



MEP Board Vision and Mission

Our vision is that Plan members and employers have a pension plan that is affordable and sustainable.

Our mission is to provide prudent governance of the Plan and Fund.

MEP Board Information

Go to the MEPP website and click on the MEP Board and Plan Governance tab to review current and previous communications, policies, reports, and more.

Message from the Chair

Welcome to the Fall/Winter 2019 edition of the Member Newsletter. The Management Employees Pension Board (MEPB or the Board) is pleased to provide members with the latest news and information related to the governance of the Management Employees Pension Plan (MEPP).

The past six months have been marked with much change and uncertainty. With a change in government following the Provincial election comes a change in priorities, processes and focus. In terms of investments, volatile geopolitical activity continues to affect the financial markets. Though there is much instability at all levels these days, the Board is always working to make informed decisions about the future.

The Board uses a conservative approach in its funding valuations that helps build a margin—or cushion—to protect the MEPP fund against unexpected changes.

One way the Board actively contributes to informed decision-making is by staying abreast of trends in the markets and the media. The Board uses a conservative approach in its funding valuations that helps build a margin—or cushion—to protect the MEPP fund against unexpected changes.

The Board also strives, always, to serve in the best interests of MEPP members and pensioners. Recently, the Board held the annual Stakeholder Governance Session. This valuable event allows the Board to speak directly with MEPP stakeholders, and we would like to thank all of the members who participated.

We are always pleased to meet MEPP participants and discuss governance-related topics in this open forum session. This edition of the newsletter contains an overview of the questions and feedback we received.

Finally, the Board works with investment industry experts who help guide best practices for the MEPP fund. A balanced approach of monitoring trends and information, coupled with the Board's Investment Policy, has contributed to favourable results in the latest MEPP financial statements and the MEPP actuarial valuation – the results of which we are pleased to bring to you in this edition of the newsletter.

Deborah Polny, MEPB Chair

Plan Governance Update

The Board would like to remind members that the Alberta government's new joint governance structure for some of Alberta's public sector pension plans does not apply to MEPP.

Further to the update we provided in the Spring 2019 Member Newsletter, MEPP continues to remain subject to the *Public Sector Pension Plans Act* (PSPPA) and its regulations. While MEPP was not part of the changes introduced earlier this year by the *Joint Governance of Public Sector Pension Plans Act*, or the *Employment Pensions Plan Act*, regular reviews of the existing MEPP governance structure are a natural extension of the Board's commitment to good governance. As such, the Board continues to monitor news and information about how the changes impact all public sector pensions in Alberta.

Changes to Service Level Agreements

In accordance with the priorities outlined in the MEPB Strategic Business Plan 2019-2021, clearly defined roles, responsibilities and service levels are an important part of the effective monitoring of MEPP's pension administration and investment management.

New service level agreements between the Province and MEPP's service providers—the Plan's administrator, Alberta Pensions Services Corporation (APS), and the Plan's investment manager, Alberta Investment Management Corporation (AIMCo)—have been signed, effective March 1, 2019. The agreements seek to codify the services offered by these service providers and the service levels, as agreed to by the Province and the service providers, on behalf of MEPP. The agreements also aim to clarify the roles and responsibilities of the service providers, the Province and the MEPB.

Changes to Administrative Reviews

All members who require a review of an administrative decision made by APS may submit a request for review directly to the President of Treasury Board and Minister of Finance (the Minister) instead of to the MEPB.

If you have questions about the appeal process, please contact the Client Service Advocate for more information, or visit the MEPP [website](#) for further details.

Phone: 1-888-643-1337

E-mail: clientadvocate@apsc.ca

Governance Statement

The President of Treasury Board and Minister of Finance is the statutory Administrator of MEPP, and holds all assets of the Plan in trust to provide benefits pursuant to the Plan and to meet Plan costs. The PSPPA sets out the main objectives of the Board with respect to funding, administration, investments and amendments to the Plan. The Board monitors the management of the Plan and advises the Minister.

