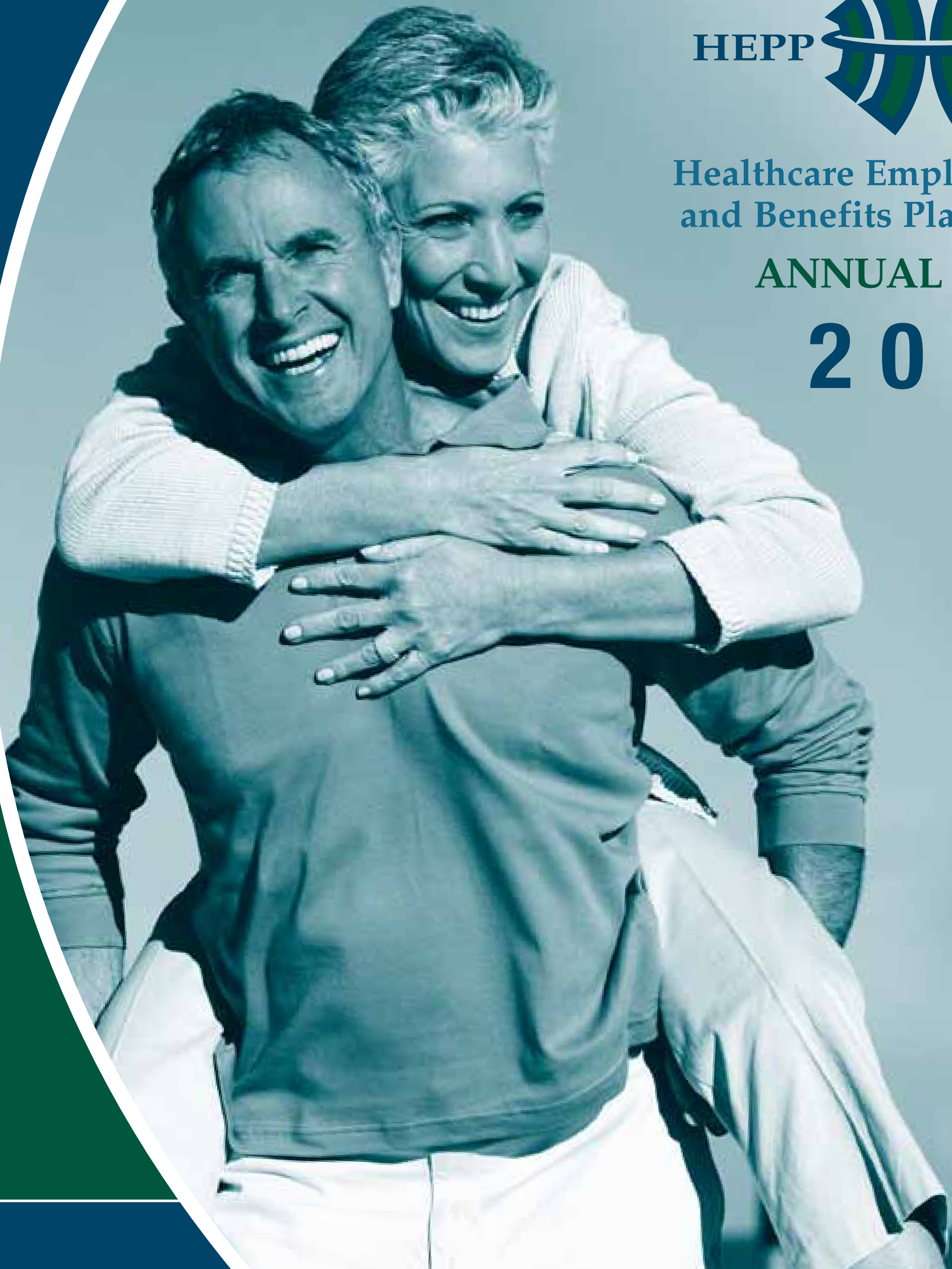
HEPP HEBP

Healthcare Employees' Pension and Benefits Plans – Manitoba

ANNUAL REPORT

2005



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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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E-mail: info@hepp.mb.ca

OUR COMMITMENT

Our PURPOSE

Our purpose is to provide pensions and other benefits to healthcare employees, retirees 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 RESPONSIBILITIES

- 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 MANAGEMENT TEAM

As part of HEPP/HEBP's commitment to enhance its service to our membership, the development of our systems continues, with a focus on enhancing system functionality, improving member data integrity and streamlining processes.

The initial challenges of developing and implementing new systems will be offset by increased accuracy, efficiency and security. Accurate member data is critical for calculating member benefits and assessing the overall obligations each Plan has for its membership base. As part of this process, we are working with participating employers who are also making changes to their systems to ensure an integrated framework.

We continue to build our staff and systems capability for the Disability and Rehabilitation Plan as applications and claims continue to grow. At year-end 2005, there were 1,118 members on claim, with 561 of the claims being administered by our in-house program. At year-end 2004, our in-house program was administering 463 claims.

Several service enhancements will be introduced in 2006 for our Dental and Healthcare Plans which are administered by Blue Cross. These include a point-of-sale drug card and online access for member coverage and claim information.

For our Pension Plan members, we are undertaking a number of initiatives to improve service and turnaround times. These include the establishment of a dedicated member service team, as well as system enhancements.

Our Privacy Policy was introduced in 2005, which defines how we use personal information and personal health information when administering the Benefits Plans. The Policy is available on our website (www.hepp.mb.ca) or by contacting our office.

We continue to strive in our efforts to keep members and employers informed and educated about our activities. Employer training sessions and PlanFacts newsletters inform employers and unions about key developments, while PlanTalk newsletters, Plan brochures and Annual Reports provide members with up-to-date benefits and coverage information. Our member services department provides pre-retirement and benefits overview seminars to members throughout the province.

The management and staff at HEPP/HEBP are committed to improving service levels for all Plan members and stakeholders. We encourage members to provide feedback through the *Contact Us* section on our website, via e-mail, regular mail or by calling our offices.

Executive Management Team
Healthcare Employees' Pension Plan
Healthcare Employees' Benefits Plan

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Benefits Plans have been prepared by management and approved by the HEPP/HEBP Boards. 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 2005 Annual Report that relates to the operations and financial position of HEPP and HEBP is consistent with that in the audited 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 HEPP and HEBP Audit Committees assist the Boards in discharging their 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 Committees review 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 HEPP and HEBP Boards, 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 Committees to discuss any findings related to the integrity of the Plans' financial reporting and adequacy of internal control systems.

