



MESSAGE FROM THE CHAIR

Communication with Management Employees Pension Plan (MEPP) members and stakeholders is a priority for the Board (or MEPB). The *2017 Spring Newsletter* is a snapshot of the work we did last year, and a look ahead at what is to come. The Board also reports on our progress throughout the year. Quarterly Updates are regularly posted to the MEPP website, along with current Plan news and information.

We held our first annual Governance session in October 2016. These sessions are a way for Stakeholders (members and employers) to communicate about the Plan directly with the Board. We appreciate the valuable feedback we received from all attendees and have worked to incorporate your questions and input in this newsletter. We will be hosting another Governance session in 2017.

We are excited to share news that we are working with Alberta Pensions Services, the Plan Administrator, to develop a new MEPP website. We expect this project to be completed by the end of the year.

Some of the Board's planned activities for 2017 include completing an Asset-Liability Study, assessing our current asset mix and Investment Policy (IP), and revisiting our Enterprise Risk Management (ERM) framework. More information can be found in this newsletter and in our [new 2017-2019 Strategic Business Plan](#).

We are also working to fill vacancies created by the departure of two experienced Board members in 2015. The positions were posted to the [Government of Alberta Public Agency](#) page, and the appointment process is underway.

As always, MEPB welcomes your questions and feedback. Please contact the Board by e-mail at board@mepp.ca or phone 780-391-3693 to speak with Board staff.

Sonya Johnston, Chair

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 first tab – MEP Board – to review current and previous communication, policies, reports and more.

MARK YOUR CALENDAR STAKEHOLDER GOVERNANCE MEETINGS

Join us in 2017 at our Stakeholder Governance Session. This is your chance to:

- 1** | Meet Board members, Board staff and the Plan Actuary
- 2** | Learn more about the MEPP and the Plan
- 3** | Ask questions and provide feedback directly to the Board

October 27, 2017

There are two opportunities to attend:

Session 1: 9:00 AM to 11:00 AM

Session 2: 1:00 PM to 3:00 PM

Location: Downtown Edmonton – location details are made available after online pre-registration.

IMPORTANT: The meetings are held in a secure government facility. Sign-in with **Photo identification** or a **Government of Alberta employee badge is required. Pre-registration** is mandatory. Only one registration per person (one ticket) is permitted. The event registration link is on the MEPP website; pre-registration is open until 11 PM on October 12, 2017. Everbrite link [here](#).

We look forward to seeing you there.

MEPP PLAN VALUE

Our goal is to continue improving the Plan's financial health for the long term. MEPP features excellent benefits for members. The contributions you make now go toward some of the highest levels of benefits available under tax legislation. Some are:

- Pension formula, which is two per cent of your highest five-year average salary times your years of pension service;
- Early retirement formula, which is:
 - o No reduction if you are age 55 and have 80 points (years of service plus your age equal 80 points or more); or
 - o You are age 60 and have at least five years of service;
 - The reduction is three per cent for each year you retire early. This reduction is based on your years short of age 60, or your years short of 80 points, whichever you would reach first.
- Enhanced post-retirement survivor benefit, which provides a pension to your partner in the event of your death, equal to 66 ⅔ per cent of your pension; and
- Cost of living adjustment (COLA) – Pensions are increased annually at 60 per cent of Alberta inflation.

ISSUES AND TRENDS

The Board continually monitors the funding status, stability, and financial health of the Plan. Some of the issues and trends we are looking at include:

- Expectations for future investment earnings;
- Volatile and uncertain financial markets;
- Maturity of MEPP and changing member demographics;
- A noticeable increase in the number and size of commuted value payouts to members leaving the Plan; and
- The number of new members to the Plan.

The Board continually monitors the funding status, stability, and financial health of the Plan

PLAN FUNDING STATUS AND ACTUARIAL VALUATION

The Plan Actuary conducts a full actuarial valuation every three years and an interim valuation every two years. An actuarial valuation is essentially a financial checkup for the Plan. In between triennial valuations, the Board reviews projections and estimates prepared by the Plan Actuary to monitor the financial health of the Plan.

In an actuarial valuation, the Plan Actuary estimates the cost of MEPP benefits by making assumptions about future conditions. The Plan Actuary compares these estimated costs with the estimated funding (i.e. the Plan's assets and expected contributions). Contribution rates are adjusted depending on the results. The MEPP valuation uses a smoothing methodology on a going-concern basis versus market assumptions. This method assists in building a contingency for long-term financial health.