MEPP Actuarial Valuation Results

MEPP recently underwent an actuarial valuation for funding purposes in 2019, based on the year ending December 31, 2018.

Findings of this latest valuation have moved MEPP from a \$310 million deficit, as at the last valuation, to an actuarial excess of more than \$100 million.

| December 31, 2018 | Valuation Results Going Concern* (millions) | Accounting Results Annual Financial Statements (millions) |
|----------------------------|--|--|
| Assets | \$5,057 | \$5,061 |
| Liabilities | \$4,956 | \$4,390 |
| Actuarial Excess/(Deficit) | \$100 | \$671 |
| December 31, 2015 | Valuation Results Going Concern* (millions) | Accounting Results Annual Financial Statements (millions) |
| Assets | \$3,939 | \$4,324 |
| Liabilities | \$4,249 | \$4,025 |
| Actuarial Excess/(Deficit) | \$(310) | \$299 |

*A "Going Concern" result assumes the Plan will continue into the future.

Further details of the Plan actuarial valuation can be viewed on the MEPP [website](#).

For more information about these numbers, read the article "[Accounting vs. Actuarial: What is the Difference?](#)" located in this newsletter.

2020 Contribution Rates

Actuarial valuations determine the Plan's current financial position and are required to set the contribution rates. Contribution rates are reviewed at least once every three years, and any required changes to the total contribution rate are recommended by the Board, and ultimately approved by the Minister. Subsequently, the rate split between employees and employers is determined by the Minister.

Based on the most recent valuation and the funded status of the Plan, the Minister has approved a 4% reduction to the total required contribution rate for MEPP, from 30% to 26%. The decrease will impact the contribution rate split between members and employers. Member contribution rates will remain the same, and the change will not impact any take home pay amounts nor the benefit amounts for current and future pensioners.

Overview of the New Contribution Rate Split Amount

The contribution rate split is shifting towards a 50/50 share of current service costs between employees and employers, which is more in line with standard practices for defined benefit pension plans.

Current up to December 31, 2019

Total Contribution Rate = 30%

| Employers | | Members | |
|-----------------------|---|---------------------|---|
| Employer Contribution | Percentage of Total Combined Contribution | Member Contribution | Percentage of Total Combined Contribution |
| 17.2% | 57% | 12.8% | 43% |

As of January 1, 2020

Total Contribution Rate = 26%

| Employers | | Members | |
|-----------------------|---|---------------------|---|
| Employer Contribution | Percentage of Total Combined Contribution | Member Contribution | Percentage of Total Combined Contribution |
| 13.2% | 51% | 12.8% | 49% |

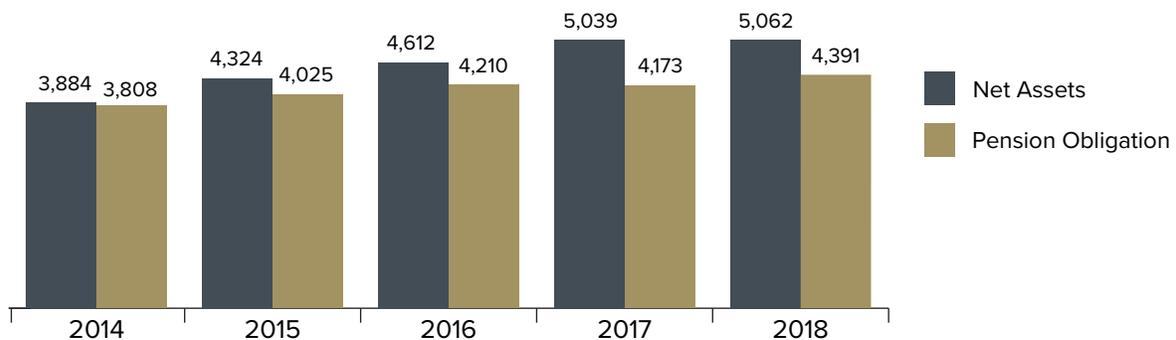
The next actuarial valuation for funding purposes will be held no later than December 31, 2021.