Ronald Queck

Ronald Queck, CFA
Director of Investments

R. Halli

Rohini Halli, CA
Director of Finance

HEALTHCARE EMPLOYEES' PENSION PLAN

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REPORT FROM THE CHAIR OF THE HEPP BOARD

The Board, management and staff at the Healthcare Employees' Pension Plan (HEPP) have accomplished a tremendous amount of work in 2005 that reflects the Plan's commitment to fulfilling its mission.

The Boards of HEPP and the Healthcare Employeess' Benefits Plan (HEBP) have created a Joint Executive Committee and a Joint Governance Committee to oversee issues of joint concern to the Pension and Benefits Plans. The creation of these committees has fostered a new and higher standard for providing pensions and other benefits to healthcare employees, retirees and their beneficiaries.

The Plans are committed to protecting the interests of members, trustees and employees. Trustees and employees have an obligation to fulfill their duties with honesty and integrity. An internal disclosure policy adopted in 2005 provides an appropriate process for employees to report improprieties or misconduct in a manner that protects both the interests of the organization and the security of the individual who has come forward.

In addition to reviewing and expanding operational policies and procedures in conjunction with the implementation of system improvements, a Privacy Policy was approved in 2005 to protect members' privacy in accordance with relevant privacy laws.

Focus has also been placed on enhancing relationships with employers and other stakeholders, and updating communication materials to ensure members are informed of their entitlements and options.

HEPP is subject to provisions of the Pension Benefits Act, Manitoba. The Act requires that the Plan's actuaries conduct two tests to confirm the viability of the Plan and confirm its ability to meet its commitments to pay benefits to members. At the end of December 2005, the Plan finds itself with both a solvency deficiency and a going-concern deficiency of $39 million and $5 million, respectively.

Due to the foresight of management and the Plan's sponsoring unions and employers, contribution rate increases were agreed upon two years ago. At the end of 2005, no further action is required by the Board to meet the legislated funding requirements. The unfunded going-concern liability represents only 0.17% of the $2.9 billion in assets required to meet obligations to all members.

HEPP's situation is not unique; many pension plans in Canada and the United States find themselves in similar positions. Furthermore, a number of Canadian provinces have amended legislation to exempt multi-employer plans like HEPP from the solvency test since they can continue to provide pensions, even if one or more participating employers goes out of business. This is particularly so in a public sector pension plan. A single-employer plan, on the other hand, must ensure that there are sufficient assets to pay benefits accrued should the employer go out of business. The Board will continue to monitor HEPP's funded status closely.

Trustees recognize that it has been a number of years since HEPP was in a position to grant an ad hoc cost of living adjustment (COLA) to pensioners, and will continue to consider options to address this difficult issue.

I have been privileged to serve as the Chair of the Board over the past year, and would like to thank the trustees, management and staff of HEPP for their dedication to the Plan and its members.

Sincerely,

Gloria O'Rourke
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.

Two Trustees are appointed by the Manitoba Council of Health Care Unions, and one Trustee is appointed by each of the following unions:

- Manitoba Nurses Union
- Canadian Union of Public Employees
- Manitoba Government and General Employees Union
- Manitoba Association of Healthcare Professionals

Board members and their affiliations are listed on page 34.

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 Joint Executive Committee consisting of the Chairs and Vice-Chairs of the HEPP and HEBP Boards oversees operational issues of joint concern to the Plans.
- The Joint Governance Committee provides recommendations to the Board regarding governance issues.

Committee members and their affiliations are listed on page 34.

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. Due to the Plan's current financial position, HEPP cannot provide COLAs for retired members. COLAs were last granted in 2002.

SERVICE PURCHASE POLICIES

Members on approved, unpaid leaves of absence may purchase pension service by making contributions to the Plan. At retirement, members have the option of purchasing prior periods of service. All purchases of service are 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 another occupation.
- A monthly pension is provided to members who meet the definition of total and permanent disability.

2005 HIGHLIGHTS

MEMBER MIX

	2002	2003	2004	2005
Deferred vested[1]	4,961	4,822	6,221	7,353
Retired	8,524	8,971	9,505	10,151
Active & Disabled	33,178	34,865	35,635	36,818
Total	46,663	48,658	51,361	54,322

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.

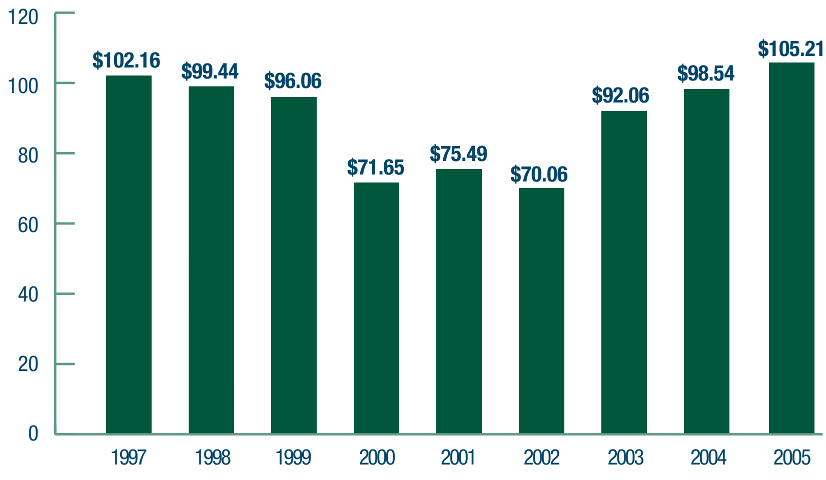
MEMBERSHIP INFORMATION

AVERAGE AGE (YEARS)	2002	2003	2004	2005
Active member	42.7	42.8	43.1	43.2
Retired member	69.8	69.8	69.8	69.8
Deferred member	41.9	42.6	42.2	42.3
Average annual earnings active member	$ 27,665	$ 30,363	$ 32,449	$ 33,552
Average annual pension retired member[1]	$ 7,703	$ 7,925	$ 8,225	$ 8,561
Average annualized earnings active member	$ 37,758	$ 39,695	$ 41,805	$ 43,654

