

2014 ANNUAL REPORT HIGHLIGHTS

PRIVATE SCHOOL TEACHERS' PENSION PLAN

Key Accomplishments 2013-14

- Met or exceeded all service turnaround benchmarks for our services to active, retired and inactive plan members
- 98% of the new retired members, who responded to a survey, rated ATRF service and communication as good to excellent
- Created a motion graphic video and a web-based pension option decision tool to further enhance website service for plan members
- Recognized as having one of the lowest plan member administrative service costs in the industry at \$87 per member
- Successfully managed the growth in staff, the fund and our operations
- Successfully implemented change to the asset mix of the fund

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 which is in turn 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:

- 307 active teachers;
- 193 retired members; and
- 242 inactive teachers.

Total Membership Profile

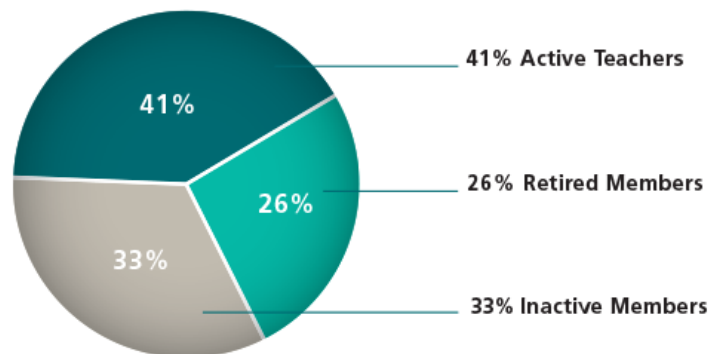


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Defined benefit pension plans have been challenged since 2000 with low interest rates, severe equity market volatility and ongoing longevity improvements. This has led to concerns from all plan stakeholders in the long-term funding sustainability of defined benefit pension plans. These challenges and concerns apply equally to the plans for Alberta teachers. Consequently, the main focus of the ATRF Board has been and continues to be on plan funding and ensuring that sufficient assets are in place to meet future pension payments.

I am pleased to report that the funding position of the plan has improved since the 2008-09 financial crisis, in particular due to the strong fund returns over the past two fiscal years. The fund returned 19.2% in the fiscal year ended August 31, 2014, following a 14.0% return in the previous fiscal year. While the funding level of the plan has increased, the plan continues to have funding deficiencies related to prior years, and faces ongoing investment and liability risks. We remain focused on these risks and on the strategies we have implemented to ensure they are effectively managed.

Funding the Plan Benefits

The benefits under the plan are set by the plan sponsors, the Alberta Teachers' Association and the Government of Alberta. The funding of these benefits is the responsibility of the Board. The only option available to the Board when deficiencies occur is to raise contribution rates and this has been done in prior years to ensure the deficiencies are funded within the maximum period permitted under legislation.

Current contribution rates will ensure that the remaining \$5.6 million deficiency is fully funded within the 15-year period required by legislation. The funding position of the plan has improved over the past year.

- The ratio of funding assets to funding liabilities has increased from 81% to 89%.
- The plan's deficiency has decreased by \$3.5 million.
- The asset-smoothing adjustment increased to \$5.2 million, from \$2.0 million at the end of the prior fiscal year, and this will serve to offset any lower than expected market returns over the next five years.

Longer-Term Funding Sustainability

The significant fund rates of return over the past two fiscal years have accelerated the original funding sustainability plan from that based on the original assumptions used to set the current contribution rates as of September 1, 2013. There may be an opportunity to either reduce contribution rates ahead of schedule, increase margins for potential future adverse plan experience or some combination of the two. At the same time it is prudent to consider whether the recent strong fund rates of return will be offset by reduced lower returns in the future. If future expectations are reduced, a modest reduction in the fund's expected future long-term rate of return may be necessary to maintain the current funding policy.

Any action that deviates from the expectations already established pursuant to the current funding policy and contribution rates requires careful assessment, discussion with plan sponsors and a re-evaluation of the current funding policy. Accordingly, the Board intends to consider the current favourable funding development, assess it with the plan's actuary and management, and decide on the appropriate action going forward by the spring of 2015. We will communicate and implement any changes to the funding policy of the plan and/or future contribution rates to the plan sponsors, plan members and private school employers at that time.

Greg Meeker
Board Chair

ATRF Celebrates 75 Years of Securing Your Pension

As far back as 1915, teachers lobbied for a pension plan in Alberta. Then, on March 31, 1939, the Act establishing the Teachers' Retirement Fund (TRF) was passed by the Alberta Legislature.

