

In this issue

July 2014

Annual Report Highlights

Chair's Message

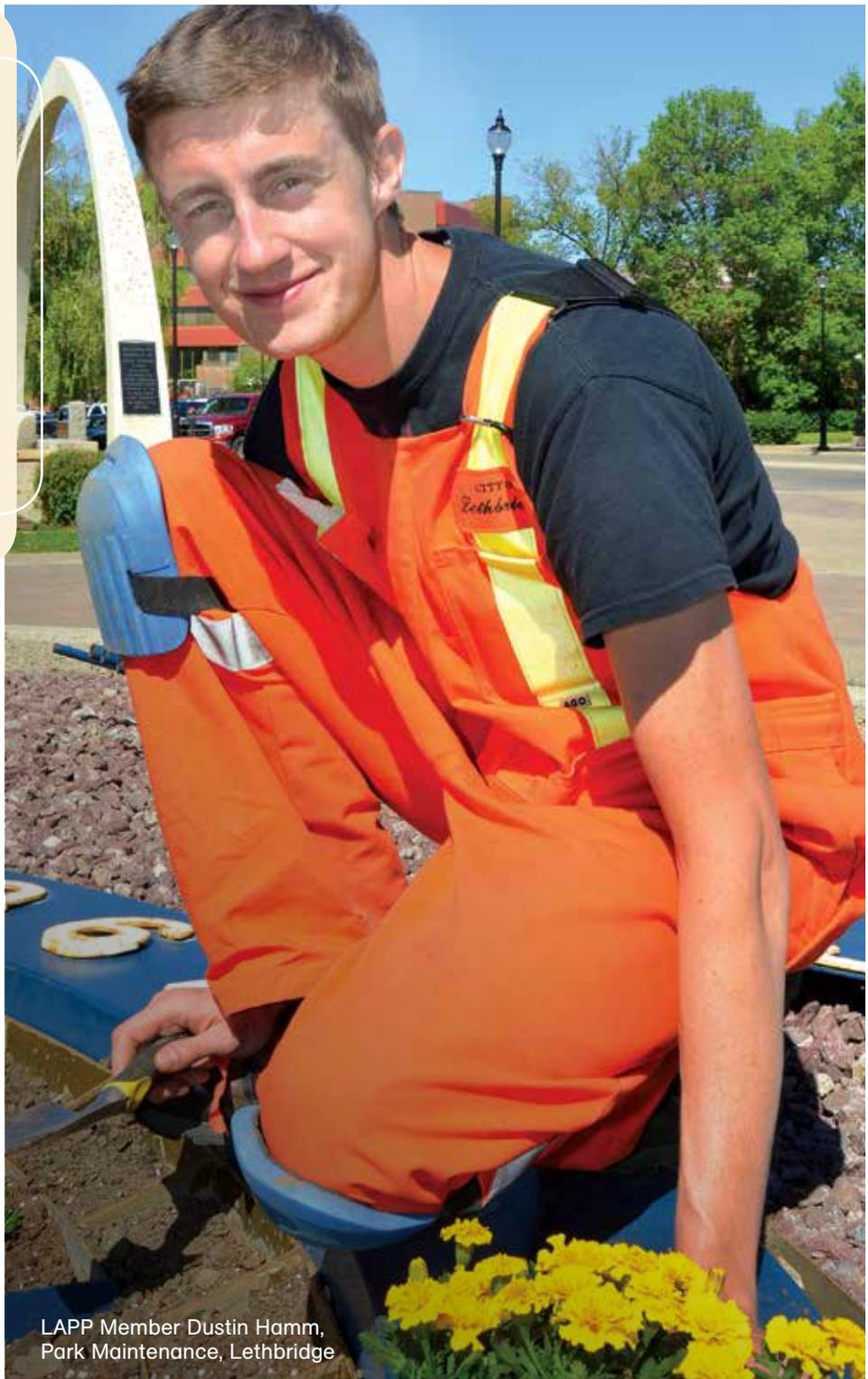
CEO's Message

Alberta Pension Reform

Pension Reform Update:

- Government has proposed benefit changes to LAPP
- Pension Bill has been sent to a government standing committee
- Standing Committee held public hearings
- Committee to report back to government in Fall 2014 sitting
- Pension reforms for all public sector plans on hold until then

Read more about pension reform inside



LAPP Member Dustin Hamm,
Park Maintenance, Lethbridge

Message from the Chair



Financially, 2013 was a successful year for LAPP, with the fund achieving an 11.3% return on investments and another year of improvement to the Plan's funded ratio. A second year of double-digit returns from our investment manager was very welcome news for LAPP.

