



# 2010

## Annual Report Highlights Private School Teachers' Pension Plan

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## Key Accomplishments 2009 – 2010 HIGHLIGHTS

- Completed detailed planning with respect to the implementation of the new target policy asset mix, with specific focus on infrastructure, private equity, real estate and global equity asset classes
- Met or exceeded all service turnaround benchmarks for services to pensioners, and to active and inactive plan members
- Recognized as having one of the lowest plan member service costs in the industry at \$69 per member
- Ensured ongoing improvement of customer service and operational efficiency through best practice reviews that identified work process enhancements
- Implemented enhancements to the plan member and pensioner On-Line Services functions, and increased the number of registered users of On-Line Services through a marketing initiative
- Reviewed and updated the Enterprise-Wide Risk Management Plan and identified additional risk mitigation plans
- Initiated testing of the operational effectiveness of internal controls relating to financial reporting

## Profile

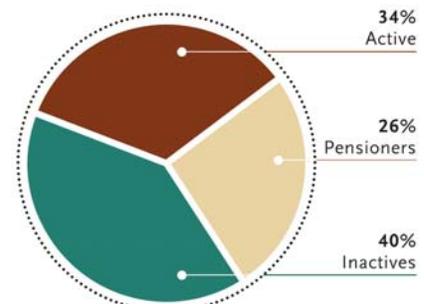
The Private School Teachers' Pension Plan (PSTPP) is a defined benefit pension plan – a plan that provides a pension based on a benefit formula based on salary and years of service.

ATRF is the trustee, administrator and custodian of the PSTPP for teachers employed by those private schools that have elected to join the plan.

The Plan covers:

- 194 active teachers;
- 150 pensioners; and
- 235 inactive teachers.

TOTAL MEMBERSHIP PROFILE



## Report of the Board Chair – *Greg Meeker*



### Funding Challenges Facing Retirement Savings Plans

The returns from the global investment markets and the 2007-09 financial crisis have been very challenging to retirement savings plans all around the world. Over the past decade, global markets have provided returns that have been below the long-term investment rate of return assumed by pension plans resulting in significant funding deficits.

Even more significant is that global interest rates have continued to decline (the yield on Government of Canada 30-year bonds dropped below 3.5% in ATRF's 2009-10 fiscal year). As a result, there is increasing sentiment that the low interest rate environment will translate into lower returns for a number of years.

The lower return expectation has required, and will continue to require, pension plans to adjust their assumed long-term investment rate of return for funding the benefits under the plans. A lower long-term investment rate-of-return assumption increases the cost of future benefits to be earned by plan members. In addition, it raises the plan's accrued liabilities for benefits already earned and results in further contribution rate increases to amortize the larger plan deficit.

### Impact on Retirement Savings Plans

These issues have impacted all individual retirement savings vehicles and group defined benefit pension plans. The impact on individual retirement savings is largely dependent on the age of the individual and the ability of that individual to recover from the low returns and lower expected future returns. In particular, an individual would be required to find additional disposable income to save for retirement. However, the older an individual is, the less time there is to accumulate savings and the harder it will be to reach the previously expected retirement savings objectives.

A defined benefit pension plan, such as the PSTPP provides pension benefits that are based on years of pensionable service and best-average earnings, and are not dependent on the value of the fund at the time of retirement. However, the impact of low market returns and lower expected future returns does increase the required funding contributions, a reality experienced by virtually all defined benefit pension plans.

Unlike most individuals your plan has a much greater capacity to recover from the impacts of poor market returns than any individual. This ability arises from the fact that the plan has an extremely long-term time horizon. However, since the cost of providing pension benefits in the current lower-return environment is higher, we must be prudent and increase funding contributions as required to ensure sufficient funds are available to provide for the promised benefits.

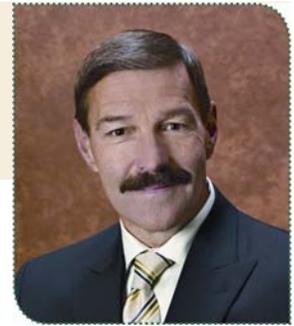
### ATRF Board Actions

The Board continues to monitor the impact of the recent financial crisis on the plans. We undertook a detailed asset-liability study in 2009 and approved a revised long-term policy asset mix for the fund. We carefully examine the plan funding policies and various funding assumptions with management and the plan's actuary. We also stress test the funding assumptions and make changes to these long-term assumptions as required. In addition, we provide the plan sponsors with detailed information on the current funded status of the plan and on forward-looking funding challenges that may arise for the plans. Finally, the Board makes changes to the amount of funding contributions to ensure that current benefits are being funded and that any deficits are amortized within the maximum 15-year period required by legislation.

