

## In this issue

July 2015

Annual Report Highlights

Chair's Message

CEO's Message

Board still supports  
self-governance for LAPP

Meet AIMCo's New CEO

## LAPP FACTS

### The way it was in 2014:

- Average age at retirement - 63
- Average age of all active members - 45
- Average age of all LAPP retirees - 70
- Increase in membership over 2013 – 3%
- Average monthly pension paid - \$1,401

Read more about LAPP's 2014  
numbers inside.



**LAPP Member Tyrell Williams**  
Equipment Operator, City of Brooks

## Message from the Chair



As you read the highlights of the Annual Report on this newsletter, you will see that 2014 has been a very successful year for LAPP. For the first time in a few years, our assets have grown at a faster rate than our liabilities and we have returned to a funded position we haven't seen since before the global recession hit in 2008.

With assets totalling \$30.8 billion, LAPP ended 2014 at 93% funded compared to 85% funded in 2013. Although we don't use financial statements to set contribution rates and determine our funded status, the numbers in this annual statement do reflect a substantial improvement over the course of one year.

Our investment returns for the year, after expenses, totalled 11.4%. This makes the third year in a row LAPP has benefited from double-digit returns. The gains of 2014 put us in a financially stronger position to manage the risks facing the Plan as we continue down the path to full recovery.

Thanks to a balanced funding and investment strategy and with ongoing careful oversight by the Board and our expert management team at Alberta Local Authorities Pension Plan Corp. (ALAPP Corp.), LAPP is in a better position to keep contribution rates stable while we steadily chip away at our special payment schedule and pay off our unfunded liability.

However, we have learned well enough over the past few decades that no one can guarantee investment markets or predict economic futures. When the recession hit in 2008 LAPP's funded position deteriorated drastically by the end of the year. We know that by carefully managing the Plan and taking a prudent approach to funding, we have a better chance of withstanding market fluctuations and downturns in the economy.

You can read more about our strategies on risk management, funding and investments in the 2014 Annual Report posted on-line at [www.lapp.ca](http://www.lapp.ca).

Terry Agoto, LAPP Chair



**Cooper Ziktali,**  
Transit Operator,  
City of Edmonton

## 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 2014 Annual Report and an update on risk management at LAPP. You will find more in-depth information on all these subjects by going to LAPP's website at [www.lapp.ca](http://www.lapp.ca)

We are proud to share photos of our LAPP members. If you know of someone who should be featured in our publications please write to us at: [news@lapp.ca](mailto:news@lapp.ca)

## Message from the CEO



LAPP's strong investment performance in 2014 has resulted in a much-improved financial position for the Plan. While the Plan's funded position has been steadily improving for the past seven years, 2014 saw significant gains as LAPP's unfunded liability was cut in half, moving from a deficit of \$4.9 billion at the end of 2013 to \$2.4 billion a year later.

Anyone who does the math could easily jump to the conclusion that just one more year of similar gains could see the Plan fully funded. The truth is, though, the Plan could just as easily go backwards, based on any number of factors we cannot predict or control. Recent history has taught us that much. In 2007, LAPP was 93% funded and everyone hoped the deficit would soon be eliminated, but 2008 ushered in a global recession and the sudden change in the investment markets left the Plan only 75% funded by year's-end.

It is the nature of defined benefit pension plans that funded status will fluctuate from year to year and the key to managing the Plan properly is prudent risk management on an ongoing basis. We have a balanced and responsive approach to our funding and investment strategies and we are always focused on assessing potential risk and mitigating it wherever possible. Our position at the end of 2014 shows our approach is working.

Of course we are hopeful that another year of positive gains will further improve the Plan's funded status, but we aren't counting on it. What we will focus on instead, is holding on to the gains we have made by being as prepared as possible in 2015 for any risk that comes our way. We continue to follow our established strategy for eliminating the funding deficit, and we are confident that our strong performance in 2014 significantly improves our chances of getting there.

The other thing that history has taught us is that we live in a different world today than we did in decades past. If you consider the economic environment in which the Plan operates today, the last 15 years have been markedly different when compared with the previous 20. In fact, it may be that we cannot expect things to return to the way they were. It may be that what we have today is not an extended period of abnormal market conditions, but rather a "new normal" that will require us to re-think certain assumptions and re-adjust some of our strategies. Our new normal is characterized by lower growth, low interest rates and lower inflation. In this reality, it also makes sense that we should lower investment expectations as well.