The year was also eventful with respect to plan sustainability.

When 2013 began, LAPP's Board was leading a process to explore the best strategy for keeping the Plan strong and healthy long into the future. By the time the year ended the Minister of Finance had taken over the lead and had made his own proposal for plan design and governance changes to LAPP.

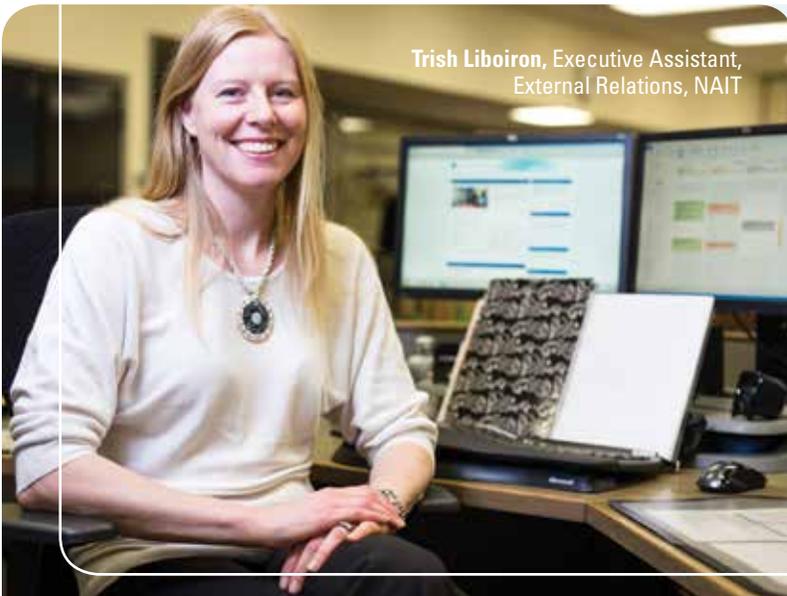
Although the Minister agreed with the Board that LAPP is not in an immediate financial crisis, he pointed to the unfunded liabilities carried by all of the Alberta public sector pension plans and said he did not believe they would be sustainable into the future without making some changes to plan design.

An update on pension reform is included in this newsletter and we will keep you posted on any developments coming from government. In the meantime, the LAPP Board continues to be focused on the ongoing management of the Plan and in the days ahead, we will continue to provide support to employers and members as the pension reform process unfolds and we prepare LAPP for whatever transition occurs in the coming years.

My two-year term as Board Chair ended December 31, 2013 and I want to thank the Board and especially staff at LAPP Corp. for the support during my term.

Grant Howell, LAPP Chair

Trish Liboiron, Executive Assistant,
External Relations, NAIT



News from LAPP

This July 2014 edition of LAPP News is a special edition published for all LAPP stakeholders (members, retirees, employers, unions and associations) to provide some highlights from the 2013 Annual Report and an update on pension reform proposals from government. You will find more in-depth information on all these subjects by going to LAPP's website at www.lapp.ca

LAPP members portrayed in this newsletter were photographed by Gordon Wright and Sean Trayner.

Message from the CEO



Every year when financial statements come out, there's a lot of discussion about numbers. Investment returns, pension payments, liabilities and deficits are just a few of the numbers we include in our Annual Reports. But there's more to pensions than just numbers. There are people.

In the case of LAPP, there are more than 230,000 people actually. They are our members. They are the reason why we are in the pension business and caring about them is the reason we are always so focused on the numbers.

While our members will be pleased to hear we had an 11.3% return on investments this year; or that the fair value of the Plan's net assets increased by 16.1%; or even that the Plan's \$4.9 billion deficit decreased by \$115 million, most of our contributing members are really more focused on their own numbers.