1 Includes bridge benefit

Annual Administrative Cost per Member

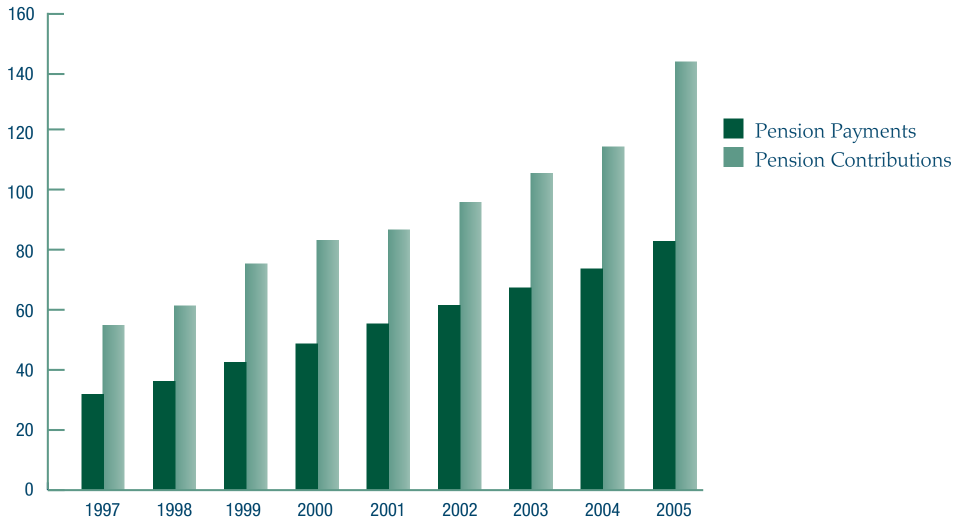
(in dollars)



Note: Includes custodial fees.

Pension Payments & Contributions

($ millions)



FINANCIAL SUMMARY*

	2005	2004
Increase in Assets		
Current period change in market values	$ 248,889,987	$ 178,131,699
Investment income	88,699,798	79,224,808
Contributions from employers	72,616,881	60,344,795
Contributions from employees	72,658,253	60,401,182
	482,864,919	378,102,484
Decrease in Assets		
Benefits paid to pensioners and beneficiaries	83,804,729	75,761,347
Refunds to terminated members	23,632,155	15,287,521
Investment and Plan administration expenses	14,112,188	12,472,396
	121,549,072	103,521,264
Net increase in assets	361,315,847	274,581,220
Net assets available for benefits, January 1	2,595,109,787	2,320,528,567
Net assets available for benefits, December 31	**$ 2,956,425,634**	**$ 2,595,109,787**

** Full Audited Financial Statements are available on our website at **www.hepp.mb.ca.***

ACTUARIAL HIGHLIGHTS 2005

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 if the Plan has sufficient assets to pay for accrued benefits and if the level of contributions being made by members and employers is sufficient to cover the cost of future benefit accruals.

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

SOLVENCY VALUATION

The solvency valuation assumes that the Plan terminates 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:

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

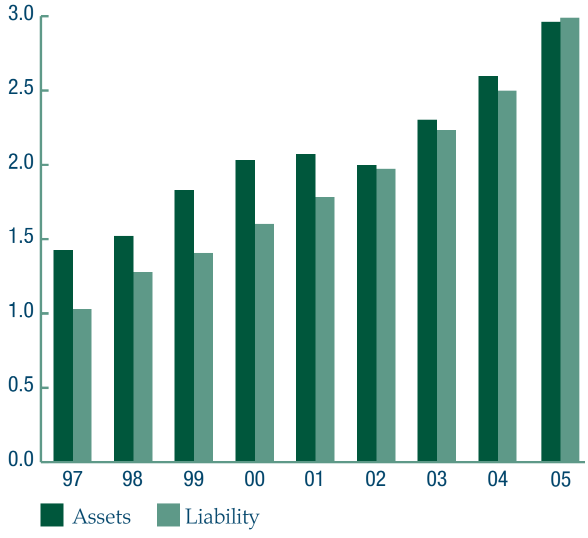
The funded ratio is commonly used to measure the financial position of the Plan. This ratio is determined by dividing assets by solvency liabilities. A value greater than 100% indicates the Plan has a surplus.

At the end of 2005, HEPP had a solvency deficit of $39 million (99% funded ratio), down from an $85 million surplus in 2004 (103% funded ratio). The solvency funded ratio fell during the year even though the Plan earned a 13% investment return for the year. Offsetting the strong investment return gain was a negative impact to the solvency ratio, as the interest rates used to calculate the liability were lower at the end of 2005 compared to 2004. A 1% change in interest rates changes the liability by approximately 11%.

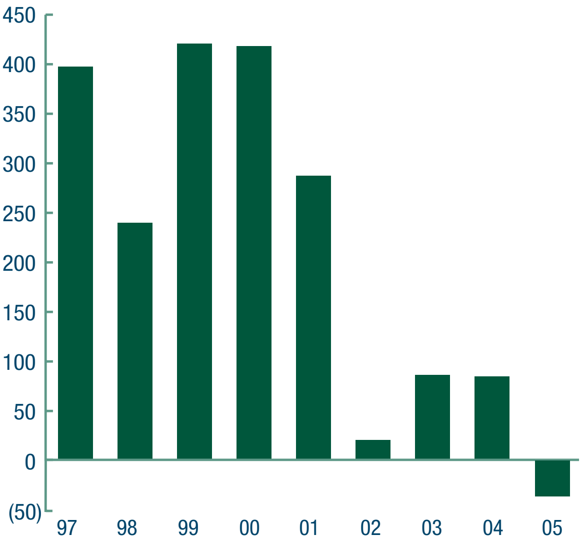
Further impacting the solvency ratio was the new valuation method for calculating the solvency position in 2005, put forth by the Canadian Institute of Actuaries. The new method further reduced the solvency funded ratio by 1% as compared to the method used in previous valuations.

The solvency valuation is not used to determine contribution rates for the Plan. However, the solvency

Solvency Assets vs. Liabilities
($ billions)



Solvency Surplus (Deficit)
($ millions)



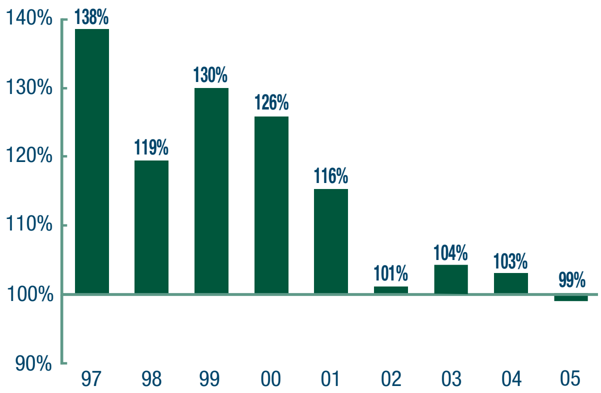
funded ratio must remain above 100% to allow for adverse investment returns or unexpected changes in the pension liability. Contributions must be increased and/or benefits reduced to eliminate any deficit.

Due to HEPP's current solvency situation, the Plan cannot provide COLAs for retired members, as these funds come from the Plan's surplus, nor can any benefit improvements be considered.

