2003

JOINT ANNUAL REPORT

HEPP

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HEALTHCARE EMPLOYEES PENSION PLAN

HEALTHCARE EMPLOYEES BENEFITS PLAN

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HEALTHCARE EMPLOYEES PENSION PLAN - Manitoba

HEALTHCARE EMPLOYEES BENEFITS PLAN - Manitoba

For more detailed financial information or additional

information about HEPP/HEBP, please contact us.

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OUR COMMITMENT

Our Purpose

Our purpose is to provide pensions and employment benefits to healthcare employees and their beneficiaries.

Our Vision

We will establish a new and higher standard for pension and benefit plans, providing competitive benefits and superior services at a reasonable cost.

Our Values

We are committed to careful and responsible management of monies entrusted to our care. We endeavour to provide competent, respectful service to our members. We will enhance relationships with employers and other stakeholders to ensure our members are informed of their entitlements and options.

Our Mission

Our mission is to meet member expectations for employment benefits and security in retirement through:

- Competitive and fairly priced benefits
- Superior member service
- Effective governance
- Sound investment policies
- Best practices in administration, and
- Knowledgeable and professional staff.

Our Guiding Principles

Our actions will be guided by the fair and just treatment of HEPP/HEBP members and other stakeholders through prudent fiscal management, excellent member service and open communication.

Our Goals

- To maintain a fully funded pension plan.
- To maintain fully funded health, dental, disability and group insurance plans.
- To maximize investment returns within an appropriate and prudent level of risk.
- To maintain cost-effective administrative services.
- To maintain a safe, healthy and equitable workplace.
- To empower our employees through teamwork and training.
- To continually improve service to all members and other stakeholders.
- To communicate effectively with members and other stakeholders.

REPORT FROM THE EXECUTIVE DIRECTOR

Over the past twelve months, a number of initiatives have been undertaken to improve service to our members. Older systems are being replaced with state of the art systems, with the objective of improving communications and streamlining administrative processes. The members will gain substantially from more timely and accurate information coming to them from HEPP and HEBP.

We stated an objective last year to provide members with one Annual Statement for both HEPP and HEBP plans, illustrating their pension benefits, but also including coverage levels and beneficiaries for each of the HEBP plans: Group Insurance, Disability & Rehabilitation, Dental, and Health. It is hoped that the system infrastructure necessary to achieve this objective will be in place for the period ending December 31, 2004.

One concern identified by the Plan management involves the various ways information is submitted to HEPP/HEBP by employers. As employers use many different payroll systems/software, it is difficult to ensure that the information we require is reported consistently. For the past several months, we have been collaborating with employer representatives to identify data requirements and develop a new data capture system, which will help us manage our data more effectively and efficiently.

Audit Committees have been put in place for both HEPP and HEBP to assist the Trustees in their identification of risks, and ways in which those risks may be minimized.

I would like to take this opportunity to thank the HEPP and HEBP Boards for their guidance and support in initiating changes and improvements, and HEPP/HEBP management and staff for their strong commitment to improving member services.

The administrative staff appreciates the cooperation and understanding of members and employers as HEPP and HEBP embark on change. Members are encouraged to send feedback and suggestions to enable us to be more responsive to members' needs.

J. McLaughlin

John McLaughlin

Executive Director

Healthcare Employees Pension Plan

Healthcare Employees Benefits Plan

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REPORT FROM THE CHAIR OF THE BOARD

The Healthcare Employees Pension Plan (HEPP) conducts an actuarial review of the Plan each year. The valuation at December 31, 2003 indicated that the Plan was on the verge of a funding deficiency on both a going-concern basis and a solvency basis. The solvency and going-concern tests are requirements of the Pension Benefits Act of Manitoba. The results of the valuation indicated that the Plan needed to make changes either to the benefit levels or the contribution rates.

On September 18, 2003, HEPP made application to the Settlors (signators to the Trust Agreement) to increase contributions to the Plan. The current contribution levels of 5.0% and 6.6%, below and above the Yearly Maximum Pensionable Earnings (YMPE) respectively, are insufficient to fund current benefit levels. The Plan's actuary has indicated that the required contribution levels are 6.85% and 8.6%, below and above the YMPE respectively.

The Trust Agreement required that the Settlors respond to a request for contribution rate increases within six months of application. The union Settlors and the Regional Health Authorities of Manitoba approved the rate increase. However, the St. Boniface General Hospital and the Winnipeg Regional Health Authority have not provided approval of the proposed rates, pending resolution of budgetary concerns.

Prior to requesting an increase in contribution rates, the Trustees commissioned a study that compared HEPP contribution rates and pension benefit provisions to major public sector pension plans in Manitoba, healthcare pension plans in Canada, and other major pension plans. The analysis, prepared by the Plan's actuary, clearly indicated that HEPP's contribution rates are lower than other plans; however, the benefit levels are comparable.

The analysis indicated to the Trustees that an increase in contribution rates was preferable to benefit reductions, as the latter might leave Manitoba's healthcare system at a substantial disadvantage in the recruitment and retention of qualified healthcare professionals.

Though the request to increase contributions has initially been rejected by two of the employer Settlors, the Trustees remain convinced that the arguments for a contribution increase are compelling. They continue to press the case for increased contributions and believe that all Settlors will approve the increase once funding can be assured.

Negotiations regarding contribution increases are ongoing at the time of printing this document and the Trustees remain optimistic that benefit reductions will not be necessary. The Trustees encourage healthcare employees not to make retirement decisions pending a definitive answer.

Gary McIntosh

Chair, Healthcare Employees Pension Plan

GOVERNANCE STRUCTURE

Board of Trustees

HEPP is governed by an independent, 12 member Board of Trustees, equally representing both unions and employers.

Trustees representing employers include:

- Three appointed by the Regional Health Authorities of Manitoba
- One appointed by the Winnipeg Regional Health Authority
- One appointed by the St. Boniface General Hospital, and
- One appointed by the majority vote of the above organizations.

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One Trustee is appointed by each of the following unions:

- Manitoba Nurses Union
- Canadian Union of Public Employees
- United Food and Commercial Workers Local 832
- Manitoba Council of Health Care Unions
- Manitoba Government and General Employees Union
- Manitoba Association of Healthcare Professionals

Board members and their affiliations are listed on page 43.

Committees

The following committees, established by the Board, play an important role in the governance of HEPP.

- The Investment Committee implements the Statement of Investment Policies and Procedures (SIPP) that is approved by the Board.
- The Audit Committee assists the Board in fulfilling its responsibility to oversee the financial reporting, accounting system and internal controls.
- The Governance Committee provides recommendations to the Board regarding governance issues such as structure, responsibilities and composition of Board committees and their effectiveness, and is responsible for developing human resource and organizational policies and reporting to the Board on the effectiveness of the Board and its members.

It is a requirement that each Board Trustee serve on at least one of the three standing committees.

Committee members and their affiliations are listed on page 43.

Management and Staff

HEPP management and staff provide administrative and member services for both the Healthcare Employees Pension Plan (HEPP) and the Healthcare Employees Benefits Plan (HEBP).

PLAN FEATURES

Retirement Income Benefit Formula

As a defined benefit pension plan, HEPP provides eligible members with a lifetime pension based on years of credited service and the average of their highest five years of annualized earnings from the last 11 years, at the rates of:

- 1.5% on earnings subject to the Canada Pension Plan (CPP), and
- 2% on earnings which are not subject to CPP.

Ad hoc COLAs

Ad hoc cost of living adjustments (COLAs) may be granted to retired, disabled and deferred vested plan members by the Board of Trustees, and are implemented in January of each year, if approved.

Although there are not explicit provisions for COLAs under the Plan, historically, surplus emerging due to better than expected investment performance has been used to fund this benefit. COLAs were last granted in January 2002.

Buyback Policies

Buyback policies allow members to purchase, or buy back periods of maternity leave and other unpaid leaves of absence at retirement. Effective January 1, 2002, members have been allowed to contribute to the Plan during approved leaves of absence subject to Canada Revenue Agency (CRA) regulations.

