SPECIAL FORCES PENSION PLAN

MEMBER NEWS

Summer 2014

Pensions can be difficult to understand. While the basic principles might be simple enough, specific rules in certain situations can be complex and confusing. Even pension professionals sometimes need help to understand all the little details and subtleties of a pension plan.

Members have inquired about the government's proposed pension reforms and what it means for them and the SFPP. Please see page 3 of this newsletter for an update on the proposed changes.

Over the next several months, the Special Forces Pension Plan (SFPP) will be producing a number of newsletters and special bulletins, all designed to help you understand what is happening in and around your pension plan. Every edition will "deconstruct" a few elements of the pension plan, to make it easier to understand and explain to your spouse or pension partner. We'll be taking special care to make sure the language we use is clear and understandable. For some, these publications will be reminders of what you already know. For others, it may be new information.

At any time, if you would like to see additional information on a particular topic in the newsletter, send an email to Liz Doughty, the Plan Board Manager of SFPP (AskLiz @SFPP.ca). Your email will go straight to Liz and you can expect a prompt response. Because others might have similar questions , we will be taking the most interesting queries and sharing them (anonymously) in future publications. For information about the pension plan benefits and questions relating to your own situation, please contact the Member Services Centre directly at 1-877-809-SFPP (7377).

Enjoy your newsletter. If you like it, please let us know. We'll have another one out to you later this year.

Roger Rosychuk, Chair, SFP Board

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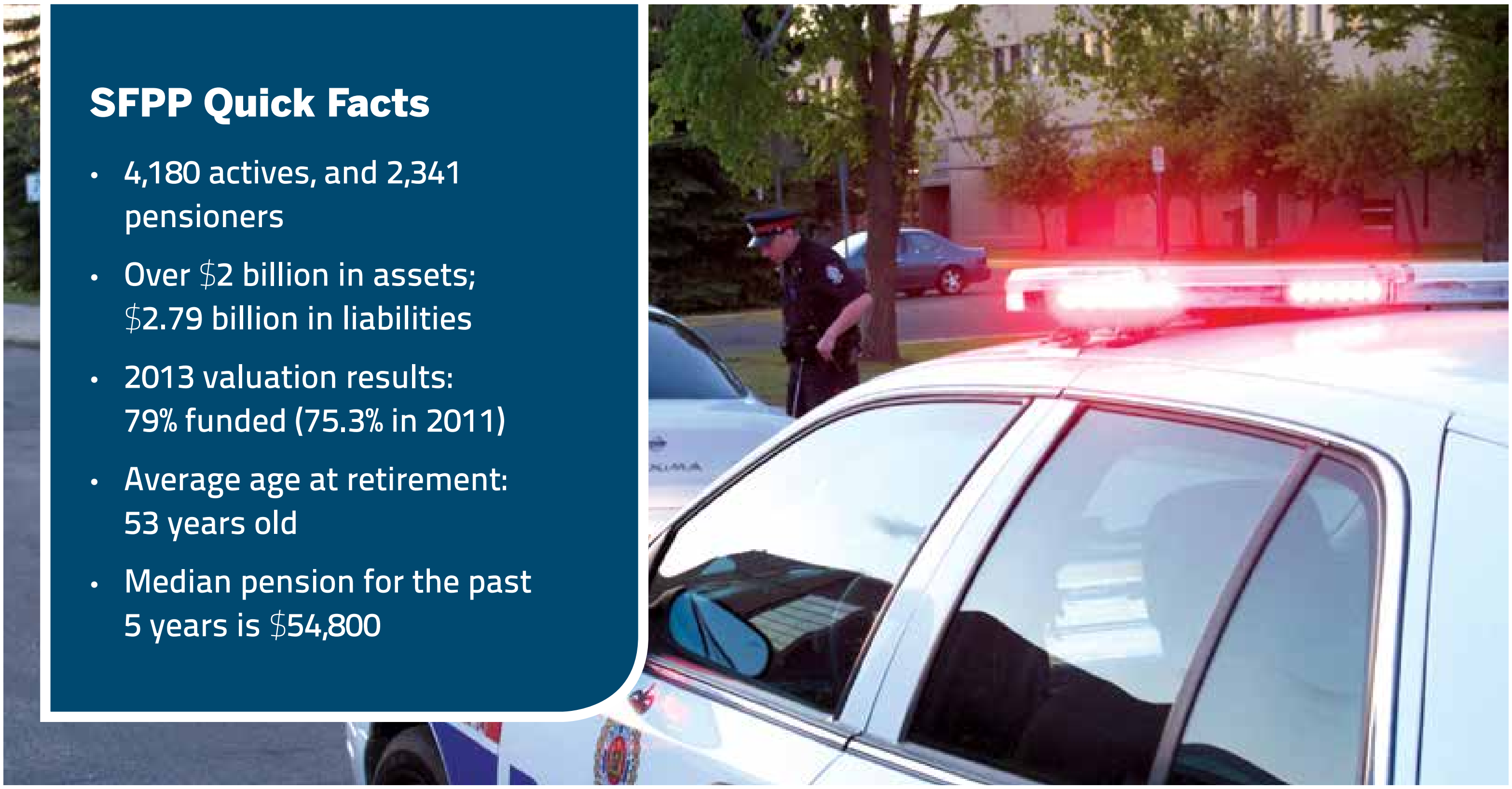

