

The Management Employees Pension Board (MEPB or the Board) is pleased to present the Member Newsletter. This is a bi-annual snapshot of recent work and results for the Management Employees Pension Plan (MEPP or the Plan) as it relates to governance, investment and administration activities

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Message from the Chair

As of the third quarter 2023, MEPP proudly serves more than 13,000 active, deferred and retired members. Within the overall governance structure of the Plan, the Board's role is mandated in legislation to oversee the governance aspect on behalf of the Minister. Connecting with Plan stakeholders is an important component of this responsibility.

At present, the Board is reviewing the results of a recent MEPP member readership survey. Surveys help the Board to assess and improve the quality of the information it delivers regularly to members. These results also directly provide the member perspective for what kinds of information matter most. The Board would like to thank all survey participants for their feedback, which we are using to inform future editions of our member communications products. We remind all members that feedback related to the Plan governance is always welcome. Please continue to provide comments and questions to board@mepp.ca.

Plan members want to know their pension is secure. The Board embraces agility in its planning and risk mitigation endeavours and monitors the investment performance of the Plan to act in the best long-term interest of MEPP members.

The Board regularly provides coverage of this work via quarterly updates and other reports throughout the year. The most current data available is on Page 4 in this edition of the *MEPP Member Newsletter*.

In general, people want to know more about what the future has in store. While no one holds all of life's answers definitively, the Board can offer some insights on how members can better understand - and plan ahead for - their retirement with MEPP. See Page 6 for more information.

At this time, we would like to recognize departing Board member, Kristin Ward Diaz. On behalf of the Board, I would like to thank Kristin for her service to MEPB and for the depth of knowledge and energy she brought to her role as the Public Service Commission representative.

We hope you enjoy this edition of the *MEPP Member Newsletter*. For more information, please visit the [MEPP website](https://www.mepp.ca) for updates provided throughout the year.

Dale Beesley, MEPB Chair





MEPB 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's assets and liabilities as well as ensuring effective Plan administration.

MEPB Publications

View the *MEPB and Plan Governance* tab on the [MEPP website](#) for communications, policies, reports, and more.

Annual Report

The 2021 [MEPP Annual Report](#) is available on the MEPP website. This report details the previous year's financial operations and includes financial statements, the administrator's report and the Plan investment performance. The 2022 MEPP Annual Report will be posted as soon as it is available.

MEPP Financial Overview

By establishing the Funding Policy, the Investment Policy and the Risk Management Policy, the Board strives to generate sufficient returns for MEPP, to meet its pension obligations, while simultaneously incorporating an appropriate level of risk.

Funded Status

Earlier this year, the Board completed its annual review of the [MEPP Funding Policy](#). The Funding Policy details the principles and guidelines governing the Plan's funding requirements. While there were no substantial changes to the Policy, updates were made to reflect the changes to the employer and employee contribution rate split, as well as the reduction in the contribution rate for members that was announced this year, effective April 1, 2023.

Market Value (Unaudited)

Market values (unaudited) for Q3 2023, as well as the four previous quarters:

	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Beginning Market Value	\$5,967,551,586	\$5,894,612,271	\$6,107,523,127	\$6,283,568,575	\$6,375,325,639
Net Cash Flow*	\$(43,739,550)	\$(31,998,606)	\$(34,000,000)	\$(30,000,000)	\$(46,854,553)
Investment Income	\$(29,199,765)	\$244,909,462	\$210,045,449	\$121,757,065	\$(145,599,435)
Ending Market Value	\$5,894,612,271	\$6,107,523,127	\$6,283,568,575	\$6,375,325,639	\$6,276,580,757

**Due to backdates and timing of information, the quarterly cashflow values may not always add up to the ending market value.*

Update from the MEPP Investment Manager

The following article was provided by the Alberta Investment Management Corporation (AIMCo).

Soft or hard landing?

Higher-rates-for-longer, inverted interest rate yield curve, excessive government spending, China property sector woes and global geopolitical threats aplenty. All those characterizations of current economic conditions bandied around in the financial press potentially describe harsh economic outcomes. But are we truly destined for what pundits call a hard landing of the economy? What is the economic outlook for the balance of 2023 and beyond?

