



Alberta Teachers'
Retirement Fund Board

your Pension Connection

2013 ANNUAL REPORT HIGHLIGHTS

TEACHERS' PENSION PLAN



*Working in partnership to secure
your pension income*

2012-2013

HIGHLIGHTS

Fund Results

- For the year ended August 31, 2013, the fund returned 14.0%, exceeding the fund's benchmark of 11.5% by 2.5%
- Over the past 15 years the Teachers' Pension Plan investment return was 6.3%, 1.3% short of the investment objective of 7.6%
- Over these 15 years, the rates of return on investments were impacted by a severe equity market downturn and financial turmoil in 2000-02 and in 2008-09. The amortization of the deficiencies resulting from the low market returns and the reduction in the funding rate of return have been the largest contributors to the increase in funding contributions

Key Accomplishments – 2012/13

- Met or exceeded all service turnaround benchmarks for our services to active, retired and inactive plan members
- Received very high approval ratings on member surveys
- Redesigned and implemented the ATRF website and the secured plan member website, now called *MyPension*
- Successfully implemented the new plan member identification system
- Recognized as having one of the lowest annual plan member administrative service costs in the industry at \$87 per member
- Completed a comprehensive asset-liability modelling study and revisions to the fund's target policy asset mix and investment policy
- Continued further enhancements to systems, processes, controls and reporting that will contribute to ATRF's ongoing success

Table of CONTENTS

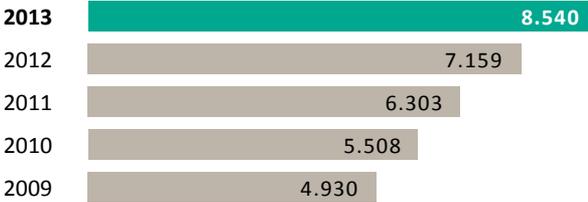
2012-2013 Highlights	1
Report of the Board Chair	3
Report of the Chief Executive Officer	5
Plan Member Services Exceed Benchmarks	7
Surveys Deliver High Marks	8
Plan Funding	9
Investment Performance	11
Financial Highlights	13
ATRF Profile	14

Change in Net Assets

The 2012-13 fiscal year returned a fourth consecutive year of growth in net assets with a year-over-year increase in fund assets of \$1.381 billion (an increase of 16.1%) leaving the fiscal year-end value at \$8.540 billion. Investment earnings of \$1.020 billion and \$0.361 billion of positive net cash flows from contributions above benefit payments and expenses, accounted for this change.

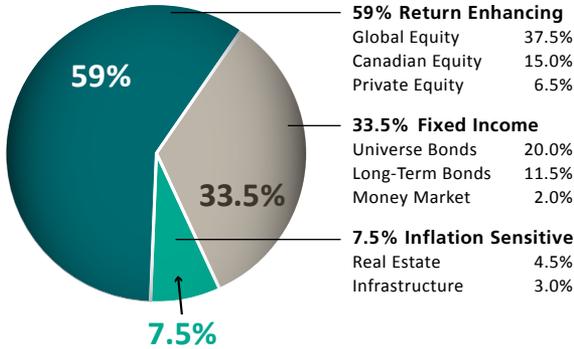
Net Plan Assets

(\$ Billions)



Asset Mix

at August 31, 2013



		Teachers' Pension Plan Post-1992 Period	
10.930	8.071	Funding Liabilities	10.930
	2.859	Funding Value of Assets	8.071
		Funding Deficiency	2.859
at August 31, 2013		(\$ Billions)	

Report of the BOARD CHAIR



Greg Meeker

Ensuring the long-term funding sustainability of defined benefit pension plans is a major focus of all pension plan boards, the sponsors of plans and the contributors to those plans. This key issue has become more challenging over the past decade due to the low interest rates, weak market returns and increasing longevity of plan members. Almost all plans have increased contribution rates. Some plans have decreased benefits. Some plans have changed benefits, so that they will be paid only if the plan is fully funded.

