Top of mind for us is contribution rate stability. In the March Report to Members, we reported that 2016 rates stayed the same for the fourth year in a row. Now, we’re pleased to report that contribution rates will continue to remain the same through 2017.

The Board continues to monitor the financial health of the Plan on a regular basis. This year we conducted an important study – called an extrapolation valuation – which is summarized on page 7. Also in that article, we explain two methods that are used in valuations to manage contribution rate volatility – (1) asset smoothing, and (2) the use of margins. We’re always pleased to be able to keep rates stable; we know how important this is to both members and employers because it allows for more confident budgeting for other priorities. These two methods are valuable and appropriate tools that our actuaries can use to help us achieve that goal.
In this issue, we also provide highlights of the 2015 *PSPP Annual Report*. Investment returns were greater than expected in 2015, allowing for another positive achievement – a significant reduction in the Plan’s unfunded liability.

While I also planned to provide introductions to your new Board members in this message, the recruitment process is still underway. There is currently one vacancy and another vacancy following the end of this year. Both positions are employer representatives.

In closing, I’m saddened to say that this will be my last message to you as my term on the Board expires at the end of 2016. “Serving the Plan has been a very rewarding experience for me ever since I joined the Board in 2005.”

I’m confident that my talented colleagues will continue to make prudent decisions for the Plan in the best interests of all Plan members.
MEMBER PROFILE: Mark Hercina

Getting Involved in Your Pension Plan

Although PSPP member Mark Hercina has quite a few years until retirement, he’s eager to learn about and understand his pension plan. Mark feels it’s important for all members to find out as much as possible about their pensions, regardless of how close they are to retiring. He explains:

“A pension plan is like an onion; it has many layers, and as you peel each layer back, you understand how it will affect you and future Plan members.”

Mark hopes for an early retirement, given the nature of his field – for 13 years he’s been a Correctional Peace Officer with the Province of Alberta. Although some of his work is with outside community agencies and organizations concerned with healthcare and legal aid, most of his day is spent interacting with offenders in correctional facilities, where he’s had some tough experiences.

“You have to go into each day with a certain attitude,” he says. “It’s unpredictable, and anything can happen in an instant. That’s where communication skills come in.”

Mark’s chosen career requires up-to-date certificates such as first aid and CPR, as well as training in areas such as inmate management, conflict resolution, self-defence, addiction issues and gang culture. He also takes courses offered through the Government of Alberta on health and safety, and leadership and supervisory skills.

When Mark isn’t on the job or participating in training, he’s involved in the Alberta Union of Provincial Employee’s Pension Committee and sits as Chair of the Executive of AUPE Local 003 Correctional and Regulatory Services.

When it comes to his interest in pensions, Mark says he takes after his father, who is a retired government employee of Manitoba – where Mark grew up. The two of them have had many discussions on the topic and his father often reminds Mark how important it is to take interest in your pension plan and to save for retirement.
Mark uses his growing pension knowledge to help others. He notes that many people don’t understand how their plan works or that not all pension plans are the same. Even if plans are facing similar pressures, each plan will have specific concerns based on their different histories.

“I get asked why we can’t be funded like the Ontario Teachers’ Pension Plan,” Mark says. “And people also often ask about how the Canada Pension Plan and Old Age Security tie in with the PSPP and their retirement savings.”

Mark recommends to other PSPP members that they make an effort to understand the Plan:

“It’s worth it to get involved, to know how you contribute, how your employer contributes, and how it all translates into a benefit for you.”

This is exactly what Mark has done. With his pension participation plus additional savings, he hopes to retire comfortably at the age of 56, when he and his girlfriend can spend even more quality time together.

TO SUBMIT A MEMBER PROFILE

If you would like to submit member profile suggestions for this newsletter, please send an email to: board@pspp.ca.
Highlights of the PSPP Annual Report

If you want to follow Plan member Mark Hercina’s advice (see page 3) and learn as much as possible about your pension plan, a good place to start is the Plan’s Annual Report. You can download it from the PSPP website. It covers many subjects, including the Plan’s funding, investments and administration.