Although contribution rates have increased due to the low market returns and the lower expected future returns, and will most likely increase further, it is important to note that the pension benefits under the plan are safe.

- Pension benefits and cost-of-living adjustments are calculated based on legislated formulas and not on the investment performance of the fund.
- The funding status of plan benefits is regularly reviewed, and contribution rate adjustments are made as required to ensure that all pension payments will be made.
- We carefully oversee the investment policies, asset mix and fund managers to maximize risk-controlled, long-term investment returns.

## Report of the Chief Executive Officer – *Emilian Groch*



The fiscal year ended August 31, 2010 saw global financial markets begin a tepid recovery, providing the fund the opportunity for the first positive rate of return in three fiscal years. This followed a period from mid-2007 to early in 2009 when the global investment markets were under severe pressure, resulting in two consecutive fiscal years of negative returns for the fund.

With the worst of the 2007-09 financial crisis over, the road to recovery has proven to be slow and volatile in most parts of the world. While strong economic growth returned to emerging markets, it was much more elusive in the developed world. Europe in particular struggled with a sovereign debt crisis, while the United States still waits for signs of recovery in its housing and employment markets. In this environment, global equity returns were weak, but falling interest rates resulted in attractive returns from fixed-income markets. By the end of the 2009-10 fiscal year, the PSTPP fund returned 6.9%.

Despite weak markets in recent years, long-term investment returns have met long-term return funding objectives. Over the 18-year period since the current funding structure was adopted by the plan sponsors, the PSTPP has on average earned 6.6% each year, which matches the plan funding rate of return.

### **Implementation of New Target Policy Asset Mix**

In the 2008-09 fiscal year, we completed a comprehensive reassessment of the funding, liability and investment structures of the plan. This review resulted in a new long-term target policy asset mix that includes new or increased allocations to non-publicly traded assets, including real estate, infrastructure and private equity.

There are significant changes arising from the new long-term target policy mix that will be implemented gradually over the next few years. Our investment into the illiquid, inflation-sensitive asset classes of real estate and infrastructure, and the increased allocation to private equity will take considerable time to fully implement. Our approach is to manage these illiquid asset classes in a cost-effective manner by building internal capability and leveraging strategic partnerships to source funds and to co-invest with like-minded investors.

To facilitate this investment approach, we added to our investment staff in the past fiscal year and are planning to continue to add new positions in the 2010-11 fiscal year, more than doubling our investment staff in a two-year period. These new professionals will place us in a position to be able to evaluate investment opportunities that arise in infrastructure, private equity and real estate on a much more cost-effective basis than reliance on fund-of-fund managers and asset managers. As the size of these illiquid asset classes grows over the next five years, additional staff will be hired to ensure our effective maintenance of existing investments and the ongoing review of new investment opportunities.

### **Enhancing Plan Member Services**

In the past fiscal year, we continued to focus on further enhancing our cost-effective and successful services to plan members. We know this from the high marks we receive from our ongoing surveys of plan members, our tracking of customer service turn-around statistics (see page 7), and from the assessment of our annual customer service cost of \$69 per member that is about half of the average cost for a group of similar major Canadian public sector pension organizations.

Through our ongoing reviews of best practices, we identified and implemented changes to our work processes that have further improved customer services to plan members. We implemented various enhancements to our communication materials and focussed on expanding web-based communications by increasing the available features of our plan member online services. We plan to continue to make cost-effective, incremental improvements to our plan member services and communication.

### **Enhancing Risk Management**

Last year, we undertook a comprehensive review of our Enterprise-Wide Risk Management Plan. This plan includes our approach in assessing the enterprise-wide risks of ATRF, the various steps involved in the risk evaluation process, a risk assessment summary of the key risks facing ATRF and the current risk mitigation strategies in place at ATRF. The plan was discussed in detail at the Board's strategic planning session, additional risk mitigation plans were identified and the plan was approved by the Board.

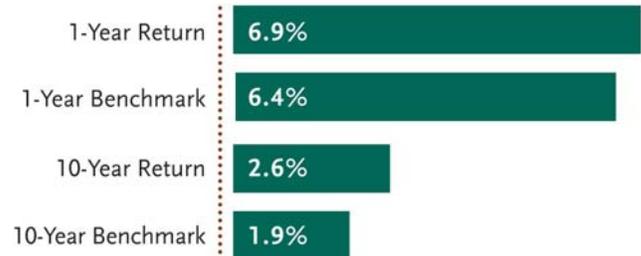


## Investment PERFORMANCE

Despite weak markets in recent years, long-term investment returns have met long-term return funding objectives.

