



Alberta Teachers'
Retirement Fund Board



Business Plan 2016-17 to 2018-19

June 2016



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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 92 employers.

The Teachers' Pension Plan covers approximately 77,000 members and 80 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, 2015, the Post-August 1992 benefit period of the plan had funding value of assets of \$10.810 billion and an overall shortfall of \$2.364 billion. This deficiency is being funded by additional contributions of active plan members and the Government of Alberta over the period ending in 2027.

The Private School Teachers' Pension Plan covers about 900 members and 12 employers. As of August 31, 2015, this plan had funding value of assets of \$52.843 million and an overall shortfall of \$5.631 million. This deficiency is being funded by additional contributions of active plan members and the private school employers over the period ending in 2027.

Mission and Mandate

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. High-Quality Service

- We are dedicated to providing high-quality service 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 non-partisan.

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 2016 to 2019

ATRF will pursue the following strategic directions for the period ending in August 31, 2019:

A. Provide accurate, timely and cost effective benefit payments and services to plan members.

Strategies:

- accurate plan member and contribution data for timely and accurate benefit payments and plan member information
- secure systems supporting effective and efficient delivery of benefit payments and information to plan members
- initiatives to identify plan member needs
- initiatives that assist plan members in making informed decisions, using the most effective methods

B. Achieve net investment returns that meet at least the long term return expectation assumed in the funding valuation for the plans, while reflecting the risk tolerance of the plan sponsors.

Strategies:

- a policy asset mix that is expected to achieve target returns within the risk tolerance of the plans investment policies supporting long-term risk parameters and return objectives
- a high performing investment team employing active investment strategies that enhance long-term investment returns
- an effective and efficient investment finance team and investment systems meeting investment management, risk management and reporting requirements

C. 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 policies
- information to plan sponsors on the current and future impacts of the funding agreement and funding policies under the respective plans
- information to plan members to assist them in understanding the value of the plans

- secure, effective and efficient systems supporting accurate and timely plan member and contribution data from employers
- positive business relationships with employers

D. An organization that maximizes the 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
- appropriate staff resourcing and capabilities to meet current and future needs
- a compensation and benefits philosophy and structure aligned with strategic directions
- effective organizational policies, risk management and internal control processes
- appropriate governance best practices
- enhanced Board/Committee 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, 2016.

1. Provide accurate, timely and cost effective benefit payments and services to plan members.

2016-17	2017-18	2018-19
Plan Member Benefit System Modernization Project: <ul style="list-style-type: none"> Complete the review of workflow and identification of system enhancements. 	Plan Member Benefit System Modernization Project: <ul style="list-style-type: none"> Commence design and development of the enhanced browser based system. 	Plan Member Benefit System Modernization Project: <ul style="list-style-type: none"> Complete development and implement enhanced browser based system.
Review and develop an enhanced ATRF communication strategy.	Implement action plans identified in the ATRF communication strategy review.	
Conduct plan member and retired member surveys, evaluate results and identify customer service enhancements.	Implement customer service enhancements identified from plan member and retired member surveys in the prior year.	Conduct plan member survey, evaluate results and identify customer service enhancements.
Ongoing identification and implementation of cost-effective enhancements to member services and operational efficiency.		

2. Achieve net investment returns that meet at least the long term return expectation assumed in the funding valuation for the plans, while reflecting the risk tolerance of the plan sponsors.

2016-17	2017-18	2018-19
<p>Conduct an asset-liability modelling study, and review and update investment policy and policy asset mix.</p> <p>Develop implementation plan for any changes to policy asset mix.</p>	<p>Implement any changes to the investment policy arising from the asset-liability modelling study.</p>	
<p>Implement enhancements/refinements to mid and back-office investment functions, controls and reporting.</p>		
<p>Implement prudent investment management strategies supporting the policy asset mix of the fund and the planned growth in the various asset classes of the fund.</p>		
<p>Implement enhancements to management and reporting of investment risk</p> <p>Fully integrate new investment risk software system into investment processes.</p>		

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.

2016-17	2017-18	2018-19
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.		
Implement changes to the plan rules as required (e.g. pensionable salary cap maximum).	Implement changes to the plan rules as required (e.g. division of pensions on marriage breakdown).	Implement changes to the plan rules as required.
Implement enhanced Enterprise and Operational Risk Management structure.		
Review and develop an enhanced Business Continuity and Disaster Recovery program.	Implement enhancements identified in the review of the Business Continuity and Disaster Recovery program.	
Provide continued support to employers for data submission and information requests.		