Under provincial pension legislation, the solvency deficit needs to be eliminated over a five-year period. As further described at the end of this report, contribution rates for the Plan were increased starting in 2005. The actuary has estimated that this increase in contribution rates will be sufficient to eliminate the solvency deficit over the next five years.

For 2006, no additional increase in contributions will be required. However, should investment returns, interest rates or liability demographics change adversely in 2006, the solvency position may worsen, which may necessitate additional contributions in 2007.

Solvency Funded Ratio

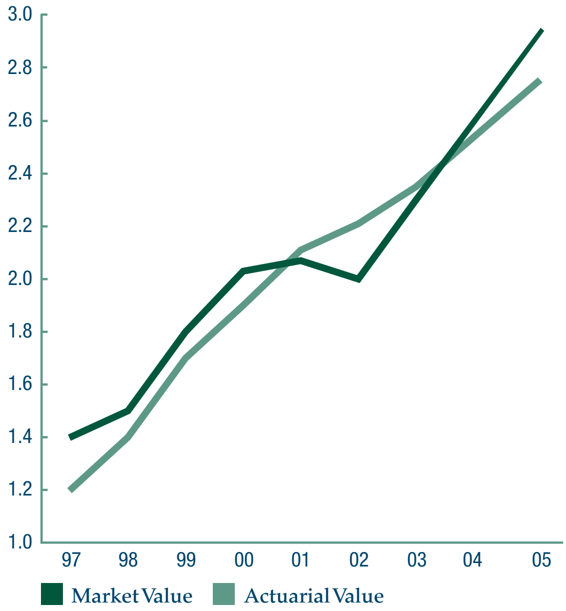


GOING-CONCERN VALUATION

The going-concern valuation assumes that the Plan continues in operation indefinitely, and is used to ensure that sufficient assets are being held to pay for accrued benefits, as well as to determine whether the level of contributions being made by members and employers is sufficient to cover the cost of future benefit accruals.

Market Value of Assets vs. Actuarial Value of Assets

($ billions)



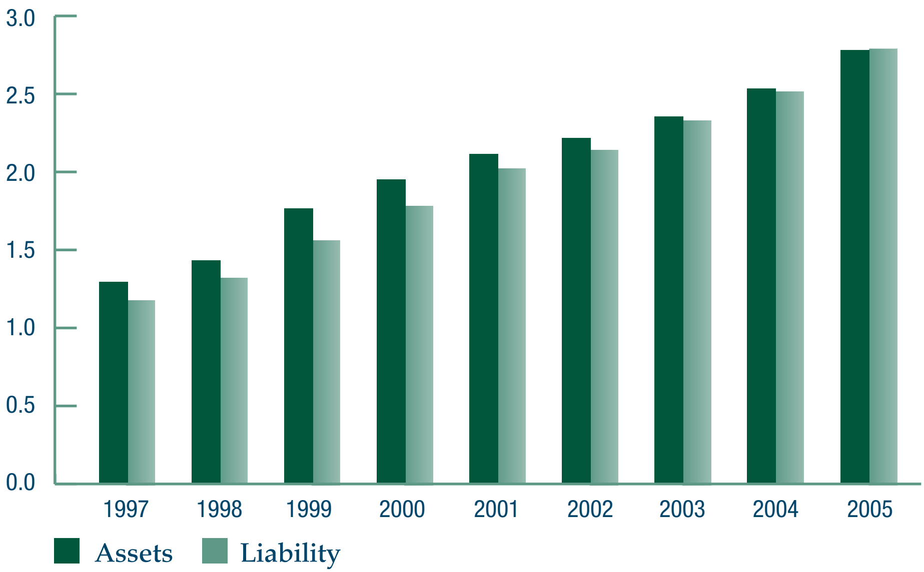
For the going-concern valuation, the market value of the Plan's assets are smoothed or averaged over a period of five years. This smoothing helps to lessen the impact of swings in the market value of assets due to changing conditions in the investment markets. The smoothed value of the assets is called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

At the end of 2005, the market value of assets was higher than the actuarial assets by $200 million. At the end of 2004, the market value of assets was higher than the actuarial assets by $59 million. The improvement in 2005 is directly related to the investment returns which have exceeded the Plan's long-term investment return assumption in each of the last three years.

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%), determines the value of the funds the Plan should be holding to meet future pension benefit obligations (the 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

Actuarial Assets vs. Pension Liability
($ billions)



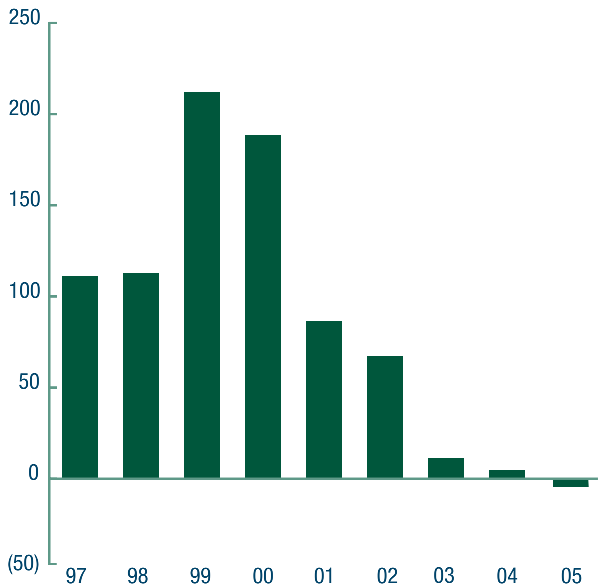
to meet future obligations. If the assets are less than the pension liability, then the Plan has a deficit, and does not have sufficient assets to meet future pension obligations. If the Plan reports a deficit, then corrective action will have to be taken, which could potentially involve increasing contribution 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. In the year 2000, the reduction in the funded ratio occurred even though the Plan had an investment return of 10% in that year, and a four-year investment return of 9.5%, well ahead of the long-term actuarial assumption of 6.5%.

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 2005, the funded ratio was 99.8% (-$5 million) , down slightly from 100.2% ($4.8 million) in 2004. The decrease into a deficit position occurred as a result of liabilities again growing faster than investment returns. The investment return for 2005 was 13%. As previously indicated, the market value of assets is higher than the actuarial assets by $200 million. This difference will allow the Plan to absorb below trend investment returns for the next year or two.