Focus on Meeting the Pension Promise

Our principal objective is to secure the pensions of Alberta teachers, which means that our main focus is on plan funding and ensuring that sufficient assets are in place to meet future pension payments. The plan benefits that are to be provided by ATRF are set by the plan sponsors, The Alberta Teachers' Association and the Government of Alberta. The ATRF Board's responsibility is to ensure that

these benefits are funded within the prescribed legislative provisions. The Board has only one option available when deficiencies occur, and that is to raise contribution rates. The necessary contribution rate increases have been implemented to ensure the long-term funding sustainability of plan benefits and as a result, the funded position of the plan has improved over the past year.

Contribution rates have been increased to ensure that the \$2.9 billion deficiency is fully funded within the 15-year period required by legislation. The limiting of shorter-term salary increases, pursuant to the *Assurance for Students Act*, produced experience gains for plan liabilities that offset other experience losses. In addition, our recent investment results have been strong, with the fund returning 14.0% in the past fiscal year ended August 31, 2013. Consequently, the previously anticipated additional contribution rate increase of almost 1% in 2015 no longer appears necessary.

Action to Ensure Longer-Term Funding Sustainability

In the 2011-12 fiscal year, we completed a comprehensive review of the funded position and funding policies of the plan. The key result of this review was the decision to improve the funding margin for potential future adverse plan experience by decreasing the funding rate of return to 6.25% per year.

In the past fiscal year, we conducted a detailed asset-liability modelling study with the Investment Committee, management, and external funding and investment advisors. The purpose of the asset-liability modelling study was to:

- seek the optimal policy asset mix of the fund investments for the plan given the funding policy and the underlying liability structure;
- minimize the probability that the funding contribution rate may exceed a maximum threshold; and

- maintain an acceptable average long-term contribution rate (i.e. maximize investment return within the risk tolerance of the plan sponsors).

Following detailed modelling, stress analysis and testing, the results of the asset-liability modelling study showed that some modest changes to the target policy asset mix had the potential to offer a more favourable risk-return profile for the plan in the future. The target policy asset mix will be changed to add an allocation to strategies targeted to enhance downside protection and improve diversification by offering returns that have little correlation to ATRF's other major asset classes. In addition, our Canadian and global public equities will be consolidated into a single asset class and expanded with the addition of an emerging market component.



Greg Meeker
Board Chair

The BOARD



From left to right: Greg Meeker, Harry Buddle, Karen Elgert, Lowell Epp, Sandra Johnston, Gene Williams.

Report of the CHIEF EXECUTIVE OFFICER



Emilian Groch

ATRF achieved ongoing strong performance in all areas in the 2012-13 fiscal year.

- Investment returns exceeded the fund's benchmark and the funding objective of the plans.
- Plan member service turnaround benchmarks were surpassed.
- High ratings were received from plan member surveys.
- Planned growth in ATRF operations was implemented.
- New business plan initiatives were successfully completed.

The ATRF fund returned a very strong positive return of 14.0% in the past year. This rate of return exceeded the fund's 2012-13 fiscal year benchmark by 2.5%, surpassed the funding rate-of-return objective of the plans and added \$172 million in additional fund growth. Over the past four years, the investment portfolio of the ATRF fund has returned an annual average return of 9.1% as compared to the 7.9% fund benchmark, providing an average value-added return of 1.2% per year.

However, these positive rates of return have not fully mitigated the impacts that two severe equity market downturns have had on rates of return over the past 13 years. The fund of the Teachers' Pension Plan has returned on average 4.6% each year since September 2000, which is 2.9% per year short of the targeted funding rate-of-return objective.

This and the impacts from the very low interest rates and increasing plan member longevity have resulted in substantial funding shortfalls. The Teachers' Pension Plan has a funding deficiency of \$2.9 billion as at August 31, 2013. This deficiency is being funded by additional contributions from active teachers and the Government of Alberta over 15 years.

Service to Plan Members

Results from the surveys of active members, retired members and newly retired members in the past year were very positive, with high ratings received in all areas. We have service turnaround benchmarks for all service processes and exceeded these

benchmarks in all areas last year. ATRF also continues to have a very cost-effective structure with industry-leading plan member services, and costs that are almost half of the average cost of a group of similar Canadian pension plan organizations.

