



**Alberta Teachers'
Retirement Fund Board**



Business Plan 2012 - 13 to 2014 - 15

June 2012



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The Corporation

The Alberta Teachers' Retirement Fund Board (ATRF) is an independent corporation established under the Teachers' Pension Plans Act. From its office in Edmonton, ATRF administers the Teachers' Pension Plan for all Alberta teachers employed in school jurisdictions and charter schools. ATRF also administers the Private School Teachers' Pension Plan for teachers employed by those private schools in Alberta that have elected to join the plan. The plans are defined benefit plans partially indexed to inflation.

ATRF is sponsored by the Government of Alberta and the plan members, who are represented by The Alberta Teachers' Association (ATA). The members of the Board, which include three nominated by the Government of Alberta and three nominated by the ATA, are appointed by the Lieutenant Governor in Council. The plan sponsors are responsible for setting benefit and funding policies, which must be enacted through legislation.

The Board is the trustee and administrator of the plans and custodian of their assets. The Board is responsible for the corporate governance of ATRF and oversees the implementation of fiscal, investment and administrative policies by ATRF staff. Pension plan services are customarily provided to employees by their employers. ATRF is one of very few organizations that provides these services directly to employees, and does so for 93 employers.

The Teachers' Pension Plan covers approximately 72,000 members and 82 employers. There are no assets with respect to the Pre-September 1992 benefit period of the plan and all benefit payments are guaranteed, and are being funded on a "pay-as-you-go" basis, by the Government of Alberta. Benefits for service after August 1992 are being fully funded by active members and the Government of Alberta on a current basis. As of August 31, 2011, the Post-August 1992 benefit period of the plan had funding value of assets of \$6.817 billion and an overall shortfall of \$1.751 billion. This deficiency is being funded by additional contributions of active plan members and the Government of Alberta over the period ending in 2026.

The Private School Teachers' Pension Plan covers 804 members and 12 employers. As of August 31, 2011, this plan had funding value of assets of \$35.1 million and an overall shortfall of \$5.6 million. This deficiency is being funded by additional contributions of active plan members and the private school employers over the period ending in 2025.

Working in partnership to secure your pension income

In pursuit of our mission, ATRF provides services to meet customer needs as they relate to:

- benefit and retirement income information
- pension and other benefit payments
- investment management
- collection and reconciliation of plan member data
- collection and reconciliation of contributions
- benefit, funding and investment policy assessment and development
- management of emerging issues

Key Corporate Values

1. Quality Service

- We are dedicated to providing quality service to our customers in everything we do.
- We listen to customers and request their input on services provided.
- We set measurable results for our services, and evaluate our progress towards achieving those results.

2. Accountability and Responsibility

- We are accountable and responsible for our actions and results.
- We are responsible for cost effective and efficient use of resources.
- We expect our customers to be accountable for clarifying their needs, accepting their responsibilities and providing feedback on service provided.

3. Integrity and Fairness

- We treat individuals and groups equitably and honestly.
- We pursue mutual respect and dignity in our dealings with others.
- We ensure our conduct is ethical and adheres to non-partisan standards.

4. Valuing Employees

- We value and respect employees.
- We value team work.
- We treat employees fairly and consider them for available opportunities.
- We support employee development and expect employees to be responsible for developing their skills and knowledge.
- We foster an environment where employees can balance their work and family responsibilities.

Customer Service Statement

We provide what you need the first time

- We listen to understand your needs
- We provide accurate and timely information and benefit payments
- We deliver value-added investment performance

Strategic Directions 2012 to 2015

ATRF will pursue the following strategic directions for the period ending in August 31, 2015:

1. Provide accurate and timely benefit payments and information to plan members in a cost-effective manner.

Strategies:

- accurate plan member and contribution data for timely benefit payments and plan information
- secure systems that effectively and efficiently meet the benefit payment and information needs of plan members
- communication initiatives that assist plan members in making informed decisions and create a sense of value for the plans, with a focus on enhancing internet-based services

2. Achieve maximum, risk-controlled, cost-effective, long-term investment returns.

Strategies:

- a policy asset mix that maximizes long-term investment returns within the risk tolerance of the plans
- long-term investment returns that meet the real rate of return assumed in the funding valuations of the plans
- investment policies supporting long-term risk parameters and return objectives
- limited ranges for asset categories and classes that allow for variations from the policy asset mix in order to enhance long-term investment returns
- portfolio managers that meet benchmarks for passive portfolios and add value above benchmarks for active portfolios
- investment systems that effectively and efficiently meet investment management, risk management and reporting requirements

3. Proactively manage issues and information to secure the pensions of members and enhance the value of the plan for plan members, plan sponsors and employers.