Financial Position

The financial statements prepared by the Ministry of Treasury Board and Finance report that the financial position of PSPP continued to improve in 2015. By December 31 of last year, 99% of the total pension obligation (liabilities) was supported by net assets – the highest percentage in the past nine years. More specifically:

- The Plan’s net assets increased by 11.8% (or $1,150 million) to $10.937 billion.
- The estimated liabilities grew only 4.5% (or $480 million) to $11.070 billion.
- The Plan’s deficit decreased by $670 million to $133 million.

This graph shows how the Plan’s assets and liabilities have gradually achieved a better balance over time.

### Financial Position Summary

- Net Assets vs. Total Pension Obligation (in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Assets</th>
<th>Pension Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>10,937</td>
<td>11,070</td>
</tr>
<tr>
<td>2014</td>
<td>10,937</td>
<td>10,590</td>
</tr>
<tr>
<td>2013</td>
<td>9,813</td>
<td>9,787</td>
</tr>
<tr>
<td>2012</td>
<td>8,559</td>
<td>8,945</td>
</tr>
<tr>
<td>2011</td>
<td>7,300</td>
<td>8,271</td>
</tr>
<tr>
<td>2010</td>
<td>6,481</td>
<td>7,000</td>
</tr>
</tbody>
</table>

(per audited financial statements)
Investments

Continued positive investment performance has resulted in a better outlook for the Plan. Even though investment earnings were lower in 2015 than in 2014, they were still very strong. Overall, the Plan’s investments gained 9.8% in 2015 or $1,018 million, after investment expenses, compared to 12.2%, or $1,095 million, in 2014. At December 31, 2015, the investments totaled $10.9 billion compared to $9.8 billion at the start of the year. Looking at these returns historically, the Plan’s investments have generated an average return of 7.5% over the past 20 years.

Services for Plan Members

In 2015, the Alberta Pensions Services Corporation made several service improvements:

- An online portal is now available to help retirees easily access pension information and submit documents.
- Members who are awaiting delayed employer information at the start of their retirement can now receive preliminary pension payments.
- A new telephone system was introduced to better manage member enquiries.

More changes to improve the member experience and provide faster and more efficient benefit administration are in development during 2016.

Summary of PSPP Investment Returns

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Returns</th>
<th>Expected Long-Term Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>9.8%</td>
<td>6.05%</td>
</tr>
<tr>
<td>2014</td>
<td>12.2%</td>
<td>6.7%</td>
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<tr>
<td>2013</td>
<td>14.1%</td>
<td>7.5%</td>
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<td>2012</td>
<td>11.4%</td>
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<tr>
<td>2011</td>
<td>3.6%</td>
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<td>2010</td>
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</table>

- Actual Returns (*annualized)
- Expected Long-Term Returns 6.05%
Results from the Extrapolation Valuation

In our last issue of Report to Members, we told you that the Board had scheduled an extrapolation valuation – also called a funding extrapolation – to support our ongoing oversight of PSPP. This important study is now complete.

At least once every three years, a formal actuarial valuation of the Plan must be prepared and filed with the Canada Revenue Agency (CRA), but in the years in between, an extrapolation valuation gives us useful insights into the Plan’s overall financial health. The last actuarial valuation was prepared using data as of December 31, 2014. The next valuation that must be filed with CRA must be prepared no later than as of December 31, 2017.

The word “extrapolation” refers to the fact that the Plan’s actuary uses membership data from the 2014 valuation to prepare the analysis, but combines this data with actual asset values as of December 31, 2015. This reveals a more up-to-date snapshot of the Plan’s funded position.

These were some of the highlights:

- The Fund achieved a net rate of return of 9.8% versus an expected rate of return of 6.6% resulting in an asset gain to the Fund of approximately $350 million.
- The Plan’s unfunded liability was reduced by $452 million.
- The funded ratio improved to 89% compared to 84% in the last actuarial valuation (at December 31, 2014).

