



MESSAGE FROM THE BOARD

The primary focus of this newsletter is the Plan Sustainability Review.

The Management Employees Pension Board (MEPB or “the Board”) is committed to working with members, employers and the government of Alberta to ensure that MEPP is sustainable into the future. As planned and previously communicated, the Board presented a preliminary report to the President of Treasury Board and Minister of Finance (“the Minister”) on March 22, 2013, which included an update on the progress to date including feedback from the employers and members and recommendations. The Board recommended that we:

- Work towards maintaining a defined benefit pension plan with core benefits similar to the current MEPP provisions;
- Use a target maximum contribution rate of 25 per cent (%) for all future current service costs (the Board noted that the payments for past losses, which are being amortized, must continue to be paid);
- Continue to research potential changes to various features that would help make MEPP sustainable in the future (such as changes to the provisions for early retirement and cost-of-living/indexing benefits);
- Provide more information to MEPP members and opportunities for MEPP members to meet with the Board to discuss pension sustainability; and
- Provide our final report and recommendations to the Minister by December 31, 2013.

Please read this newsletter for an update about the Plan Sustainability Review. More information will be available on a new Pension

Sustainability micro-site on the MEPP website in the near future.

The Board welcomes your feedback about MEPP and the Plan Sustainability Review. Please e-mail your comments to the Board at board@mepp.ca.

Rod McDermand, Chair

How will any potential change affect you?

RETIREES/DEFERRED MEMBERS

According to the current MEPP legislation, if you are retired and receiving a MEPP pension benefit when any changes are made to MEPP, the amount of pension you are receiving will **not** be affected by the change. Similarly, if you are no longer actively contributing to MEPP and left your pension in the Plan to receive at a later date, the pension you earned would not be affected.

ACTIVELY CONTRIBUTING MEMBERS

If you are still working and contributing to MEPP when any change is made to MEPP, the impact on your pension will be based on the nature of the change and how much pension service you earned before and after the change.

PENSION SUSTAINABILITY UPDATE

PENSION PLAN SUSTAINABILITY DEFINED

The MEPB has defined a sustainable pension plan as one that can consistently, over the long-term, deliver an appropriate range of benefits within an acceptable range of costs.

RECAP OF CURRENT CHALLENGES FACING MEPP

The total contribution rate for MEPP has more than doubled in the last 20 years and today is the highest it has ever been at 30.3% of your pensionable salary. The 30.3% contributions today include 9.4% for past losses. The current member contribution is 11.16% and the current employer contribution is 19.14% and contributions are expected to increase in 2014. MEPP is not in a unique position. Pension plans across Canada are facing similar challenges and asking themselves how high is too high when it comes to pension contribution levels?

How did we get to where we are today? Again, MEPP is not unique. The issues affecting MEPP are the same issues affecting other pension plans – a combination of financial markets and demographics.

FINANCIAL MARKETS

Continuing low investment returns and interest rates are a challenge for all pension plans and many experts predict that the economic outlook will not improve significantly in the next few years. MEPP, like other pension plans, has only two sources of income – investments and contributions. If investments do not perform well, contributions must increase. While we have seen improvement in investment returns (see Investment Update in this newsletter for information on investment returns in 2012), it has not been enough to completely “catch up”. Investment returns are only part of the picture. Even if the economy and investment returns improve, more than likely contributions would continue at a high level because of demographic and plan design issues.

PAYING FOR PAST LOSSES

One of the risks inherent in managing a defined benefit pension plan like MEPP is investment risk. If in any one year, the actual investment income is less than what has been assumed, the plan experiences a loss. That loss is amortized and paid for – i.e., funded – over future years. Like many pension plans in Canada, MEPP sustained significant losses in 2008 contributing to the current funded status. Payments for past losses are spread out over a number of future years and eventually end.

DEMOGRAPHICS AND PLAN DESIGN

As discussed in the MEPP Pension Plan Sustainability Guide, the combination of the aging population and the MEPP design has a significant impact on the rising costs of the plan. MEPP’s plan design encourages early retirement, which is subsidized. Subsidized early retirement costs money. Pensioners are living longer and pensions are paid for as long as they live. As a result, the ratio between the contribution period and the collection period is changing. It used to be that contributions were made for 30 or more years and benefits were collected for about 15. Now, it’s possible that contributions could be made for 30 years or less and benefits could be collected for 30 years or more. The higher costs are borne by employers and the group of actively contributing members.

How much do some of the current MEPP plan design features cost? Two of the most costly plan design features are subsidized early retirement and cost of living benefits.

Early Retirement

Currently, under 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.

The current early retirement subsidy costs approximately 6% of pensionable earnings per year.

Cost of Living

Currently, pensions are increased annually at 60% of the Alberta Consumer Price Index, which costs approximately 3% per year of pensionable earnings.

NEXT STEPS

- **As reported last year, the Plan’s Actuary completed an experience study. In an experience study, the actuary assesses the demographic assumptions used to determine pension liabilities and contributions required to pay pension benefits. These demographic assumptions include information such as expected retirement ages and life expectancies. The experience study will be posted to the upcoming Pension Sustainability micro-site.**

INVESTMENT UPDATE

FEEDBACK GATHERED TO DATE

The Plan's Actuary and external Communication Consultant conducted:

- One focus group with representatives from 21 MEPP employers on December 13, 2012; and
- Ten focus groups with active MEPP members across Alberta from January 14 – 18, 2013.