2018 Annual Report and Financial Statement Highlights

Great news!

According to MEPP's most recent audited financial statements, MEPP closed out 2018 with 115.3% of the total pension obligation supported by assets. MEPP has been fully funded for accounting purposes since 2013.

Net Assets Compared to Total Pension Obligations (in millions)
(per audited financial statements)



For further details about annual MEPP transactions, go to the MEPP website to view the archive of [Plan annual reports and financial statements](#), up to and including 2018.

Accounting vs. Actuarial: What is the Difference?

Why do numbers in MEPP's Annual Financial Report differ from figures in the latest actuarial valuation? This is because these reports have different objectives and reporting standards (accounting vs. actuarial), and may use different cost methods, assumptions and discount rates.

Annual financial statements are prepared by Alberta Treasury Board and Finance according to Canadian accounting standards for pension plans. The actuarial valuation is prepared by the MEPP actuary using a more conservative approach to ensure long-term viability.

By law, the MEPP actuary conducts a full actuarial valuation every three years to determine funding needs and required contributions for MEPP. The Board conducts an interim valuation every two years. In between the full triennial valuations, the Board reviews the projections and estimates prepared by the actuary in order to actively monitor the financial health of MEPP.

2019 Investment Performance Year-to-Date

The Board's Investment Committee (IC) regularly reviews the investment results of the MEPP fund with AIMCo, and with the assistance of the Board's Investment Consultant, Ellement.

The Board regularly posts [quarterly updates](#) on the MEPP website, which include the latest market and investment information.

Market Value

The market values (in millions) (unaudited) for Q3 2019 are as follows:

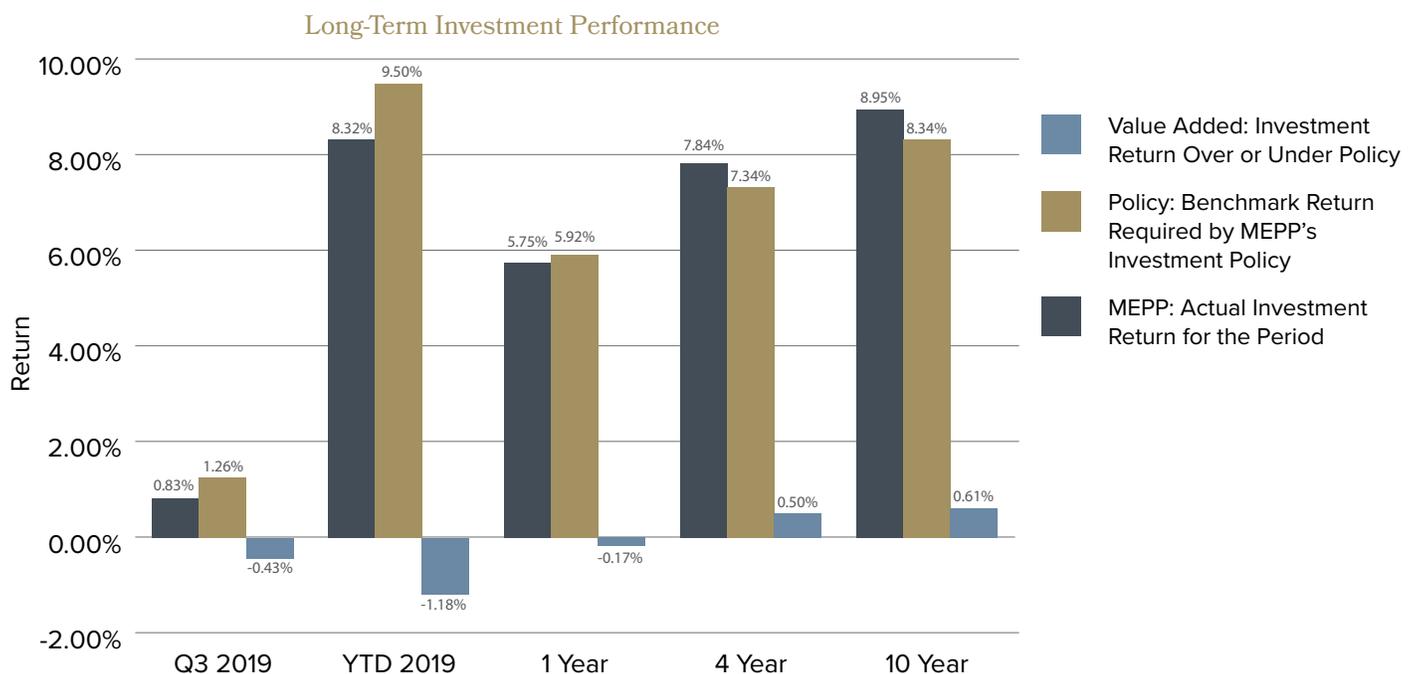
| | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 |
|-------------------------------|------------------------|------------------------|------------------------|------------------------|
| Beginning Market Value | \$5,195,394,639 | \$5,056,664,685 | \$5,337,054,015 | \$5,407,749,535 |
| Net Cash Flow* | (\$15,344,814) | (\$9,514,194) | (\$14,274,400) | (\$12,433,047) |
| Investment Income | (\$123,385,140) | \$289,903,525 | \$84,969,920 | \$44,879,208 |
| Ending Market Value | \$5,056,664,685 | \$5,337,054,015 | \$5,407,749,535 | \$5,440,195,695 |