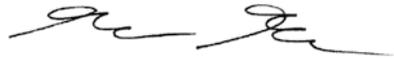
We redesigned and implemented a new plan member and corporate website. Online service enhancements for plan members registered for the secured plan member website, *MyPension*, were put in place. Also, a new plan member identification number system was launched successfully for all plan members. Based on feedback received from plan members, and our review of industry best practices, we will continue to make further enhancements to plan member services and communications.

Ongoing Fund Growth

We continue to implement our plans to build and maintain a successful, cost-effective investment program for the assets of the fund, including a significant commitment to utilizing

cost-effective internal resources. We were successful in recruiting additional staff, particularly in building the investment programs for infrastructure, real estate and private equity. We also implemented the required administrative, control and reporting functions to support best-practice operations of these illiquid asset classes.

The invested assets of the Teachers' Pension Plan 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 reach \$15 billion in five years. Our focus for the next year will be in investing these growing fund assets and identifying investment opportunities to grow our infrastructure, real estate and private equity asset classes.



Emilian Groch
Chief Executive Officer

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 2012-13 fiscal year, we shortened our benchmarks for three services – purchase estimates and termination benefit payments decreased from 10 days to 7 days, and urgent written inquiries from 7 days to 5 days. Below are our results for the 2012-13 fiscal year, with comparisons for the 2011-12 fiscal year. We exceeded the benchmark in all processes.

Service Provided	Benchmarks for 2012-13	Average Elapsed Time in 2012-13	Average Elapsed Time in 2011-12
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 10 days of application	3 days	2 days
Payment for new pensions	Within 7 days	4 days	3 days
Pension estimate	Within 7 days	1 day	1 day
Purchase estimate	Within 7 days	2 days	2 days
Termination benefit	Within 7 days	1 day	1 day
Reciprocal Transfer estimates	Within 14 days	9 days (Transfer In) 6 days (Transfer Out)	6 days (Transfer In) 3 days (Transfer Out)
Urgent written inquiries including email inquiries	Within 5 days	1 day	1 day
Non-urgent written inquiries including email inquiries	Within 10 days	1 day	1 day
Telephone inquiries	Within 1 day	Less than 1 day	Less than 1 day

HIGH MARKS

Plan Member Survey

The survey was distributed electronically to 12,573 active plan members who were registered for online services. ATRF received high ratings from just over 2,700 plan members who responded, representing an excellent response rate of 21.5%. The objectives of the survey were to assess how well ATRF is meeting plan member information and service needs, and to evaluate the effectiveness of ATRF programs and information sources.

ATRF achieved top marks again, with 96% of respondents rating our overall service as good to excellent.

Respondents also gave high ratings to our communication material:

- **95%** indicated that the annual plan member statement helped them understand their pension benefits, it was informative, and it was easy to read.
- **95%** found the “Pension Points” newsletter easy to read, informative and timely.
- **95%** indicated the Annual Report Highlights were informative and 92% said it assisted them in understanding the financial status of the pension plan.

- **97%** of respondents who visited the website found it to be very informative, and 93% said it was easy to find information on the website.
- **91%** of respondents who used online services indicated the pension estimator was a valuable tool, and 94% found the purchase calculator valuable.

New Retired Member Questionnaire

Each of the 1,131 plan members who retired during the 2012-13 fiscal year received a New Retired Member Questionnaire. Of the 10.7% who responded:

- 98% rated ATRF service and communication as good to excellent.
- 71% indicated they were registered for online services.
- 87% said they had visited the website.
- 50% had used the web calculator to do pension estimates.

The majority of the comments were positive and focused on excellent customer service and knowledge of ATRF staff. We will use the comments and suggestions to continue to improve customer service.

Plan FUNDING

Teachers' Pension Plan: Post-1992 Period Funding Structure

The cost of benefits being earned for service after August 1992, including the 60% cost-of-living pension adjustment provision, is shared equally between active members and the Government of Alberta. 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 Government of Alberta over a 15-year period. Since Post-1992 Period benefits are not guaranteed if the plan is terminated, the primary objective is to ensure there are sufficient assets to pay all Post-1992 Period benefits.