In addition, the Board established a special review e-mail address in January, 2013, which received over 610 e-mails. The Board and the Plan Board Manager also received direct e-mails.

The following are some highlights of the feedback received to date:

- Employers and members value the Plan.
- Members are upset about the possibility of changes to the Plan and believe that the Plan represents a "promise" that cannot be changed.
- Employers and members want to understand more about how to sustain the Plan and want more time for education, information and dialogue. Both want to have a voice in what changes might be made.
- Employers and members want to understand more about Plan governance and the role of the Board particularly in choosing, monitoring and governing investments.
- Employers and members want to understand more about Plan investments. Many believe that AIMCo is not effective, providing lower returns with increased costs.
- Employers and members want to understand more about the impact of the past service obligations on the sustainability of the Plan.
- Most Plan members did not support a defined contribution plan or a target benefit plan.

Copies of the full report on the focus groups prepared by the Communication Consultant will be posted on the upcoming Pension Sustainability micro-site over the next few weeks.

For privacy purposes, verbatim comments from the focus group sessions or received by email will not be posted.

2012 saw an increase in investment returns for the MEPP; this is typical of post economic recovery phases. The European and broader global markets including Asia had an impact on the world market and our returns. Investment analysts anticipate low growth in 2013; however, a sudden decline is not anticipated.

The Board, through its Investment Committee and External Investment Consulting firm, is currently completing an Enhanced Asset Modeling study and amending the MEPP investment policies. The Board believes that regular monitoring and enhancing the asset mix and reviewing the investment policies is prudent to good governance and should assist in balancing the investment and liability needs of the Plan.

ASSETS UNDER MANAGEMENT

As at December 31, 2012, MEPP assets under management (\$ millions) were:

	2012			
	Q4	Q3	Q2	Q1
Beginning Market Value	2892.3	2790.1	2814.2	2642.9
Net Cash Flow	10.9	2.3	8.2	2.1
Investment Income	81.6	100.0	(32.3)	169.2
Ending Market Value	2984.8	2892.3	2790.1	2814.2

INVESTMENT PERFORMANCE

As at December 31, 2012, MEPP's investment performance (%) was:

	Q4 2012	Total for 2012
Fund (net*)	2.8%	12%
Policy	2.7%	9.8%
Value-Added (net*)	0.1%	2.2%

*net of 0.55% in fees paid to the investment manager in 2012.

- **The MEPP 2012 actuarial valuation is in process. The report will be posted to the MEPP website and include an executive summary of the report. The valuation will provide the most up-to-date information on MEPP's financial health.**

- **After the valuation is completed, cost savings resulting from potential changes to MEPP can then be more accurately calculated.**

- **We are planning MEPP member information sessions to be held across the province starting in September. More information about dates, locations and times will be communicated as soon as the sessions have been booked.**

We will continue to keep you updated with posts on the upcoming Pension Sustainability micro-site.

2013 Management Employees Pension Board



Back row (left to right): Don Smallwood, Natalie Frederick[◇], Sonya Johnston, Scott Kashuba and Nancy Bochard*. **Front row (left to right):** Kim Flynn, Roderick McDermand (Chair), Dave Lawson (Vice Chair) and Brenda Chisholm[◇] (Plan Board Manager). **Missing:** Darlene Halwas.

[◇]Denotes Plan Board Staff *Denotes Board Member (Government nominee) until December 31, 2012

CONTACT US

The Board and APS (MEPP's Administrator) can be contacted at:

Management Employees Pension Plan c/o

Alberta Pensions Services Corporation (APS)
5103 Windermere Blvd. SW
Edmonton, AB T6W 0S9

Members – Member Services Centre

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

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

Fax: 780-421-1652

E-mail: memberservices@mepp.ca

Pensioners – MEPP Pension Payroll

For information and questions about payment of benefits and to request forms, please contact:

Telephone: 1-877-422-4748 (toll-free)

Fax: 780-415-8792

E-mail: pay@mepp.ca

For more information, please visit our website at: www.mepp.ca

YOUR 2013 BOARD

Roderick McDermand, Chair (Government nominee)

Dave Lawson, Vice Chair (Employee nominee)

Kim Flynn (Public Service Commissioner nominee)

Darlene Halwas (Government nominee)

Scott Kashuba (Employee nominee)

Sonya Johnston (Employee nominee)

Don Smallwood, Chair Investment Committee (Government nominee)

GOVERNANCE STATEMENT

The Minister of Finance is the statutory administrator of MEPP and holds all assets of the Plan in trust to provide benefits pursuant to MEPP rules and to meet plan costs.

The *Public Sector Pension Plans Act* sets out the main objectives of the Board with respect to funding, administration, investments and amending the Plan. The Board monitors the management of the Plan and acts in an advisory capacity to the Minister.

Board Contact

To contact the Board or for information regarding the governance of the Plan:

E-mail: board@mepp.ca