The actuarial valuation for the year ending December 31, 2015 was completed in 2016. The MEPP assumptions were amended, including a decrease in the discount rate (expected rate of return) from 6.25 per cent (%) to 5.5% - a more conservative return in an uncertain investment market.

Based on the 2015 Actuarial Valuation, even with the changes in the assumptions and the sharp decrease in the discount rate, the going concern assets are \$3,989,196 and liabilities are \$4,248,735, resulting in a deficit of \$309,539. This is an improvement of close to \$88 million in the deficit since the 2012 Actuarial Valuation (\$388 million deficit in 2012), and the funded ratio is up from 88% to 92.7%.

CONTRIBUTION RATES

In addition to setting the assumptions used for the valuation, the Board sets the total contribution rate required to fund the Plan. The report is provided to the Minister, and Cabinet sets the contribution rate split between the employer and employees. On December 31, 2015, the normal cost (current service) was approximately 24.45%, the special payment towards the unfunded liability was approximately 10.20%, and the total contribution rate was 34.65%.

There were two financial losses to the Plan with investment market activities in 2001 and 2008. When financial losses occur due to investment activities, the Plan may fund those losses over 15 years, taking effect the year after the loss. Although the Plan's investment returns have been stable and sufficient to maintain the Plan, the special payment from the 2001 loss ended on December 31, 2016 – a payment of 4.8%. This allowed the total contribution rate to move from 34.65% to 30%, effective February 1, 2017. The remaining special payment from the 2008 loss will end in 2024.

2016 ANNUAL FINANCIAL REPORT

The Board met with the Auditor General in April to review the Plan Financial Statements and Audit Report for 2016. Alberta Treasury Board and Finance (ATBF) will release their 2016 Annual Financial Statements in June.

At this time, we would like to remind members that numbers in the Plan's Annual Financial Report and the actuarial valuation may differ. These reports have different objectives and reporting standards (accounting vs. actuarial), and use different cost methods, Plan assumptions, and discount

rates. Annual Financial Statements are prepared by ATBF according to Canadian accounting standards for pension plans. The actuarial valuation, on the other hand, is prepared by the Plan Actuary and uses a more conservative approach to ensure long-term viability. By law, it is the actuarial valuation that determines funding needs and required contributions for the Plan.

Once compiled, the 2016 Annual Report will be posted to the Plan's website. Previous versions are located [here](#).

2016 INVESTMENT RETURNS

Alberta Investment Management Corporation (AIMCo) is delegated by the Minister to invest funds for all public sector pension plans. AIMCo invests MEPP funds in accordance with the MEPP Investment Policy, established by the Board.

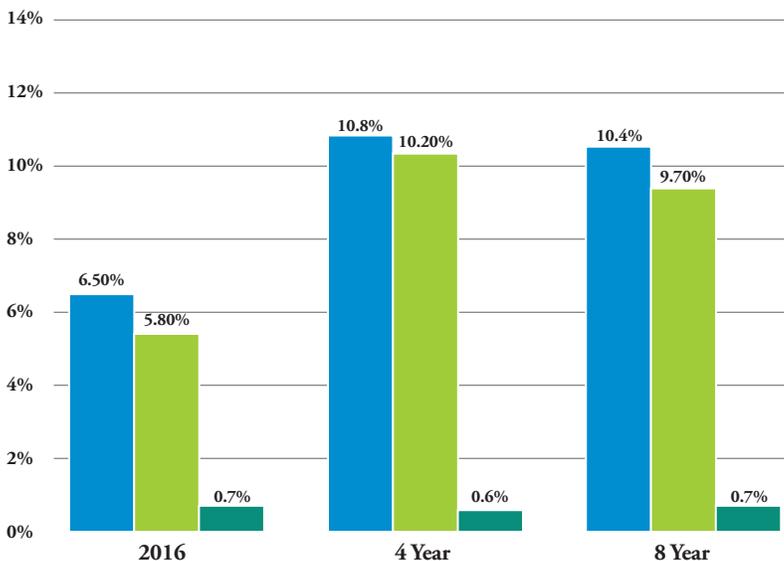
The market value amounts (audited) for each quarter in 2016 are:

	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Beginning Market Value	\$4,314,279,676	\$4,249,002,349	\$4,347,484,762	\$4,522,613,721
Net Cash Flow	\$8,591,024	\$4,039,301	\$2,209,435	\$(2,806,435)
Investment Income	\$(73,868,352)	\$94,443,112	\$172,919,524	\$86,492,956
Ending Market Value	\$4,249,002,349	\$4,347,484,762	\$4,522,613,721	\$4,606,300,242

INVESTMENT PERFORMANCE UPDATE

Long Term Investment Returns (as at December 31, 2016) Investment returns reported by AIMCo show the return earned specifically for the Plan fund (MEPP), the **Policy** (what the MEPP Investment Policy anticipates), and **Value Added** (the difference between the actual return and the MEPP Investment Policy).