Strategies:

- effective partnerships and collaboration with the plan sponsors
- proactive provision of information and advice for the plan sponsors to assist them in setting benefit and funding policies
- information to plan sponsors on the current and future impacts of the funding agreement and funding policies under the respective plans
- positive business relationships with employers
- secure, effective and efficient systems to obtain accurate and timely plan member and contribution data from employers
- a sense of value with employers for ATRF and the pension plans

4. An organization that maximizes contribution of staff and the Board to meet customer needs.

Strategies:

- a team-oriented work environment that encourages employee involvement
- a work environment where employee learning and development is encouraged
- enhanced staff capability on an ongoing basis
- a compensation philosophy and structure aligned with strategic directions
- effective organizational policies, risk management and internal control processes
- appropriate governance best practices
- enhanced Board effectiveness on an ongoing basis

Action Plans

To implement the strategic directions outlined in this Business Plan, related strategies for each strategic direction will be pursued. In addition, specific action plans have been developed. These action plans highlight the key initiatives that are to be undertaken by ATRF over the three years commencing September 1, 2012.

1. Provide accurate and timely benefit payments and information to plan members in a cost-effective manner.

2012-13

Implement the use of a unique plan member identification number for communication and benefit processes.

Implement service enhancements to plan members registered for On-Line Services to electronically:

- ◆ provide pensionable service purchase information when ATRF is advised that a member has commenced an employer-approved leave or has first commenced substitute service;
- ◆ provide purchase estimate when ATRF is advised that a member has fully returned from an employer-approved leave;
- ◆ provide information on the accrual of pensionable service while disabled when ATRF is advised of the commencement of disability leave;
- ◆ assess the use of electronic authentication for confirmation that pension payments are being received by the appropriate person; and
- ◆ implement approaches to capture plan member personal email addresses directly from plan members.

2013-14

Through ongoing assessment of plan member services, identify and implement further cost-effective enhancements to member services and operational efficiency.

Assess the business case for electronic payment of cash termination benefits.

Implement electronic authentication process for confirmation of pension payments.

2014-15

Through ongoing assessment of plan member services, identify and implement further cost-effective enhancements to member services and operational efficiency.

Implement electronic payment of cash termination benefits.

Conduct a comprehensive assessment of the benefit and information delivery system and develop long-term plans for required changes to support the future requirements of the system components.

2012-13	2013-14	2014-15
Upgrade corporate website and On-Line Services to meet the information and service delivery needs of plan members based on the results of the comprehensive communication review.	Implement additional plan member information and retirement education tools.	
Conduct a plan member survey and a pensioner survey, evaluate results and identify customer service enhancements.	Implement customer service enhancements identified from plan member survey and pensioner survey in the prior year.	Conduct a plan member survey, evaluate results and identify customer service enhancements.

2. Achieve maximum, risk-controlled, cost-effective, long-term investment returns.

2012-13	2013-14	2014-15
Implement planned growth in real estate, infrastructure and private equity asset classes.	Implement planned growth in real estate, infrastructure and private equity asset classes.	Implement planned growth in real estate, infrastructure and private equity asset classes.
Establish the capability for enhanced use of derivatives.		
Conduct a comprehensive risk-focussed, asset-liability study, and review and update investment policy and policy asset mix.	Commence implementation of investment policy and policy asset mix changes arising from risk-focussed asset-liability study.	Complete implementation of investment policy and policy asset mix changes arising from risk-focussed, asset-liability study.
Implement required refinements to mid- and back-office investment functions, controls and reporting arising from implementation of the policy asset mix.	Complete required refinements to mid- and back-office investment functions, controls and reporting arising from implementation of the policy asset mix.	
Implement a comprehensive private investment software system. Assess requirements for additional real estate software for direct real estate investments.	Implement real estate software for direct real estate investments.	
Complete implementation of enhanced investment risk system as a strategic tool in asset allocation.	Ongoing measurement, reporting and management of investment risk.	Ongoing measurement, reporting and management of investment risk.

3. Proactively manage issues and information to secure the pensions of members and enhance the value of the plan for plan members, plan sponsors and employers.