Early Retirement

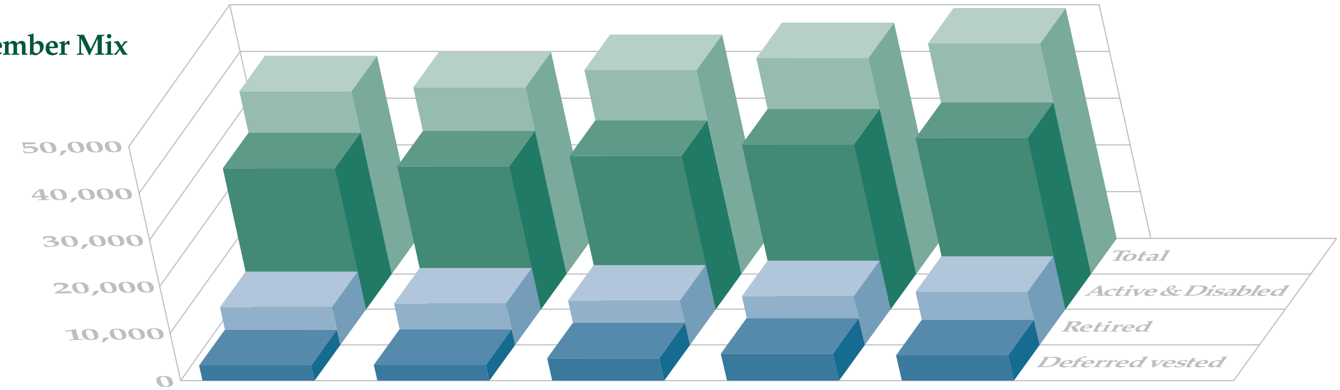
- Members who are age 55 with two or more years of employment service may receive reduced pension benefits, and may be entitled to monthly bridge benefits.
- Members who are age 60 or over with two or more years of employment service, and members who have reached Magic 80 - their age plus years of service equals 80 - qualify for an unreduced monthly pension benefit.
- HEPP pays a supplementary benefit to members retiring from active status who:
  - Meet Magic 80 requirements, or
  - Have attained age 55 and completed at least two years of service.

Additional Features

- Portability options allow pension benefits to be transferred between HEPP and other registered pension plans.
- Joint life forms of pension provide survivor benefits to a surviving spouse, and death benefits are provided to beneficiaries of active members.
- Pension accrual (automatic continuation of pension service) is provided to disabled plan members who meet the definition of disability for their own or some other occupation.
- A monthly pension is provided to members who meet the definition of total and permanent disability.

2003 HIGHLIGHTS

Member Mix



	1999	2000	2001	2002	2003
Deferred vested[1]	3,050	3,310	4,265	4,961	4,822
Retired	7,088	7,540	8,006	8,524	8,971
Active & Disabled	28,483	29,656	31,817	33,178	34,865
Total	38,621	40,506	44,088	46,663	48,658

[1]Members who no longer work for a participating HEPP employer or contribute to the Plan, but who have left money in HEPP so that they can collect a pension at a later date.

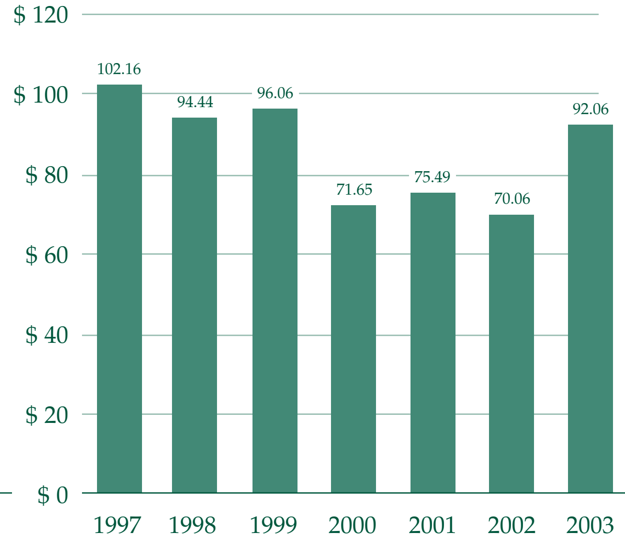
MEMBERSHIP INFORMATION

Average age (years)	1999	2000	2001	2002	2003
Active member	42.6	42.5	42.6	42.7	42.8
Retired member	70.3	69.8	69.7	69.8	69.8
Deferred member	45.3	42.1	42.6	41.9	42.6
Average annual earnings active member	$25,771	$26,909	$27,463	$27,665	$30,363
Average annual pension retired member[1]	$6,441	$6,939	$7,494	$7,703	$7,925

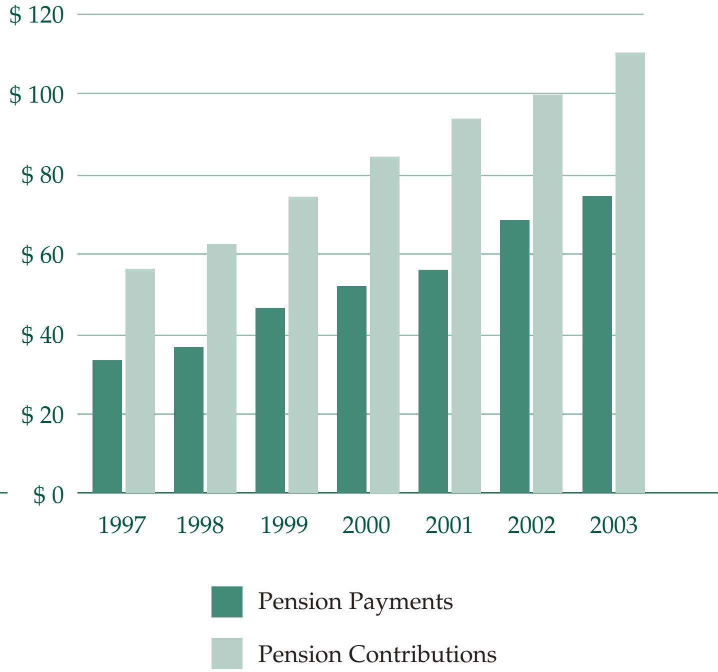
[1] Includes bridge benefit

2003 HIGHLIGHTS

Annual Administrative Cost per Member



Pension Payments & Contributions *($ millions)*



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of HEPP have been prepared by management and approved by the Board of Trustees. Management is responsible for the contents of the financial information within the annual report.

The financial statements have been prepared in accordance with generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2003 annual report that relates to the operations and financial position of HEPP is consistent with that in the financial statements. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Audit Committee assists the Board of Trustees in discharging its responsibilities of approving the financial statements and overseeing management's performance of its financial reporting responsibilities. Prior to recommending approval of the audited financial statements, the Audit Committee reviews the financial statements, the adequacy of internal controls and the audit and financial reporting process with both management and the external auditors.

KPMG LLP, the external auditors appointed by the Board of Trustees, have conducted an independent examination of the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have unrestricted access to management and the Audit Committee to discuss any findings related to the integrity of the Plan's financial reporting and adequacy of the internal control systems.

John McLaughlin
Executive Director

Rohini Halli, CA
Director of Finance

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FINANCIAL SUMMARY

		2003		2002
Increase in assets				
Current period change in market values	$	219,513,737	$	-
Investment income		70,682,625		72,942,372
Contributions from employers		54,106,397		49,192,947
Contributions from employees		54,102,055		49,189,585
		398,404,814		171,324,904
Decrease in assets				
Current period change in market values		-		153,174,811
Benefits paid to pensioners and beneficiaries		69,116,407		63,230,628
Refunds to terminated members		11,290,930		14,571,730
Investment and plan administration expenses		10,687,537		9,256,141
		91,094,874		240,233,310
Net increase (decrease) in assets		307,309,940		(68,908,406)
Net assets available for benefits, January 1		2,010,514,526		2,079,422,932
Net assets transferred into the plan		2,704,101		-
Net assets available for benefits, December 31	$	**2,320,528,567**	$	**2,010,514,526**

ACTUARIAL HIGHLIGHTS 2003

Plan Valuation

Each year the Pension Plan undertakes an actuarial valuation, conducted by an independent actuary. The Board of Trustees has appointed Towers Perrin as the Plan's actuary.

The purpose of the actuarial valuation is to determine whether the Plan can cover the cost of future benefits for all existing plan members, based on the level of assets presently held and the level of contributions presently being made by members and employers.

The Plan is required by provincial legislation to conduct two valuations: Solvency and Going-Concern.

Solvency Valuation

The solvency valuation is calculated assuming that the plan would be wound up on the date the valuation is done.

The assets of the Plan are valued at their current market value.