Going into the next valuation, we will be looking for how we can hold on to our gains using a balanced approach to funding that includes the strategic use of margin and how we set our discount rate. The economic environment continues to present challenges, as interest rates declined even further through 2014 and again in early 2015. At the same time, oil prices dropped drastically to the end of 2014 and continue to stay low in 2015.

Although we will continue to manage funding risk with a diversified investment portfolio, the impact of lower oil revenues on the provincial economy could adversely impact our Plan demographics if it leads to negative impacts on public services. We continue to seek an appropriate balance between the realities of today and the hopes of tomorrow, prudently managing all risks to the Plan.

Christopher Brown,  
President and CEO  
ALAPP Corp.



## Meet AIMCo's new CEO



**Kevin Uebelein,**  
AIMCo CEO

Kevin Uebelein joined the Alberta Investment Management Corporation as Chief Executive Officer in January 2015. AIMCo is responsible for managing \$90 billion of pension and endowment assets, including the \$30.5 billion in the LAPP fund.

Prior to joining AIMCo earlier this year, Kevin held various executive roles at Fidelity Investments, the Boston-based investment management company. His positions there included President and Chief Executive Officer of Pyramis Global Advisors, Fidelity's institutionally-focused asset management unit, and Fidelity's Global Head of Investment Solutions.

Prior to that, Kevin held a variety of positions with Prudential Financial Inc., including Head of Alternative Investments, and culminating as Chief Investment Officer, International.

Mr. Uebelein holds a Bachelor of Accounting degree from Harding University, an MBA from Rice University, and is a Chartered Financial Analyst (CFA) charter holder. Kevin and his wife Laura live in Edmonton, Alberta.

Mr. Uebelein and members of his executive leadership team meet with the LAPP Board on a regular basis to keep the Board informed on AIMCo operations and investments. AIMCo invests the LAPP Fund based on the policy guidelines set out by the LAPP Board in its SIP&G (Statement of Investment Policies and Guidelines). AIMCo is a Crown corporation of the Government of Alberta.



## Risk management at LAPP

To achieve the over-arching objective of plan financial viability, a key strategic priority for the Board has been risk management. The goal is that risks are identified, quantified, managed and mitigated. To achieve this goal the Board has developed an Enterprise Risk Management Framework that provides a comprehensive assessment of risks for LAPP which is shared each year with the President of Treasury Board, Minister of Finance, who is the Plan Trustee.

The risk framework covers the integrated responsibilities of the Board and two key service providers to the Plan, Alberta Pensions Services Corporation (APS) and Alberta Investment Management Corporation (AIMCo). Within this framework, the Board has specific responsibilities in terms of valuing the Plan, setting contribution rates and establishing investment policy.

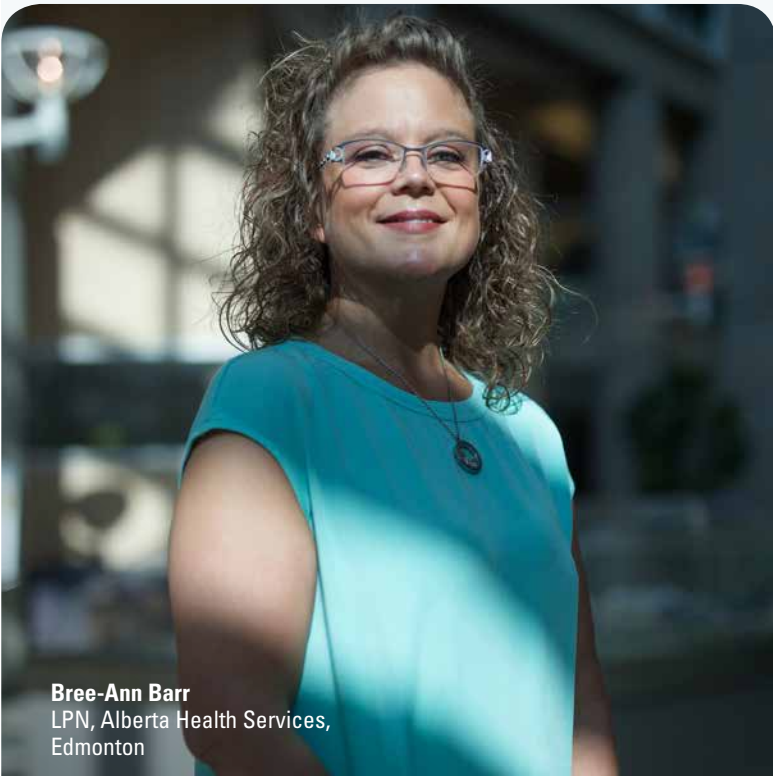
By virtue of these responsibilities, managing the LAPP balance sheet – assets vs. liabilities - is one of the Board's primary responsibilities. Prudent management of the Plan requires an understanding of the key drivers of risk and an ability to adapt to change, whether in the external environment or within the Plan.