2012-13	2013-14	2014-15
Provide plan sponsors proactive support and information regarding the funded status of the plans, and assist them in communicating to their stakeholders on funding and benefit issues.	Provide plan sponsors proactive support and information regarding the funded status of the plans, and assist them in communicating to their stakeholders on funding and benefit issues.	Provide plan sponsors proactive support and information regarding the funded status of the plans, and assist them in communicating to their stakeholders on funding and benefit issues.
Review and update the Enterprise-Wide Risk Management Plan.	Review and update the Enterprise-Wide Risk Management Plan.	Review and update the Enterprise-Wide Risk Management Plan.
Ongoing testing of the operational effectiveness of internal controls over financial reporting. Develop test plan and implement operational effectiveness testing of internal controls relating to real estate, infrastructure and private equity asset classes.	Ongoing testing of the operational effectiveness of internal controls over financial reporting.	Ongoing testing of the operational effectiveness of internal controls over financial reporting.
Internal control audit systems and processes relating to security and privacy.	Internal control audits of select non-financial reporting systems and processes.	Internal control audits of select non-financial reporting systems and processes.
Assess, develop and implement technology initiatives in support of business plans: <ul style="list-style-type: none"> ◆ implement upgrade to: <ul style="list-style-type: none"> - business application software development tool; and - server storage structure; and ◆ develop upgrade plan for: <ul style="list-style-type: none"> - personal computer system hardware and software; - mid-range systems; and - accounting/financial system. 	Assess, develop and implement technology initiatives in support of business plans: <ul style="list-style-type: none"> ◆ implement upgrade to: <ul style="list-style-type: none"> - personal computer system hardware and software; - mid-range systems; and - accounting/financial system. 	Assess, develop and implement technology initiatives in support of business plans.
Assess impact of anticipated changes to pension plan standards legislation with the plan sponsors.	Implement any changes to the plan rules that are agreed to by the plan sponsors.	
Provide continued support to employers for data submission and information requests.	Provide continued support to employers for data submission and information requests.	Provide continued support to employers for data submission and information requests.

4. An organization that maximizes contribution of the Board and staff to meet customer needs.

2012-13	2013-14	2014-15
Review and update succession plan and related individual staff development plans.	Ongoing initiatives to enhance succession planning.	Ongoing initiatives to enhance succession planning.
Complete the review of performance management practices and establish implementation plans for changes.	Implementation changes to performance management practices.	
Assess and commence implementation of changes to human resources management and payroll systems.	Complete implementation of changes to human resources management and payroll systems.	
Implement planned corporate training initiatives. Assess team and staff development needs and implement supporting plans.	Implement corporate training initiatives. Assess team and staff development needs and implement supporting plans.	Implement corporate training initiatives. Assess team and staff development needs and implement supporting plans.
Implement Board action plans to continue to enhance ATRF corporate governance. <ul style="list-style-type: none"> ◆ assess and update CEO succession plan and structure of performance management plan; ◆ set detailed plans for a bi-annual corporate governance and strategic planning session; and ◆ implement identified Board member development plans. 	Assess emerging issues relating to corporate governance and implement Board action plans to continue to enhance ATRF corporate governance. Conduct a bi-annual corporate governance and strategic planning session.	Assess emerging issues relating to corporate governance and implement Board action plans to continue to enhance ATRF corporate governance. Complete action plans arising from bi-annual corporate governance and strategic planning session.

Result Measures

ATRF monitors and evaluates its progress on business plan initiatives to ensure that activities are on track and are meeting identified targets. Regular progress reports assess the status of each initiative. Performance benchmarks have been established for all major initiatives, and are used to determine whether ATRF is meeting its targets.

Results achieved are measured against established benchmarks in the following areas.

1. Response Time to Plan Member Requests

Benchmarks have been established for responding to various plan member service requests. These benchmarks are assessed annually to determine if they can be adjusted to further improve service to plan members. Reporting under the plan member benefit and information system and related workflow processes provides detailed benchmark tracking, and is used to identify areas where service can be enhanced.

Completion of a service process is dependent on the receipt of required information from an employer, another pension plan or the plan member. The following benchmarks are in place for major service processes, where all required documentation is complete.

Service Process	Benchmark
Ongoing pensioner payments	on the third last business day of the month
Pension options package for new pensioners	within 10 days of application
Pension payment for new pensioner	within 7 days
Pension estimate	within 7 days
Termination benefit	within 7 days
Death benefit	within 7 days
Purchase of service estimate	within 7 days
Urgent written or email inquiry	within 5 days
Non-urgent written or email inquiry	within 10 days
Telephone inquiry	within 1 day

ATRF also conducts plan member and pensioner surveys that are used to evaluate the quality of service and benchmarks set, and to enhance customer service.

