



HEALTHCARE EMPLOYEES PENSION PLAN

2002 ANNUAL REPORT

www.hepp.mb.ca



Contents

3	Our Commitment
4	Report from the Chair of the Board
6	Report from the Executive Director
7	Governance Structure
8	Plan Features
9	2002 Highlights
11	Management's Responsibility for Financial Reporting
12	Fund Highlights
13	Actuarial Highlights
15	Report from the Director of Investments
19	2002 HEPP Directory



HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

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

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Our Commitment

Our **Purpose**

The purpose of the Healthcare Employees Pension Plan (HEPP) is to provide pension benefits to healthcare employees and their beneficiaries.

Our **Vision**

We will be a leader in healthcare pension plans in Canada, providing competitive benefits and superior services.

To achieve our vision, we will focus on the four areas that are the levers, or pillars of the Pension Plan:

- Investment Strategy
- Funding Strategy
- Administration (level and quality of resources), and
- Actuarial Assumptions.

Our **Values**

We are committed to *stewardship, competence, respect, even-handedness, integrity, beneficiary focus and teamwork.*

Our **Mission**

Our mission is to meet member needs for retirement security through:

- 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 members and other stakeholders through prudent fiscal stewardship, excellent member service and open communication.

Our **Goals**

To maintain a fully funded pension plan.

To maximize investment returns within an appropriate and prudent level of risk.

To maintain cost-effective administration 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 Chair of the Board

Each year, audited financial statements and an actuarial valuation provide comprehensive information about the Plan. At December 31, 2002, active membership increased to 33,178 from 31,817 last year, and retired membership increased to 8,524 from 8,006. However, net assets at market value decreased to \$2.010 billion from \$2.079 billion and the Plan's actuarial surplus decreased to \$67.4 million from \$86.6 million.

Members who have been watching their Registered Retirement Savings Plans will have noticed significant decline in the value of their investments resulting from the decline in stock markets over the past few years. Pension plans like HEPP have not been immune to declining markets. Furthermore, there are very stringent rules in place to ensure that pension plan boards take action in these circumstances to protect the interests of members.

For a number of years, extraordinary market returns have served to keep contributions lower than they need to be to support benefits. Though the Plan remained solvent at December 31, 2002, it is necessary for HEPP to ensure that the Plan remains viable in the coming years by increasing contributions, or through a combination of contribution increases and benefit reductions. Further information will be forthcoming as it becomes available.

Since HEPP's inception in 1997, the financial position of the Plan has enabled the Board of Trustees to approve ad hoc cost of living adjustments (COLAs) to retirees, disabled and deferred vested members each year at 70% of the Canadian Consumer Price Index (CPI) during the 12 month period ending as of the preceding June 30.

A 2.34% ad hoc COLA was granted effective January 1, 2002. The Trustees deferred a decision on a COLA effective January 1, 2003 pending the outcome of an actuarial valuation of the Plan. Unfortunately, based on the financial position of the Plan, the Trustees decided no COLA could be granted effective January 1, 2003. Future COLAs will depend on the actuarial position of the Fund.

Pension plans have a great responsibility to members, making governance practices essential. In 2002, the Board and management finalized a governance manual, which defines the process and structure used to supervise HEPP's operation. In conjunction with the new manual, two new board committees - an Audit Committee and a Governance Committee - have been established.

The Board of Trustees of HEPP and the Board of Trustees of the Healthcare Employees Benefits Plan (HEBP) have appointed Mr. John McLaughlin as Executive Director.

Reporting to the jointly trusteeed HEPP/HEBP Boards, Mr. McLaughlin will direct HEPP/HEBP's activities to achieve the organization's strategic objectives and enhance service to members and employers.

Over the next two years, HEPP will be upgrading systems and processes to provide more timely information to members. The Board members appreciate the efforts of HEPP management and staff for their renewed commitment to improving systems, processes and data, and enhancing service to members.

Sincerely,

A handwritten signature in green ink, appearing to read "Bob Malazdrewich". The signature is fluid and cursive, with a long horizontal stroke at the end.

Bob Malazdrewich
Chair

Report from the Executive Director

It has been six years since the inception of HEPP. In 2002, HEPP staff focused on evaluating and analyzing processes, procedures, systems and data. This process has led to a renewed commitment to improve service and provide more timely and accurate information to members.

