SPECIAL FORCES
PENSION PLAN

MEMBER NEWS

July 2015

Message from the SFPP Board Chair

We have added a couple of pages to our July Newsletter this year because we want to share some highlights with you from our 2014 Annual Report. Now that the audited financial statements are in we can see that 2014 was another successful year for the Plan. Net assets grew by 12.6% and the funded position of the Plan improved to 92%, up from 90% at the end of 2013.

We are encouraged by these short-term annual gains but prefer not to make too much of them as we remain focused on the long-term. Our ultimate goal continues to be paying pensions to all of our members, today and in the future, for as long as there are members and retired members in the Plan. That means managing risk as we go and keeping the Plan sustainable and affordable for decades to come.

On behalf of the SFPP Board, I want to pass on our thanks for your participation in our recent communications survey. The response we received was phenomenal. An incredible 32% of our membership filled in the on-line survey, providing us excellent feedback we will use to improve our communications to you.

Overall, you rated this newsletter high, with 79% of respondents saying they found it valuable. We will post a summary of the survey results and the 2014 Annual Report on our website at **www.sfpp.ca**.

While I'm on the subject of the SFPP website, I would like to encourage you to visit there more often. Our survey results show not as many of you are visiting the website as we would like, yet many of you expressed an interest in learning more about things you can find on our webpages. We use the SFPP website to explain your pension and benefits, to post documents like this one, and to provide updates between newsletters.

Why not take a few minutes to go online and check it out? Your life is busy, we know, but your pension is important and it's worth your time to learn more about it.

Enjoy your summer and thanks to all of you for your hard work keeping our communities safe.

Roger Rosychuk, Chair, SFPP Board

IN THIS ISSUE

Board reviews pre-1992 unfunded liability

SFPP still carries an unfunded liability from the years before the SFPP fund was established as a separate fund by the province in 1991. Prior to that, money from a few public sector pension plans was pooled together and invested by the province as one fund.

When the money was divvied up and returned to the Plans, what SFPP received wasn't enough to cover what the Plan owed at the time in future pension obligations. In simple terms, this means when SFPP took over the fund it came with a deficit.

After obtaining agreement with Plan sponsors, the province then legislated that the responsibility for the unfunded liability would be shared, with members, employers and government paying a set percentage of pay each year until the liability is paid off or until the year 2036. As a result, members and employers have been paying a small percentage of their contribution rates toward this deficit ever since and the province has also paid contributions.

However, at Dec. 31, 2013, in the latest actuarial valuation of the Plan, the actuary notes that the debt is at $287.5 million and that, at the current rate, the pre-1992 payments will not come close to paying the debt by 2036.

This pre-1992 unfunded liability continues to be a source of concern with some Plan sponsors who believe it is time for the government to deal with this deficit, which unfairly burdens current generations who had nothing to do with it.

The SFPP Board agreed in June that it will prepare a full report on the pre-1992 unfunded liability and share it with sponsors and government in the hopes of having this issue reviewed. The report should be completed before the end of December.

Ask Liz a question

Q: What is meant by "target COLA"?

A: COLA is a cost-of-living adjustment offered to members to help offset the effects of inflation on their pension payments. SFPP currently provides a target COLA to its members on service earned after December 31, 2000 that is equal to 30% of the Alberta Consumer Price Index (ACPI). It is called "target" because although the Board targets to pay COLA at 30%, it may choose not to in any given year where financial returns fall far short of expectations and leave the Plan in a difficult spot. However, to date, this has never happened. Target COLA has been paid every year since it was instituted. In fact, it has a high probability of always being paid because the Board "funds for it" every year by including it in funding assumptions.

For any service earned before 2001, members are paid COLA at 60% of the ACPI. This is not a target COLA, it is guaranteed.

Questions? ask.liz@sfpp.ca

Annual Report highlights

(Find the full Annual Report online at **www.SFPP.ca**)

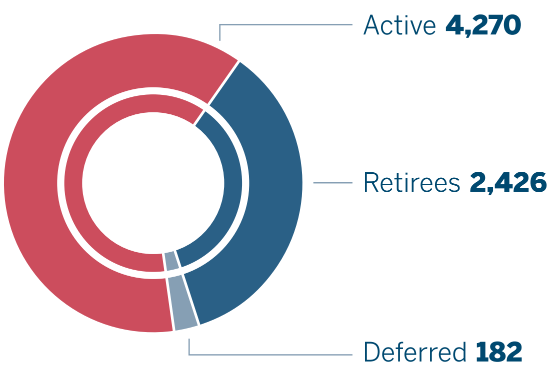
Summary of financial position

(at Dec. 31, 2014)

(thousands)	2014	2013
Net assets available for benefits	$ 2,280,974	$ 2,206,111
Pension obligation	$ 2,471,973	$ 2,246,581
Deficiency	$ 190,999	$ 220,470