LONG-TERM INVESTMENT PERFORMANCE



- **MEPP**
The actual investment return for the period.
- **Policy**
The return required by MEPP's Investment Policy.
- **Value Added**
The investment return over or under policy.

TIME	MEPP	Policy	Value Added
2016	6.5%	5.8%	0.7%
4 Year	10.8%	10.2%	0.6%
8 Year	10.4%	9.7%	0.7%

SETTING THE INVESTMENT POLICY, ASSET MIX AND MONITORING PERFORMANCE

One of the mandated responsibilities of the Board is to establish the Investment Policy (MEPP IP) that AIMCo must follow. This includes setting things like asset mix, risk parameters, benchmarks, target returns, compliance and reporting requirements, etc. The MEPP IP is reviewed annually by the Board and the external investment consultant to ensure the policy meets the Plan's needs. This review occurs following the annual Enhanced Asset-Liability Study (ALS). See more about the ALS below. The current MEPP IP is located on the [MEPP website](#).

Another of the Board's responsibilities is to monitor compliance with the MEPP IP, investment costs, and the investment performance of the Plan fund. The Board receives quarterly investment performance reports from AIMCo. The Board retains an independent Investment Consultant to assist in assessing investment costs, performance, risks, required assets, Policy compliance, and current and new issues and trends. In addition to quarterly reporting and quarterly meetings with AIMCo, the Board receives MEPP risk data each quarter from AIMCo. The Board works collaboratively with AIMCo, in the best interest of the Plan, and concerns are addressed with AIMCo and reported to the Minister, if necessary.

The Plan has seen strong improvement in the funding status and financial health since 2012. The Board attributes this to diligence, prudent investment governance, collaborative working relationships, assistance from our external investment consultant, our annual ALS, and the asset mix. Given concerns with our aging Plan, reflected by the ratio of active to retired members, the Board agreed to complete an annual ALS in 2012. Industry best practice is to conduct a full ALS every five years, whereas the MEPB completes this annually.

The ALS takes a unique and collaborative approach between the Board, Plan Actuary, Investment Consultant, and AIMCo. This approach is cost effective and provides a more accurate/current analysis versus a full ALS every five years. The actuarial cash flow data from the previous year's extrapolation results are used as the liability proxy versus indexing, and provides a more accurate synopsis of the Plan's needs, including matching assets to liabilities, assessing cash flow and liquidity needs, and the risk return tradeoff. Learn more about the ALS in the article from the Board's investment consultant in this newsletter.

Our goal is an affordable and financially healthy Plan, and this is one tool used to achieve that.

2017 Asset-Liability Study - by Brad Bondy, Ellement Consulting Group, MEPB Investment Consultant

The Board will be engaging in an asset-liability study over the course of 2017 to determine if changes to the Plan's policy asset mix are warranted. This will be a collaborative effort with input from AIMCo as the investment manager, Aon Hewitt as the Plan's actuary, and Ellement Consulting Group as the investment consultant.

Asset-liability modeling involves the simultaneous examination of pension assets and liabilities under a wide range of possible future economic scenarios, and for many possible asset class allocations. The ultimate aim is to identify asset allocations that are expected to provide high returns over the long term, but that also won't lead to excessive erosion of the Plan's funded status in severe economic scenarios. The exercise involves ensuring that unrewarded risks are removed, that opportunities for diversification are fully exploited, and that the balance of risk and return is appropriate for the Plan.

Since the Financial Crisis of 2008, markets have generally performed very well, with valuations rising steadily for most asset classes. While this strong performance has been welcome, the higher valuations mean that future returns are likely to be lower. Perhaps the clearest example is in the bond market, where declining interest rates have been a significant market theme for many years. While these declining rates have given rise to

strong price gains for bonds until now, they have also ensured that future returns from bonds will be modest. Given the current level of interest rates, bond returns are unlikely to exceed 3% over the next ten years, and could even turn negative in the short term if interest rates go back up suddenly.

Public equities have also performed very well since the Financial Crisis, but with the stock market recovery well into its eighth year and with valuations well above their historical averages, the risks of a correction cannot be ignored.