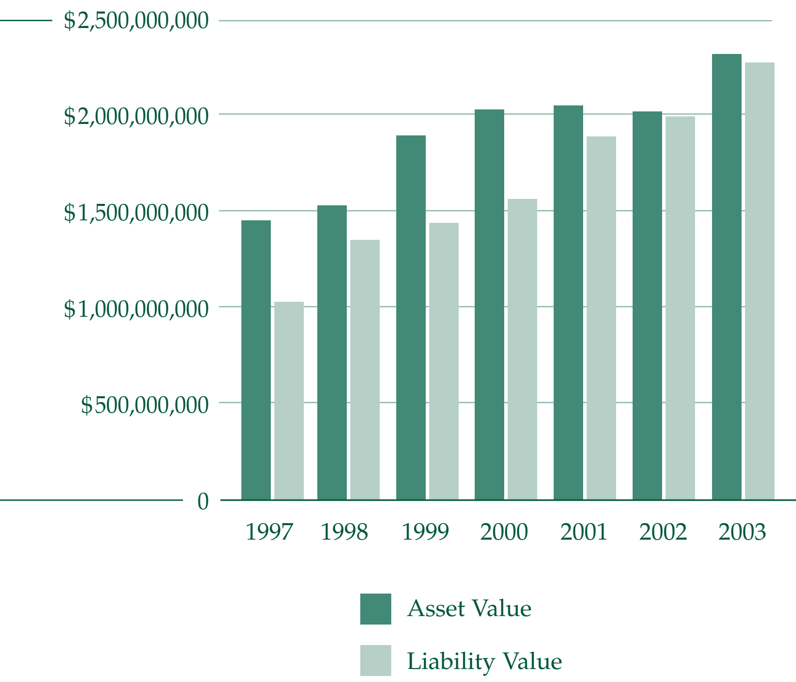
The value of benefits earned to the valuation date for active members (those who make contributions to the Plan) are determined as if they terminated their employment. This value is called the commuted value.

For retirees and other non-active members, the value of benefits earned is calculated by determining the amount of funds that would be required to purchase a life annuity based on the monthly pension income. This calculation is based on current interest rate levels, and as such, is subject to change as interest rates go up or down (lower interest rates would result in more funds being required to purchase a life annuity than at higher interest rates).

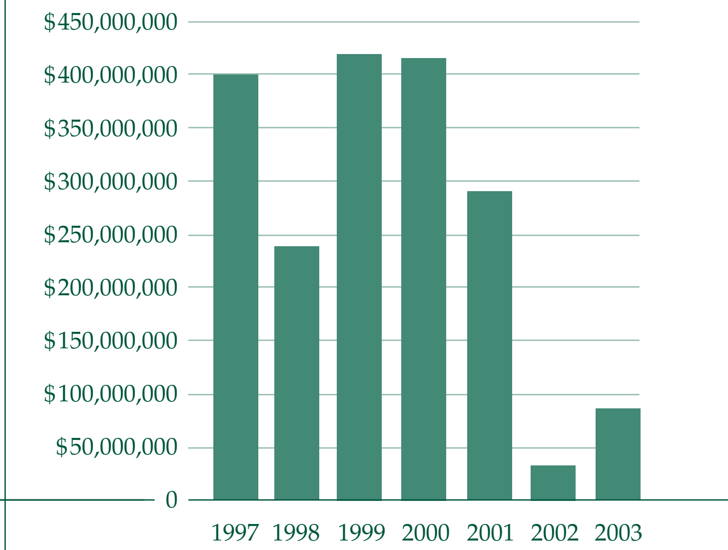
The difference between the market value of assets and the value of benefits earned by members (the solvency liability) is called:

- the surplus - if assets are greater than liabilities, or
- a deficit - if assets are less than liabilities.

Solvency Assets vs. Liabilities



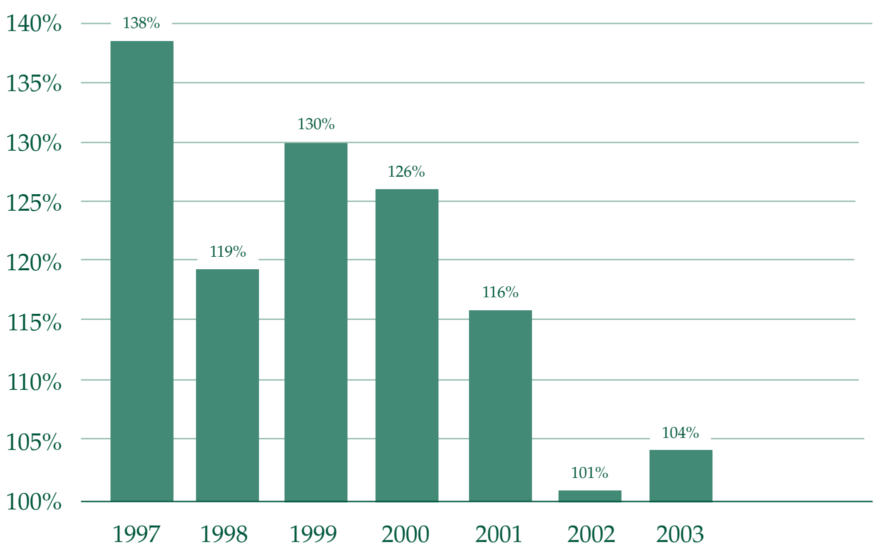
Solvency Surplus



The funded ratio is commonly used to measure the financial position of the Plan. This ratio is determined as assets divided by solvency liabilities. A value greater than 100% indicates the Plan has a surplus.

At the end of 2003, the HEPP solvency surplus was $85 million (104% funded ratio), up from $30 million in 2002 (101% funded ratio). The main reason for the

Solvency Funded Ratio



improvement in the surplus position was the 14.4% investment return for the year 2003. Offsetting this gain was a negative impact to the solvency ratio as interest rates were lower at the end of 2003 as compared to 2002.

The solvency valuation is not used to determine contribution rates for the Plan. However, the solvency funded ratio must remain above 100% or contributions would have to be increased and/or benefits reduced to eliminate any deficit.

While the solvency funded ratio has remained above 100% since HEPP's inception in 1997, the current level does not provide sufficient margin to allow for adverse investment returns or unexpected changes in the pension liability. This means that the Plan cannot provide COLA's for retired members as these funds come from the Plan's surplus.

Going - Concern Valuation

The going - concern valuation assumes that the Plan continues on indefinitely, and is used not only to ensure that sufficient assets are being held to pay for future benefits, but also to determine whether the level of contributions being made by members and employers is sufficient.

In the going - concern valuation, the market value of the Plan's assets are smoothed or averaged over a period of five years. This smoothing helps to lesson the impact of swings in the market value of assets due to changing conditions in the investment markets. The smoothed value of the assets is called the actuarial value of assets.

