Alberta Teachers' Retirement Fund Board

2012 Annual Report HIGHLIGHTS

Private School Teachers' Pension Plan

Key Accomplishments 2011-12

Highlights

- Completed a comprehensive review of the funded position of the plan to ensure the plan remains sustainable for the foreseeable future and improved the margin for adverse plan experience
- Met or exceeded all service turnaround benchmarks for our service to plan members
- Recognized as having one of the lowest plan member service costs in the industry at $82 per member
- Implemented On-Line Services enhancements allowing plan members to electronically name or change their beneficiary in a secure environment
- Developed plans for a comprehensive redesign of our website for anticipated spring 2013 launch
- Continued to implement the new infrastructure and real estate asset classes, and to expand the private equity asset class

What's Inside

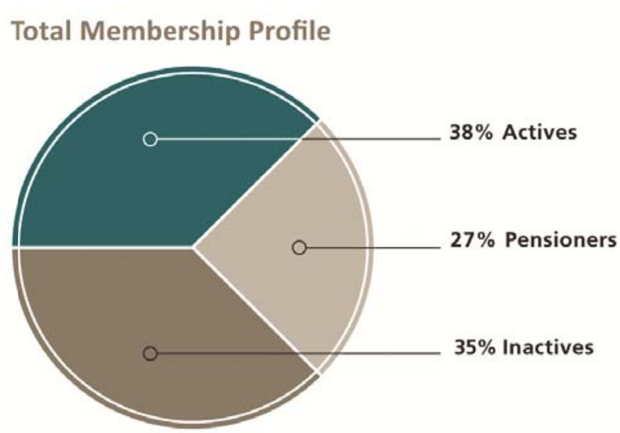
Profile

The Private School Teachers' Pension Plan (PSTPP) is a defined benefit pension plan – a plan that provides a pension based on a benefit formula based on salary and years of service.

ATRF is the trustee, administrator and custodian of the PSTPP for teachers employed by those private schools that have elected to join the plan.

The Plan covers:

- 242 active teachers;
- 171 pensioners; and
- 218 inactive teachers.



Report of the BOARD CHAIR – *Greg Meeker*

Our principal objective is to secure the pensions of plan members, which means that our main focus is on plan funding and ensuring that sufficient assets are in place to meet future pension payments.

All pension plans, including the PSTPP, continue to face funding challenges to secure the benefits promised under the plan.

- The extremely low interest rate environment has decreased the future expected rate of return that pension plans will earn.
- Returns from higher-risk and higher-return assets such as equities have been subjected to negative market extremes over the past 12 years and pension plans have incurred funding deficiencies and the cost for future benefits has increased.
- The makeup of plan members has changed dramatically over the past 40 years. In 1970, the average teacher retired at age 62 and would collect a pension for about 20 years. Today, teachers retire on average at about 59 and will collect a pension for about 30 years. As longevity increases, pension plan costs will continue to rise.
- Good pension plans, like the PSTPP (that also provide for additional benefits such as cost-of-living adjustments and generous early retirement benefits) are expensive and are getting more expensive.

It is important to note that the benefits under the plan are set by the Government of Alberta and The Alberta Teachers' Association. The Board's responsibility is to ensure that these benefits are funded within the prescribed legislative provisions. The Board has only one option available when investment market returns are low, and that is to raise contribution rates. In fact, the legislation requires the Board to do so.

Increasing Plan Sustainability

Last year, we completed a comprehensive review of the funded position of the plan to ensure that the plan remain sustainable for the foreseeable future. The funding policy of the plan is based on the following three key elements:

- securing the pension promise by targeting funding assets to be equal to at least the funding liabilities;
- managing the volatility of year-to-year contribution rate changes; and
- maintaining a level of funding equity between generations.