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

2016-17	2017-18	2018-19
Actions to continue to enhance ATRF corporate governance: <ul style="list-style-type: none"> ◆ conduct Board corporate governance and strategic planning session; ◆ enhance Board and Investment Committee member orientation process; and ◆ implement identified Board member development plans. 	Actions to continue to enhance ATRF corporate governance: <ul style="list-style-type: none"> ◆ conduct Board corporate governance and strategic planning session; and ◆ implement identified Board member development plans. 	Actions to continue to enhance ATRF corporate governance: <ul style="list-style-type: none"> ◆ conduct Board corporate governance and strategic planning session; and ◆ implement identified Board member development plans.
Develop an enhanced framework for strategic and business planning processes.		
Provide human resource planning and recruitment activities to support significant organizational growth.		
Develop and implement an enhanced talent management strategy that encompasses performance management, corporate training activities and career/leadership development programs.		
Provide effective change management for ongoing organizational growth.		
Effectively manage office space relocation and/or renovation to preserve staff health and productivity, and maintain client service levels.		

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 in the following areas.

1. Response Time to Plan Member Requests

Benchmarks have been established for responding to various plan member service requests. Reporting under the plan member benefit and information system and related workflow processes provides detailed 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 pension payments	on the third last business day of the month
Pension options package for new retired members	within 5 days of application
Pension payment for new retired members	within 5 days
Pension estimate	within 5 days
Termination benefit	within 7 days
Purchase of service estimate	within 7 days
Urgent written or email inquiry	within 3 days
Non-urgent written or email inquiry	within 5 days
Telephone inquiry	within 1 day

ATRF also conducts plan member and retired member 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 benchmarks for the current asset classes are listed in the following table.

Asset Category	Benchmark
Fixed Income	
▪ Canadian Universe Bonds	FTSE TMX Canada Universe Bond Index
▪ Canadian Long-Term Bonds	FTSE TMX Canada Long Term Government Bond Index
▪ Money-Market Securities	FTSE TMX Canada 30 Day T-Bill Index
Return Enhancing	
▪ Global Equities	Benchmark is a custom benchmark comprised of: <ul style="list-style-type: none"> ▪ 30% S&P/TSX Composite Index ▪ 50% MSCI World Index (net of withholding tax) ▪ 20% MSCI Emerging Markets Index (net of withholding tax)
▪ Private Equities	<u>Mature Portfolio</u> : Morgan Stanley Capital International World Index (net) plus 2% <u>Non-Mature 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>Non-Mature 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>Non-Mature Portfolio</u> : portfolio return (as the portfolio is in its early stages of implementation)
Absolute Return¹	FTSE TMX Canada 91-Day T-Bill Index plus 4.00%

¹ Absolute Return Assets have return streams that exhibit low or negligible correlations with traditional asset classes, primarily equities.

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 retired members. 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 2016-17 ATRF budget estimate represents a plan administration cost of about \$109 for each active plan member and retired member.

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.

2016-17 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 relate to plan liabilities for pensionable service after August 1992, and the plan has positive cash flow for the next 12 years. Assets under management have reached \$12.3 billion and are expected to exceed \$20 billion in five years.

At the same time the Board approved a revised policy asset mix for the pension plans that called for the establishment of infrastructure and real estate asset classes, and an expansion of the private equity asset class. The plans continue to experience considerable growth in assets, particularly illiquid assets, which are targeted to reach 35% of total assets over the next several years. Investment costs continue to increase in support of this rapid asset growth.

The plans will also continue to experience growth in the total number of members. The expected growth is primarily in the number of retired members with approximately 1,000 net new retired members added each year for the next 10 years. ATRF will continue to ensure that secure, accurate, and cost effective benefit systems and member services will be maintained for all plan members.

ATRF's activities will continue to focus on building and maintaining successful, cost-effective programs for managing the significant and ongoing growth in assets as well as the ongoing growth in plan members and the services we provide to them. A significant portion of subsequent expenditure increases are related to the additional staff, systems, and advisory services required to continue to build and support the investment programs and plan member benefit services.

The budget for the 2016-17 fiscal year is \$54,680,200 and is \$16,500 or 0.3% higher than the 2015-16 budget:

Investment-operations-related budget	\$47,214,100	86%
Plan-administration-related budget	<u>7,466,100</u>	<u>14%</u>
Total budget	\$54,680,200	100%

	2014-15 Actual	2015-16 Budget	2015-16 Forecast	2016-17 Budget
Operating Budget				
\$45,817,100	\$54,663,700	\$47,180,330	\$54,680,200	
Full-Time Equivalents				
66.0	81.8	74.0	98.0	

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