With an Alberta Government loan of \$5,000, the Alberta Teachers' Retirement Fund Board (ATRF), which was called TRF, was formed.

Then in 1965, the Private School Teachers' Pension Plan was established.



I am honoured to take over leadership of ATRF from my predecessor, Emilian Groch. Emilian dedicated 20 years to building ATRF into the thriving and successful organization that it is today. I am also extremely fortunate to be working with committed and motivated colleagues and Board members who are all focused on providing high quality services and retirement security for members.

ATRF completed its 75th year of operations by successfully meeting customer expectations with strong performance results measured against our established business plan objectives. Benefit and information services to plan members surpassed benchmarks, we received very positive feedback on our services, investment returns exceeded the fund's benchmark, and business plan initiatives that enhanced the operations of ATRF were effectively completed.

Most importantly, the long-term funding sustainability of the plan has improved.

- The funded ratio of the plan has increased.
- The provisions for future adverse plan experience have been enhanced.
- A significant asset-smoothing adjustment is in place that will serve to offset lower than expected market returns over the next five years.
- Adjustments were implemented to optimize the policy asset mix of the plan given the funding policies and underlying liability structures.
- Mortality and other demographic assumptions have been adjusted based on a study of plan experience and aligned with most-recent industry mortality research.

While the plan is in a more favourable financial position and has recovered somewhat from the impacts of the 2008-09 financial crisis, investment and funding risks are an ongoing reality of defined benefit pension plans. ATRF remains focused on effectively managing funding, investment and operational risks in order to secure your pension.

Our Focus on Member Services

ATRF continues to receive high survey ratings from plan members on services. These services are provided using a very cost-effective structure with costs that are almost half of the average cost of a group of similar Canadian pension plan organizations. We are always considering ways to enhance those services and our service response

times, and to introduce new value-added communication and information features. New features were added to the plan member website and our service operations in the past fiscal year and additional enhancements are planned for the coming year.

Strong Investment Returns

In the 2013-14 fiscal year, the fund returned a very strong positive gross return of 19.2%. This rate of return exceeded the fund's 2013-14 fiscal year benchmark by 0.8%, and more importantly, surpassed the funding rate-of-return objective of the plan. Over the past four years, the investment portfolio of the ATRF fund has returned an annual average gross return of 12.1% as compared to the 10.8% fund benchmark, providing an average value-added return of 1.3% per year and adding \$387 million in additional fund growth.

Growth of ATRF

ATRF will have positive cash flows for the next 14 years and assets under management are projected to reach \$15 billion in four years. The focus is on investing these growing fund assets in an increasingly competitive investor world, while still achieving the appropriate risk-return profile necessary to fund the plan over the long term.

ATRF is committed to using appropriate, cost-effective internal resources to continue to build and maintain a successful investment program for the assets of the fund. As planned, in the past fiscal year, there was a further increase to the number of our investment-related staff, particularly in building the investment programs for private equity, infrastructure and real estate. Also, several enhancements to administrative, control and reporting functions to support best-practice operations of these illiquid asset classes were implemented. Additional staff will continue to be hired as required in future years to prudently support ATRF's growth.

Rod Matheson
Chief Executive Officer

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 an 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 also adopted a funding policy for the PSTPP that sets out the principles and guidelines governing the funding requirements of the benefits in respect of service under the plan 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. No changes were made to the funding policy in the past fiscal year.

Current Plan Funding Results

A funding study of the PSTPP was completed as of August 31, 2014. The study's assumptions were the same as those used in the funding study as at August 31, 2013.



1939: ATRF leases office space from the ATA in the Imperial Bank Building at 101 Street and Jasper Avenue.

Photo credit: The ATA Archives

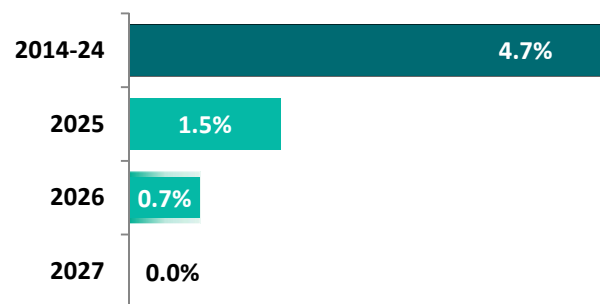
The funding study showed the contribution rates that were implemented September 1, 2013 remain adequate.