Our funding review showed that we cannot rely on our best estimate of what returns the future investment markets may provide, and that we must establish a larger cushion to manage year-to-year volatility and to enhance intergenerational funding equity. The Board has determined that the margin for adverse plan experience needs to be improved by decreasing the future long-term expected rate of return for the plan from the current level of 6.50% per year to 6.25% per year. The result is, when you expect to earn less investment income, more funding needs to be put in - consequently funding contribution rates will need to increase.

Plan Contribution Rate Increases

The actuarial funding valuation of the PSTPP at August 31, 2012 showed a total contribution rate increase of 1.97% of total teacher salaries is required effective September 2013; 1.02% for teachers and 0.95% for the private school employers. This increase was also related to positioning the plan to remain sustainable for the foreseeable future. The increase is the result of the impact of enhancing the margin for adverse plan experience that was implemented by decreasing the future long-term expected rate of return to 6.25% from the previous 6.50% rate.

Report of the CHIEF EXECUTIVE OFFICER – *Emilian Groch*

The past fiscal year was defined by growth challenges for both developed and developing economies. These challenges included cautious consumers and businesses resulting in weak global demand and manufacturing. Governments continued to focus on reducing deficits and debt accumulation, and European politicians struggled to fully cooperate at a level needed to move forward. With inflation largely contained, central banks responded by further easing monetary policy.

For the second consecutive year, the ATRF fund returned a very strong positive return of 7.8%. This rate of return exceeded the fund's 2011-12 fiscal year benchmark by 1.5% and met the funding rate-of-return objective of the plan. However, these positive rates of return over the past two years have had little effect in mitigating the impacts that the severe equity market downturns and financial turmoil have had on rates of return over the over the past 12 years. The fund returned on average only 3.4% each year since September 2000 which is 3.4% per year short of the long-term investment objective.

Consequently, substantial funding shortfalls exist that require additional funding contributions from active teachers and private school employers. In addition, there has been a significant decrease in the future expected rate of return that the plan will earn due to the extremely low market interest rates.

Ongoing Focus on Plan Member Services

Our objective is to provide plan members with complete, timely and cost-effective services. We continue to receive high ratings for our services in plan member surveys. We exceeded our service turnaround benchmarks for all service processes and we further shortened the benchmarks for some processes. Our costs for plan member services continue to be about half of the average cost of other major Canadian public sector pension organizations.

We also try to identify other potential services and how we can provide existing services more effectively. In the past fiscal year, we implemented a new reciprocal transfer agreement with the Federal public service plan. We also enhanced the services available to plan members through our secured internet-based On-Line Services. Plan members may now complete the entire pension commencement process online, as well as make changes to their beneficiary designations.

Managing Growth in Fund Assets

While continuing to focus on our investments in the public markets, we also continued our work to enhance our new infrastructure and real estate asset classes, and expand the private equity asset class.

The biggest challenge to success in these illiquid asset classes for many investors has been the high costs associated with external manager fees. ATRF's asset growth and significant total allocation of 35% of fund assets to these asset classes provides the scale to reduce, but not eliminate, its reliance on high-cost external fund-management structures, by enhancing its internal investment operation.

Over the past year, we continued to implement our plans to build and maintain a successful, cost-effective investment program for illiquid asset classes. This required us to make additional significant commitments to internal resources. We successfully added additional staff and advisory services required to continue to build the investment programs for infrastructure, real estate and private equity. In addition, we implemented the required administrative, control and reporting functions to support best-practice operations of these illiquid asset classes. We will continue to add additional staff and new systems in the 2012-13 fiscal year.

Plan FUNDING

Private School Teachers' Pension Plan (PSTPP)

The cost of benefits being earned, including the 60% cost-of-living pension adjustment provision, is shared equally between active members and private school employers. Active members are responsible for the additional 10% cost-of-living pension adjustment provision. Funding deficiencies under the plan are amortized by additional contributions from active members and the private school employers over a 15-year period. Since benefits are not guaranteed if the plan is terminated, the primary objective is to ensure there are sufficient assets to pay all benefits.

