



# MEPP MATTERS

MUNICIPAL EMPLOYEES' PENSION NEWSLETTER

## How the Pension Plan Works

This is the second in a series of articles that examine how the Pension Plan works. In this article we focus on how investment risk (the possibility of suffering financial loss) is managed by the Plan.

The Municipal Employees' Pension Plan (MEPP) is a **defined benefit** pension plan. The amount of pension you will receive from the Plan does not depend on the current performance of the stock markets. Your pension is based on a formula that includes your salary and service.

Members and employers contribute equally to the Plan, but contributions alone are not sufficient to meet the pension obligations promised to the members. To ensure that the Plan remains funded well into the future, Plan monies are invested.

### Managing Risk through Diversification

Investments in the markets fluctuate with the markets; therefore with investment comes the risk that the markets may decline. In addition, financial loss can occur when an investment returns less than expected (underperforms the market) or when the opportunity for a superior return is missed because funds are invested in an asset with a low rate of return.

Risk cannot be eliminated; however, the risk associated with the volatility of individual investments can be minimized. Volatility is the amount of change in the value of an investment in relation to its market in a given period of time. For example, investments in equities experience greater and more frequent fluctuations in value (are more volatile) than investments in bonds.

One way of minimizing risk associated with volatility is through diversification. Diversification of assets reduces risk by distributing assets over different types of investments (e.g. by *not* putting all your eggs in one basket).

**Diversification reduces risk by distributing assets over different types of investments ...**

Diversification reduces overall volatility and provides a return that is more stable than would be possible through investment in only one type of asset.

The Commission uses the following diversification strategies to minimize investment risk while attempting to maximize returns on investment of Plan assets: (*please see the table on page 2*)

### Diversification by Asset Class

There are three major asset classes: Equities (U.S., Canadian, Non-North American and Emerging Markets); Bonds; and Short-term investments (e.g. 91 Day T-Bills).

Asset classes fluctuate between periods of better and poorer performance over time. However, the cycles of the various asset classes differ from one another. When equities are earning superior returns, bonds are usually producing less attractive returns; when equities are in decline, bonds usually do well by comparison.

*(Continued on page 2)*

**In This Issue:**

- How the Pension Plan Works, continued .....2
- Diversification Within Asset Class
- Diversification by Manager
- Diversification by Management Style
- Diversification by Growth or Value Equities
- Table Outlining Diversification Strategies
- Commission's Composition Changes .....3
- New Commission Members .....3
- Dear MEPP ..... 4
- MEPP Still in Top 100 .....4
- Missing Members .....4

# How the Pension Plan Works (Continued from page 1)

## Diversification Within Asset Class

Returns also differ within asset classes. Stocks (equities) are a class of assets, yet the returns earned by the Canadian stock exchange are different from those earned by the U.S. Stock exchange. Diversification of investment in equities is accomplished by investment in each of the Canadian, U.S., Non-North American and Emerging Markets. Further, in a given stock exchange some stocks can do very well while others do poorly. Therefore, investing in different types of equities within the stock exchanges also helps reduce overall volatility.

## Diversification by Manager

A balanced fund manager can invest in all asset classes and, within guidelines, can decide how much to invest in each asset class. Yet it is very difficult for a balanced manager to earn superior results in all asset classes. Therefore, to help increase returns, MEPP hires specialty managers to invest in specific asset classes in which the managers have earned superior results in the past.

## Diversification by Management Style

Investment managers can be classified as either active or passive. Active managers research individual companies in the market and buy and sell individual securities in order to try to earn a higher return than the market. Active management provides opportunity for outperforming the market. The goal of passive managers is to match the performance of the market. Passive management minimizes the risk of underperforming the market and is less expensive than active management.

MEPP employs one passive manager

that invests in both equities and bonds. The other investment managers are active. A mix of active and passive management styles achieves the best overall return on investment in the long-term with the least amount of risk in the short-term.

## Diversification by Growth or Value Equities

Equity investment managers have a bias to investing in either growth or value equities. Growth managers invest in companies that are expected to increase in value at a faster pace than the market and therefore produce

a higher return on investment than the market.

Value managers invest in solid companies that are undervalued by the market. Value investments usually pay high dividends in relation to the cost per share and tend to outperform growth investments over the long-term. However, using both growth and value investment managers reduces short-term volatility.■

*The table below summarizes the diversification of assets used by MEPP to minimize risk.*

Balanced Manager	Portfolio %	Fund %
<b>Greystone Capital Mgmt. Inc.</b> (active)		<b>52.0%</b>
Equities		
• Canadian	20.9%	10.9%
• U.S.	13.6%	7.1%
• Non-North American	13.3%	6.9%
Real Estate	8.9%	4.6%
Fixed Income		
• Canadian Bonds	38.3%	19.9%
• Mortgages	9.4%	0.2%
• Short-term Investments	4.5%	2.3%
<b>Specialty Managers</b>		
<b>Foyston, Gordon &amp; Payne</b> (active)		<b>10.8%</b>
Canadian Equities	100.0%	
<b>Brandes Institutional Equity Trust</b> (active)		<b>8.3%</b>
Non-North American Equities	100.0%	
<b>Lincluden Management Ltd.</b> (active)		<b>12.4%</b>
Canadian Bonds	100.0%	
<b>Barclays Global Investors</b> (passive)		<b>16.5%</b>
U.S. Large Cap Equities	25.5%	4.2%
U.S. Mid Cap Equities	21.8%	3.6%
Canadian Bonds	52.7%	8.7%

# MEPP Commission Changes

Effective September 1, 2003, the composition of the Municipal Employees' Pension Commission (the Commission) changed. The changes are as follows:

The number of Commission members increased from nine to ten.