Read more about risk management at LAPP on the website at [www.lapp.ca](http://www.lapp.ca)

## 2014 Highlights

### Year at a Glance

- Net assets (what we have after expenses): \$30.8 billion
- Pension obligations (current and future accrued pension benefits): \$33.2 billion
- Deficiency: \$2.4 billion
- Funding status: 93% funded up from 85% in 2013
- Total membership: 237,612 up from 230,534 in 2013
- Total participating number of employers: 423



**Bree-Ann Barr**  
LPN, Alberta Health Services,  
Edmonton

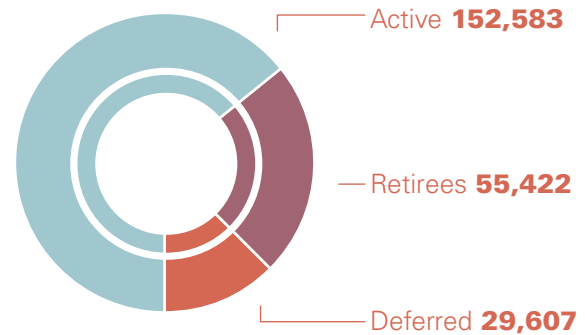
## Summary of Financial Position

(As at Dec. 31, 2014)

(thousands)	2014	2013
<b>Net assets available for benefits</b>	\$ 30,790,364	\$ 26,550,184
<b>Pension Obligation</b>	\$ 33,245,000	\$ 31,411,700
Deficiency	\$ 2,454,636	\$ 4,861,516

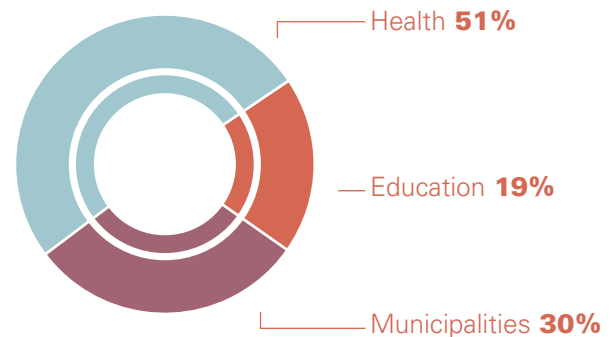
## Membership

December 31, 2014



**Total: 237,612 members**

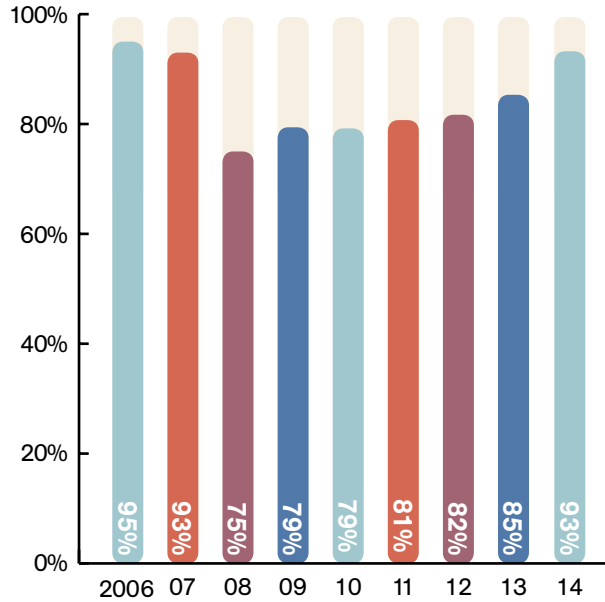
## Membership by Sector



## 2014 Highlights

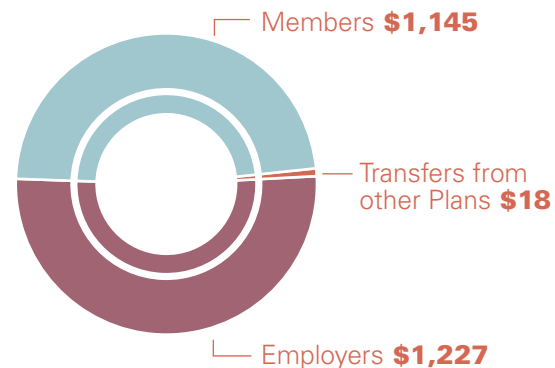
### Funding Status

(% funded by year)