Plan membership

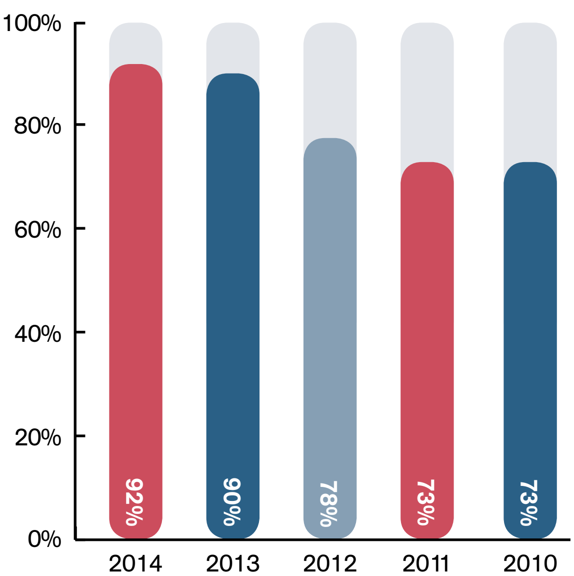
(at Dec. 31, 2014)



Total: 6,878 members

Funded status of SFPP

Percent of pension obligation supported by net assets



Quick facts for 2014

- Net assets (after expenses): $2.3 billion
- Pension obligations (accrued benefits): $2.5 billion
- Deficiency: $191 million
- Funded status: 92% funded up from 90% in 2013
- Total membership: 6,878 members
- Total participating employers: 7

Q: When I look at the 2014 Annual Report highlights, I notice a difference in the Plan's funded position for 2013 (90%) compared to what is reported in the 2013 actuarial valuation (80.4%). Why would they be different?

A: Good question! It's because two different reporting methods are used. To explain:

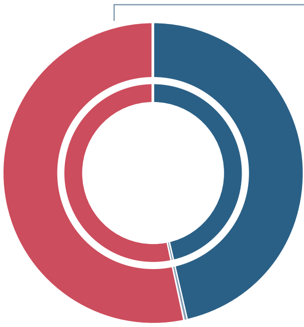
In pensions, the asset side of the pension balance sheet is clearly known; we simply count how much money we have at the end of the year. But the liability side of the balance sheet (our pension obligation) is an unknown at this point. We have to estimate based on how much we think pensions will cost over the next 70+ years and that is based on a lot of assumptions like how long people will live, how much our money will earn, when people will retire, etc.

The **financial reporting** in the Annual Report is done using accounting standards and assumptions and is based on extrapolations of earlier assumptions. The estimates used are arrived at differently than the ones used in an actuarial valuation. For financial statements the assumptions are set by government based on accounting practices and are used to report on the financial health of the Plan.

For the **actuarial valuation**, the assumptions are made by the Board and they are based on actual experience in the Plan. The Board works with an actuary to set assumptions that will help establish the "true cost" of the pension obligation. The valuation is used to fund the plan and set contribution rates, not to get a point-in-time measurement of financial health.

Another difference between the two reporting methods is the Board will try to help keep contribution rates stable year to year through the use of "asset smoothing." This means that not all the gains or losses recorded in a specific year will be applied to the funded status of the Plan in the same year.

Contributions to SFPP



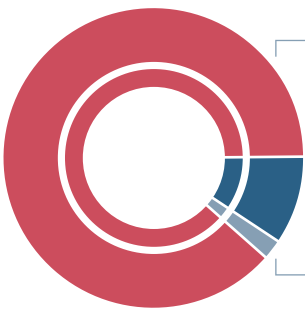
Employer Contributions
53.2%

Member Contributions
46.5%

Transfer from Other Plans
0.3%

In 2014, total contributions to SFPP were **$118,690** (thousands)

Payments from SFPP



Pension Benefits
88.4%

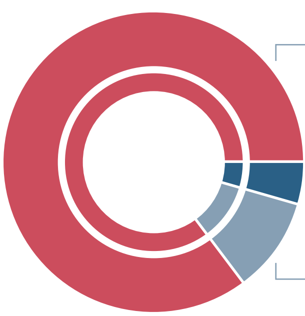
Refunds to Members
9.4%

Member Service Expenses
2.2%

In 2014, total payments from SFPP were **$107,069** (thousands)

Plan expenses

($ millions)



Investment Expenses (AIMCo) **$13.1**

Governance Expenses (SFPP) **$0.7**

Administrative Expenses (APS) **$1.6**

Total: $15.4 million

Administration and governance costs: $339 per member, up from $302 in 2013

- General administration costs for Alberta Pensions Services Corporation (APS): $1.6 million
- Expenses for the SFPP Board: $120,000
- Expenses for actuarial and other professional contracts: $606,000

Investment costs: $1,909 per member, up from $1,524 per member in 2013

- Alberta Investment Management Corporation (AIMCo) costs to manage Plan funds for 2014, including external managers: $13.1 million

Your pension simplified
What is a defined benefit pension plan?