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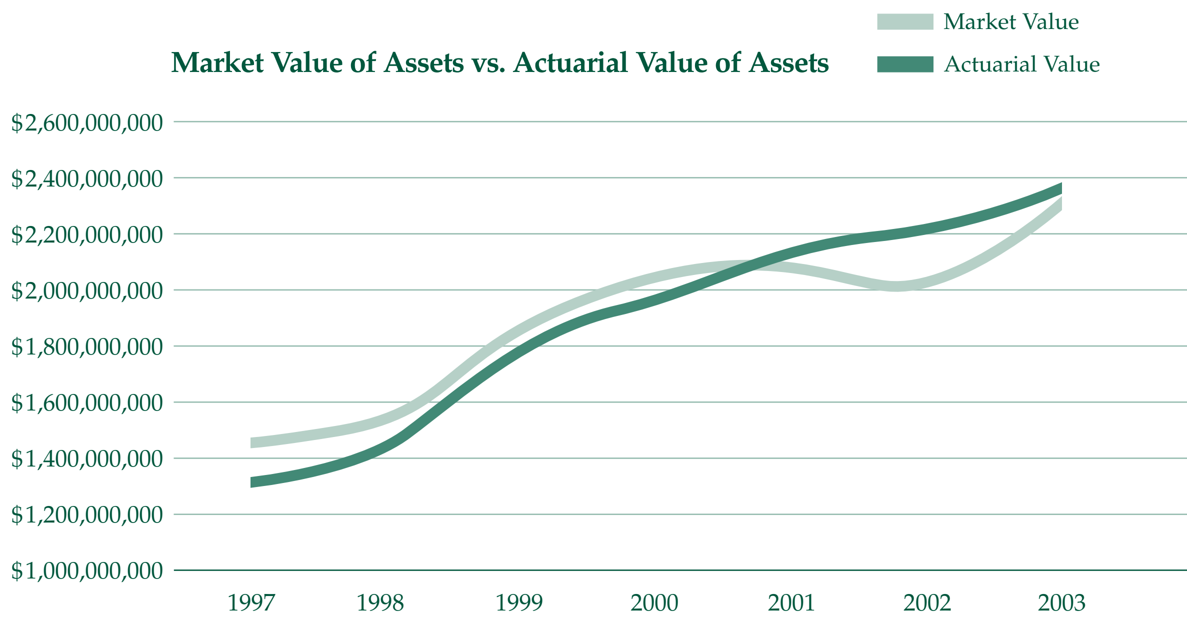
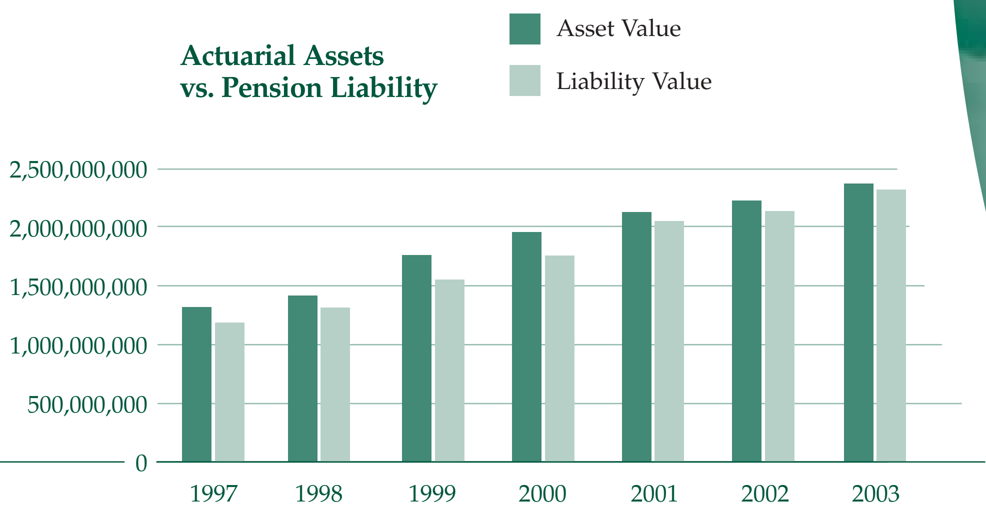


Up to the year 2000, investment markets produced very favourable returns, which resulted in the market value of assets being higher than the actuarial assets. For the years 2001 and 2002, investment returns were below long-term expectations, which resulted in the market value of assets being $40 million lower than the actuarial value of assets at the end of 2003. This occurred despite a favourable return of 14.4% in 2003, and is a direct result of the asset smoothing method. This means that at the end of 2003, the reported surplus using the actuarial value of assets was $40 million higher than if the market value of assets were used.

To calculate the value of pension benefits for members, the actuary uses a number of assumptions. These include salary increases, member withdrawal rates, retirement rates, mortality rates and other member demographic information. This information, when combined with the Plan's current contribution rates and the long-term investment return assumption (currently 6.5%), determine the value of the funds the Plan should be holding to meet future pension benefit obligations (the pension liability).

Actuarial Assets vs. Pension Liability



The pension liability is then compared to the actuarial value of assets. If the actuarial value of assets is greater than the pension liability, then the Plan has a surplus, or sufficient assets to meet future obligations. If the assets are less than the pension liability, then the Plan has a deficit, and does not have sufficient assets to meet future pension obligations. If the Plan reports a deficit, then corrective action will have to be taken, which might involve increasing contribution rates and/or reducing benefit levels.

The Plan's funded ratio started to decline in the year 2000 as pension liabilities started to increase at a rate faster than the investment return. This was primarily related to members retiring earlier than the Plan had assumed. Note, in the year 2000 the reduction in the funded ratio occurred even though the Plan had an investment return of 10.0% in that year, and a four-year investment return of 9.5%, well ahead of the long- term actuarial assumption of 6.5%.

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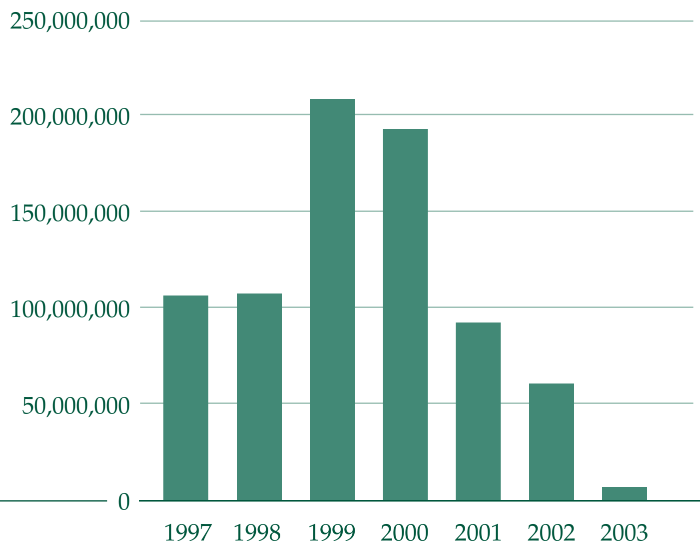
Going-Concern Surplus



The Plan's funded ratio has subsequently declined further, as, along with the increased growth in pension liabilities, investment returns declined in 2001 and 2002 as global equity market returns declined. At the end of 2003, the funded ratio had slipped to 100% despite the Plan having earned 14.4% due to the impact of the asset smoothing formula. The five-year return for the plan as of 2003 was 5.9%, slightly below the long term assumption of 6.5%. With the increasing growth in pension liabilities and the impact of the asset smoothing formula, the Plan will require returns above the long-term assumption for the next several years to ensure that the funded ratio does not fall below 100%.

Going-Concern Funded Ratio

As with the solvency ratio, the going-concern funded ratio does not provide sufficient margin to allow for adverse investment returns or unexpected changes in the pension liability. This means that the Plan cannot provide COLA's for retired members as these funds come from the Plan's surplus. Should the funded ratio fall below 100%, then corrective action would have to be taken, again in the form of increasing contribution rates and/or reducing benefit levels.

Contribution Rates

In 2003, the Plan's actuary indicated that the current level of contributions are insufficient to fund the basic Plan benefit levels. The current contribution rates are 5.0% up to the year's maximum pensionable earnings, and 6.6% thereafter. Members and employers contribute equally to the Plan. The actuary has advised that the contribution rates should be raised to 6.85%/ 8.6% from the current 5.0%/6.6%. This represents over a 30% increase in contribution rates.

The Board's action in response to the funding positions and contribution rates is addressed in the Report from the Chair of the Board.

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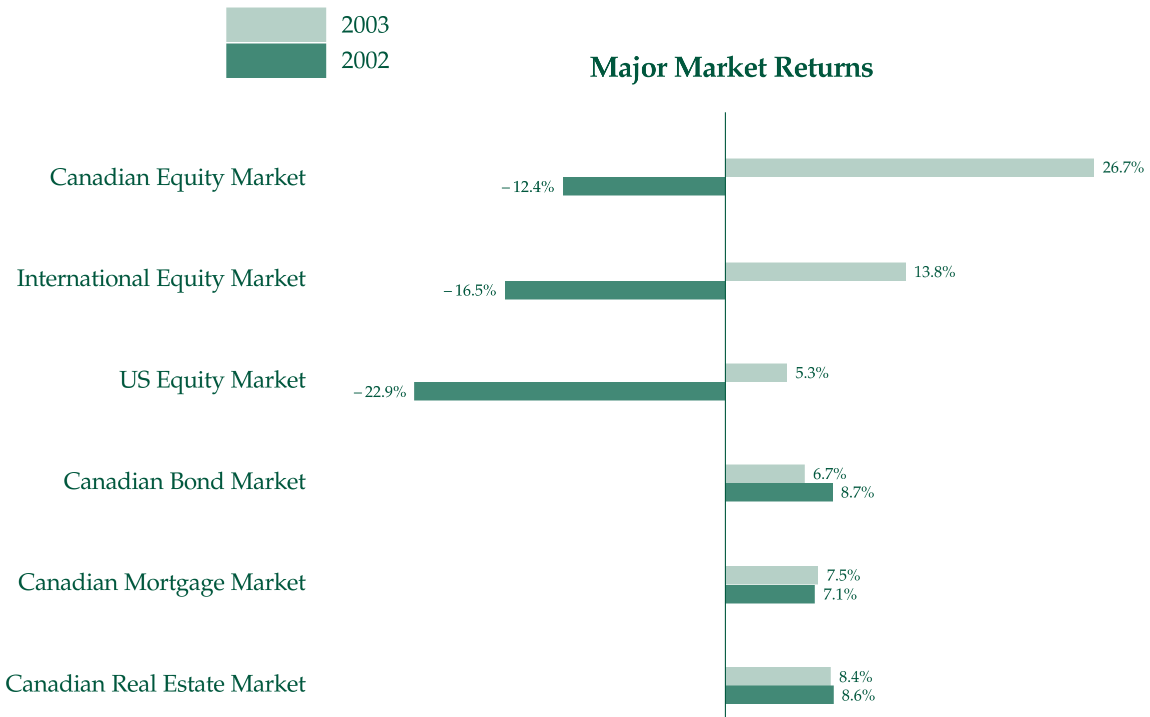
REPORT FROM THE DIRECTOR OF INVESTMENTS

Investment returns for the year 2003 were a welcome change following two years of declining global stock markets.