Funding valuations, including extrapolations, combine two actuarial methods to manage the volatility (rate and frequency of change) of contribution rates.

1. Asset Smoothing

The value of assets used for either a funding valuation or extrapolation at a given calculation date can either be the market value of the Fund or a smoothed value of assets. Using a smoothing method means that asset gains or losses in a given year are “recognized” or spread out over a number of years. This has the benefit of reducing the year-to-year fluctuations in the market value of assets, which allows for more consistency in funding requirements. This, in turn, leads to greater stability in contribution rates.

The Plan’s actuary uses a five-year period and applies the restriction that the smoothed value of assets can’t differ from the market value by more than 10%.

<table>
<thead>
<tr>
<th>Example: December 31, 2015 Smoothing Adjustment (millions)</th>
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</thead>
<tbody>
<tr>
<td>December 31, 2015 market value of assets</td>
</tr>
<tr>
<td>Asset fluctuation adjustment</td>
</tr>
<tr>
<td>Total smoothed value of assets</td>
</tr>
</tbody>
</table>

1 No adjustments were made to the data to account for demographic changes. General trends were considered to make sure no anomalies had surfaced in 2015.
2 Both the net rate of return and expected rate of return were net of investment management expenses.
The $850 million shown on the previous page is the “unrecognized” net asset gains from the past five years (2011–2015) that will be spread over the next five years. Losses can be spread out in the same way. The asset fluctuation adjustment can be either positive or negative, depending on historical gains and losses.

This graph shows the difference between the rates of return (RoR) based on the market value of assets, and based on the smoothed value of assets since 2002. You can see how both gains and losses are smoothed out.

2. Margins

The full name for this actuarial method is “margins for adverse deviation.” Because actual Plan experience, relating to salary growth and changes in the Plan’s membership (new enrolments, terminations, retirements, and deaths), can’t be known with certainty in advance, best estimate assumptions are used, following actuarial standards, to estimate future experience.

These best estimate assumptions are used to calculate the Plan’s liabilities. Margins are used to buffer against differences between actual experience and the best estimate expectations to support the Plan’s long-term stability.

The Funding Policy Statement approved by the Board sets limits on how margins may be used. The Policy allows the Board to set margins within a range when determining the value of liabilities and setting the current service cost (that is, the cost of the new pension benefits earned in a plan year). Margin can either be built into assumptions or listed as a separate item on the balance sheet. For PSPP, margin is built into the discount rate assumption. That is, depending on the amount of margin used, the discount rate will be set at a rate less than the best estimate long-term rate of return assumption.

These two methods are common and useful actuarial practices that help keep contribution rates as stable as possible.

WHY DO THE ANNUAL REPORT RESULTS SEEM SO DIFFERENT FROM THOSE IN THE EXTRAPOLATION VALUATION?

The financial statements in the Annual Report use a different set of assumptions from actuarial reports such as formal and extrapolation valuations.

The Plan’s financial statements represent the market value of the Plan’s assets and liabilities using Canadian accounting standards for pension plans. An actuarial valuation, on which contribution rates are based, provides the actuarial value, on a going-concern basis, of the Plan’s assets and liabilities.
Questions and Answers

These questions and answers provide general information only. If any content conflicts with governing legislation, the legislation will apply. You also can learn about plan basics through the Frequently Asked Questions on the website.

What is the YMPE and what role does it play in the Plan?

The abbreviation YMPE stands for the Year’s Maximum Pensionable Earnings. The federal government sets the YMPE each year, based on the average industrial wage. It is $54,900 in 2016 and will be set at a new amount for 2017.

The YMPE plays an important role in the Canada Pension Plan (CPP) because it is the upper limit for the earnings on which CPP contributions are calculated. The CPP contribution rate – for both you and your employer – is currently 4.95%, based on your earnings between the annual basic exemption (currently $3,500) and the YMPE. You do not contribute to the CPP on earnings above the YMPE.