PSTPP Funding Policy

The Board has adopted a funding policy for the PSTPP that sets out the principles and guidelines governing the funding of plan benefits in accordance with the plan's legislation and the objectives of the Board. The overall objective is to ensure the sustainability of the plan over the long term and to ensure the provision of benefits to plan members and their beneficiaries.

In the 2011-12 fiscal year, we completed a comprehensive review of the funded position of the plan to ensure that the plan remains sustainable for the foreseeable future. This review showed that the margin for adverse plan experience needs to be increased to more effectively manage year-to-year volatility and to enhance intergenerational funding equity. Accordingly, the funding policy was adjusted and the plan's future expected long-term expected rate of return was decreased from the current level of 6.50% per year to 6.25% per year. The result of this change will increase plan funding contribution rates.

PSTPP Funding Valuation Results

An actuarial funding valuation of the PSTPP was completed as at August 31, 2012. The following table outlines the results of the funding valuation:

Private School Teachers' Pension Plan at August 31, 2012	($ Millions)
Funding Liabilities	45.716
Funding Value of Assets	37.305
Funding Deficiency	**8.411**

Contribution Rates Increase

The use of the lower 6.25% long-term expected rate of return increased plan funding liabilities by $1.7 million. This increased the contributions required to fund the additional funding deficiency over the next 15 years, as required by legislation. This lower rate also increased the plan's normal benefit cost. A total contribution rate increase of 1.97% of total teacher salaries is required effective September 2013; 1.02% for teachers and 0.95% for private school employers.

Private School Teachers' Pension Plan Contribution Rates (Percent)	September 2012		September 2013	
	Teachers	Employers	Teachers	Employers
Normal benefit cost (including 60% COLA)	8.12	8.12	8.74	8.74
Additional 10% COLA for service after 1992	0.56	–	0.61	–
Deficiency (including 60% COLA)	1.92	1.92	2.25	2.25
Deficiency on additional 10% COLA	0.15	–	0.17	–
Total	**10.75**	**10.04**	**11.77**	**10.99**

Private School Teachers' Pension Plan Contribution Rates (Percent)	Sept 2012	Sept 2013
Teachers		
Total Teacher Contribution	10.75	11.77
Salary up to YMPE[1]	9.31	10.22
Salary above YMPE	13.30	14.60
Employers	10.04	10.99

[1] YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan ($51,100 in 2013).

Future Funding Risks

One key assumption in determining the funding of the plan is that the fund will earn an average investment return each year of 6.25% net of investment costs. To even out the impact from the volatility of market returns on the plan's funded status, the plan uses an actuarially accepted practice of smoothing market returns over a five-year period. This practice is intended to moderate short-term adjustments to contribution rates.

The August 31, 2012 funding valuation showed that, primarily due to the 2007-2009 financial crisis, the current market value of plan assets is $2.287 million less than the asset value used to assess the plan's funded position. This means that the fund must earn at least 6.25% each year for the next two years and must also earn an additional $2.287 million to avoid further contribution increases. If the plan's investments earn only 6.25% each year over the next two years, the plan's deficiency will grow and the additional deficiency will have to be amortized by increasing funding contributions over a 15-year period. We have estimated that should this occur, overall funding contributions would increase over the two years ending August 31, 2014 for a total increase of about 1.4%.

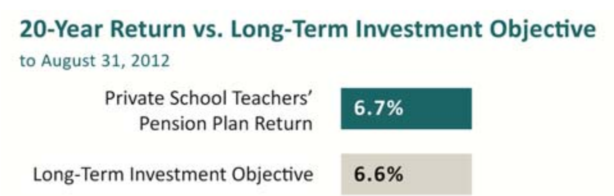
Funding Risks Looking Forward

The funding studies and valuations are based on assumptions that will differ from actual plan experience. Any difference between the assumptions and plan experience will emerge as gains or losses in future funding studies and valuations. Key among those assumptions is the expected rate of return of the fund and there can be significant deviation from this estimate over shorter periods of time.