SFPP Quick Facts

- 4,180 actives, and 2,341 pensioners
- Over $2 billion in assets; $2.79 billion in liabilities
- 2013 valuation results: 79% funded (75.3% in 2011)
- Average age at retirement: 53 years old
- Median pension for the past 5 years is $54,800

Your pension DECONSTRUCTED

Every newsletter will take a particular element of the SFPP pension and explain it in more detail than usual. Today, we'll look at how the Special Forces Pension Plan actually works.

The basic operation of your pension is easy enough to understand. You and your employer both contribute money to the pension every pay period. Your contribution comes off your paycheque and is forwarded to Alberta Pensions Services Corporation (APS) by your employer; that same employer also writes a separate cheque to APS for its own portion. APS is the plan administrator in Alberta that tracks and collects pension contributions for many public sector pension plans; if you have been paying into an Alberta public sector pension, APS will have your records. When you retire, they will also be issuing your monthly pension cheque.

Your contribution and your employer's contribution are then forwarded to an investment organization that is owned by the Government of Alberta. The Alberta Investment Management Corporation ("AIMCo") invests these contributions across Canada and around the world, with the objective of earning a reasonable rate of return considering the amount of risk we are willing to take, and the nature of the plan's liabilities. Last year, AIMCO earned an excellent return of 14.5% on SFPP's investments. However, it's important to recognize that market returns can vary greatly from year to year.

The funds are not held in a specific account with your name on it – they are pooled with other contributions, and invested in multi-million dollar blocks. AIMCo focuses on investments only; it is APS, the plan administrator, that knows how much you have contributed, how long you have worked, and what your pension will be.

Significantly, the amount you get as a pension has nothing to do with how successful AIMCo is at investing funds. Your pension payment is "defined" in advance, which is why your pension is referred to as a defined benefit plan. Your pension amount is based on your years of service and your salary – not on any investment returns.

Upcoming topics:

Part 2: All the math you want – and more: what is an actuarial valuation, and how does it impact your contribution rate?

Part 3: SFPP is a "defined benefit" pension plan – what, exactly, does that mean?

Part 4: Understanding the known unknowns: external factors that help (and hinder) your pension plan.

The Provincial Government, Bill 9 and SFPP "sustainability": what's this all about?

The Government of Alberta has recently proposed changes to four of Alberta's public sector pension plans, one of which is SFPP. Because the changes were outlined in **Bill 9**, this name is frequently used to describe the collection of changes.

These changes require amendment to the Public Sector Pension Plans Act, and they were set out in Bill 9, which was introduced into the Alberta Legislature on April 16, 2014. On May 5, 2014, Bill 9 was referred to an all-party committee of MLAs for further review and consultation. The group is called the "Standing Committee on Alberta's Economic Future", and the consultation process around the proposals is currently underway. There has been some coverage of the proceedings in the local media.