Struggling with their household balance sheets and juggling financial priorities, what members really want to know is why so much of their monthly salary is going toward their pension. We know this, because in 2012 they told us in a survey they had little tolerance for contribution rates climbing too much higher.

LAPP contribution rates have increased 50% in the last seven years and are reaching the point where they are approaching an aggregate 25% of salary (12% paid by the members and 13% paid by their employers). That's a significant number for our members and their employers and it was that number that set the stage for a broader consultation on Plan sustainability and a discussion of various risks to the Plan.

Our objective is for a sustainable LAPP that provides a suitable lifetime benefit that is affordable for members and employers and balances risk and reward equitably across beneficiaries. As a result, LAPP remains committed to a defined benefit pension plan that incorporates an ability to manage risks on both the asset and the liability sides of the Plan's balance sheet.

While an investment return of 11.3% is great news, it is not realistically sustainable over the long term and doesn't help us gain much ground when our pension obligation (liability side) is continuing to grow at a faster rate, 12.8% in 2013. The pension obligation grows to cover the cost of one more year of added service in the Plan for all members. And with people living longer, the pension obligation will grow significantly over time. What this signals is that it will take more than a few years of double-digit returns to bring contribution rates down to where they were a few years ago.

The chart on the next page, which is based on numbers from the Plan's 2012 valuation, shows how the increase in contributions has been driven up by special payments over the years to pay for unfunded liabilities. The special payments (shown in green) are amortized over 15 year periods, with the first payment scheduled to come off in 2019 and the last payment to come off in 2027.

Assuming we earn what we expect to earn and assuming the funded status of the Plan doesn't worsen over that time period, contributions rates would be reduced to represent what we call the current service cost (shown in blue), which was 17.08% of pay at the last valuation.

While that would be a desirable outcome and one we would like very much to rely upon, experience has shown us that hope is not a plan for sustainability.

Breakdown of LAPP Aggregate Contributions (% of Salary by Year)



So in response to the concern over contribution rates, the Board undertook an asset liability management study in 2012 that showed there was a 28% probability that contribution rates would rise past 25% of pay, based on stochastic projections over 10 years. The study was done at a time when contribution rates were at 21.7% and they are now at 24.16%, meaning there is an even higher probability rates will exceed 25%. In addition, stress testing undertaken by the Board has shown that a number of risks could potentially push contribution rates higher, especially improvements to life expectancy.



Arlana Moskalyk,
Chemical Technology Instructor, NAIT

Based on these projections, many months were spent with union and employer stakeholders in 2013 looking at options for managing risk other than raising contribution rates to pay for growing pension obligations. Ultimately, discussions on LAPP sustainability ended in government-directed pension reform, the intent of which is to reduce the Plan's current service cost and eventually reward members and employers with lower contribution rates.

Pension reform which targets benefit reductions on future service only will not produce instant cost savings for the Plan. That means expected savings will take time and are not likely to result immediately in lower contribution rates. Much will depend on what other forces might drive up the cost of pension obligations or drive down investment returns. Any number of scenarios might arise over the next few years and LAPP will work to be prepared and manage those risks going forward.