Many pension plans are “integrated” with CPP. This means they take the CPP benefit into account in the plan design and/or the pension formula. It does not mean the benefits are combined.

For example, the current PSPP contribution rates on pensionable salary for members and employers are as follows:

11.70% up to the YMPE
plus
16.72% in excess of the YMPE

The lower contribution rate on pensionable salary up to the YMPE recognizes that PSPP members are already contributing on their earnings up to the YMPE and they will receive a benefit from CPP based on that level of earnings. The CPP does not provide benefits on earnings above the YMPE, so the PSPP requires higher contributions on that portion of earnings so that a PSPP member can receive a pension that relates to his or her total earnings.4

4 There is an upper limit on the pensionable earnings on which you may contribute to PSPP—called a “salary cap.” In 2016, the salary cap is $160,970. The cap is set by the federal Income Tax Act.
What is the latest age my pension can start?

Many PSPP members choose to retire at normal retirement, which is age 65. However, some people decide to work past that age, and if you’re one of them, you should be aware that legislation sets a maximum age at which you must start your pension, even if you are still employed at that time.

To comply with tax and pension legislation and PSPP administration policy, the latest date you can receive your first PSPP pension payment is December 22 of the year you reach age 71, even if you continue to work.

While the federal *Income Tax Act* specifically requires that a pension must start no later than December 31, PSPP has standard pension payment dates for each month, and for December that date is December 22. This date was selected so that members would receive their December pension payments before December 25.
What the Words Mean

Actuary:
A person authorized by their professional designation as a Fellow of the Canadian Institute of Actuaries to prepare and sign actuarial valuations.

Actuarial valuation:
A formal financial evaluation prepared by an actuary to determine the financial position of a pension plan at a specified date.

Discount rate:
In this context, the word “discount” does not refer to the common meaning of the word: to reduce the price of something. Rather, it means the interest rate used in discounted cash flow (DCF) analysis to determine the present value of future cash flows. A DCF analysis would be used, for example, to determine the lump sum today that is equivalent to the value of a future stream of monthly pension payments.

Fund:
A fund was established under the legislation governing PSPP to hold all employee and employer contributions and investment income. All pension benefits are paid from the PSPP Fund. All assets in the PSPP Fund may only be used to pay the promised benefits and cover administrative costs.

Funded ratio:
A measure of the funded status of a pension plan that compares the assets and liabilities. For example, if assets and liabilities are equal, the ratio is 100:100 or 100%. If assets are 20% less than liabilities, the ratio is 80:100 or 80%.

Pensionable salary:
Basic pay for the performance of your regular duties. Salary also includes pay for shift work, weekends, and acting pay if the employer treats it as pensionable salary under the employer’s salary policy and if it is paid on a uniform and consistent basis. Salary does not include earnings such as expense allowances or overtime payments. The salary used in the calculation of your PSPP benefit entitlement will be subject to any limits set out under the tax rules.

Unfunded liability:
Generally speaking, for a pension plan that has a funded ratio of less than 100% (see above), the unfunded liability is the portion of the total liability that does not have sufficient assets to support it.
mypensionplan – New and Improved!

mypensionplan is a secure online service that provides members with access to personalized pension information. You will notice that we have made some changes to mypensionplan online. We are happy to provide you with a new and improved online experience that will make viewing and updating your information and planning for your retirement, much more user friendly.

What’s New and Improved?

SECURE MAILBOX
Members are now able to use our secure mailbox to send and receive protected information with APS online.

PENSION PROJECTION CALCULATOR
Our new pension projection calculator automatically determines your earliest retirement date (at a reduced pension amount), your earliest retirement date without a reduction and your normal retirement date.

GO GREEN!
If you register online, you are automatically ‘green’, and will receive all your information digitally, to help make our environment happier. You may change your communication option to paper and postage at any time.

Easy-to-find Client ID number
Your personal member ID number will be conveniently displayed on MPP.