Let us pause and define what a potential hard landing means: this is a situation in which the rise of policy interest rates from central banks, while successful in slowing down growth and taming inflation, would result in a cooling housing market, tighter credit conditions for both households and corporations, and a significant rise in the unemployment rate. That could possibly lead to a material recession and interest rate cuts down the road. In contrast, a softer landing would translate in a scenario where growth still ends up below trend with inflation closer to target as well but, instead, unemployment does not rise substantially.

Looking first at the main engine of global growth, the U.S., the expectation for 2023 was that it would falter under the weight of the sharpest streak of rate hikes in decades. 30-year mortgage rates recently hit 8% (their highest level in 23 years), cracks have started to appear in the jobs markets with job openings down 20% from their peak in this cycle and government support post-COVID for households is rolling off entirely.

Despite those challenges, U.S. consumers (70% of the economy south of the border) benefited from large fiscal transfers during the pandemic and built up a large savings cushion much in excess of pre-pandemic trends, which was still worth around USD 1 trillion by the summer of 2023.

In addition, household wealth remained supportive of retail sales as housing and stock prices increased, and consumers have yet to feel the need to reduce spending drastically as workers' wages also rose in response to a tight labour market and higher inflation. Furthermore, the private sector was boosted by government policies leading to greater business investment, manufacturing activity and jobs in the areas of semiconductors plants and energy transition, in particular.

Overall, with goods prices under control as clogged supply chains eased and decelerating services prices ex-housing, the Federal Reserve (the U.S. central bank) may be done with its rate hiking cycle. If so, the U.S. economy might avert a hard landing in 2024 and surprise with a soft-ish landing, instead. Such an outcome, however, would be a rare occurrence as no prior U.S. soft landings¹ coincided with an inflation spike of the magnitude we have experienced, such a rapid pace of interest rate hikes or the current tighter bank lending standards.

Continued on next page

In Canada, the outlook is somewhat dimmer. The rise in Canadian interest rates has already started to bite. Household spending (adjusted for inflation) has completely flattened by the early fall of 2023 despite some healthy wage growth, the housing market is facing affordability issues in the wake of higher interest rates and the Bank of Canada Business Outlook Survey fell again in the 3rd quarter and is now broadly consistent with negative GDP growth.

The two silver linings are that the Canadian job market has been resilient so far and that inflation is gradually slowing down towards the 2% target (but probably too slowly to expect any rate cuts soon into early 2024 on the part of the Bank of Canada).

Elsewhere, Germany continues to be the “sick patient” of Europe and is expected to enter a recession in 2024. The other main European countries are likely to witness a marked slowdown, and the U.K. is facing a particularly lethal combination of excessive household debt and elevated house prices at a time of sticky higher inflation and rising borrowing costs. The Bank of England is facing difficult choices.

China has been a tale of two stories, with a steady but painfully slow consumption-led recovery partially overcoming headwinds from its housing sector, reduced investments in equipment and infrastructure and slowing exports. The Chinese economic cycle, however, may have bottomed which could support global demand and bodes well for the soft-ish landing camp heading into 2024.

In summary, a host of economic weak links globally are giving rise to continued economic uncertainty coupled with increased geopolitical risk. However, a few of the larger canaries, such as the U.S., are still chirping, therefore it is not yet clear how soon (if at all) the global economy will crack over the next year. Investors do not feel at ease calling for either a hard landing or a soft landing and we should expect equity and bond markets to be volatile in response.