Every newsletter we take one aspect of the SFPP pension and try to simplify it as much as we can, to help you understand your pension a little better. This time we explain the nature of a defined benefit pension plan and discuss its advantages.

Not everyone in Canada is lucky enough to have a workplace pension and of those who do, not everyone is fortunate enough to have a defined benefit pension like ours. Also known as a DB pension, a defined benefit pension is desirable primarily because it promises a pre-defined pension for life. This means that after you retire you will have the security of a monthly pension payment for life that is based on your age, salary and years of service when you retire.

In other words, your pension payment is not based on how well the markets did leading up to your retirement date. Also, unlike other pension plans, your pension won't fluctuate each month after you retire when the markets are volatile. In a DB plan, the amount you get is known in advance and you can plan your life ahead based on that certainty.

The alternative to a DB pension plan is a DC plan, which is short for a defined contribution plan. A DC plan, now the most common option in the private sector, works a lot like an RRSP. The pension an employee gets depends entirely on how well the markets are doing before and after retirement, leading to the very real possibility there may not be enough pension money to last a lifetime.

How can a DB plan offer this security? Because every year it takes all the contributions paid by members and their employers and pools that money into one investment fund. All of the investment earnings are returned to the fund each year along with more contributions. Then experts invest the money in diversified portfolios pooling the risks between members and over time. As the fund continues to grow, or in years where it doesn't grow because of poor market returns, a DB plan capitalizes on the huge power that comes from membership pooling and investment pooling – strength in numbers.

In a DC plan, the money a worker and his employer contribute to his pension is held in an individual investment fund. There is no pooling of investments and no pooling of risks. If the market takes a downturn, so does the worker's investments. In the case of a DC plan, there is no strength in numbers to help weather the storm, over time, until markets start improving again. The worker may have to postpone retirement in the hope of restoring lost investment income and/or downsize his retirement expectations.

Another advantage of a DB plan is that it helps you to plan for adequate retirement income. Whether one's retirement income is adequate will depend on plans for retirement. If retirement includes travelling the world and spending lots of money on children and grandchildren, you will need more than someone who plans to stay close to home and doesn't have a family to spoil.

Knowing how much money will be coming in and having some idea of the amount you will need allows you to make decisions about how much to invest in RRSPs and savings accounts for added retirement income. That way, if the markets do take a tumble and you need time for your investments to regain strength you will have a DB plan with monthly income to fall back on.

You can read more about the benefits of your pension and even get a retirement income estimate online at www.sfpp.ca.

Upcoming topics:

Understanding external factors –
what realities can help or hinder the Plan?

Risk? What risk? –
understanding challenges to pension sustainability

How much is enough? –
understanding retirement income adequacy

Keeping the Plan sustainable

In the January newsletter we reported on the pension priorities of the provincial government and how work already being done by the SFPP Board aligned very well with those priorities. In a nutshell, those priorities were summed up as wanting Alberta's public sector plans to be "well-governed, sustainable and well-understood." As fortune would have it, those priorities were already identified by the SFPP Board in its current business plan so it has allowed our work to continue.

Since then, we have had a provincial election in Alberta and now have a brand new government at the helm. To date we have not heard anything from the province about policies it may have for pension plans, but we look forward to meeting with the new President of Treasury Board and Minister of Finance, Joe Ceci, to let him know of the work we are doing toward governance and sustainability at SFPP.

In February, the Board delivered a report to the province, requested by the former Minister, identifying risks facing the Plan along with a plan for managing the risks. That **Summary Report to the Minister** is posted online and provides excellent background for those interested in learning more about the challenges faced by the Plan and understanding the need for changes to keep the Plan sustainable in the future. As expected, the Board will continue to manage these risks while sponsors meet to discuss what they want for the future of their Plan.

SFPP is very fortunate to have a dedicated group of sponsors to work with, representing the members and employers of the seven police services from around our province that make up SFPP membership. This "sponsor group" meets with the Board every few months to discuss the best options for strengthening the health of the Plan while protecting pension benefits in the future.

Recognizing the risks discussed in the summary report referenced above, the sponsors have agreed to look at options for plan design based on the following three principles:

- same costs as today (cost-cutting is not a goal)
- improved equity between members
- improved ability to manage risk

Discussion will continue and we will report on how these discussions are going in future newsletters and in updates on the website. So stay tuned for more information.

SFPP EMPLOYERS

The City of Calgary

The City of Camrose

The City of Edmonton

The City of Lacombe

The City of Lethbridge

The City of Medicine Hat

The Town of Taber

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