Private School Teachers' Pension Plan Contribution Rates		(Percent of Salary)
Teachers		
Total Teacher Contribution		11.77
Salary up to YMPE ¹	10.22	
Salary above YMPE	14.60	
Private Schools		10.99

¹ YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan (\$53,600 in 2015).

The current total plan contribution rate is 22.76% of total teacher salaries, consisting of a current service cost of 18.09% of salaries and total deficiency contributions of 4.67% of salaries. Estimates showed the total plan deficiency contributions will decrease over the next 13 years as the respective deficiencies are amortized over their respective 15-year funding periods.

Estimated PSTPP Total Deficiency Contribution Rates 2014 to 2027



Plan Funding Challenges

As noted in the Report of the Board Chair, the significant fund rates of return over the past two fiscal years have accelerated the original funding sustainability plan from that based on the original assumptions used to set the contribution rates as of September 1, 2013.

The Board intends to consider the current favourable funding development, assess it with the plan's actuary and management, and decide on the appropriate action going forward by the spring of 2015. We will communicate and implement any changes to the funding policies of the plan and/or future contribution rates to plan members at that time.

Private School Teachers' Pension Plan – Financial Highlights

Net Assets Available for Benefits at August 31, 2014 ¹

<i>\$ Thousands</i>	2014		2013	
Investments				
Fixed Income	\$	14,333	\$	12,720
Public Equities		23,372		22,380
Private Companies		4,114		2,862
Infrastructure		1,945		1,346
Real Estate		3,491		2,157
Absolute Return		4,159		-
Accrued Income and Other		146		73
		51,560		41,538
Other Liabilities		(24)		(30)
Net Assets Available for Benefits	\$	51,536	\$	41,508

Funding Actuarial Deficiency at August 31, 2014

<i>\$ Thousands</i>	2014		2013	
Funding Liabilities	\$	51,998	\$	48,582
Funding Value Assets ²		46,381		39,486
Funding Deficiency	\$	(5,617)	\$	(9,096)

¹ Asset figures represent the proportion of total ATRF assets attributable to the PSTPP.

² 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, 2014, the plan's funding value of net assets available was \$5.154 million lower than the fair value of net assets available (2013 - \$2.021 million lower).

ATRF's 1st Board Chair

Solon E. Low, ATRF's 1st Board Chair, was a school teacher and principal. He was elected to the Legislative Assembly of Alberta in 1935 and was Member of Parliament for Peace River.

Photo credit: Solon E. Low, Member of Parliament for Peace River, Alta., 1946 - Source: Library and Archives Canada/Credit: Arthur Roy/Arthur Roy fonds/c000700.



ATRF's 1st Chief Executive Officer

The ATA released John W. Barnett, their Secretary-Treasurer, so he could accept the appointment of Secretary-Treasurer of the ATRF Board. The first Board established policies and practices that formed the basis of the first teachers' pension organization.

Photo credit: The ATA Archives.



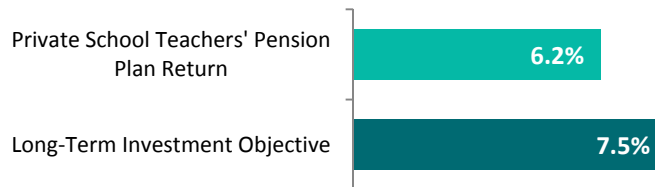
Long-Term Investment Objective

The primary long-term investment objective of the fund is to meet the assumed funding rate of return of the plan net of investment costs over the long term. This target is an essential long-term assumption in determining the funding requirements of the plan to ensure that plan benefits are funded in accordance with the established funding structure. We examine the investment performance of the fund for time periods of up to 15 years as this coincides with the 15-year funding period required for deficiencies under the legislation.

Over the past 15 years the investment return for the Private School Teachers’ Pension Plan has been 6.2%.

The extremely weak investment markets experienced during 2000-02 and 2008-09 continue to impact the funding of the plan. The funding of the funding shortfall which resulted from these time periods, combined with the reduction in the funding rate of return have been the largest contributors to the increase in funding contributions.

