



Mary Nyakatuura
City of Edmonton

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LAPP members 230,000+

Average age in the Plan – 45 years old

Average age at retirement – 62 years old

LAPP investment fund - \$26 Billion

Message from the LAPP Chair



On behalf of the LAPP Board of Trustees, I bring Season's Greetings to you and your family and wish you good health and prosperity in 2015. The past year has been a busy one for LAPP and I wanted to update you on some of our activities.

In our July newsletter we shared highlights from our 2013 Annual

Report and we were pleased to announce a strong return on investments (11.4%). Though positive news for us, the audited financial statements are but a point-in-time snapshot of our financial position at the end of each year. To truly understand the financial health of the Plan, the Board reviews the experience of the past, does some forward-looking analysis and completes an actuarial valuation each year to make sure the Plan is appropriately funded. The goal is to ensure the Plan remains strong and stable into the future.

You will read more about the valuation elsewhere in this newsletter, but I wanted to acquaint you with it because this year we were required to adopt new mortality tables from the Canadian Institute of Actuaries. The new tables present a challenge because they reflect that people today are living much longer than expected. While that is excellent news for all of us, it is very costly for the Plan because it means we have to set aside more money today to meet the growing pension obligation of tomorrow.

As it turns out, the new tables added almost 2.5% to Plan costs but fortunately the increase was absorbed by other, more positive changes in our economic and demographic experience. So the good news is there will be no increase in your contribution rates for 2015 and likely, no need for any increase in 2016 either.

While it all ended well, the sudden addition of new costs is a timely reminder of how important it is to have a plan for dealing



Arlana Moskalyk,
Chemical Technology Instructor, NAIT

with unforeseen events. It is why the Board is constantly engaged in risk management. We are cautious in our approach and we work to price the plan appropriately. We continue to build a financial cushion against risk, which we call margin, and we do everything we can to safeguard future pension benefits.

Other Board activity this year included providing feedback to Government on its proposals for pension reform. Government has withdrawn its proposed set of changes to public sector pension benefits and has promised to include employer and member representatives in a new discussion on the competitiveness and sustainability of the pension plans.

Moreover, under the leadership of a new Premier, Government has decided to make progress on a proper governance structure for LAPP so employers and employees are properly represented at the table. The Board sees this as a very positive development and has pledged to work with government and stakeholders to do what it can to aid in this process.

Finally, after a very thorough and competitive selection process, the LAPP Board is pleased to announce the appointment of a new CEO for LAPP, Christopher Brown. While we welcome Chris to the helm, we also want to express our thanks to former CEO Meryl Whittaker, who left us July 2014 after 15 years of excellent service to LAPP. We would also like to thank our VP of Investments, Laurence Waring, who filled in as Interim CEO for the past six months.

Terry Agoto
LAPP Board Chair

What is an actuarial valuation?

At LAPP we work with an independent actuary to do a funding valuation every year. We do it to make sure we have enough money today (at the time the valuation is complete) to pay out all future pension benefits to current plan members and retirees. That's a long look ahead, more than 70 years into a future that no one can predict today.

We don't have a crystal ball and we can't say exactly what will happen, but an actuarial valuation is a bit like a powerful telescope. When properly adjusted and viewed on a regular basis, it can help us see things at a good distance and prepare us for the future.

The adjustments we make to our telescope lens are the assumptions we make about what lies ahead. We make assumptions based on what we know to be true today and what we have experienced in the past. Those assumptions are based on a lot of data (economic and demographic) and include predictions about things like:

- Investment returns
- Inflation rates
- Salary increases
- How long we live
- Interest rates
- When we retire

Some assumptions are used to calculate the value of Plan assets (investment fund plus contributions) and some assumptions

are used to calculate the cost of current and future pension obligations (Plan liabilities). The actuary then compares the assets to the liabilities and determines whether the plan is properly funded. If not, contribution rates may need to be adjusted to cover the shortfall.

LAPP's Board recently filed an actuarial valuation for the Plan at December 2013. One of the assumptions that had to be updated was related to how long people are living. LAPP had to apply the new public sector mortality tables released by the Canadian Institute of Actuaries and change the assumptions we were making for pension payouts owed to all members and retirees currently in the plan.

The cost would have translated to a 2.5% increase in contribution rates if not for the fact other assumptions in the list to the left also changed to balance things out. As a result, contribution rates will stay the same for 2015, and very likely, for 2016 as well.

While Plan assets are growing, liabilities are growing too and LAPP is currently about 82% funded. This means the gap between our assets and our pension obligations, known as the unfunded liability, is about 18%. That unfunded liability is being paid off through contribution rates over a 15 year payment period. If no new unfunded liabilities are added between now and then, the Plan will be 100% funded January 1, 2029.

Put simply, an actuarial valuation is the most important gauge we have to measure the financial health of our pension plan. Whenever we review audited financial statements we are looking backwards. When we complete an actuarial valuation, we are focused on the pension plan's future.

You can look at LAPP's actuarial valuations on our website at www.lapp.ca. You will also find information on LAPP's Finances, Investments and Funding Strategy by clicking on the gold button on the Home page called About LAPP.