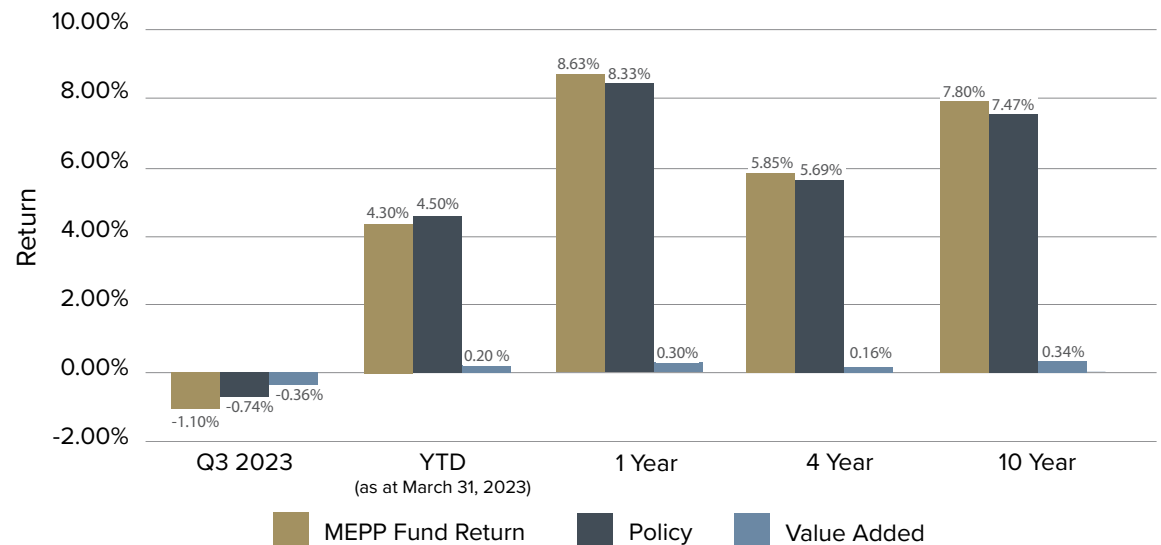
¹ Since 1960, the Fed has launched 12 tightening cycles, only four of which ended in soft landings: 1960-1966, 1982-1984, 1994-1995 and 2015-2018.

Investment Performance (Unaudited)

The investment performance is reviewed quarterly against the objectives set by the MEPP [Investment Policy](#).

In Q3 2023, the actual investment return for the MEPP Fund was -1.10%. Results for this quarter were below expected to meet the Policy requirement of -0.74%, yielding a negative return of -0.36%.

The long-term investment performance return for the MEPP Fund is depicted below:



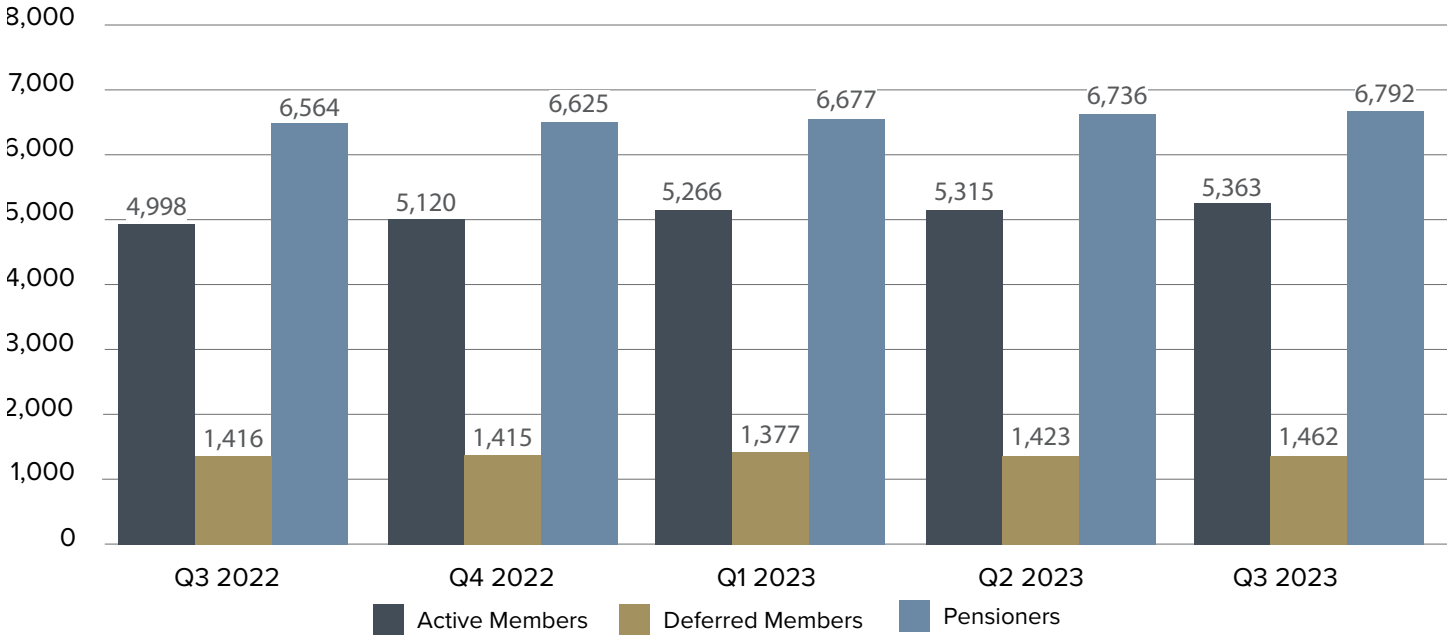
MEPP Administration Activity

To ensure security of the Plan, the Board monitors membership trends and makes changes accordingly.

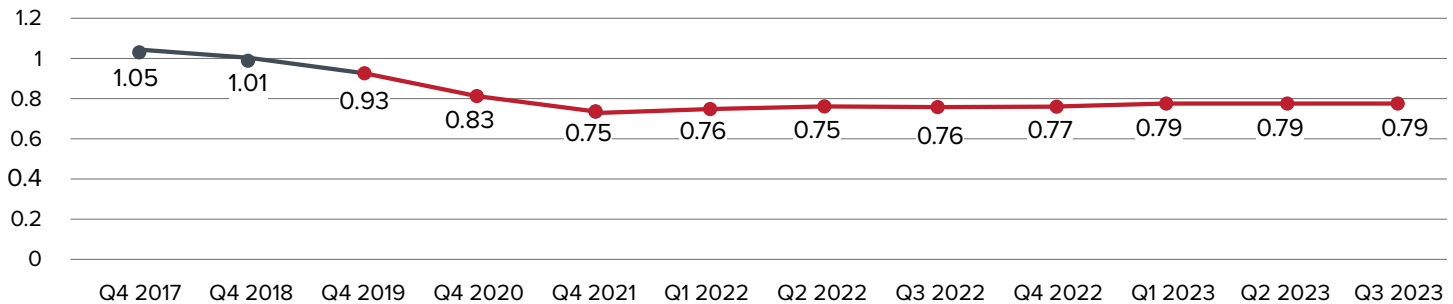
The Board regularly reviews MEPP membership data for Plan maturity indicators as part of its robust risk management approach. The Board also uses this information to consult with the Plan actuary and confirm the MEPP assumptions and contributions continue to remain at appropriate levels.

Membership Trends

The MEPP membership highlights for Q3 2023 are:



The current Q3 2023 ratio of working-to-retired members is 0.79:1, which remained the same as the previous quarter (Q2). Plan maturity is measured according to this ratio, and is depicted for MEPP here:



Client Service Statistics

Alberta Pensions Services regularly tracks statistical data related to its service delivery. The Voice of the Customer score considers the metrics obtained during all Member Service Centre transactions, including call type, call volume and speed-of-resolution rates, as well as direct customer feedback. An overall target score is established annually, and results are measured quarterly. The 2023 target score is 8.2/10. The Voice of the Customer score in Q3 2023 is 8.4/10.

Alberta Pensions Services continues to look for opportunities to enhance its member services capabilities. In Q3 2023, improvement efforts have included increased staffing for the Member Services Centre.

Information for Plan Members

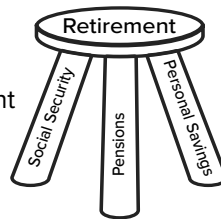
All MEPP members are encouraged to review their pension information regularly and to have a plan for their retirement. Here are some details to consider.

Use the Tools: Your Pension Profile

The [MEPP website](#) contains complete Plan information, including the latest reports and news updates. In the top right corner of the homepage, members will find a valuable tool called [Your Pension Profile](#). This is a convenient and secure online portal feature that allows active, deferred and retired members to log in and view their personal pension details at any time. They can also send and receive important Plan documents and access planning tools, like estimators and calculators. There is even an option to Go Green, which means members can choose to have all Plan-related documents, such as annual statements, tax slips and other Plan notifications, delivered in an eco-friendly, electronic-only format.