* Negative net cash flow amounts are due to a pension system upgrade, resulting in a backlog of termination payouts at the pension administration operations level.

Investment Performance (Unaudited)

The investment performance in Q3 2019 was 0.83%, which is below the policy requirement of 1.26% for a negative value add of 0.43%.

The long-term investment performance return for the MEPP fund is as follows:



The Negative Interest Rate Environment

Negative interest rates have figured prominently in the news headlines lately. Globally, over \$15 trillion or almost 30% of outstanding investment grade bonds now carry negative yields, meaning that investors are actually paying borrowers to provide a home for capital. While Canada has not reached this extreme, we are near multi-decade lows in yields, and cannot rule out negative yields in the event of a serious economic downturn.

The global decline in interest rates has been driven by numerous factors. To a large extent, current low yields reflect expectations of slowing economic growth and muted inflation. Many central banks have been reducing administered short-term interest rates in an effort to stimulate economic growth and perhaps to manage their currencies lower to enhance trade competitiveness. Yields on longer-term bonds are driven by supply and demand dynamics, with excess demand for bonds causing prices to rise and yields to drop. Demand for bonds has been boosted by a growing belief that central banks will keep short-term rates lower for longer, and by increasing investor risk aversion due to heightened geopolitical risks such as Brexit and US-China trade frictions.

Demographic factors are also driving greater demand for bonds, as an aging population seeks the income and relative safety of bonds. We see this demand coming not only from individual investors, but also from large pension funds looking to de-risk as plans mature. This demographic trend is expected to persist for many years, so while bond yields may appear unnaturally low, there is no guarantee they will revert to levels that are more normal any time soon.

In the meantime, investors seeking the safety of government bonds will have to live with very low returns. On the other hand, investors who can tolerate the higher risk associated with equities, real estate and infrastructure should be rewarded over the long term.

In the pension context, mature plans (i.e., those with a large proportion of retired members) generally have a low risk tolerance and therefore need to hold more bonds. Less mature plans can generally take on more risk. While taking too much risk can obviously jeopardize the health of a pension plan, taking too little risk can increase the long-term cost of the plan, potentially resulting in benefit cuts and/or rising contribution rates over time. It is therefore critical for plans to assess their risk tolerance accurately, and to ensure that their investment strategy is consistent with that risk tolerance.

-Submitted by Brad Bondy, Investment Consultant

Never Too Early to Start Planning for Retirement

Retirement might seem like a long time from now, but it's never too early to start building the foundation for a comfortable future. Also, MEPP members are eligible to receive an unreduced pension after age 60, so retirement might not be too far away after all.

