TO MEPP: COST OF LIVING

MEPP

Your pension is increased annually at 60% of the Alberta Consumer Price Index.

COST OF LIVING INCREASES AFTER RETIREMENT	
OPTION A MEPP with Increased Retirement Age, Reduced Early Retirement and Cost of Living Benefits	No cost of living benefits unless favourable investment returns make ad hoc increases affordable.
OPTION B MEPP with Reduced Benefit Formula and Increased Retirement Age	The cost of living benefit would be the same as the current MEPP.
OPTION C Defined Contribution Plan	There is no cost of living benefit unless the member purchases an annuity that offers it.
OPTION D Target Benefit Plan	The cost of living benefit would be based on the amount contributions can afford. The benefit would be targeted at the level of the current MEPP and may be the same, lower, or, if the plan does well, higher than the current MEPP.

4. NEXT STEPS TO EXPLORE A FINANCIALLY VIABLE, SUSTAINABLE PLAN

As the Board moves forward, seeking to hear your voice, it is important that your viewpoints and concerns are put forward.

We have therefore chosen a specific path for soliciting feedback that recognizes the unique challenges posed. For such a situation, our advisors have strongly recommended the following process:

- Publish this Pension Plan Sustainability Guide, to help all members understand the issues and challenges facing MEPP.
- Conduct focus groups, to hear directly from members and employers regarding their reactions to the options under consideration.
- Welcome member comments through e-mail. The MEPP review e-mail address is now accepting your feedback: reviewmepp@mepp.ca.
- Publish the feedback gathered from the focus groups and e-mail comments.

This guide was mailed to all active MEPP members. It has also been posted on the MEPP website, at www.mepp.ca

Member focus groups will be held in January 2013. The feedback from both focus groups and the review e-mail address will be communicated to members by the end of the second quarter of 2013.

MORE ABOUT FOCUS GROUPS

The member focus groups will involve a representative sampling of our active member population (as the options under consideration affect future service only). Members will be chosen based on age, service and location to reflect a cross section of our membership. These members will be invited to attend a 2–3 hour session where MEPPs issues, challenges and options are discussed openly.

Focus groups are an excellent vehicle for collecting information when the topic is especially challenging. Focus groups are an effective way to get feedback because participants are not constrained by formatted questions or a specific range of topics.

The facilitators can address many issues, change direction as needed and generate significant interaction. Therefore, a dialogue is established between the facilitators and participants. The facilitators will ask questions, track the responses and explore the "why" behind the responses.

Appropriately selected focus groups will provide data that is at least equally credible as a broader survey. In fact, that data is usually more credible because:

- It will be based on informed opinions.
- It will provide deep insights as to the true thinking behind the responses.
- It will be collected from an audience specifically selected to provide a broad cross section of all participants, as opposed to being subject to a random sampling that could turn out to be biased.

4. NEXT STEPS TO EXPLORE A FINANCIALLY VIABLE, SUSTAINABLE PLAN (CONTINUED)

WHAT IF I'M NOT INVITED TO A MEMBER FOCUS GROUP?

We want your opinions. Use the review e-mail address to provide us with your feedback. Send your comments to: reviewmepp@mepp.ca. This e-mail address is currently active and will stay active until January 18, 2013. All feedback will be compiled for the Board's review and consideration.

Your view is extremely important.

PLEASE NOTE

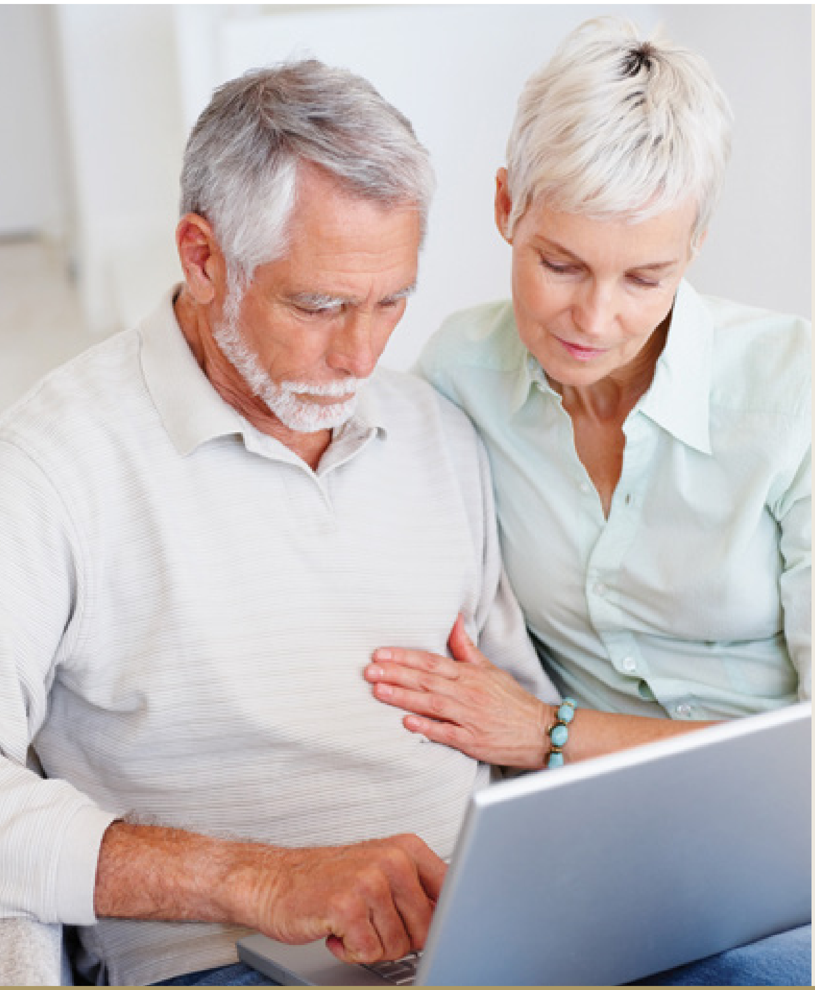
This e-mail address: **reviewmepp@mepp.ca** will not be responding to questions, only gathering your feedback or ideas on sustaining your plan.

The Board's overriding objective is to make sure MEPP will be around and supporting members' retirement income needs for a very long time. There are presently significant challenges to the long term sustainability of the plan. We are not alone in this, but we are also not waiting for others to determine our future. To do this right, we need to hear from you. Get involved. If you are chosen, participate in a focus group, e-mail your feedback to reviewmepp@mepp.ca, or engage in discussions with colleagues.

We look forward to receiving the results of the focus groups early in the New Year. We also encourage you to e-mail your feedback.

Thank you for taking the time to participate in this review and taking the time to assist the Board with sustaining your plan now and in the future.

The Management Employees Pension Board



LET US KNOW WHAT YOU THINK!

Please send your feedback and comments **until January 18, 2013** to: reviewmepp@mepp.ca

MEPP management employees pension plan

For information about MEPP, please visit our website: www.mepp.ca