Given the challenges facing public equities and bonds, we expect that alternative asset classes like real estate, infrastructure, private debt and private equity will figure prominently in the upcoming asset-liability study. These alternative asset classes offer the potential for return enhancement in the form of an illiquidity premium, and risk reduction through better portfolio diversification. Real estate and infrastructure also provide an element of inflation protection, an important consideration given the Plan's indexing provisions.

Over the very long term, the Plan needs to achieve returns of approximately 5.5% in order to fund pension obligations. The Plan benefits from a very long term investment horizon, and relatively easy access to a full range of alternative asset classes through its investment manager, AIMCo. In conducting the asset-liability study, we will look to take full advantage of these benefits, and we are confident that the 5.5% return target is an achievable one.

Brad Bondy, FSA, FCIA, CFA, MBA
Partner, Ellement Consulting Group

PLAN ADMINISTRATION

Alberta Pensions Services Corporation (APS) is the Plan's Administrator. They collect contributions from the employers and members, pay pensioners, and perform day-to-day benefit administration services.

In 2016, APS implemented a new pension administration system (Compass), which included upgrades to the pension payroll function. This considerable and complex undertaking was completed on budget, on time, and with little-to-no interruptions of service. Compass has improved MEPP service, reporting and administrative capabilities. The Board is extremely pleased with the result and congratulates APS on this success. APS is still one of the lowest cost-per-member pension administrators amongst its industry peers.

What is the Board's oversight/mandate as it relates to APS and benefit administration? In addition to Plan communications, such as publications and the website, some of the Board's APS-related activities include regular meetings and quarterly service reports. This important relationship allows the Board to monitor issues and trends in Plan administration, and budgets and costs by benchmarking against other pension administrators, as well as address concerns with APS or the Minister if required.

The Board is mandated to hear appeals of Administrative Decisions provided by APS to MEPP and the Public Service Management (Closed Membership) Pension Plan (or PSM Closed) members. This delegation is appointed by the Minister to act on his behalf and through the Public Sector Pension Plan Act (PSPPA) and a Ministerial Authorization (1994). See the [MEPB Administrative Decision Appeal Policy](#) for more information.

The full mandate of the Board is available under the [Board Tab](#) on the MEPP website and in the Mandate and Roles document ([MRD](#)) between the Minister and the Board.

2017 AND BEYOND

Members can view the **new** [2017-2019 MEPB Strategic Business Plan](#) for full details.

In addition to the Board's ongoing communication commitment to Plan members, the year ahead holds an annual enhanced ALS, the Investment Policy, policy reviews, monitoring the funding status of the Plan, and monitoring AIMCo and APS. There is always much work to be done.

Enterprise risk management (ERM) is an important item on our 'to do' list for 2017. The Board's philosophy on Plan governance and risk is as follows: *"A properly governed plan is monitored for risk and has mechanisms to diligently and effectively act on changes or requirements that the Plan and its Fund require. Long-term financial health (sustainability) and proper governance go hand in hand."*

An ERM framework is constantly evolving. In 2015, MEPB completed the MEPP ERM Framework and provided it to the Minister. In 2016, the ERM underwent finalization of the program and dashboard. In 2017, there was an assessment by an external independent Risk Management Consulting firm. We are targeting phase three, completion and adoption of the new ERM, this year. At that time, it will be provided to the Minister and posted on the Plan's website once finalized.

YOUR 2017 BOARD



Sonya Johnston,
Board Chair



Don Smallwood,
Board Vice-Chair



Kim Flynn,
Board Member



James Fleming,
Investment Committee Chair



Michael Lundquist,
Investment Committee Vice-Chair

CONTACTS

MEP Board

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Email: board@mepp.ca

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Pension Board
c/o Alberta Pensions Services
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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

Email: 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

Email: pay@mepp.ca

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

BOARD STAFF

Brenda Chisholm,
Plan Board Director

Matea Maric,
Senior Plan Board Specialist

Julia Qiu,
Plan Board Specialist

Crystal Moreau,
Plan Administrative Assistant

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 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.

Watch for Pension Highlights Statements (formerly known as Member Annual Statements), which will be mailed to members in July.

Visit mypensionplan for Plan information and details about your benefit.

Newsletters are posted in the MEP Board Tab on the MEPP website and emailed to those members who have opted to "Go Green." If you wish to receive a copy of the newsletter by email and have not already signed up, please visit mypensionplan or contact the APS Member Services Centre and ask about "Go Green" options for MEPP members.