The chart below shows the level of the Canadian stock market over the past seven years. As can be seen, following the market top in the year 2000, the Canadian market fell 45% over the next two years.

For the year 2003, the Canadian stock market rose 27%, but was still 30% below the peak level achieved in the year 2000.

Canadian Stock Market



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The chart above highlights the reversal of stock market returns during the year.

The Canadian dollar rose 22% in 2003 from US$.63 to US$.77, which had the effect of reducing non-Canadian stock returns measured in Canadian dollars.

Canadian Dollar vs. US Dollar

A rising Canadian dollar impacted investment returns in our US portfolio, with the US stock market rising 5% in 2003 in Canadian dollar terms vs. a 29% return in US dollar terms.

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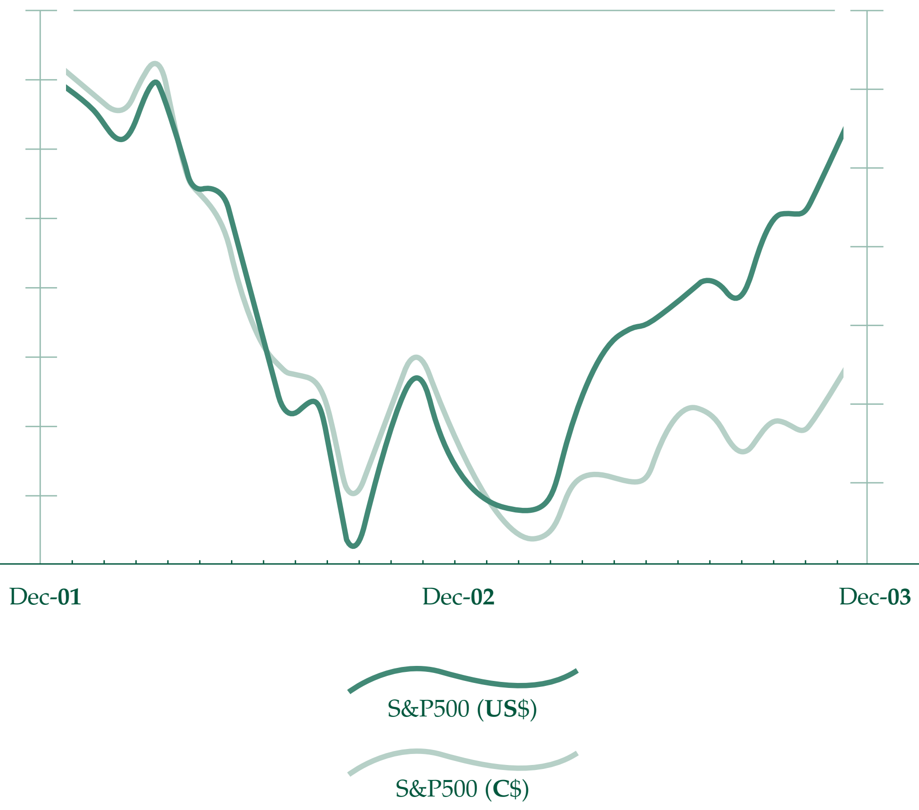
US Stock Market in US Dollars vs. Canadian Dollars

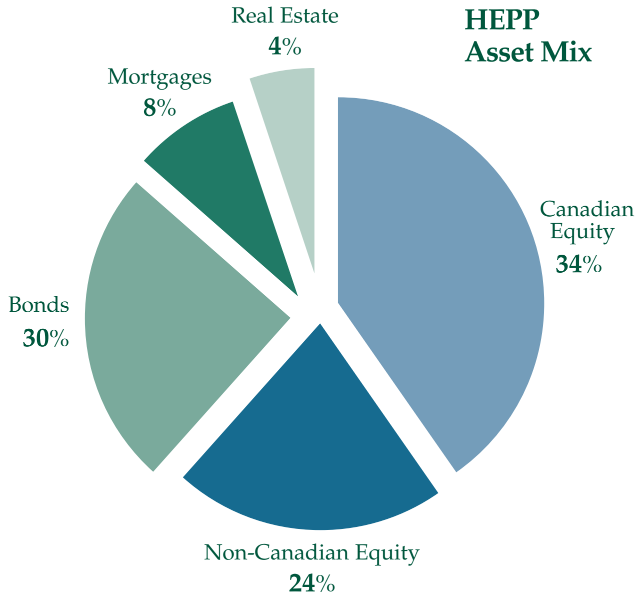


Our asset weights at year-end 2003 reflected our favouring the Canadian market over foreign stock markets.

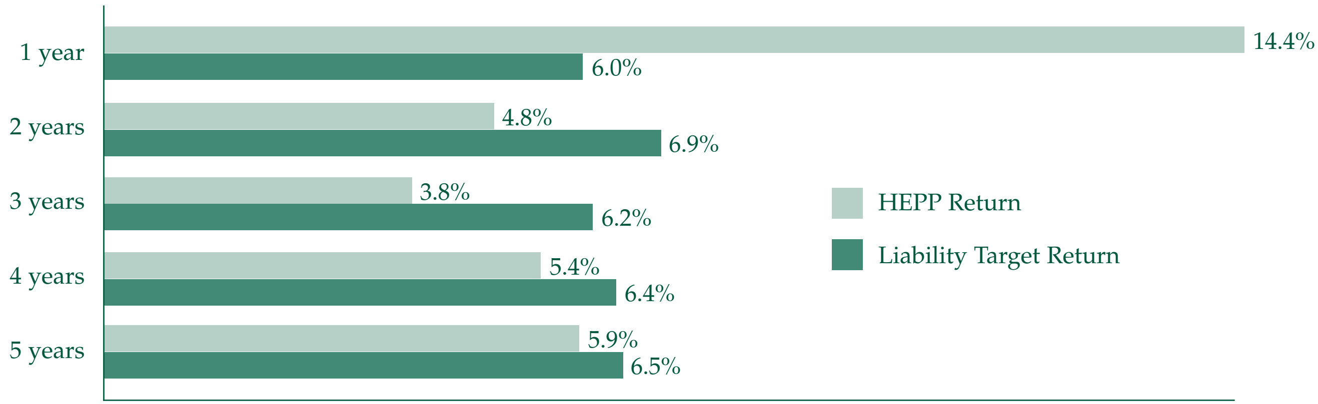
At the end of 2002, we held 30% in Canadian stocks and 30% in foreign stocks. As the chart to the right shows, at the end of 2003, we held 34% in Canadian stocks and 24% in foreign stocks.

Despite the strong showing of returns in 2003, the growth in pension liabilities continued to outpace returns over the past several years. The following chart shows that the impact of the weak stock markets during 2001-2002 is still being felt in the longer term average return.

HEPP Asset Mix

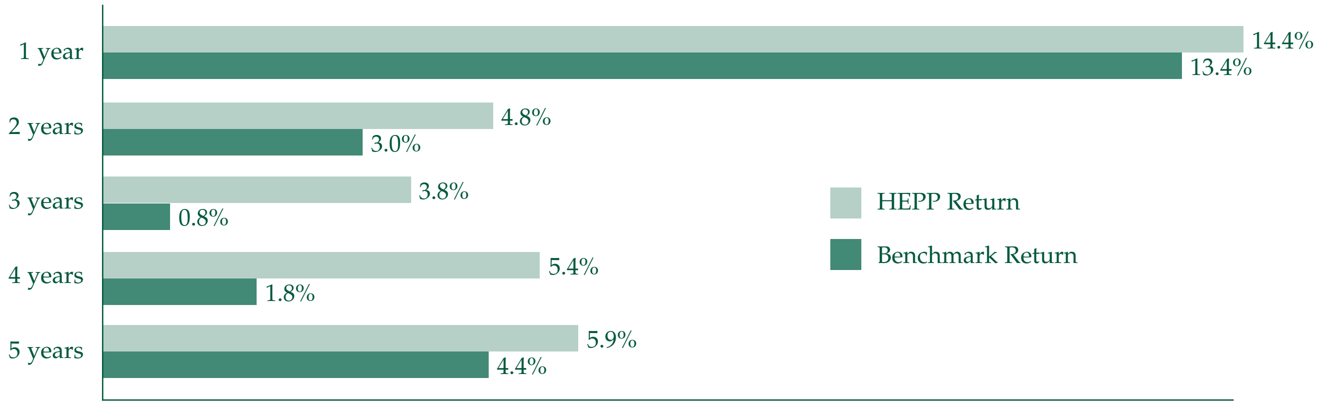


HEPP Investment Returns vs. Pension Liability Growth



We measure the success of our investment program by comparing the actual returns to that of our policy benchmark. As the chart below shows, we have added value to the policy benchmark over the last several years.