Going-Concern Surplus (Deficit)

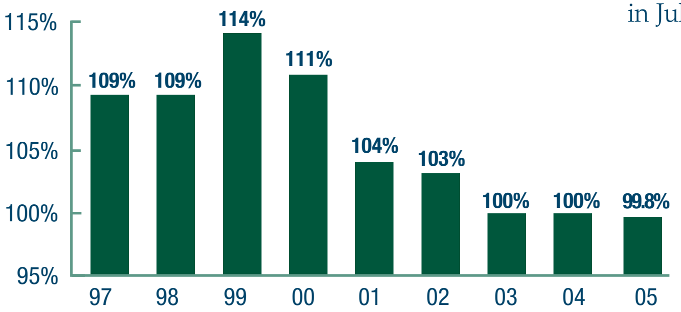
($ millions)



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 COLAs for retired members, as these funds come from the Plan's surplus, nor can any benefit improvements be considered. Under provincial pension legislation, the going-concern deficit needs to be eliminated over a 15-year period. As further described at the end of this report, contribution rates for the Plan were increased starting in 2005. The actuary has estimated that this increase in contribution rates will be sufficient to eliminate the solvency deficit over the next 15 years.

For 2006, no additional increase in contributions will be required. However, should investment returns, interest rates or liability demographics change adversely in 2006, the going-concern position may worsen, which may necessitate additional contributions in 2007.

Going-Concern Funded Ratio



CONTRIBUTION RATES

In the 2003 Annual Report we indicated that the Plan's actuary had advised that the current level of contributions was insufficient to fund the basic Plan benefit levels. The contribution rates at December 2004 were 5.0% up to the year's maximum pensionable earnings, and 6.6% thereafter. Members and employers contribute equally to the Plan. The actuary had advised that the contribution rates should be raised to 6.85%/8.6% from the current 5.0%/6.6%.

In early 2005, the Signatory Boards and Unions approved increases to the contribution rates, from 5.0%/6.6% to 6.8%/8.6%. These rates are being phased in and will be fully implemented in July 2007.

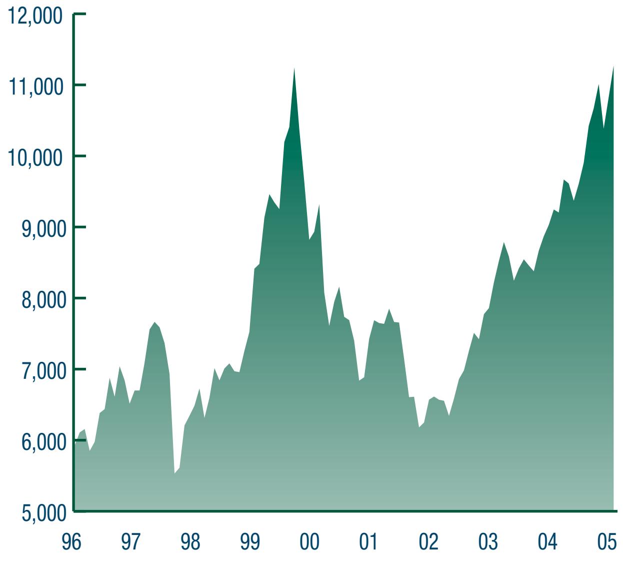
REPORT FROM THE DIRECTOR OF INVESTMENTS

2005 was another good year for investment returns for HEPP. We achieved a 13% return in 2005 following an 11.1% return in 2004.

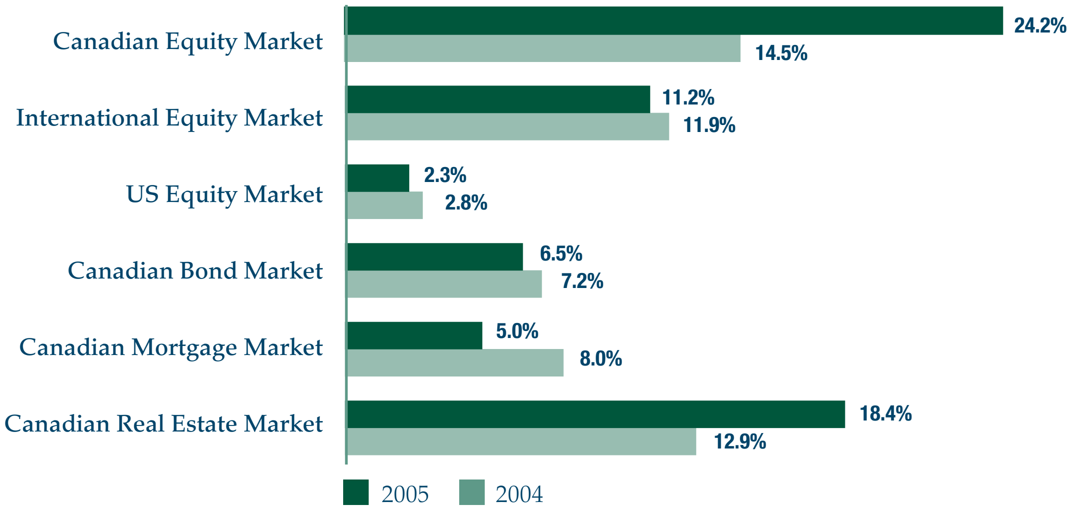
The chart below shows the level of the Canadian stock market over the past nine years. Following the market top in 2000, the Canadian stock market fell 45% over the next two years.

The past three years have seen a dramatic improvement in returns with the Canadian market up 24.2% in 2005, 14.4% in 2004 and 26.7% in 2003. The Canadian market has now reached its previous peak level set back in 2000.

Canadian Stock Market
at December 31, 2005



Major Market Returns

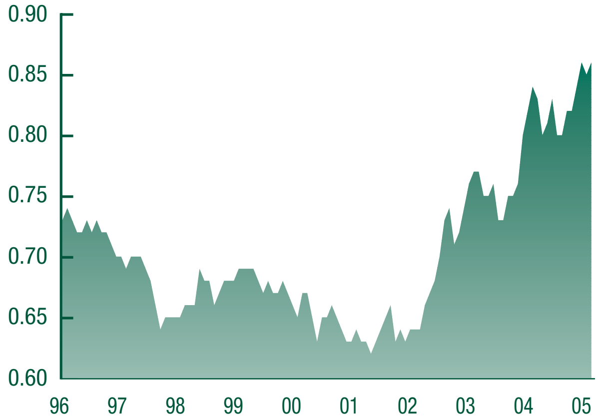


The chart above highlights the returns of the major asset classes in which HEPP invests. All asset classes produced positive returns last year.

In 2004, US equity returns were negatively impacted by a rising Canadian dollar (up 7% versus the US dollar). In 2005, as the chart shows, the Canadian dollar rose 3.6% versus the US dollar (from $0.83 at the end of 2004 to $0.86 at the end of 2005). Despite a reduction of the impact of the rising Canadian dollar, the US equity market was one of the weaker major developed markets in 2005.

The rising Canadian dollar impacted our US equity portfolio, with the US stock market rising 6.1% in US dollar terms versus 2.3% in Canadian dollar terms (as compared to a US dollar return of 11% in 2004 versus a Canadian dollar return of 2.8%).