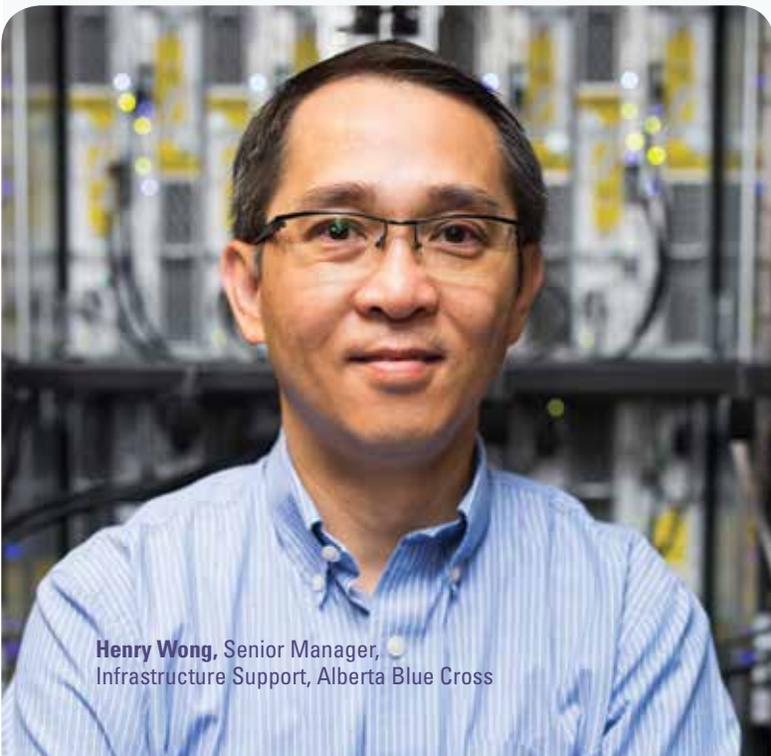
In March, I notified the LAPP Board that after 15 years with LAPP, five as CEO, I would be moving on to something new in July, so this will be my last newsletter message. Best wishes to all of you.

Meryl Whittaker,
President and CEO
LAPP Corp.

2013 Highlights

Year at a glance

- **Net assets (after expenses): \$26.6 billion**
- **Pension obligations (current and future accrued pension benefits): \$31.4 billion**
- **Deficiency: \$4.86 billion**
- **Funding status: 85% funded up from 82% in 2012**
- **Total membership: 230,534 up from 223,643 in 2012**
- **Total participating number of employers: 418**



Henry Wong, Senior Manager,
Infrastructure Support, Alberta Blue Cross

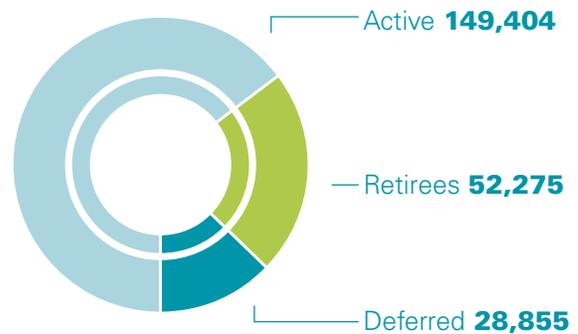
Summary of Financial Position

(As at Dec. 31, 2013)

(thousands)	2013	2012
Net assets available For Benefits	\$ 26,550,184	\$ 22,862,497
Pension Obligation	\$ 31,411,700	\$ 27,839,800
Deficiency	\$ 4,861,516	\$ 4,977,303

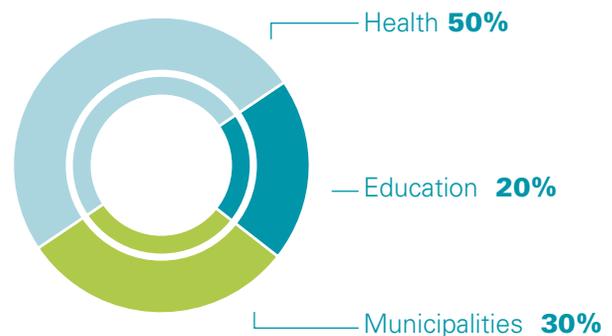
Membership

December 31, 2013



Total: 230,534 members

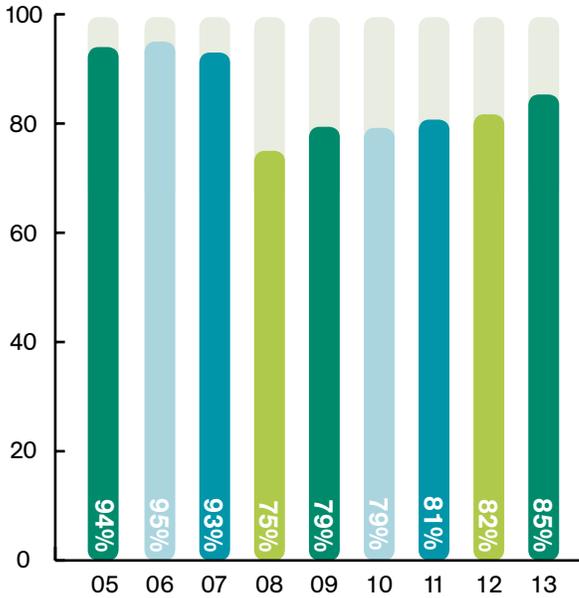
Membership by Sector



2013 Highlights

Funding Status

(% funded by year)