Management changes have invigorated the process of change. Initiatives include reducing administration costs through automation of manual processes, addition of data validity checks and document imaging.

This year, improvements were made to annual statements. It is intended that HEPP members who are also members of the Healthcare Employees Benefits Plan (HEBP) will receive one consolidated pension and benefit statement in the future.

HEPP/HEBP will also be working with employers to improve the collection and retention of member information. Currently, for example, addresses that you provide directly to HEPP/HEBP can be overwritten by information coming electronically from your employer. Through careful planning, cooperation with employers and modern technology, HEPP/HEBP will resolve such issues.

In addition to striving for steady and noticeable improvement, HEPP will improve accountability to the Board of Trustees by providing reports that monitor service levels to members.

I would like to take this opportunity to thank the HEPP Board for their guidance and support in initiating changes and improvements and HEPP management and staff for their commitment to improvement.

The administrative staff appreciates the cooperation and understanding of members and employers as HEPP embarks on change. Please continue to send your feedback and suggestions to enable HEPP to be more responsive to your needs.



John McLaughlin
Executive Director

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.

One Trustee is appointed by each of the following unions:

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

Board members and their affiliations are listed on page 19.

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 19.

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 service and highest average earnings 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 by the Board of Trustees each January 1 when sufficient funds are available. COLAs have been granted every year since HEPP's inception with the exception of January 1, 2003.

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 Customs and Revenue Agency (CCRA) regulations.

Early Retirement

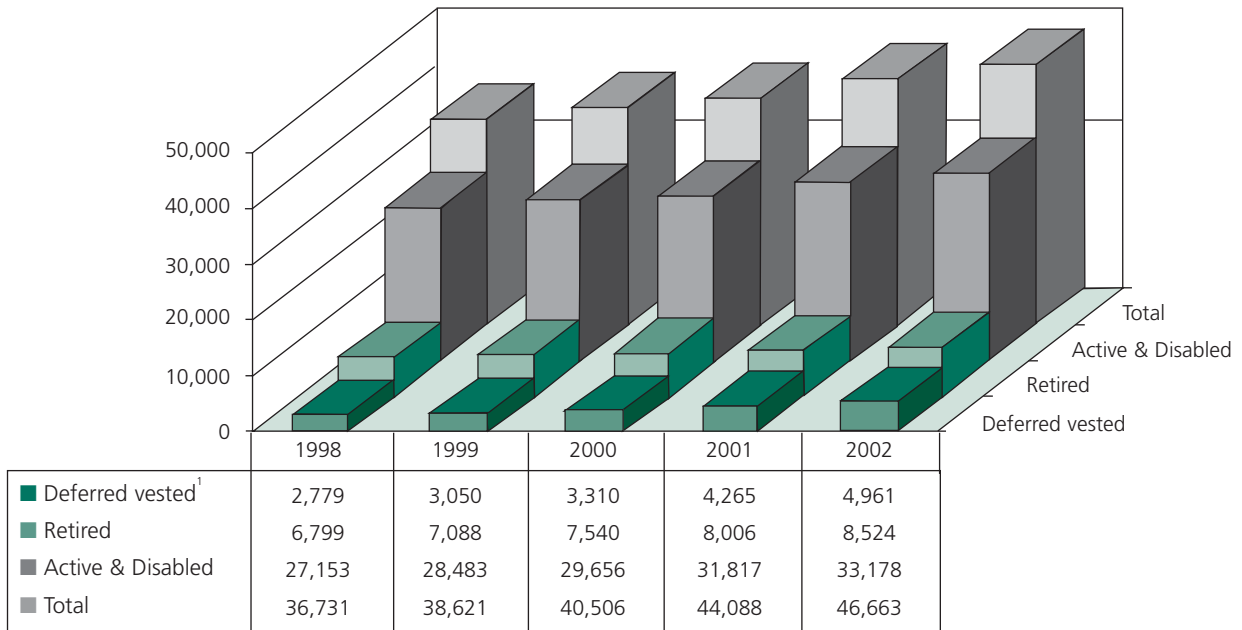
- Members who are age 55 with two or more years of employment service may receive reduced pension benefits, and may be entitled to monthly bridge benefits.
- Members who are age 60 or over with two or more years of employment service, and members who have reached Magic 80 - their age plus years of service 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.
- HEPP provides pension accrual for disabled members.