Canadian Dollar vs. US Dollar
at December 31, 2005



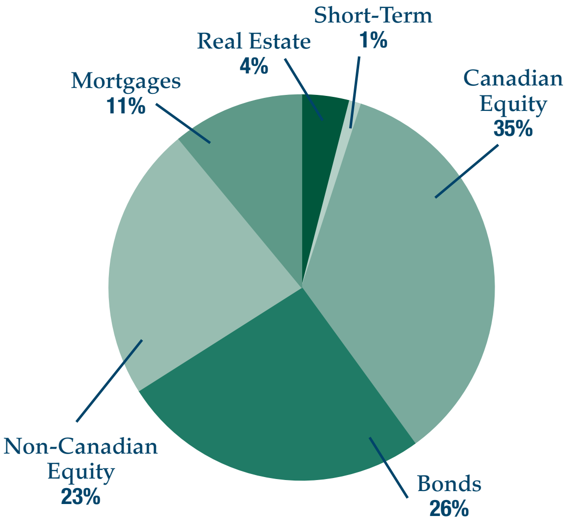
The impact of currency movements in international markets was more pronounced in 2005, with a 26% return in local currency terms versus 7% in Canadian dollar terms (as compared to a 13% local currency return in 2004 and a 12% Canadian dollar return).

Our asset weights at the end of 2005 reflected our favouring the Canadian market over foreign stock markets.

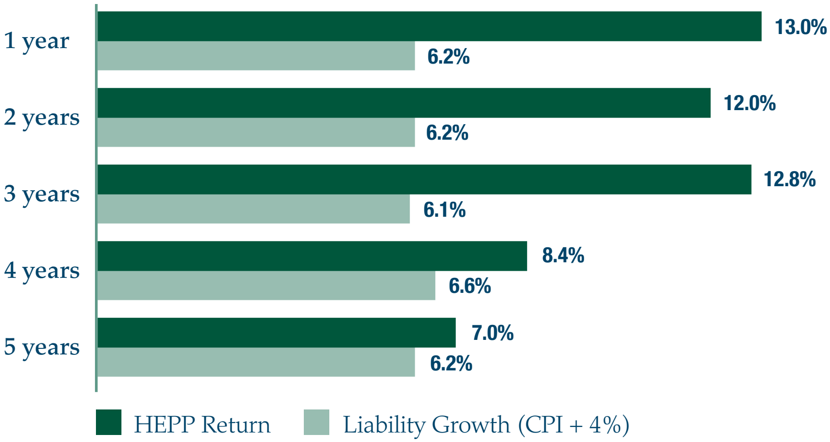
Having achieved three years of strong investment returns, we are now keeping pace with our pension liability growth.

We measure the success of our investment program by comparing the actual returns to that of our policy benchmark. (The policy 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 of the TSX Index.)

HEPP Asset Mix

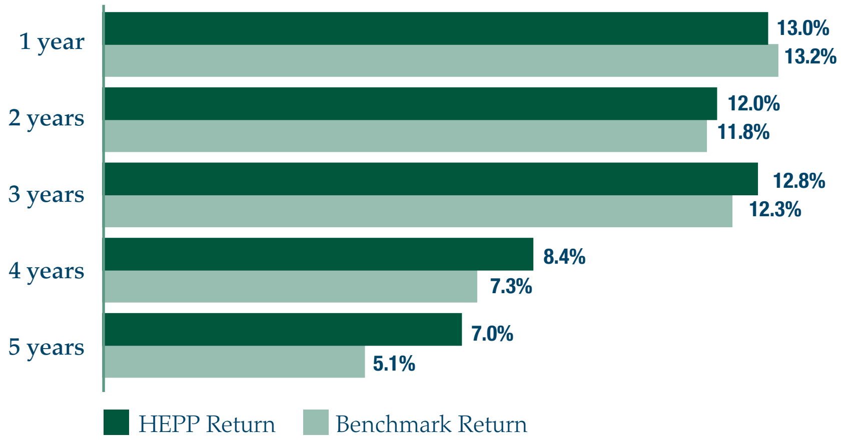


HEPP Investment Returns vs. Pension Liability Growth
at December 31, 2005



HEPP Investment Returns vs. Policy Benchmark Returns

at December 31, 2005



As the chart above shows, we have consistently added value to the policy benchmark over the last several years. Our actual returns were close to our policy return in 2005. We added value from our positions in US equities, international equities and mortgages. Our Canadian equity positions detracted slightly from our benchmark.

Our largest detractor from performance came from our real estate investments, where we only had 4% invested compared to our benchmark weight of 10%. With real estate being our second best performing asset class over the past several years, this underweight position impacted the fund's performance vs. its benchmark.

Our investment focus in 2005 was to largely stay the course with the asset mix that was in place at the end of 2004. The main investment theme was to maintain a larger exposure in Canadian equities as compared to non-Canadian equities.

The Canadian stock market fared well primarily as a result of the energy sector of the TSX Index, which rose over 60% during the year as crude oil rose from US$43 to US$61.

Our real estate program, which was initiated at the end of 2003, continues to provide strong returns. Our asset weight in real estate was 4% at year-end, below our target weight of 10%. We remain selective in property acquisitions with a focus on strong property fundamentals and valuations.

The past three years have provided attractive investment returns for the Plan. Our plan for 2006 is to review opportunities that will provide enhanced returns as compared to our fixed income investments, where current market yields are below that which are required to fund the Plan's benefits.