Katlynn Verwoerd, Lab & Diagnostic Imaging Technologist, AHSH

Understanding LAPP Governance

A proper governance structure, with roles and responsibilities clearly defined, helps to ensure a pension plan remains strong and healthy. LAPP has a very complicated governance structure, with many players in the mix. None of these players have full authority and responsibility for the Plan. In fact, the current governance structure places all of the risk in the hands of Plan members and employers, while giving them no power to oversee Plan administration, Plan investments or Plan design.

LAPP's Board has long believed that governance must be addressed on a priority basis. We have been urging the Alberta government to address this imbalance of risk and authority for more than 20 years. Recent developments in the pension discussion with Government indicate that change might finally be coming. As an employee who pays into the Plan, you share the risks and rewards with other members and employers and we want you to understand how it works.

In our complex structure, the Minister of Finance is the official trustee of the plan, with final decision-making authority over most things. However, since the early 1990s, your pension has been secured by assets.



Susan Reis,
Protocol Officer,
City of Edmonton

The Plan's assets include what you and your employer pay into the plan and the money that is made on your contributions (investment earnings). Today the Plan's assets exceed \$26 billion. In the event that current assets are not enough to cover the cost of future pensions, you and your employer pay to make up the difference, not Government. In the event that assets exceed pension obligations, it is the employers and members who will reap the benefits of a surplus, not Government.

“Why is a change in governance so important?”

In order to “secure” the pension benefit, employers and members share the risk of underfunding through increased contributions. They share the reward of surplus funding through pension benefits and/or reduced contributions. This makes LAPP a “shared-risk-reward” Plan. LAPP's Board believes strongly that those who bear the risk should govern the Plan. This is the governance change we have been seeking for 20 years.

Why is a change in governance so important? It's important because if the time comes when an unforeseen event causes a major financial crisis, decisions need to be made on the risk-reward balance of the Plan. LAPP's Board believes those decisions need to be made by a Sponsor body that represents employers and members who pay into the Plan, not by Government. In other shared-risk-reward plans, Sponsors have clear roles and responsibilities as decision-makers. Sponsors have no official role in LAPP.

These are only some of the issues related to Plan governance. We encourage you to learn more by going to our website at www.lapp.ca and clicking on the gold button called “Plan funding.”

New CEO for LAPP



The Board is pleased to announce the appointment of Christopher A. Brown as President and CEO of LAPP Corp. He will take on his new responsibilities beginning January 5, 2015. A practicing member of the Law Society of Alberta for the past 20 years, Christopher has been a leading pension expert counselling clients and working with regulators and

other pension policy makers on pension legislation and governance at the provincial and national levels.

Between October 2007 and November 2008, Christopher served as Co-Chair of the Alberta-British Columbia Joint Expert Panel on Pension Standards. As part of this government-appointed industry panel, he worked with five of Alberta's and B.C.'s leading pension experts to review private sector pension legislation in the two provinces and make recommendations to both governments for fundamental reforms to the pension system. Those recommendations resulted in the passage of new pension legislation in both provinces in 2012.

"We are very excited to have Chris on board and look forward to working with him as we continue to build on the strengths and success of LAPP as Alberta's largest pension plan," says Board Chair, Terry Agoto.

Christopher served as the President of the Association of Canadian Pension Management (ACPM) from 2010 to 2013, is a current member of the National Board of Directors, Executive Committee and National Policy Committee of the ACPM, and a past member of its Alberta Council. Christopher also sat on the Stakeholder Task Force on Common Pension Standards for the Canadian Association of Pension Supervisory Authorities.

Christopher has been recognized by The Best Lawyers in Canada in the specialty of Employee Benefit Plans, ranked in Chambers Global: The World's Leading Lawyers for Business in the category of Pensions & Benefits, and ranked in The

Canadian Legal Lexpert Directory as a Leading Practitioner (Consistently Recommended) in the area of Pensions & Employee Benefits. He is a frequent speaker on topics related to pensions, benefits and executive compensation matters and for several years was a volunteer lecturer at the Alberta Bar Admission Course. In addition, Chris has been involved for many years as a youth basketball coach in Calgary.

Christopher holds a Bachelor of Commerce (University of Alberta, 1990), a Bachelor of Laws (Osgoode Hall Law School, York University, 1993) and was called to the Alberta Bar in 1994. He has extensive experience counselling clients on all matters relating to the governance, investment, administration and regulatory compliance of pension plans and other employment benefits and compensation plans. Chris was a founder and managing partner of a firm specializing in human resources-related law and has been a partner in three leading national law firms.

As President and CEO, Christopher will lead the executive team at LAPP Corp., which provides support to the LAPP Board of Directors and Board of Trustees. The executive team has responsibility for the strategic direction of the Plan as delegated by the President of Treasury Board and Minister of Finance. The Minister is the official administrator and trustee of the Plan and delegates some of his responsibilities to the Board and LAPP Corp. staff.



Jennifer Lesperance, Lab & Diagnostic Imaging Technologist, AHSH



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 more about governance 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