2002 Highlights

Member Mix



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

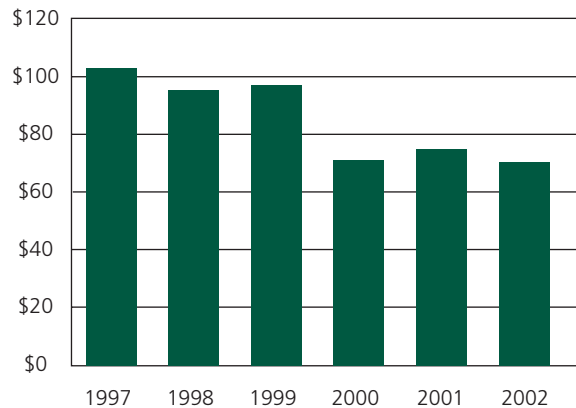
Membership Information

Average age (years)	2002	2001	2000	1999	1998
Active member	42.7	42.6	42.5	42.6	42.4
Retired member	69.8	69.7	69.8	70.3	70.0
Deferred member	41.9	42.6	42.1	45.3	43.4

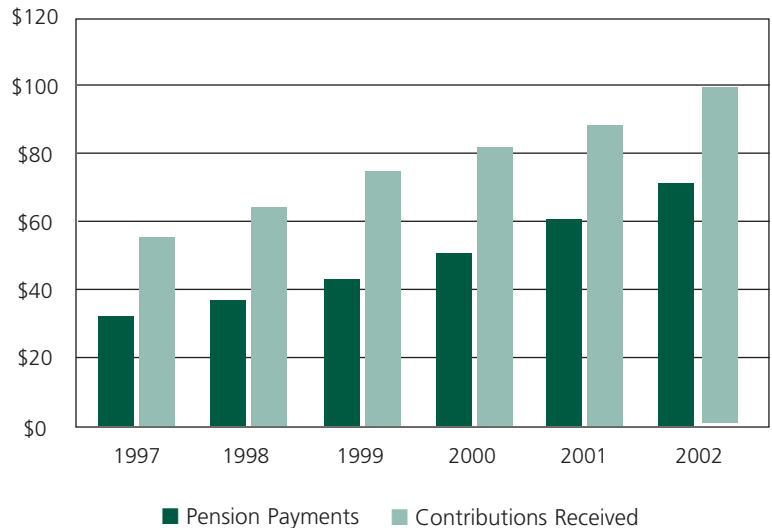
Average earnings/pension	2002	2001	2000	1999	1998
Average annual earnings active member	\$27,665	\$27,463	\$26,909	\$25,771	\$24,613
Average annual pension retired member ¹	\$7,703	\$7,494	\$6,939	\$6,441	\$6,002

¹Includes bridge benefit

Annual Administrative Cost Per Member



Pension Payments & Contributions Received (\$ 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 2002 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

Fund Highlights

Financial Summary

	2002	2001
Increase in net assets		
Investment income	\$ 72,942,372	\$ 77,997,138
Contributions from employers	49,191,266	44,516,753
Contributions from members	49,191,266	44,516,753
	<hr/> 171,324,904	<hr/> 167,030,644
Decrease in net assets		
Current period change in market values	153,174,811	37,898,855
Benefits paid to pensioners and beneficiaries	63,230,628	56,852,319
Refunds to terminated members	14,571,730	18,163,713
Investment expenses	6,603,700	6,306,550
Plan administration expenses	2,652,441	2,425,541
	<hr/> 240,233,310	<hr/> 121,646,978
Net (decrease) increase in assets	(68,908,406)	45,383,666
Net assets available for benefits, as of January 1	2,079,422,932	2,034,039,266
Net assets available for benefits at December 31	<hr/> \$2,010,514,526	<hr/> \$2,079,422,932

Actuarial Highlights 2002

Key Actuarial Information

The Plan Text and the Trust Agreement require that an independent actuary perform an annual actuarial valuation on both a going concern basis and a solvency basis.