Have a Plan for Retirement

The three-legged stool is a conceptual approach to retirement planning. It demonstrates that, with retirement as the seat (or goal), there are three streams of income a person should plan to have in place – and keep in reasonable balance – to support the retirement years.



As each leg contributes to the overall stability of the stool, this model showcases the importance of each of these factors and of planning ahead for retirement.

Social Security: In Canada, these are benefits comprised of other income sources, such as the Canada Pension Plan (CPP) and Old Age Security. Every eligible worker is entitled to apply for social security benefits at retirement.

The benefit amount may vary for each individual. It depends on pensionable earnings and contribution amounts made to CPP over the duration of the eligible employment years, as well as the person's age at the time the retirement application is made. Along with other legislated provisions, there are many factors that can increase or decrease the actual pension amount.

Learn more from at least one of the many sources of information on government benefits and social security in Canada. As an added measure for preparedness, everyone should review their [statement of contributions](#) periodically throughout their career.

Personal Savings: This leg of the stool is self-explanatory. How much money does a person plan to put away for their own retirement? Among many different factors that can affect this leg, some of the most basic but important considerations for personal savings depend on the investment structure(s) they choose and what kind of lifestyle they expect to have when they retire. Over the span of a person's working years, more often than not, these expectations will need to be adjusted.

Wherever a person is in their career, it is always recommended to seek professional financial advice to help shape a personal savings plan that aligns realistically to both short and long-term goals, as well as solidifying expectations about future retirement outcomes.

Pensions: Employer-supported pension plans can be a strong asset to have in place for a personal retirement planning approach. This is one leg of the stool where MEPP members hold a key advantage.

As a well-funded defined benefit pension plan, not only is MEPP secure, but the estimators and calculators available via [Your Pension Profile](#) can help members forecast their benefit expectations so they know what to expect at retirement time. This critical insight is a valuable tool when discussing the overall retirement picture with a financial advisor.

Curious About the Future?

Much like the MEPP pension calculator and estimator tools found in the member online portal, the federal government offers information, tools and other helpful retirement planning resources on the [Government of Canada website](#).

It is always recommended that members review the information about pension coordination found on the [MEPP website](#) before attempting to estimate any future retirement income from combined sources.

Know the Options

Many decisions arise over the term of every person's life that can affect the future. Fortunately, all MEPP members have already made one important choice – to have a career that comes with a built-in retirement strategy that is both predictable and secure. The MEPP pension amount they will receive someday is based on their service and salary, and it is not directly affected by the investment markets.

Even with the assurance that comes with belonging to a defined benefit plan, life events happen. MEPP members will need to make informed decisions about certain aspects of their pension if and when the time comes. For example, along with having a plan for retirement, it is recommended that MEPP members stay mindful of their pension, and their options, at every stage of their career. Possible scenarios may include the following:

Mid-Career Move? Consider Combined Pensionable Service: A combined pensionable service relationship is established when a member moves between MEPP and the Public Service Pension Plan (PSPP) without changing employers and without a break in service. Combined pensionable service means service and salary information under both plans will be used in key elements of the pension calculation.

For example, MEPP members become vested once five years of pensionable service is reached. With a combined pensionable service relationship in place, if a member has two years of pensionable service in PSPP and moves to MEPP, they only need three more years of pensionable service to become vested.

Other advantages are that pensionable salaries from both plans will be used to determine the average of the five highest consecutive years of salary. Combined pensionable service may also mean earlier retirement with an unreduced pension, as early as age 55 in some cases.

When considering a mid-career move, review the [MEPP website](#) to find out how the MEPP benefit is calculated, then see the related information for [combined pensionable service](#).

Taking a Break? Purchase a Leave of Absence or Prior Service: Members can choose to buy back periods of leave in their pensionable service. This is important because pensionable service is a key factor in determining the future pension amount.

Under MEPP, buying back service comes with options, such as how much time can be purchased. If a combined pensionable service relationship is established, there are additional points to consider.