2. Rate of Return on Investments

The rate of return on investments is tracked monthly. Results are reported monthly to management, quarterly to the Investment Committee and the Board, and annually to plan members, the ATA and the Government of Alberta. The long-term investment objective is based on the long-term real rate of return assumption used in the actuarial valuation of the plans, currently 4.25% above the level of Alberta inflation.

Asset Category	Benchmark
Liability Matching	
▪ Canadian Universe Bonds	DEX Universe Bond Index
▪ Canadian Long-Term Bonds	DEX Long-Term Government Bond Index
▪ Money-Market Securities	DEX 30-day T-Bill Index
Return Enhancing	
▪ Global Equities	Morgan Stanley Capital International World Index
▪ Canadian Equities	S&P/TSX Composite Index
▪ Private Equities	<u>Mature Portfolio</u> : Morgan Stanley Capital International World Index plus 2% <u>Emerging Portfolio</u> : portfolio return (as the portfolio is in its early stages of implementation)
Inflation Sensitive	
▪ Real Estate	<u>Mature Portfolio</u> : Canadian Consumer Price Index plus 4.25% <u>Emerging Portfolio</u> : portfolio return (as the portfolio is in its early stages of implementation)
▪ Infrastructure	<u>Mature Portfolio</u> : Canadian Consumer Price Index plus 4.75% <u>Emerging Portfolio</u> : portfolio return (as the portfolio is in its early stages of implementation)

3. Cost Effectiveness

(a) Expenditures Compared to Budgets

ATRF is committed to cost-effective delivery of client services. Budgets are reviewed by the Finance and Planning Committee and approved by the Board. Results are reported regularly to the Board and annually to plan members, the ATA and the Government of Alberta.

(b) Investment Expenditures

Total investment expenditures for public-market investments are reported annually to the Investment Committee, the Board, plan members, the ATA and the Government of Alberta. These costs are compared annually to the average cost of a Canadian fund with an asset size and public-market asset mix similar to that of ATRF.

Acquisition and management fees for private equity, infrastructure and real estate investments, and commissions when trading securities are deducted in determining net investment returns.

(c) Plan Administration Expenses Compared to Those of Similar Pension Plans

ATRF plan administration costs are compared to those of other public sector pension plan organizations based on the number of active members and pensioners. This comparison provides an indication of the relative plan administration costs, recognizing the limitations of comparing administration costs of different plans. These limitations arise due to the unique administrative structure of each plan, and the differing services and service levels adopted by the plans. The 2012-13 ATRF budget estimate represents a plan administration cost of about \$88 for each active plan member and pensioner.

ATRF also participates in a benchmarking study with several other public sector pension plans. Under this study, core business functions are costed and service levels compared. This provides a detailed cost comparison for core business functions over time and between plans.

2012-13 Expenditure Profile

Effective September 1, 2009, major changes occurred to the funding and liability structure of the Teachers' Pension Plan. The invested assets of the plan now represent plan liabilities for pensionable service after August 1992, making the plan a very young plan with positive cash flow for the next 15 years. Assets under management are projected to increase significantly to \$10 billion in three years and reach \$15 billion in 7 years.

The Board approved a new policy asset mix for the investment of the assets of the pension plan that required the establishment of new infrastructure and real estate asset classes, and an expansion of the private equity asset class. The new policy asset mix required considerable changes to investment policy and structures, and related operational and resourcing matters.

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

In 2010, management commenced the implementation of the long-term vision, strategy, process and resource requirements involved in building and maintaining a successful, cost-effective investment program for illiquid asset classes that is expected to result in material net cost savings to ATRF. This required ATRF to make a significant commitment to internal resources. A significant portion of the budget increase for the 2011-12 fiscal year was related to the additional staff and advisory services required to continue to build the investment programs for infrastructure, real estate and private equity. For the 2012-13 fiscal year, almost half of the 12% budget increase is related to the ongoing implementation of these illiquid asset classes. Another 35% of the increase is related to the increased cost of external management of the growth in the fund's public market investments.

2010-11 Actual	2011-12 Budget	2011-12 Forecast	2012-13 Budget
Operating Budget			
\$25,255,000	\$32,646,000	\$29,080,000	\$36,404,000
Full-Time Equivalents			
44.5	53.8	50.5	61.8

Note: Full-time equivalents represent the annual number of equivalent full-time staff positions.