The plan experienced significant negative deviations from the long-term expected rate of return over the past 12 years. In addition, as a result of the significant decline in global interest rates, we anticipate lower future returns. Plan funding contributions have increased substantially and may need to increase further based on emerging plan experience.

Investment PERFORMANCE

In the 20 years since September 1, 1992, the annualized rate of return for the Private School Teachers' Pension Plan has been 6.7%, which slightly exceeds the long-term investment funding objective of 6.6%. The rates of return of the fund of the Private School Teachers' Pension Plan have been impacted by the severe equity market downturns and financial turmoil over the past 12 years. The fund has returned on average only 3.4% each year since September 2000, which is 3.4% per year short of the long-term investment objective. The resulting funding shortfall requires additional funding contributions from active teachers and private school employers.



Private School Teachers' Pension Plan

Net Assets Available for Benefits at August 31

$ Thousands		**2012**		**2011**
Investments				
Fixed Income	$	11,996	$	11,777
Public Equities		18,603		17,933
Private Companies		1,746		1,403
Infrastructure		909		626
Real Estate		1,631		306
Accrued Income and Other		118		40
		35,003		32,085
Other Assets and (Liabilities)		16		(41)
Net Assets Available for Benefits	**$**	**35,019**	**$**	**32,044**

Funding Actuarial Deficiency at August 31

$ Thousands		**2012**		**2011**
Funding Liabilities	$	45,716	$	40,734
Funding Value Assets[1]		37,305		35,117
Funding Deficiency	$	(8,411)	$	(5,617)

[1]The Plan uses an actuarially accepted practice of smoothing market returns over a five-year period to moderate short-term adjustments to contribution rates. This practice is intended to even out the impact from the volatility of market returns on the plan's funded status. As at August 31, 2012, the plan's funding value of net assets available was $ 2.287 million higher than the fair value of net assets available (2011 - $3.073 million higher).

Plan Member Services EXCEED BENCHMARKS

ATRF has a dedicated and knowledgeable team of employees providing services in a cost-effective manner to active teachers, pensioners, inactive teachers, beneficiaries, and their representatives.

We have established benchmarks for the delivery of services and each year measure our benefit delivery against those benchmarks. The following table shows our service turnaround benchmarks for key processes and our results for the 2011-12 fiscal year, with comparisons for the 2010-11 fiscal year. We exceeded the benchmark in all processes and improved our average elapsed time in two of the nine main processes.

Service Provided	Benchmark	Average Elapsed Time in: 2011-2012	2010-2011
Ongoing pensioner payments	On the 3rd last business day of the month	All payments made on time	All payments made on time
Pension options package for new pensioner	Within 10 days of application	2 days	3 days
Pension payment for new pensioner	Within 7 days	3 days	3 days
Pension estimate	Within 7 days	1 day	1 day
Purchase estimate	Within 10 days	2 days	2 days
Termination benefit	Within 10 days	1 day	3 days
Urgent written inquiries including email inquiries	Within 7 days	1 day	1 day
Non-urgent written inquiries including email inquiries	Within 10 days	1 day	1 day
Telephone inquiries	Within 1 day	Within 1 day	Within 1 day

Website and On-Line Services

Plan members can view and update their personal information online. Active plan members can perform benefit calculations based on the most recent salary and service information reported by their employer. They also have the option of submitting applications for plan benefits electronically.

Our goal is to continually enhance the information on our website and in our print material. We are currently undertaking a comprehensive redesign of our website. Our “new look” will be launched in the spring of 2013 with updated content, and a more user-friendly and engaging navigation structure.

While our website and On-Line Service are key elements in our customer service and communication initiatives, plan members always have the choice of accessing services and information in the manner they prefer – in person, in writing, by telephone or online.

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