The government's pension sustainability website sets out the reasons for the proposed changes as follows:

"The changes to public sector pension plans are needed to address significant underlying problems. These problems have contributed to growing deficits over the past 10 years, as shown in the government's consolidated financial statements. Along with many pension experts, government has studied the main factors that have led to the current deficits, and will continue to create risks for the future:

- Interest rates are at historic lows.
- Investment returns are expected to be lower in future.
- Pensioners are living longer.
- The ratio of pensioners to contributing members is increasing."

Bill 9 allows changes to be made in two areas:

- **Governance –** Since those who bear the risks in a pension plan need to be able to manage those risks, Bill 9 enables three plans, including SFPP, to become jointly sponsored by the major employee and employer stakeholders, if the sponsors reach agreement. This will give employee and employer sponsors the mandate to come to an agreement to establish a new plan, governed jointly by the employees and employers.
- **Plan Benefits –** looking for changes that will make the pension plans less expensive. Employee and employer stakeholders have told us that we are close to, or at the limit to contributions that they are prepared to make. In addition, future investment returns and/or interest rates can never be predicted with certainty in advance, and life expectancy will likely continue to grow in the future. If stakeholders do not want contributions to increase further, the only other option to close a persistent gap between the assets and liabilities of the pension plan, is to change the "cost" of the benefits by changing the plan benefits.

The government has not proposed any benefit changes to the SFPP. Instead, the government has asked SFPP stakeholders to provide recommendations for benefit changes to improve plan sustainability.

You can find more information on the government's pension sustainability website: http://www.finance.alberta.ca/publications/pensions/sustainability/index.html

Where does all this leave us? The Standing Committee is proceeding with its review and consultations on Bill 9, and the Board, amongst others, are taking our opportunities to provide feedback to the Committee. In addition, the SFP Board and stakeholders – including Associations and municipalities– are continuing to meet and look for changes to the Plan that will enhance SFPP stability for generations to come. Through future newsletters from the Board and the SFPP website, you will be kept informed of our progress.

Sustainability: Does SFPP have enough money?

Calculating the financial health of a pension plan is a mathematical challenge way beyond what is taught in high school – or even university. It takes specially trained mathematicians – called actuaries – to assess the financial health of a pension plan. It also takes months of work, as estimates have to be made regarding when every one of the SFPP's members will retire, how much they will contribute through their employment years, how much they will draw through their pension years and (sadly) when they will die. Estimates also have to be made regarding how much the pension plan will earn in investment interest over the next generation or so.

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Sustainability: Does SFPP have enough money?

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It is this complexity that lies at the heart of the question "does SFPP have enough money". In Alberta, pension plans have to complete an assessment of their financial health ("actuarial valuation") every three years. The last SFPP assessment was in 2011 and at that time, the Plan was 75.3% funded. From the most recent assessment done at the end of 2013, the situation has improved and the Plan is now 79% funded.

Is that enough money? Well no, it wouldn't be enough if we had to close the Plan today and pay out all of our obligations … but we are not closing the Plan and won't be closing it anytime in the foreseeable future. Sponsors have indicated that the pension plan continues to be a vital component of the overall compensation for police officers in Alberta.

So, is it enough over the long term for an ongoing plan? Well that depends. It wouldn't be enough if it never improved beyond current levels. In an ideal situation, the Plan would be 100% funded at all times – meaning, at all times, we have money in the bank to pay our anticipated obligations of the future. However, in practice this is very difficult to achieve because of varying investment returns and interest rates as well as changing demographics and life expectancy. The bottom line, as employees counting on the pension plan for a good portion of your retirement income and as your Board with fiduciary responsibility for the Plan, is to be confident that we have the means to achieve 100% funding on a fairly consistent basis even if we do not achieve it 100% of the time.

So, is the Plan in financial trouble today? No. But it could be in the future if the risks we mentioned above are not managed. The Board needs to be confident that we have the means to close the funding gap - that is the goal of the Board.

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 City of Taber

CONTACT US

Special Forces Pension Board
Special Forces Pension Plan
5103 Windermere Blvd SW
Edmonton AB T6W 0S9

www.sfpp.ca

special forces
pension plan