HEPP Actual vs. Benchmark Returns



A number of changes to our investment mix were started in 2003 and will take some time to fully establish. We are increasing our exposure to real estate and the mortgage market with a subsequent reduction in our Canadian bond holdings. We believe that returns in real estate will not only provide a base level higher than that of bonds, but also have the ability to see these returns grow relative to inflation over time. Our shift into mortgages also provides for higher income potential. Additionally, we believe that the environment of continually falling interest rates, which began in 1981, is largely over.

Our mortgage investments are less sensitive to interest rates moving higher and, at the same time, offer a yield advantage over bonds.

We are also reviewing investments in private equity markets. This type of investing involves committing funds for up to 10 years with a return potential that should be higher than that achieved through public markets.

Even though the total return for the Plan improved dramatically during 2003, we are still viewing the outlook over the next several years with caution, believing that returns will not be able to meet those achieved during the 1990's. This has significant implications for the Plan's funding position, which is discussed in the actuarial highlights section.

Ronald Queck

Ronald Queck, CFA
Director of Investments

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INTRODUCTION

The Healthcare Employees Benefits Plan (HEBP) offers Group Healthcare, Dental, Disability & Rehabilitation (D&R), and Life Insurance plans to eligible healthcare employees and their families, throughout Manitoba.

All employers do not necessarily participate in each of the benefit plans offered by HEBP. Employees should check with their employer for coverage clarification.

Additional information on benefits and maximums is available in plan brochures and on the HEBP website at: www.hebp.mb.ca.

PLAN MEMBERSHIP

Active Members

Year	Group Healthcare			Dental	Life Insurance	D&R
(As at Dec.31)	*Basic*	*Enhanced*	*Total*			
2003	8,886	12,612	21,498	19,401	29,403	27,026
2002	8,165	12,444	20,609	19,153	28,987	26,912
2001	7,778	12,237	20,015	17,891	28,953	23,965

Retired Members

Year *(As at Dec.31)*	Healthcare Plan (Levels l & ll)	Post-Retirement Life Insurance
2003	3,973	3,756
2002	3,694	3,283
2001	3,484	3,008

REPORT FROM THE CHAIR OF THE BOARD

The year 2003 was eventful for the Healthcare Employees Benefits Plan (HEBP). In 2002 the HEBP Board made a decision to establish an in-house Disability and Rehabilitation Plan, predicated on the belief that a disability plan should focus on rehabilitation to ensure that members could re-enter the workplace as quickly as possible. It was the Board's belief that disabled members needed to be afforded an opportunity to apply for benefits when they became disabled, but at the same time, position themselves to resume their careers at the earliest opportunity.

The Disability and Rehabilitation Plan was established in June 2002 and is developing into a model that the HEBP Board believes will establish a standard for similar plans across the country. Strong emphasis has been placed on early application, rehabilitation and accommodation in the workplace. It is too early to say whether the plan has accomplished its objectives to the satisfaction of members, but early indications are encouraging.

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The Board received important feedback from members regarding changes to the extended and basic healthcare plans made during 2003. Generally, the sentiment expressed was concern about a reduction in benefits while premium rates were increasing. Many expressed a preference for greater increases in premium levels rather than a reduction of benefits. This feedback will be considered when the next strategic planning sessions of the HEBP Board are held in the fall of 2004.

I would like to take this opportunity to thank the staff and management of HEBP and staff of facilities for their commitment to our members.

Sincerely,

Bob Romphf,

Chair, Healthcare Employees Benefits Plan

GOVERNANCE STRUCTURE

Board of Trustees

HEBP is governed by an independent, 10 member Board of Trustees, equally representing both unions and employers:

- Five trustees are appointed by participating employers.
- Five trustees are appointed by healthcare-related unions in Manitoba.

Board members and their affiliations are listed on page 44.

Management and Staff

HEBP management and staff provide administrative and member services for both the Healthcare Employees Benefits Plan (HEBP) and the Healthcare Employees Pension Plan (HEPP).

Service Providers

HEBP works in partnership with Manitoba Blue Cross, Manulife Financial and The Great-West Life Assurance Company to deliver benefits to members.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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The financial statements of all the benefits plans have been prepared by management and approved by the Board of Trustees. Management is responsible for the contents of the financial information within the annual report.

The financial statements have been prepared in accordance with generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2003 annual report that relates to the operations and financial position of HEBP is consistent with that in the financial statements. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Audit Committee assists the Board of Trustees in discharging its responsibilities of approving the financial statements and overseeing management's performance of its financial reporting responsibilities. Prior to recommending approval of the audited financial statements, the Audit Committee reviews the financial statements, the adequacy of internal controls and the audit and financial reporting process with both management and the external auditors.

KPMG LLP, the external auditors appointed by the Board of Trustees, have conducted an independent examination of the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have unrestricted access to management and the Audit Committee to discuss any findings related to the integrity of the Plan's financial reporting and adequacy of the internal control systems.

John McLaughlin
Executive Director

Rohini Halli, CA
Director of Finance

2003 HIGHLIGHTS

Group Healthcare Plan

Benefit Coverage for Active Employees

There are two coverage levels under the Group Healthcare Plan providing for many healthcare-related expenses.

Basic coverage covers ambulance service, semi-private hospital rooms, travel healthcare insurance, cardiac rehabilitation, prosthetics, rental or purchase of medical equipment, prescription drugs, private duty nursing, athletic therapy and services by the following paramedical practitioners:

- Chiropodist
- Certified Foot Care Nurse
- Clinical Psychologist
- Physiotherapist /Occupational Therapist
- Registered Dietician

Enhanced coverage provides the above benefits with higher maximums for paramedical practitioners, prescription drugs and private duty nursing, and offers vision care, specialist referral benefits, assisted care benefits, tutorial services, hearing aids and orthotics. In addition to the paramedical services covered under Basic coverage, Enhanced coverage offers services by the following paramedical practitioners:

- Acupuncturist
- Audiologist
- Chiropractor
- Licensed Massage Therapist
- Naturopath
- Osteopath
- Speech Therapist

2003 Group Healthcare Plan Experience

Rate increases were implemented on June 1, 2003 to Basic and Enhanced Group Healthcare premiums to offset continued increases in utilization.