When thinking about taking any period of leave without salary (but not leaving the role), it is always recommended that members talk first with their employer's Human Resources representative to discuss available options. The [MEPP Member Services Centre](#) is also available to provide additional support.

Leaving the Plan Early? Understand the Commuted Value: Commuted value represents the amount of money that would need to be set aside today to pay a pension at retirement. When a qualifying member leaves the Plan, they may choose to receive this amount now as a lump sum payment or they can leave it within the Plan and receive a guaranteed monthly pension income for life upon retirement. Depending on the pension option selected, leaving the amount within the Plan can also mean a pension payment to a surviving spouse or beneficiaries after the pensioner passes away.

If the commuted value lump sum is taken now, it must be transferred to a locked-in retirement account. While this option may provide more personal flexibility, once the commuted value is removed from the security of the Plan's investment structure, it will be subject to unpredictable markets, tax implications and professional fees.

Since the choice to receive the commuted value is irreversible once made, it is important to seek professional legal and financial advice before any decisions are reached. Find out more about the value of your pension on the [MEPP website](#).

More Choice: Deferring Provides Options

Leaving the contributions in the Plan (or deferring) is a good option for members who are uncertain about the next step in their career. With deferral, since the commuted value has not been withdrawn, the member may be able to add on to their existing pensionable service and increase the total future pension amount should they return to a MEPP employer someday. In the meantime, there is also no risk to the existing contributions, which remain part of the overall Plan investment portfolio.

Updates for Retired Members

Now is a good time to start planning for the new year and to get ready for tax season in April 2024.

Cost-of-Living Adjustment

Each year, on January 1, MEPP pensioners are subject to receive a cost-of-living adjustment (or COLA). This adjustment is applied to MEPP pensions to offset the rising cost of goods and services as measured by the Alberta Consumer Price Index (ACPI). It is an adjustment in pension payments to offset a change in inflation or purchasing power. ACPI is used for all public sector pension plans in Alberta.

COLA for MEPP is currently granted at 60% of the increase in ACPI. The COLA effective January 1, 2024, for MEPP is 2.34%.

Plan for the Upcoming Tax Season

The 2023 tax slips are coming soon. Retired members who have registered for [Your Pension Profile](#) and signed up to Go Green will receive an email notification in February to log in and view them online.

For retired members who prefer to receive printed tax slips, please note these may take as long as mid-March to arrive by traditional mail. Please ensure any address information on file is still current.

Change to Payments from Multiple Pension Plans

Members who are retired from multiple pension plans are accustomed to receiving their monthly payments as a single combined pension amount. However, starting as of the October 30, 2023, payment, monthly pension payments and annual tax slips will now be issued separately from each plan. This will not affect the total pension amount received each month.

A letter to explain this change has been mailed out to all affected pensioners, and no further action is required. This change does not apply to those who receive a MEPP pension only.

Will My Pension Amount Change?

A MEPP pension benefit is paid as a regular monthly sum for life. There are some exceptions which can affect the amount. COLA is one exception, along with the pension option you choose at retirement and some certain life events. View more about these exceptions on the [MEPP website](#).

Your 2023 Board



Dale Beesley
Board Chair
(employee nominee)



Shannon Patershuk
Board Vice-Chair
(employee nominee)



Brittany Jones
Board Member
(employer nominee)



Deborah Polny
Board Member
(employer nominee)



Les Stelmach
Board Member
(employer nominee)



Sherri Wilson
Board Member
(employee nominee)

Contact

The Board is committed to good governance and welcomes your feedback. Please reach out to us with any questions related to Plan governance.

Management Employees Pension Board
Telephone: 780-391-3584
Email: board@mepp.ca

For Plan-specific inquiries or to discuss your personal pension information, please contact:

MEPP Member Services Centre
Telephone: 1-877-889-MEPP (6377) (toll-free)
Fax: 780-421-1652
Email: memberservices@mepp.ca

Information contained within this newsletter is provided solely for information purposes. The Management Employees Pension Board, in its advisory capacity, does not speak on behalf of the Trustee (the President of Treasury Board and Minister of Finance). To review the complete mandate of the Board and the Minister, members should refer to the [Public Sector Pension Plans Act and Alberta Regulation](#).