Enhancing Plan Funding Sustainability

The overall objective is to ensure the funding sustainability of the plan over the long term and to ensure the provision of benefits to plan members and their beneficiaries. We review the plan's funding policy annually. Effective September 1, 2012, we increased the margin for adverse plan experience, by decreasing the plan's long-term funding rate of return to 6.25% per year, to more effectively

manage year-to-year volatility and to enhance intergenerational funding equity. The resulting increase in plan funding contribution rates came into effect September 1, 2013.

Current Plan Funding Results

An actuarial funding study of the Post-1992 Period was completed as at August 31, 2013. The funding study showed the contribution rates that were implemented September 1, 2013 remain adequate.

Teachers' Pension Plan Contribution Rates

Sept 2013

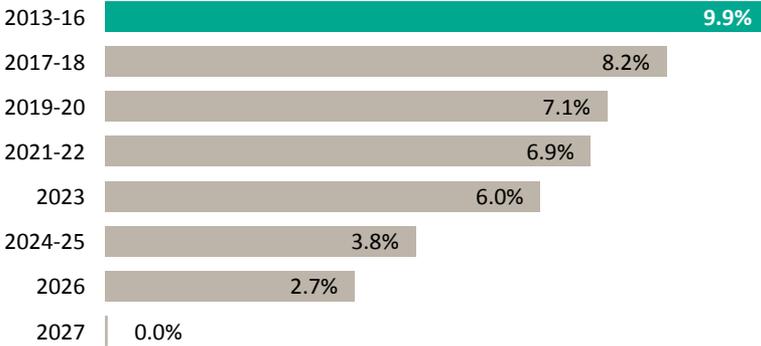
	(% of Salary)
Teachers	
Total Teacher Contribution	13.46
Salary up to YMPE ¹	11.44
Salary above YMPE	16.34
Government	
	12.65

¹ YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan (\$52,500 in 2014).

The current total plan contribution rate is 26.11% of total teacher salaries, consisting of a 16.2% of salary cost for current benefits being earned and total deficiency costs of 9.91% of salary. The total 9.91% plan deficiency contributions are scheduled to decrease over the next 14 years as the individual deficiencies are amortized over their respective 15-year funding periods as shown in the chart on the next page.

Estimated Total Deficiency Contribution Rates

2013 to 2027



The additional contribution rate increase of 1% in 2015 no longer appears necessary.

Plan Funding Challenges

To dampen the impact of volatile 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 produces a funding value of plan assets that in any given year can be higher or lower than market value. This approach dealt effectively with investment losses stemming from the 2007-2009 financial crisis as it provided time for markets to recover thereby avoiding unnecessary contribution rate increases.

As at August 31, 2012, the funding value of assets was \$261 million higher than market value. This meant that market returns would have had to exceed the required long-term funding rate of return by \$261 million over the course of the following five years in order to avoid a contribution rate increase of about 1% of salary. However, due to the recent the strong 14.0% rate of return investment performance in the 2012-13 fiscal year, the plan now has funding value of assets of \$469 million less than market value as at August 31, 2013. This now places the plan in a position that market returns may be \$469 million less than assumed for the plan's funding needs with no resulting impact on contribution rates.

PERFORMANCE

Long-Term Investment Objective

The primary long-term investment objective of the fund is to meet the funding discount rate of the plans, 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 over a 15-year time period in order to coincide with the 15-year amortization period of deficiencies required under the legislated funding structure.

Over the past 15 years, both the funding discount rate and investment costs of the plan have changed. The funding discount rate has been reduced from 8.50% to 6.25% over this time period, as forecasts of long-term investment returns have fallen and the Board has reduced the overall funding risk of the plan. Investments costs have increased slightly over this time as ATRF has increased its investment in illiquid assets, which are attractive long-term investments, but have a higher cost of management.

Over the past 15 years the Teachers' Pension Plan investment return was 6.3%, which was 1.3% short of the investment funding objective of 7.6% over the same time period.