- Over the 18-year period since the current funding structure was adopted by the plan sponsors, the PSTPP has on average earned 6.6% each year, which matches the plan's funding rate-of-return objective
- For the year ended August 31, 2010, the PSTPP fund returned 6.9%, which was 0.5% over the total-fund benchmark. Over 10 years the fund return exceeded the benchmark by 0.7%

### PRIVATE SCHOOL TEACHERS' PENSION PLAN RETURN VS. BENCHMARK PERFORMANCE to August 31, 2010



### Private School Teachers' Pension Plan

At August 31, 2010

#### Net Assets Available for Benefits

<i>\$ Thousands</i>	2010	2009
Investments		
Equities	\$ 18,299	\$ 21,362
Bonds and debentures	9,418	4,255
Money-market securities	992	1,126
	28,709	26,743
Cash	19	10
Contributions Receivable	59	79
Other Assets and Liabilities	100	12
Net Assets Available for Benefits	\$ 28,887	\$ 26,844

#### Funding Actuarial Deficiency

<i>\$ Thousands</i>	2010	2009
Funding Liabilities	\$ 37,820	\$ 34,520
Funding Actuarial Assets <sup>1</sup>	31,776	29,528
Funding Deficiency	\$ (6,044)	\$ (4,992)

<sup>1</sup> The Plan uses an actuarially accepted practice of smoothing market returns over a five-year period to even out the impact of volatility of market returns and, accordingly, to moderate short-term adjustments to contribution rates. As at August 31, 2010, the actuarial value of net assets available for benefits was \$2.889 million higher than the fair value of net assets available for benefits.



## Plan Liability, FUNDING AND INVESTMENT STRUCTURE

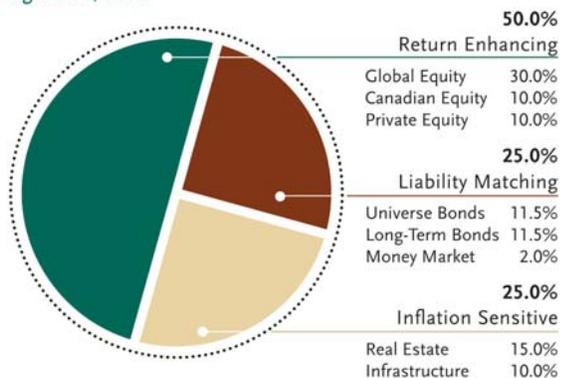
The cost of benefits being earned, including the 60% cost-of-living pension adjustment provision, is shared equally between active members and private school employers. Active members are responsible for the additional 10% cost-of-living pension adjustment provision. Funding deficiencies under the plan are amortized by additional contributions from active members and the private school employers over a 15-year period. Since benefits are not guaranteed if the plan is terminated, the primary objective is to ensure there are sufficient assets to pay all benefits.

The Board has adopted a funding policy for the PSTPP that sets out the principles and guidelines governing the funding requirements of the benefits in respect of service under the plan in accordance with the plan's legislation and the objectives of the Board. The overall objective is to ensure the sustainability of the plan over the long term and to ensure the provision of benefits to plan members and their beneficiaries.

### Target Policy Asset Mix

In 2009, we undertook a comprehensive asset-liability study of the plan with key consideration on the plan's funding policy.

**LONG-TERM TARGET POLICY ASSET MIX –  
POST-1992 PERIOD TEACHERS' PENSION PLAN**  
at August 31, 2010



The change to the long-term target policy mix is significant and will be gradually implemented over the next few years. In particular, the investment into the illiquid, inflation-sensitive asset classes of real estate and infrastructure, and the increased allocation to private equity will take considerable time to fully implement.

### Funding Study and Contribution Rates

The funding study of the PSTPP as at August 31, 2010 showed that the cost of future benefits to be earned by teachers was consistent with that identified in the August 31, 2009 actuarial funding valuation of the plan. However, the funding deficiency increased more than expected in the past year due to plan experience different from the long-term funding assumptions. The impact that this increase would have on the cost of amortizing the deficiency was further aggravated by the loss of future contributions from one employer who withdrew from the plan. As a result, if this employer does not rejoin the plan in September 2011, total plan costs will increase 0.55% of teacher salaries, 0.29% for teachers and 0.26% for employers.

PRIVATE SCHOOL TEACHERS' PENSION PLAN	
Contribution Rates (Percent)	September 2010 to August 2011
<b>Teachers</b>	
Total Teacher Contribution	10.46
Salary up to YMPE <sup>1</sup>	9.14
Salary above YMPE	13.06
<b>Private Schools</b>	9.78

<sup>1</sup> YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan (\$48,300 in 2011).