Ronald Queck

Ronald Queck, CFA
Director of Investments

HEALTHCARE EMPLOYEES' BENEFITS PLAN

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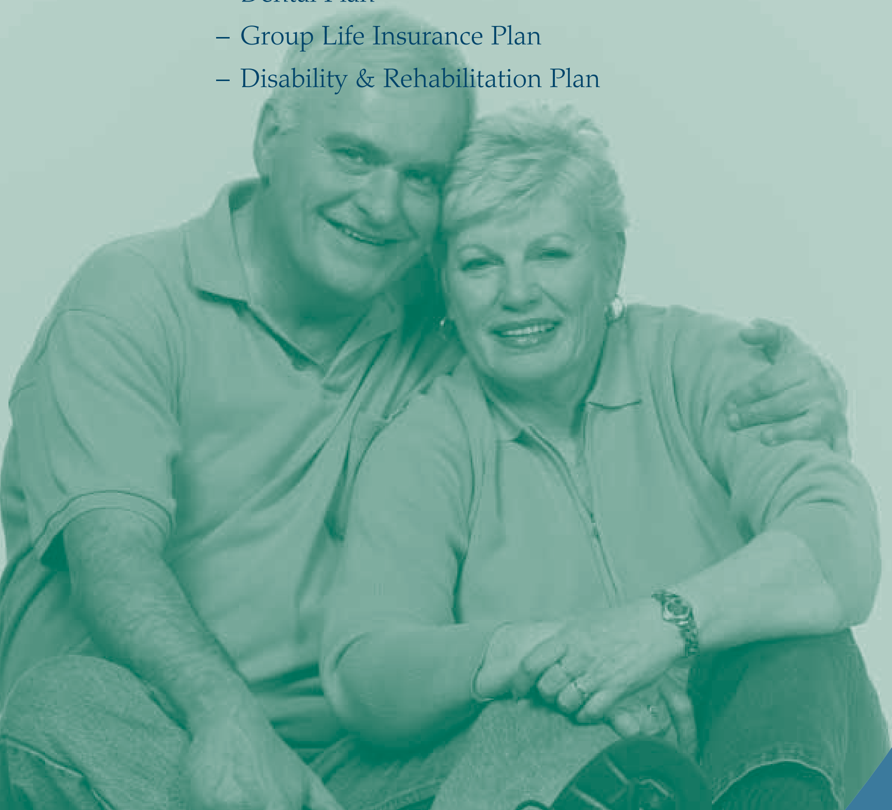


INTRODUCTION

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.hepp.mb.ca.**

PLAN MEMBERSHIP

ACTIVE MEMBERS

Year *(At Dec.31)*	Group Healthcare			Dental	Life Insurance	D&R
	Basic	*Enhanced*	*Total*			
2005	9,848	12,613	22,461	20,396	30,156	31,046
2004	9,438	12,563	22,001	19,933	29,445	28,562
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

RETIRED MEMBERS

Year *(At Dec.31)*	Healthcare Plan (Levels I & II)	Post-Retirement Life Insurance
2005	4,525	4,496
2004	3,917	4,061
2003	3,973	3,756
2002	3,694	3,283

REPORT FROM THE CHAIR OF THE HEBP BOARD

The year 2005 has been eventful for the Healthcare Employees' Benefits Plan (HEBP). There have been a number of significant improvements including the introduction of the Manitoba Blue Cross Blue-Net point-of-sale drug card, which will be implemented in 2006, to allow Healthcare and Dental Plan members to access coverage and claims information over a secure Internet connection.

Within the Enhanced Healthcare Plan, coverage for paramedical practitioners was moved from a combined maximum to a per practitioner basis maximum, allowing members to use a form of therapy or a combination of forms of therapy toward their yearly maximum benefit payment for these practitioners.

The HEBP Plans are in good financial position, with the Enhanced Healthcare Plan aiming to eliminate its deficit by the end of 2007 and the remainder of the Plans in surplus positions.

The increase in claim maximums for drugs under the Retiree Group Healthcare Plan has been well received. As expected, the increase in drug claims is quickly exhausting the surplus in that Plan, and premium increases to pay for the enhanced benefit level will be phased in during 2006 and 2007.

The Board consolidated and approved amendments to the Disability & Rehabilitation (D&R) Plan Text, effective June 1, 2005. The D&R Plan continues to perform beyond expectations. Applications for benefits continue to climb, but HEBP's emphasis on early intervention, rehabilitation and accommodation are paying dividends. Disabled members are returning to productive employment more quickly than ever before, which reduces the overall benefit payments from the Plan. The HEBP trustees are very pleased with the D&R Plan since it was moved to in-house management in 2002.

The HEBP Board continues to work with the Healthcare Employees' Pension Plan (HEPP) Board to ensure that there is a shared mission and values for HEPP and HEBP, and the creation of the Joint Executive Committee and Joint Governance Committee has furthered these efforts. The commitment to superior service is a priority for the Boards, and is being put into action by the management and staff of HEPP/HEBP.

I am very pleased to have had the opportunity to serve as the Chair of the Healthcare Employees' Benefits Plan. Members of the Plan are well served by the tireless commitment of the management and staff of HEBP in implementing the vision of the trustees. Much remains to be done, but tremendous progress has been made over the past year.

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 36.

COMMITTEES

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

- The Audit Committee assists the Board in fulfilling its responsibility to oversee the financial reporting, accounting system and internal controls.
- The Joint Executive Committee consisting of the Chairs and Vice-Chairs of the HEPP and HEBP Boards oversees operational issues of joint concern to the Plans.
- The Joint Governance Committee provides recommendations to the Board regarding governance issues.

Committee members and their affiliations are listed on page 36.

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.

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 provides 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/Podiatrist
- 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:

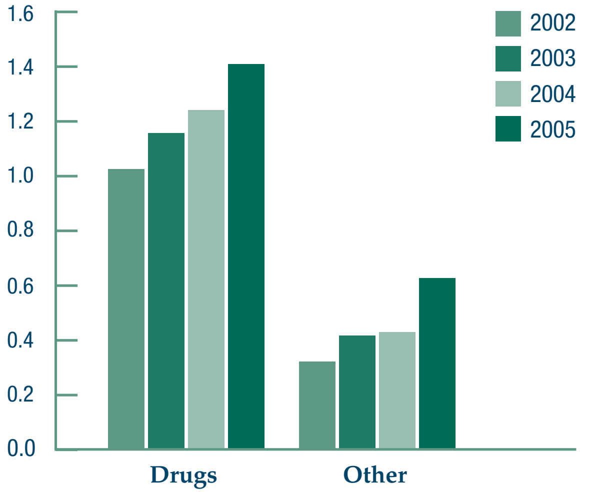
- Acupuncturist
- Audiologist
- Chiropractor
- Licensed Massage Therapist
- Naturopath
- Osteopath
- Speech Therapist

2005 Group Healthcare Plan Experience

In response to member requests, effective June 1, 2005, paramedical maximums were changed from a combined to a per practitioner basis. To support this change, rate increases were implemented on June 1, 2005 to Basic and Enhanced Group Healthcare premiums. The Enhanced Plan, which was in a deficit position, had a larger premium increase than the Basic Plan.