Pension Contribution and Transfers

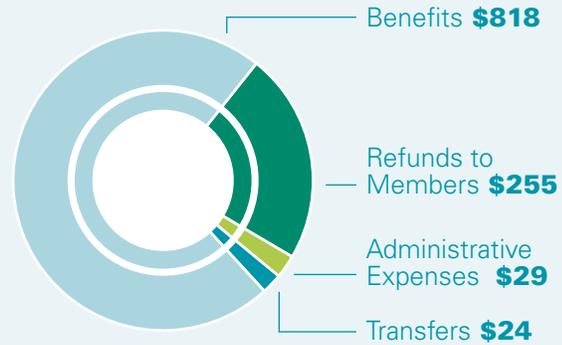
(\$ millions)



Total: \$2,105 million

Pension Payments

(\$ millions)



Total: \$1,127 million

Plan Expenses

(\$ millions)



Total: \$178.9 million

Administration and governance costs: \$129 per member, down from \$136 per member in 2012

- APS costs to administer the Plan: \$26.9 million
- Governance expenses for overseeing the Plan: \$2.1 million
- Actuarial and Audit fees \$0.4 million

Investment Costs: \$658 per member, up from \$475 in 2012

- AIMCo costs to manage plan's funds, including external managers: \$149.5 million

Update on Government Pension Reform

On February 24, 2014, the Honorable Doug Horner, President of Treasury Board and Minister of Finance announced government plans to reform Alberta public sector pensions, including changes to pension benefits for LAPP members. See a brief summary of the changes below.

The government then introduced Bill 9, the *Public Sector Pension Plans Amendment Act*, which allows government to make changes to LAPP benefits effective January 1, 2016. Bill 9 received second reading and was then referred to an all-party policy standing committee, which finished public hearings in June 2014. Written submissions will be received by the committee until August 15 and the committee will report back to government in the Fall.

We have received many inquiries asking whether the Board supports the changes suggested by government. Here is our response:

The Minister of Finance is the Trustee and Administrator of the Plan. The Board is appointed by the Minister and limited in its power under the current governance structure.

The LAPP Board has not made any recommendations to change pension benefits; nor has it concluded that immediate change is needed. Further, the Board has not voted to accept or reject the government's changes. As requested by the Minister, the Board remains focused on the day-to-day operation of the Plan and has not taken a position on pension reform proposals.

The Board supports the creation of an independent LAPP governed by a board of trustees and a sponsor board, allowing those who pay into the Plan the ability to set pension benefits.

Jordan Bray, Arborist
Lethbridge



Summary of proposed changes

All benefit changes proposed for future service only

- Changes to early retirement
- Cost of Living Allowance (COLA) becomes conditional
- Immediate vesting and removal of 35-year service limit
- Contribution rates to be capped
- Accommodation for public safety occupations
- Future transition to joint-sponsorship governance

Details of government pension reform can be found on the government's website www.pensionsustainability.alberta.ca



Contact Us

For information about your personal pension, please contact the plan administrator, Alberta Pensions Services at:

1-877-649-5277
5103-Windermere Boulevard SW
Edmonton, AB, T6W 0S9

It's all on our website

Whether you want to read the full Annual Report or learn more about your own personal pension and what you can expect at retirement, all the information you need is on LAPP's website at www.lapp.ca. Visit the website soon. LAPP is one of the most valuable assets you are investing in and you owe to yourself to learn more about how your plan is doing.

Looking for more information?

The LAPP Board of Trustees is committed to providing members with easy-to-understand pension information on a regular basis. If you have thoughts on how this newsletter or other communications can be improved, please send an email to news@lapp.ca.

Local Authorities Pension Plan Executive Offices

P.O. Box 1315
Edmonton, AB T5J 2M8
www.lapp.ca