Towers Perrin, a firm of consulting actuaries, prepared the most recent actuarial valuation as at December 31, 2002.

The principal purposes of the valuation are:

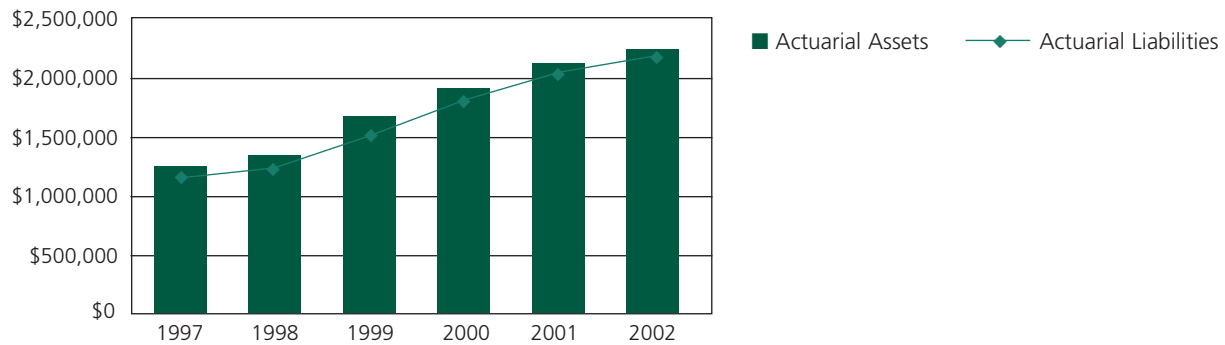
- To present information on the financial condition of HEPP as at December 31, 2002,
- To compare actual and expected experience under the Plan since the previous valuation, and
- To present information on the sufficiency of member and participating employer contributions during 2002 to meet the cost of benefits accruing in 2002.

The notable features of the actuarial opinion are as follows:

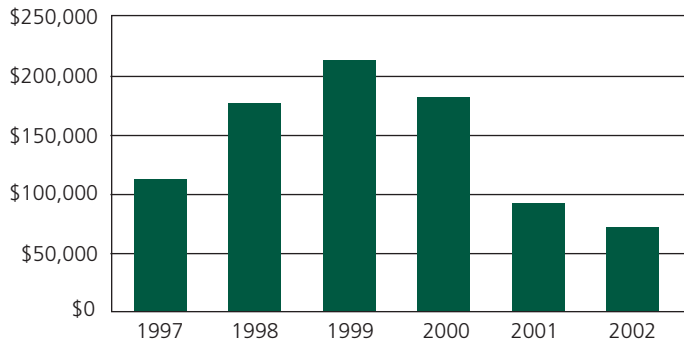
- The going concern actuarial surplus, determined by comparing the actuarial value of assets to the actuarial liability, is \$67 million (compared to \$87 million at January 1, 2002).
- The market value of the assets exceeds the solvency liability by \$30 million (compared to \$286 million at January 1, 2002). Though the Plan remained solvent at December 31, 2002, the current employer and employee contribution rates are insufficient to fund the Plan. Consequently, it will be necessary to ensure that the Plan remains viable in the coming years by increasing contributions, or through a combination of contribution increases and benefit reductions.

<i>Assets and liabilities</i>	Dec. 31, 2002	Jan.1, 2002
Actuarial value of assets		
	\$2,210,930,000	\$2,115,124,000
Actuarial liabilities		
Active & disabled	1,444,447,000	1,293,806,000
Retired & deferred	675,918,000	593,661,000
Reserves	23,141,000	141,072,000
	2,143,506,000	2,028,539,000
Actuarial surplus	\$ 67,424,000	\$ 86,585,000

Growth of Actuarial Assets and Liabilities



Actuarial Surplus (\$ millions)



Report from the Director of Investments

Investment Committee

The Board has established an Investment Committee responsible for overseeing the investment of the Fund's assets in accordance with the Statement of Investment Policies and Procedures. The Committee is comprised of eight members appointed by the Board.

Please refer to the directory on page 19 of this report for Committee member names.

Custodian

CIBC Mellon Global Securities Services Company is the custodian of HEPP's assets. As well as being responsible for the safekeeping of those assets, they also provide accounting and reporting services.