- The Minister of Finance no longer appoints the Chair of the Commission, rather the Chair and Vice-Chair:
  - are selected alternately from the employer representatives and the employee representatives, by the Commission, and may not be representatives of the same group;
  - alternate annually between employer and employee representatives.
- The Saskatchewan School Trustees Association appoints two members to the Commission, rather than the previous one member.
- Trade Unions that represent members of the Plan appoint one member.
- The full term of office for Commission members is four years. To ensure that there is continuity on the Commission, one-half of the members were appointed for two-year terms. Subsequent appointments will be for four years. ■

Appointing Organization	Term of Appointment
<b>Employer Representatives</b>	
The Saskatchewan Urban Municipalities Association	4 years
The Saskatchewan School Trustees' Association	2 years
The Saskatchewan School Trustees' Association	4 years
The Saskatchewan Association of Rural Municipalities	2 years
Regional Colleges/Regional Libraries (Vice-Chair)	2 years
<b>Employee Representatives</b>	
The Rural Municipal Administrators' Association	4 years
The Saskatchewan Association of School Business Officials (Chair)	4 years
The Urban Municipal Administrators' Association	2 years
Trade Unions	4 years
Associations that represent Firefighters and Police Officers	2 years

# New Commission Members

We are pleased to welcome Carrie McCoshen and Bonnie Ozirny to the MEPP Commission for four-year terms. They are the newest members of the Commission and have been appointed in accordance with the recent legislative changes mentioned in the previous article.

Carrie McCoshen has been appointed by the Trade Unions to the new trade union position on the Commission. Trade Unions represent about 30% of the Plan membership.

Bonnie Ozirny has been appointed by the SSTA to fill the second SSTA position on the Commission. The SSTA represents School Divisions, which employ more than half of the Plan members. ■



## Keeping in Touch...

If you know of any MEPP member who has not received this newsletter, please ask the member to contact us and provide us with his or her correct address.

MEPP can be reached toll free at 1-877-506-6377 (outside the Regina area), at 787-2684 (in the Regina area), or at [mepp@peba.gov.sk.ca](mailto:mepp@peba.gov.sk.ca) by email. ■

# Dear MEPP

*MEPPMatters* is looking for questions from members. If there is anything that you want to know about MEPP, please send your questions to *Dear MEPP* for an answer. Here is a question that MEPP received recently:

**Dear MEPP:** If my contributions and interest are greater than 50% of the commuted value of my Pension, there is provision in the Plan for me to leave the excess in the plan to increase the value of my pension. What effect will the negative interest rate last year have on this provision?

**Dear Member:** Although the market decline affected the amount of interest that accrued to individual accounts, the rate of return of -0.4% in 2002 had very little effect on any excess there may have been over 50% of the commuted value of individual pensions.

The benefit improvements implemented in 2001 (5-year enhanced early retirement window, indexing, increase in accrual rates) had a greater effect on possible excess than the negative interest rate because improvements to benefits increased the value of MEPP pensions. The increased value of MEPP pensions resulted in an increase in the commuted value of pensions. Therefore, the contributions and interest of most members do not exceed half of the commuted value of their pensions. ■

# MEPP STILL IN TOP 100

MEPP placed 95<sup>th</sup> in the Top 100 Pension Funds in Canada for 2002 and remains the 6<sup>th</sup> largest pension plan in Saskatchewan, according to a survey conducted by *Benefits Canada*. With a market value of total assets estimated at \$918 million, MEPP rose from 97<sup>th</sup> place in 2001 to 95<sup>th</sup> place in 2002.

The average estimated change in the market value of the top 100 pension funds participating in the survey was -5.6%. MEPP posted a -4.2% change, which was 1.4% better than the average change of the top 100 funds. ■

# Missing Members

Missing members are people we have not heard from in some time and who are no longer at the address last entered in our files. They are all entitled to benefits that they have not claimed. If you know any of the following members, please ask them to contact us (787-2684 in the Regina area or 1-877-506-6377 toll-free), or provide us with a telephone number so that we can contact them:

Pier Aline Collette  
Stephen M. Fuller  
Sharen Crawford  
Edward C. Smith  
Barbara A. Carrier  
Jenny Wilson  
Rick Braun  
Lorna Watkins  
Cecil Chiu  
Catherine Letwinetz  
Ronald Delkie  
Andrew L. Shaw  
Linda I. H. Bird  
Donna M. Bloom  
Dana W. Friesen  
Calvin Martin  
Elaine Shepherd  
Jaqueline Osoiwy  
Sean Nelson  
Susan Adams  
Elaine Shepherd  
Audrey Nagy

*MEPPMatters* is published as a service to the members of the Municipal Employees' Pension Plan. Suggestions are welcome.

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