We will carefully assess the future membership of the plan in the spring of 2011, determine what actual contribution rate changes are required effective September 2011, and advise all teachers and employers of any changes. The table above shows the current contribution rates.



## Funding Risks GOING FORWARD

The funding of the plan is based on a number of assumptions. One key assumption is that the fund will earn an average investment return each year of 6.50% net of investment costs. To even out the impact from the volatility of 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 is intended to moderate short-term adjustments to contribution rates.

The August 31, 2010 funding study revealed that, primarily due to the 2007-2009 financial crisis, the current market value of plan assets is \$2.889 million less than the asset value used to assess the plan's funded position. This means that the fund must earn at least 6.50% each year for the next four years and must also earn an additional \$2.889 million to avoid further contribution increases. If the plan's investments earn only 6.50% each year over the next four years, the plan's deficiency will grow and the additional deficiency will have to be amortized by increasing funding contribution over a 15-year period. We have estimated that should this occur, overall funding contributions would remain unchanged over the next year and then increase each year over the three years ending August 31, 2014 for a total increase of about 2.1% of teacher salaries.

It is important to note that the approach to smoothing investment gains and losses adopted by the plan has allowed the plan to postpone dramatic contribution increases that would otherwise have been triggered by the 2007-09 financial crisis. In so doing, the plan has been afforded time for markets to recover and to better gauge the longer term contribution increases that the financial crisis will require. As the future unfolds, however, it is becoming apparent that the effects of the 2007-09 financial crisis will linger for some time in the form of lower expected returns. Therefore, the plan's funding deficiencies will most likely continue to grow and contribution rates will need to increase further.

We will continue to carefully assess all the long-term funding assumptions and make changes as required. Through our annual actuarial funding studies and valuations, contribution rate changes will be implemented to ensure that plan benefits are funded in accordance with the funding structure established by the plan sponsors.





## Plan Member Services EXCEED BENCHMARKS

ATRF has a dedicated and knowledgeable team of employees providing services to active teachers, pensioners, inactive teachers, beneficiaries, and their representatives in a cost-effective manner.

We have established benchmarks for the delivery of services and each year measure our benefit delivery against those benchmarks. Below are our service turnaround benchmarks for key processes and our results for the 2009-10 fiscal year, with comparisons for the 2008-09 fiscal year. We exceeded the benchmark in all processes and improved our average elapsed time in two of the nine processes.

SERVICE PROVIDED	BENCHMARK	AVERAGE ELAPSED TIME IN 2009-2010	AVERAGE ELAPSED TIME IN 2008-2009
Ongoing pensioner 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 pensioner	Within 10 days of application	4 days	6 days
Pension payment for new pensioner	Within 7 days	3 days	5 days
Pension estimate	Within 7 days	1 day	1 day
Purchase estimate	Within 10 days	2 days	2 days
Termination benefit	Within 10 days	2 days	2 days
Urgent written inquiries including email inquiries	Within 7 days	2 days	2 days
Non-urgent written inquiries including email inquiries	Within 10 days	2 days	2 days
Telephone inquiries	Within 1 day	Less than 1 day	Less than 1 day

## Website and On-Line Services

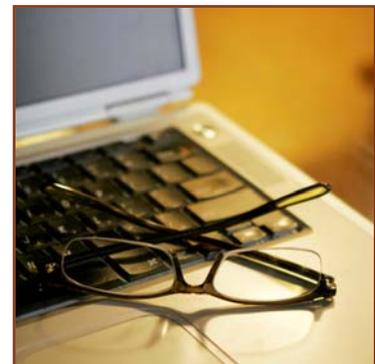
Using feedback from our last plan member survey, we made enhancements to make On-Line Services more user-friendly. The revamped site was launched in June.

Plan members can view and update their personal information online. Active plan members can do benefit calculations based on the most recent salary and service information reported by their employer. They also have the option of submitting applications for plan benefits electronically.

Our goal is to continually enhance the information on our website and in our print material. Over the past fiscal year we launched five video presentations on the website to provide an alternative way for plan members to receive information about the plan.

While our website and On-Line Service are key elements in our customer service and communication initiatives, plan members always have the choice of accessing services and information in the manner they prefer – in person, in writing, by telephone or online.

**Visit our website, [www.atrf.com](http://www.atrf.com),  
to view the complete 2010 Annual Report.**





**600 Barnett House  
11010 142 ST NW  
Edmonton, Alberta, T5N 2R1**

Telephone: 780-451-4166

Toll Free: 1-800-661-9582

Email: [info@atrf.com](mailto:info@atrf.com)

Web: [www.atrf.com](http://www.atrf.com)