Alberta Pensions Services Corporation (APS), MEPP's pension benefit administrator, guides the pension experience for MEPP members, pensioners and employers alike, offering a wide variety of pension-related services. If you need help, be sure to reach out to the MEPP experts at memberservices@mepp.ca.

Set Goals

Thinking about the lifestyle you want to lead when you're retired is an important step in setting retirement goals. At what age do you want to retire, and where do you want to live? Do you have hobbies that you want to continue, or health issues that need to be considered? Do you have beneficiaries that you want to provide for, or a pension partner to consider?

All of these considerations will help you determine when to retire as well as the amount of money you'll need to support you in your post-career years.

Understand Your MEPP Pension

There are several ways to learn more about your MEPP pension, how it works and the amount of income you can expect if you retire next year or several years from now. At the click of a button, you can visit our website that is full of important pension information. You can attend a group session to learn more about the Plan, attend a one-on-one information session or you can participate in an online webinar.

Our [Pension Estimator](#) is a great tool to help you determine what your MEPP pension could be at different retirement ages, and with different years of service and highest average salary.

Factor-In Other Sources of Income

Your MEPP pension is only one source of retirement income. As a working Canadian, you are also entitled to receive a pension from the Canada Pension Plan (CPP) as early as age 60 or as late as age 70. All legal Canadians are also eligible for Old Age Security (OAS) after age 65. In addition, you may have income from personal investments or personal savings.

The Government of Canada's [Canadian Retirement Income Calculator](#) is a great tool to help you estimate your retirement income using all potential sources of income.

If you have questions about your MEPP pension or are approaching retirement, visit the MEPP [website](#). While you're there, click the login button in the upper right corner to access mypensionplan™. There, you can update your contact information, change your beneficiaries and sign up to receive important emails about your pension plan.

2019 Stakeholder Governance Session

The annual Stakeholder Governance Session took place on November 20. We were extremely pleased with the turnout and quality of the discussions. The Board extends its thanks to all who attended.

This event is an excellent opportunity for all MEPP stakeholders (i.e. members, pensioners, and employers) to engage directly with the Board and to learn more about the role of MEPP governance. The following highlights include key takeaways from this year's sessions:

- Introductions and insights to the role of the Plan Board, Investment Manager and the Administrator;
- An overview of trends, risks and challenges faced by public sector pension plans;
- A comparison between MEPP and other Canadian, defined benefit pension plans;
- Investment strategies, including the importance of risk as a lever for appropriate asset management.

The bottom line? MEPP is a fully funded and carefully governed mature pension plan.

For those who could not attend this year, the presentation and video from the event are posted on the MEPP [website](#). We will aim to host this session again next year, so stay tuned for details in early Fall 2020.

Until next time, all MEPP stakeholders are encouraged to continue sending related feedback or questions to board@mepp.ca.

Your 2019 Board



Deborah Polny
Board Chair,
Employee Nominee



Sonya Johnston
Board Vice-Chair,
Employee Nominee



Andrew Tambone
Investment Committee
Chair, Employee Nominee



Shannon Patershuk,
Investment Committee
Vice- Chair,
Employer Nominee



Kim Flynn
Board Member,
Public Service
Commissioner's Nominee

Board Staff

Matea Maric Plan Board Manager

Courtney Andrews-Peckford Plan Board Specialist

Contacts

For general information about MEPP, please visit mepp.ca.

For specific Board-related questions or information related to MEPP governance, contact:

MEP Board:

Mail: The Management Employees Pension Board
c/o Alberta Pensions Services Corporation
5103 Windermere Blvd. SW
Edmonton, AB T6W 0S9

Telephone: 780-391-3693

Email: board@mepp.ca

For information and questions about your retirement options, calculating pension benefits, annual statements, forms, or changing personal information, please contact:

Members – Member Services Centre

Telephone: 1-877-889-MEPP (6377) (toll-free)

Fax: 780-421-1652

Email: memberservices@mepp.ca