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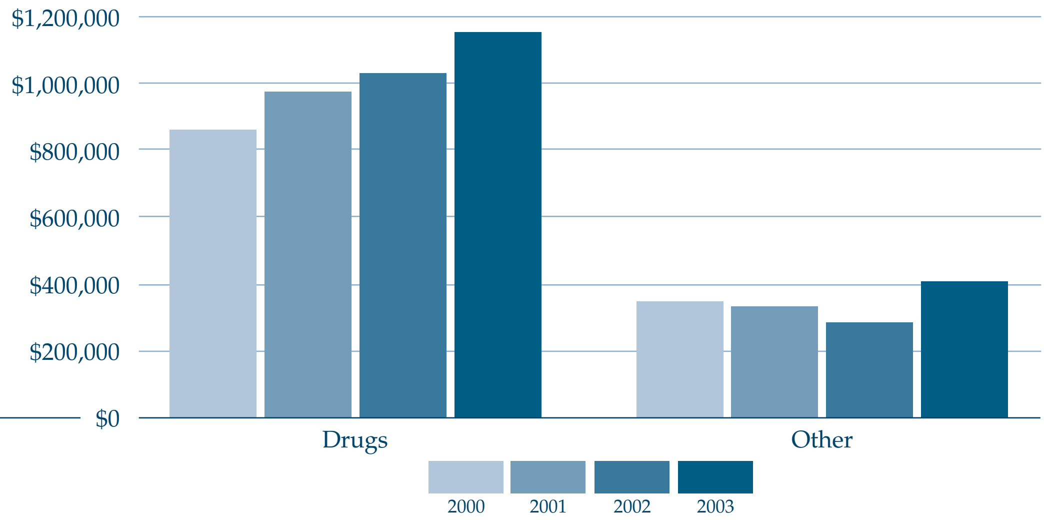
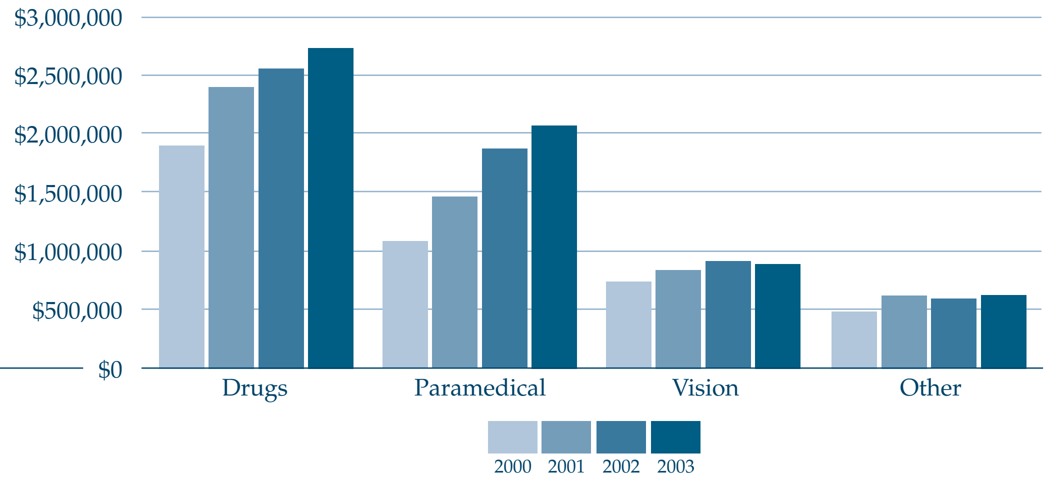
Basic Group Healthcare Plan Comparison of Paid Claims



Enhanced Group Healthcare Plan Comparison of Paid Claims



Retiree Group Healthcare Plan

Benefit Coverage for Retired Members

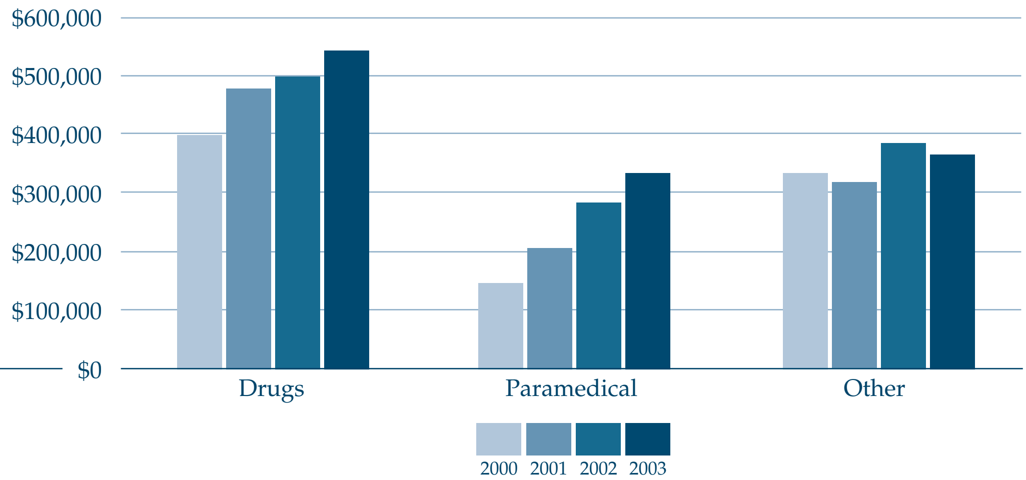
There are two coverage levels under the Retiree Group Healthcare Plan providing for many healthcare-related expenses. Level I covers ambulance service and semi-private hospital rooms. Level II covers the above benefits and offers private duty nursing, travel healthcare insurance, prescription drug coverage, cardiac rehabilitation, physiotherapy/occupational therapy, prosthetics, rental or purchase of medical equipment and services by the following paramedical practitioners:

- Athletic Therapist
- Audiologist
- Certified Foot Care Nurse
- Chiropractor
- Clinical Psychologist
- Licensed Massage Therapist
- Naturopath
- Osteopath
- Registered Dietician
- Speech Therapist
- Podiatrist

2003 Retiree Group Healthcare Plan Experience

Though the total of claims paid under the Retiree Group Healthcare Plan continued to increase in 2003, premiums remained unchanged.

Retiree Group Healthcare Plan Comparison of Paid Claims



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Dental Plan

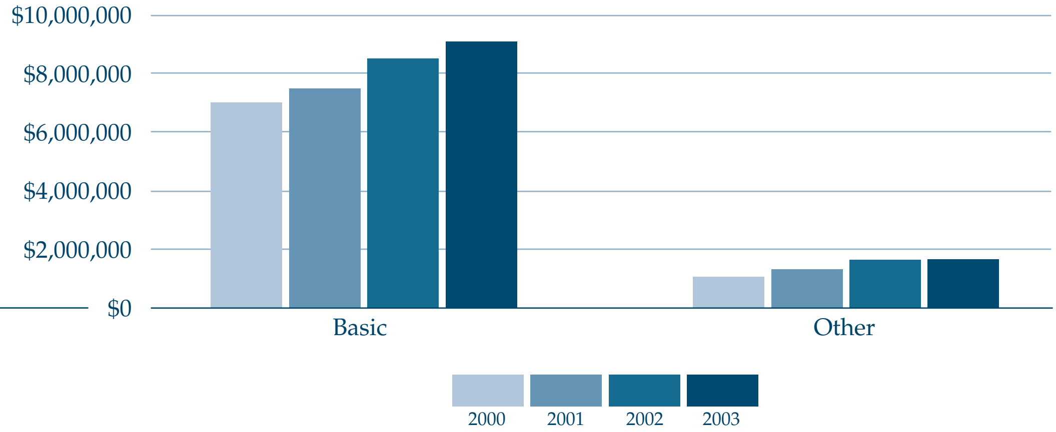
Benefit Coverage for Active Employees

The Dental Plan covers 100% of eligible charges for basic dental treatment, 50% of eligible charges for major dental treatment and 50% of eligible charges for orthodontic treatment for dependent children under age 18. Members and eligible family members may claim up to $1000 per person each calendar year.

2003 Dental Plan Experience

A rate increase was implemented effective June 1, 2003, to offset the Manitoba Dental Fee Guide adjustment and the increase in claims paid.

Dental Plan Comparison of Paid Claims



Dental and Group Healthcare Plan Financial Summary

	2003	2002
Increase		
Premiums	$ 21,858,208	$ 19,978,019
Investment income	88,428	91,305
	21,946,636	20,069,324
Decrease		
Claims incurred	20,066,869	18,794,119
Payments to travel plan	521,269	506,960
Plan administration expenses - HEBP	123,324	140,750
Plan administration expenses - Manitoba Blue Cross	1,260,042	1,260,342
Interest charges – Manitoba Blue Cross	53,188	37,595
	22,024,692	20,739,766
Net decrease before undernoted	(78,056)	(670,442)
Appropriations to reserves	15,567	(30,273)
Net decrease	(62,489)	(700,715)
Fund balances, January 1	(1,195,137)	(494,422)
Fund balances, December 31	**$ (1,257,626)**	**$ (1,195,137)**

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Group Life Insurance Plan

Benefit Coverage for Active Employees

The Group Life Insurance Plan offers members the flexibility to choose the amount of coverage needed to re-establish income if a loss of life occurs.

Members are automatically insured for Basic Life Insurance equal to their gross basic annual earnings, and may choose additional coverage for themselves and family members. They are also automatically insured for Basic Accidental Death & Dismemberment (AD&D) Insurance equal to their total Basic and Optional Life Insurance coverage, and may choose additional AD&D insurance.