### Pension Contribution and Transfers

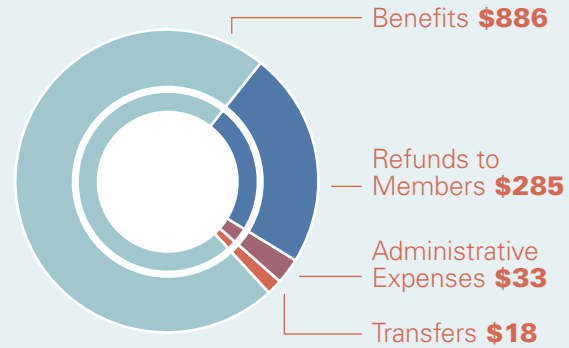
(\$ millions)



**Total: \$2,390 million**

### Pension Payments

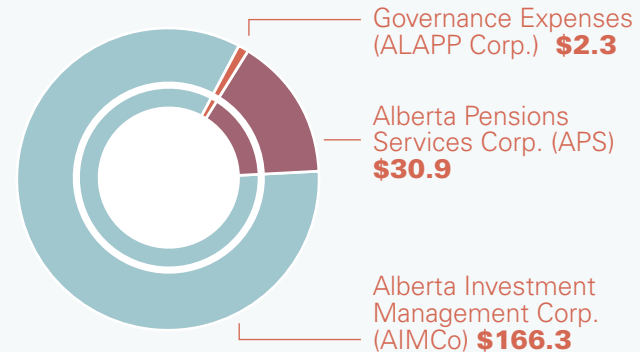
(\$ millions)



**Total: \$1,222 million**

### Plan Expenses

(\$ millions)



**Total: \$199.5 million**

**Administration and governance costs: \$140 per member, up from \$129 per member in 2013**

- APS costs to administer the Plan: \$30.9 million
- Governance expenses for overseeing the Plan: \$2.1 million
- Actuarial: \$0.2 million

**Investment Costs: \$700 per member, up from \$658 in 2013**

- AIMCo costs to manage plan's funds, including external managers: \$166.3 million

## Board still supports self-governance for LAPP

Pension reform proposals announced by the provincial government in early 2014 were withdrawn by government before the end of 2014 in favour of a more collaborative approach that would allow LAPP members and their employers to work together to make decisions about the Plan, including what governance structure it should have going forward. Since then, Albertans elected a new government and the Board expects to hear soon whether a governance review will continue and what the process might be.

The LAPP Board has always supported a governance model for LAPP that formalizes a role for members and employers as Plan sponsors, giving them the ability to make decisions about Plan design and Plan funding. Ultimately, those who pay into the Plan share in its risk and should have a say in how it is run. That view is a basic tenet of pension governance and is a characteristic of most pension governance structures in Canada.

LAPP is the largest pension plan in Alberta, with more than 237,000 members. It is the 7th largest plan in Canada, with \$30.8 billion in assets. Yet, LAPP continues to exist in a sub-optimal governance system that lacks clarity in the roles and responsibilities set out for the various parties charged with properly managing the Plan for its beneficiaries. Concerns with the existing LAPP governance framework have been consistently identified by the Board, over a number of years, in its annual strategy and risk report to various Ministers of Finance.

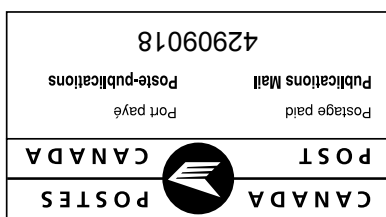
Over the past 20 years there have been several attempts by the Government of Alberta and LAPP stakeholders to reform the Plan's governance. Some reform attempts were initiated by LAPP and some by government, but to date no mutually satisfactory agreement on changes has been reached. The Board is hopeful that any new process



**Michael Carlos**  
Physiotherapist,  
Alberta Health Services,  
Edmonton

on pension reform will provide an opportunity for Plan sponsors to develop their working relationship and renew the LAPP pension deal under a mutually agreed-upon governance framework.

Until then, the Board will continue to manage the risks facing the Plan and either directly or through its management team at ALAPP Corp., the Board will provide support and assistance to sponsor discussions as needed. Please read more about [Plan governance](#) on the LAPP website.



## 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](http://www.lapp.ca). Visit the website soon. Your pension is one of the most valuable assets you will own and you owe it to yourself to learn more about LAPP.

## 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](mailto:news@lapp.ca).

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