External Performance Measurement

Russell/Mellon Analytical Services provides the fund with investment return calculations and portfolio analytical information.

Investment Management

HEPP hires external investment management firms based on their asset management expertise for given asset classes.

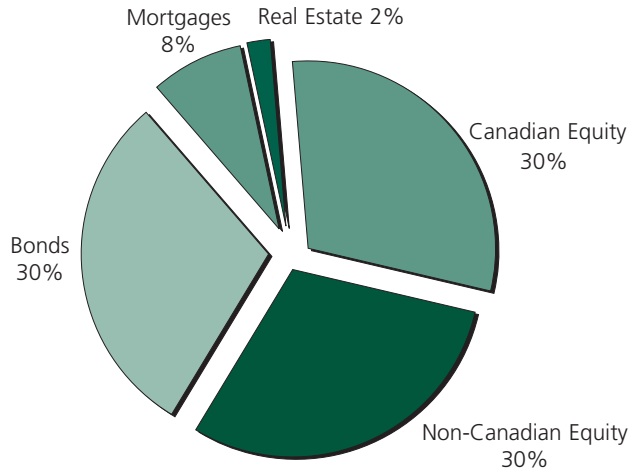
Statement of Investment Policies and Procedures

The Board is responsible for establishing a Statement of Investment Policies and Procedures (SIPP). Investment managers must invest HEPP's assets in accordance with the SIPP.

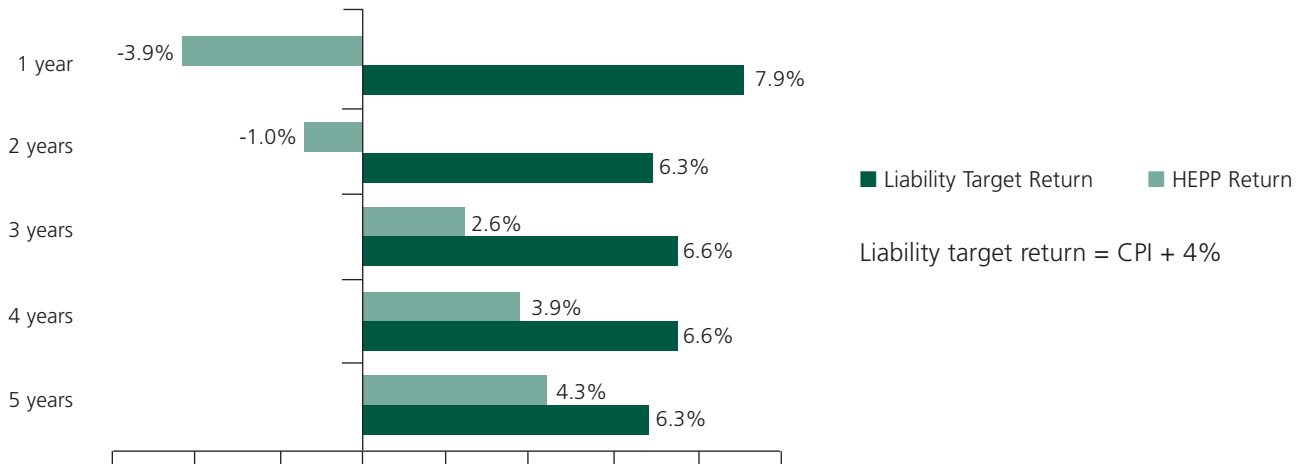
HEPP's number one investment priority is to ensure that there are enough assets in the Plan to meet benefit obligations. HEPP must achieve a target return rate of 4% greater than the inflation rate, as measured by the Consumer Price Index (CPI), to meet these obligations and establish a reserve for ad hoc cost of living adjustments (COLAs). HEPP grants COLAs to existing pensioners, deferred vested members and disabled members when there are sufficient reserves available to do so.

Pension plans generally have a long-term investment horizon, typically over 20 years. The long-term nature of HEPP's obligations provides HEPP with the ability to withstand adverse short-term investment returns. Consequently, HEPP's investment policy provides for an overall asset mix of 60% equities and 40% fixed income.

Investment Policy Asset Mix



Investment Returns vs. Liability Target Return Rate



As shown in the chart on the preceding page, investment returns have not kept pace with liability growth over the past five years.