Over these 15 years the rates of return on investments were impacted by a severe equity market downturn and financial turmoil in 2000-02 and in 2008-09. The amortization of the deficiencies resulting from the low market returns and 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, 2013



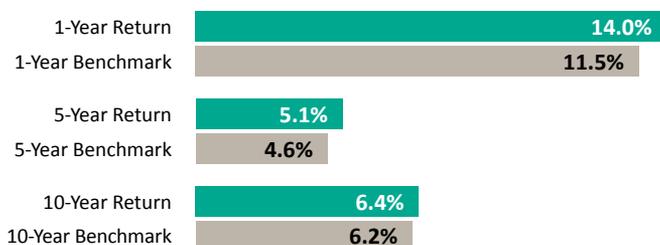
Benchmark Performance

As a measure of the overall effectiveness of our active investment strategies, we compare the actual performance of the investment portfolio to the return on the fund's benchmark over both short and long-term periods. 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 to reflect the fund's policy asset mix.

Over the five years ended August 31, 2013, the Teachers' Pension Plan fund return exceeded its benchmark by 0.5% annually, while over 10 years the fund return exceeded its benchmark by 0.2% annually.

Teachers' Pension Plan Return vs. Benchmark Performance

to August 31, 2013



Rates of Return

to August 31, 2013

Asset Class	1 Year (%)		10 Years (%)	
	ATRF	Benchmark	ATRF	Benchmark
Canadian Equity	16.4	9.3	9.3	8.1
Global Equity	27.1	25.7	n/a	n/a
Private Equity	17.9	23.7	n/a	n/a
Universe Bonds	-0.4	-1.1	5.5	5.4
Long-Term Bonds	-6.4	-6.4	n/a	n/a
Money Market	1.1	1.0	2.2	2.0
Real Estate	11.04	6.10	n/a	n/a
Infrastructure	7.88	4.63	n/a	n/a
Total Fund	14.0	11.5	6.4	6.2

FINANCIAL HIGHLIGHTS

Net Assets Available for Benefits at August 31, 2013

(\$ Thousands)

	2013	2012
Investments		
Fixed Income	\$ 2,622,441	\$ 2,452,450
Public Equities	4,604,312	3,803,163
Private Companies	588,811	356,844
Infrastructure	276,897	186,031
Real Estate	443,862	333,282
Accrued Income and Other	2,039	24,060
	8,538,362	7,155,830
Other Assets/(Liabilities)	1,157	3,180
Net Assets Available for Benefits	\$ 8,539,519	\$ 7,159,010

Funding Actuarial Deficiency at August 31, 2013

(\$ Thousands)

	2013	2012
Funding Liabilities	\$ 10,930,000	\$ 10,300,000
Funding Value Assets ¹	8,071,000	7,420,000
Funding Deficiency	\$ (2,859,000)	\$ (2,880,000)

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, 2013, the plan's funding value of net assets available was \$469 million lower than the fair value of net assets available (2012 - \$261 million higher).



PROFILE

The Alberta Teachers' Retirement Fund Board (ATRF) is a corporation established under the *Teachers' Pension Plans Act*.

ATRF is the trustee, administrator and custodian of the assets of the Teachers' Pension Plan for all Alberta teachers employed in school jurisdictions and charter schools.

The plan is a defined benefit pension plan registered under the *Income Tax Act* and is sponsored by the

Government of Alberta and the plan members, who are represented by The Alberta Teachers' Association. These plan sponsors are responsible for changes to plan design, benefits and funding, and share in plan gains and losses.

The Teachers' Pension Plan covers:

- 38,099 active teachers,
- 24,652 retired members, and
- 12,149 inactive teachers.

MANAGEMENT



From left to right: Emilian Groch, Derek Brodersen, Albert Copeland, Peggy Corner, Margot Hrynyk, Myles Norton.

EMILIAN V. GROCH

Chief Executive Officer

DEREK M. BRODERSEN

Chief Investment Officer

ALBERT COPELAND

Director, Information and Technology Services

PEGGY CORNER

Director, Benefit Information Services

MARGOT HRYNYK

Director, Human Resources and Communications

MYLES NORTON

Director, Financial Services



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Retirement Fund Board

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