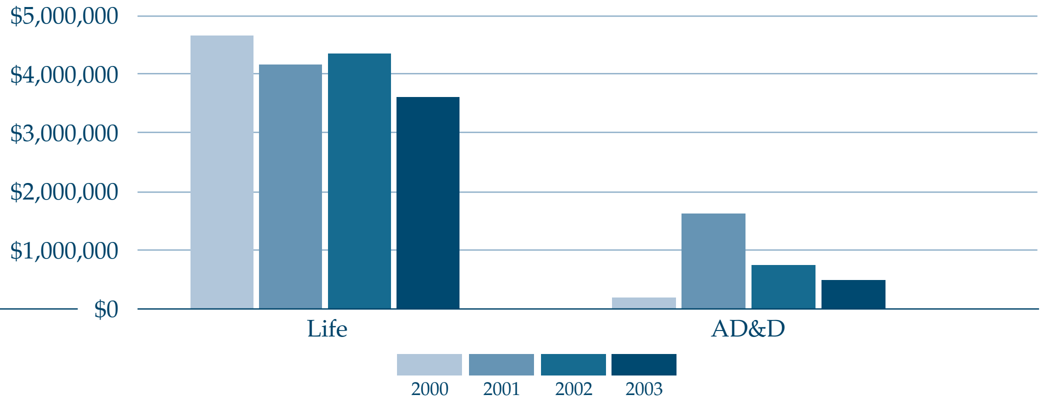
Benefit Coverage for Retired Members

At retirement, Optional Post Retirement Insurance is available. Members may choose from zero to four units. On retirement, the maximum number of units cannot exceed the maximum number of units the member had while actively at work. Each unit is equal to $7,000 of insurance before the age of 60, and at age 60 reduces by $1,000 per unit every five years. Coverage and premiums stop at age 90.

2003 Group Life Insurance Plan Experience

Paid claims under the Group Life Plan decreased in 2003.

Group Life Insurance Plan Comparison of Paid Claims



Group Life Insurance Plan
Financial Summary

	2003	2002
Increase		
Premiums	$ 6,490,437	6,133,220
Investment income	3,077,252	-
	9,567,689	6,133,220
Decrease		
Claims incurred	3,970,246	5,201,269
Plan administration expenses - HEBP	306,542	332,427
Plan administration expenses – Great-West Life	410,600	414,131
Investment loss	-	1,159,077
	4,687,388	7,106,904
Net increase (decrease) before undernoted	4,880,301	(973,684)
Transfers to internally restricted funds	(400,000)	(200,000)
Appropriations to Disabled Life waiver reserve	(100,000	(400,000)
Net increase (decrease)	4,380,301	(1,573,684)
Fund balances - unrestricted, January 1	9,197,075	10,770,759
Fund balances - unrestricted, December 31	**$ 13,577,376**	**$ 9,197,075**

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Disability and Rehabilitation Plan

Benefit Coverage for Active Employees

The Disability and Rehabilitation (D&R) Plan provides members with income should they be unable to work because of an illness or injury, and approved in-house rehabilitation support.

Changes to Contribution Rates, Benefits and Own Occupation Period

The following changes were implemented effective April 1, 2003:

- Contribution rates increased from 2.0% to 2.3%.

- This was the first rate increase since 1988, and has been assumed by employers.

- Benefit calculation reduced to 60% from 66 ⅔% of pre-disability gross basic monthly earnings for claimants with a date of disability on or after April 1, 2003.

- Reduced the "own occupation period" for members with a date of disability on or after April 1, 2003 to include the 119-day elimination period and the following 20 months (decreased from 24 months).

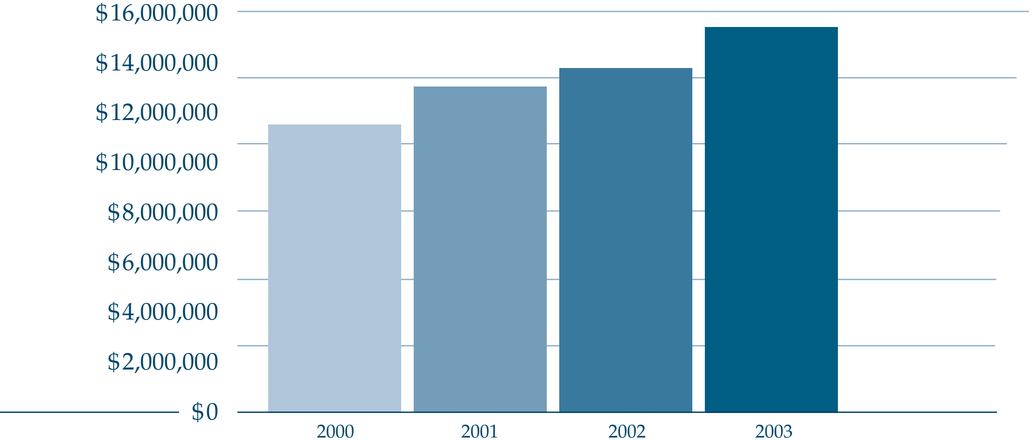
- To qualify for D&R benefits, a member must be unable to work due to a disability for at least 119 calendar days from the date of disability. This is called the elimination period. The member must also meet the definition of disability defined by the Plan Text and must be unable to perform a substantial or essential part of the regular duties of their job due to a medical condition as certified by a medical doctor during the "own occupation period".

- For members with a date of disability on or after April 1, 2003, who are eligible for an unreduced pension, monthly disability benefits are reduced by the retirement benefits received from the Healthcare Employees Pension Plan (HEPP).

- This offset will be applied only after the period of disability exceeds 24 months (119-day waiting period plus 20 months).

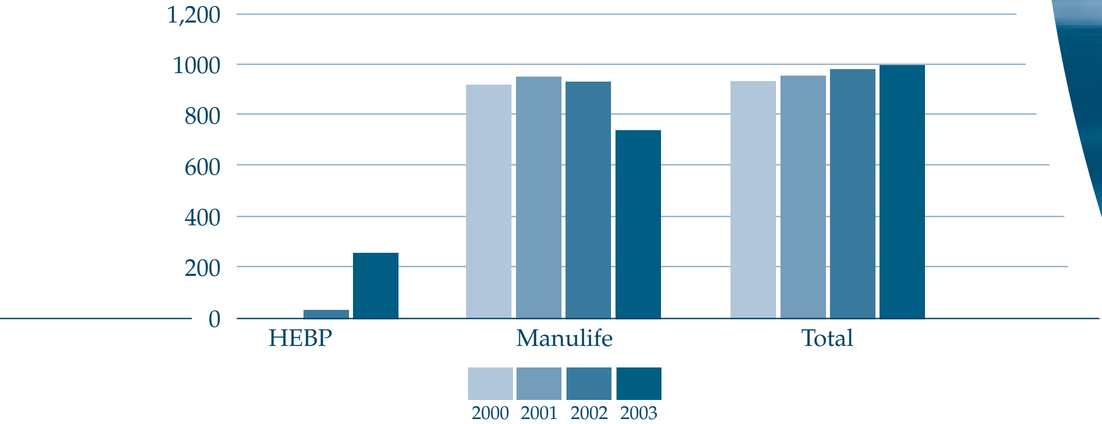
2003 Disability & Rehabilitation Plan Experience

Comparison of Paid Claims



Insured claims paid by Manulife Financial after June 1, 2002 have been included for comparative purposes only.

Number of Paid Claims



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Disability and Rehabilitation Plan Financial Summary

	2003	2002
Increase		
Premiums	$ 20,305,350	$ 17,256,171
Investment income	2,942,617	3,364,901
	23,247,967	20,621,072
Decrease		
Claims incurred	9,282,283	9,917,774
Plan administration expenses - HEBP	2,306,132	1,438,367
Plan administration expenses - Manulife	223,904	892,265
	11,812,319	12,248,406
Net increase before undernoted	11,435,648	8,372,666
Gain on assumption of deficit by Manulife	-	2,319,993
Appropriations to reserves	(6,364,226)	(19,418,533)
Net increase (decrease)	5,071,422	(8,725,874)
Fund balances, January 1	(8,961,855)	(235,981)
Fund balances, December 31	**$ (3,890,433)**	**$ (8,961,855)**

2003 DIRECTORY

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Actuary – *Towers Perrin*

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Bob Vandewater*
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Rohini Halli, CA, *Director of Finance*

Ronald Queck, CFA, *Director of Investments*

Kay Dunthorne, FLMI, ACS, ALHC,
Director, Benefits Administration

Barbara Kieloch, RN, BN, MScA,
Director, Disability and Rehabilitation

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HEALTHCARE EMPLOYEES PENSION PLAN - Manitoba

HEALTHCARE EMPLOYEES BENEFITS PLAN - Manitoba

For more detailed financial information or additional
information about HEPP/HEBP, please contact us.

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