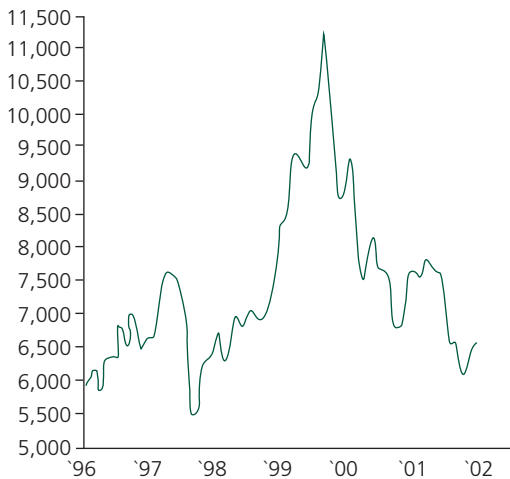
Most stock markets around the world peaked in the year 2000 and have been trending down since then. The Canadian stock market peaked at over 11,000 in the year 2000 and closed at 6,600 at December 31, 2002, down almost 45% since its high. (See chart below)

HEPP's assets are invested in a variety of different asset classes to avoid being exposed heavily to a single asset class.

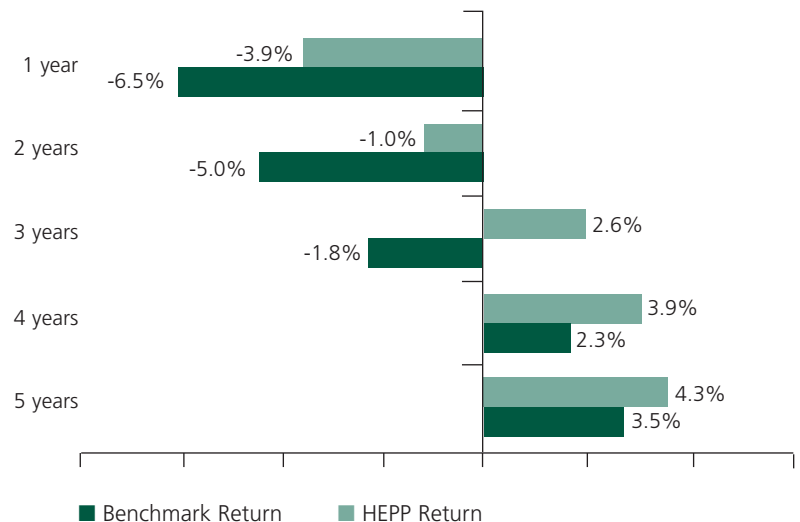
While declining equity markets have resulted in overall investment returns being less than those required to meet HEPP's actuarial liability targets, the Plan's investment performance relative to its policy benchmark has added value over the past five years as shown below.

HEPP has established an investment policy benchmark against which it measures its overall investment performance. The benchmark is calculated by taking the asset class weighting and multiplying by the asset class benchmark return. For example, our 30% weight in Canadian equity would be multiplied by the return on the Toronto Stock Exchange Index (TSX).