15-Year Return vs. Long-Term Investment Objective to August 31, 2014

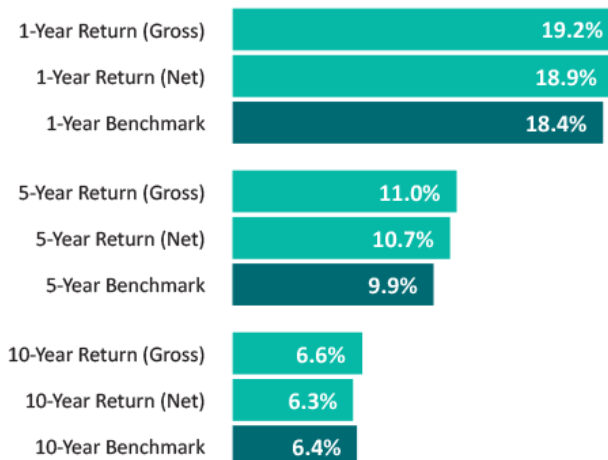


Benchmark Performance

Investment performance benchmarks have been established as a measure of the overall effectiveness of our active investment strategies. The benchmarks for each asset class are selected by the Board and Investment Committee. The total-fund benchmark is calculated by aggregating the returns on each asset-class benchmark, and weighting them according to the fund’s policy asset mix. We then compare the actual performance of the investment portfolio to the return on the fund’s benchmark over both short and long-term periods.

Over the five years ended August 31, 2014, the fund return exceeded the benchmarks by 1.1% annually (0.8% net of costs). Over 10 years the fund return exceeded its benchmark by 0.2% annually (0.1% below benchmark net of costs).

Private School Teachers’ Pension Plan Return vs. Benchmark Performance to August 31, 2014



Plan Member Services

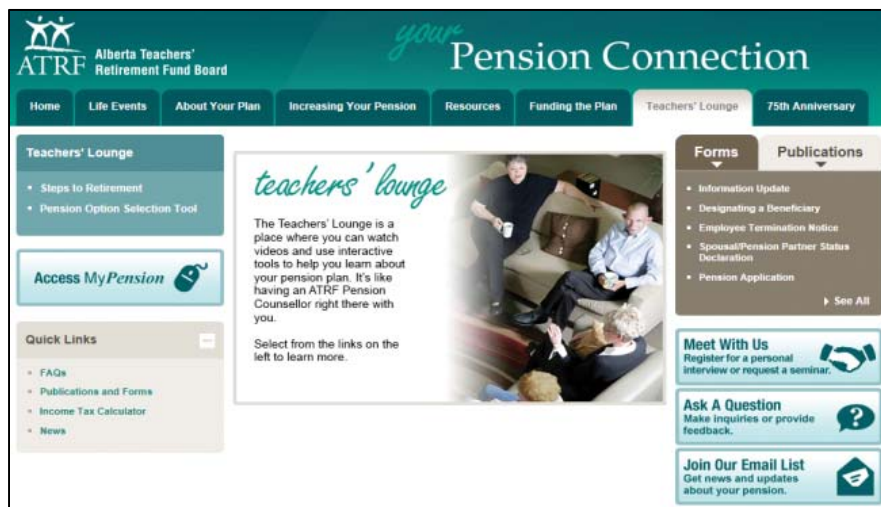
EXCEED BENCHMARKS

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

We have established benchmarks for the delivery of services and measure our benefit delivery against those benchmarks. For the 2013-14 fiscal year, we shortened our benchmarks for two services – pension options package decreased from 10 days to seven days, and written inquiries from 10 days to five days. Below are our results for the 2013-14 fiscal year, with comparisons for the 2012-13 fiscal year. We exceeded the benchmark in all processes.

Service Provided	Benchmarks for 2013-14	Average Elapsed Time in 2013-14	Average Elapsed Time in 2012-13
Ongoing pension payments	On the third last business day of the month	All payments made on time	All payments made on time
Pension options package for new pensions	Within 7 days of application	3 days	3 days
Payment for new pensions	Within 7 days	5 days	4 days
Pension estimate	Within 7 days	1 day	1 day
Purchase estimate	Within 7 days	2 days	2 days
Termination benefit	Within 7 days	3 days	1 day
Reciprocal Transfer estimates	Within 14 days	6 days (Transfer In) 4 days (Transfer Out)	9 days (Transfer In) 6 days (Transfer Out)
Written inquiries including email inquiries	Within 5 days	1 day	1 day
Telephone inquiries	Within 1 day	Less than 1 day	Within 1 day

Website and MyPension



In the spring of 2014, we launched a new section of our website called the Teachers' Lounge. We created a video called Steps to Retirement, which guides retiring members through the retirement process. We also created an interactive Pension Option Selection Tool, which assists plan members in selecting the pension option that is most appropriate for them.

While our website and MyPension services 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.

Visit our website at www.atrf.com to view the complete ATRF 2014 Annual Report.



Celebrating **75**
years

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