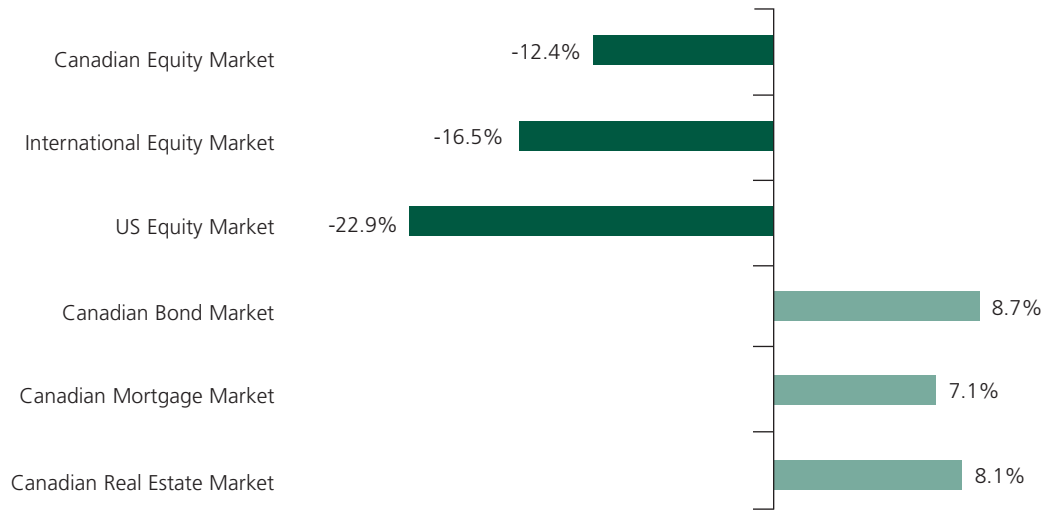
Toronto Stock Exchange Index



Investment Returns vs. Policy Benchmark Return



2002 Major Market Returns



The year 2002 was a difficult year for equity market returns. Fixed income market returns, by contrast, produced positive results during the year. The chart above shows the one-year returns for the major asset classes HEPP invests in.

We have a cautious outlook for improved investment returns over the next several years.

Interest rates, as measured by the Scotia Capital Universe Bond Index, were at 4.6% at year-end 2002. With a liability target return rate of inflation plus 4%, it will be challenging for the bond market to meet this hurdle rate over the next few years.

Equity markets have endured significant declines from their

peak levels only two years ago. We anticipate continued challenges from the equity markets with high levels of volatility leading to erratic returns.

With this outlook in mind, and based on our expected returns for the next several years, HEPP will be reviewing its asset mix in 2003, and may make adjustments accordingly.

Ronald Queck
Director of Investments

2002 HEPP Directory

Board of Trustees

Union Representatives

Ray Erb
*Manitoba Government and
General Employees Union (MGEU)*
Doug Laurie
*International Union of Operating
Engineers (IUOE)*
Bob Malazdrewich*
*Canadian Union of Public
Employees (CUPE)*
Bob Romphf
Manitoba Nurses Union (MNU)
Ken Swan
*Manitoba Association of Health
Care Professionals (MAHCP)*
Robert Ziegler
*United Food & Commercial
Workers Union (UFCW) Local 832*

*Chair

**Vice-Chair

Employer Representatives

Gary McIntosh
*Brandon Regional Health
Authority (RHA)*
Gloria O'Rourke
*Winnipeg Regional Health
Authority (WRHA)*
Marilyn Robinson
Fred Douglas Lodge
Penny Sorensen
Assiniboine RHA
Ray Spokes**
St. Boniface General Hospital
Darcy Strutinsky
WRHA

Investment Committee

Bob Darling <i>Retired Investment Executive</i>	Bob Romphf <i>MNU</i>
Ray Erb** <i>MGEU</i>	Ray Spokes <i>St. Boniface General Hospital</i>
Bob Malazdrewich <i>CUPE</i>	Darcy Strutinsky <i>WRHA</i>
Michael Nesbitt <i>Montrose Mortgage Corp.</i>	Darcy Zaporzan* <i>RBC Investments</i>

*Chair (Resigned effective December, 2002)

**Vice-Chair

Audit Committee

Bob Malazdrewich** <i>CUPE</i>	Ray Spokes*** <i>St. Boniface General Hospital</i>
Marilyn Robinson <i>Fred Douglas Lodge</i>	Ken Swan <i>MAHCP</i>
Bob Romphf <i>MNU</i>	Gordon Webster, FCA* <i>The Faneuil Group</i>
Penny Sorensen <i>Assiniboine RHA</i>	

*Chair

**Ex-officio member, Chair of HEPP Board

***Ex-officio member, Vice-Chair of HEPP Board

Governance Committee

Bob Malazdrewich
CUPE
Gary McIntosh
Brandon RHA
Gloria O'Rourke
WRHA
Robert Ziegler
UFCW

Management Team

John McLaughlin, Executive Director
Ronald Queck, CFA, Director of Investments
Rohini Halli, CA, Director of Finance
Kay Dunthorne, FLMI, ACS, ALHC, Director, Benefits Administration
Ron Serediuk, Manager, Benefits Administration

Consultants

Custodian – CIBC Mellon Global Securities Services Company
Legal Counsel – Koskie Minsky
Auditor – KPMG LLP
Actuary – Towers Perrin



HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

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