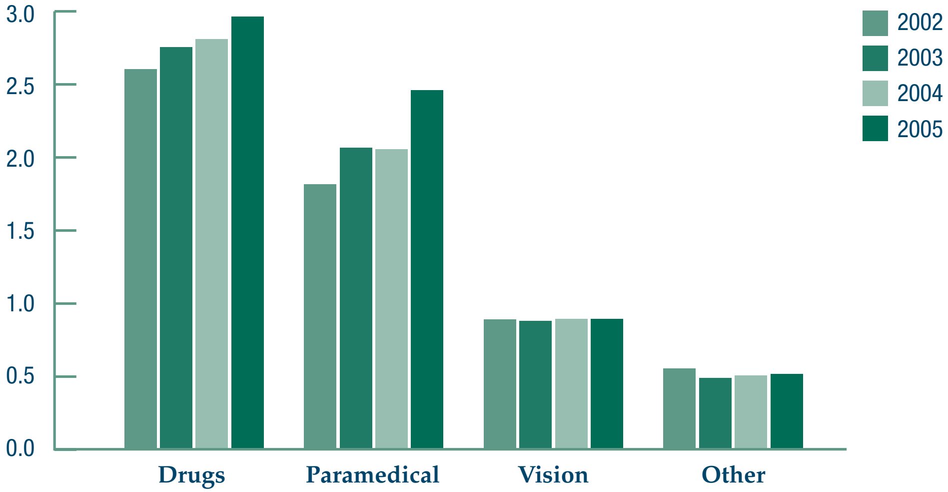
Basic Group Healthcare Plan Comparison of Paid Claims

($ millions)



Enhanced Group Healthcare Plan Comparison of Paid Claims

($ millions)



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/Podiatrist
- Chiropractor
- Clinical Psychologist
- Licensed Massage Therapist
- Naturopath
- Osteopath
- Registered Dietician
- Speech Therapist

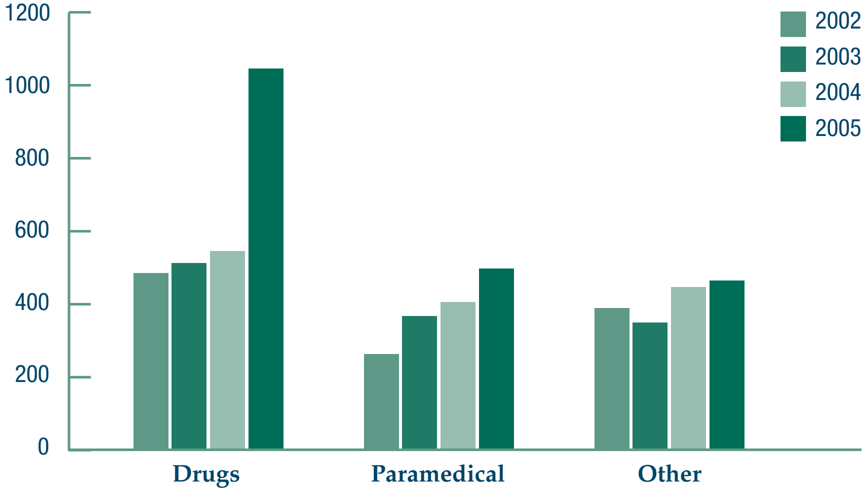
2005 Retiree Group Healthcare Plan Experience

Prescription drug coverage provided under Level II of the Retiree Group Healthcare Plan was increased in 2005. To support this improvement, and an increase in the total of claims paid under the Plan, premiums were increased effective June 1, 2005.

Premiums for Level I coverage remained unchanged.

Retiree Group Healthcare Plan Comparison of Paid Claims

($ thousands)



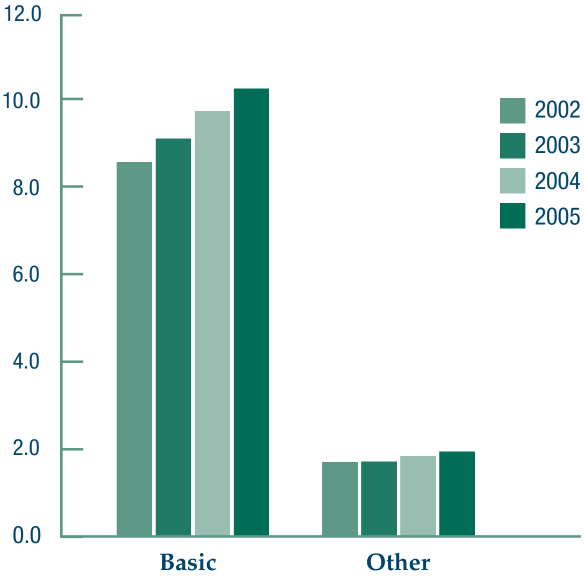
DENTAL PLAN

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.

Dental Plan Comparison of Paid Claims

($ millions)



2005 Dental Plan Experience

A rate increase was implemented effective June 1, 2005 to offset the 2005 Manitoba Dental Fee Guide adjustment.

DENTAL AND GROUP HEALTHCARE PLANS FINANCIAL SUMMARY*

	2005	2004
Increase		
Premiums	$ 26,247,364	$ 24,455,442
Investment income	135,028	142,362
	26,382,392	24,597,804
Decrease		
Claims incurred	22,970,343	21,092,351
Payments to travel plan	558,396	528,943
Plan administration expenses – HEBP	180,119	218,848
Plan administration expenses – Manitoba Blue Cross	1,446,456	1,322,500
Interest charges – Manitoba Blue Cross	38,420	89,170
	25,193,734	23,251,812
Net increase before undernoted	1,188,658	1,345,992
Appropriations (to) from reserves	(2,171,751)	398,209
Net (decrease) increase	(983,093)	1,744,201
Fund balances, January 1	951,764	(792,437)
Fund balances, December 31	**$ (31,329)**	**$ 951,764**

** Full Audited Financial Statements are available on our website at* ***www.hepp.mb.ca.***

GROUP LIFE INSURANCE PLAN

Benefit Coverage for Active Employees

The Group Life Insurance Plan offers members the flexibility to choose the amount of coverage they need.

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

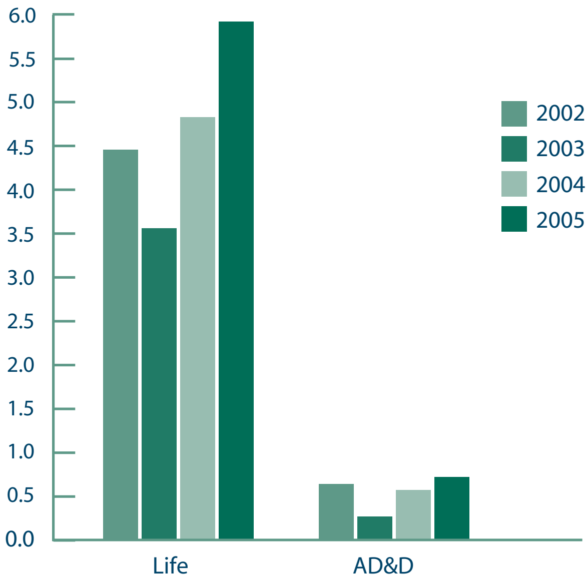
At retirement, Optional Post Retirement Insurance is available. Members may choose from zero to four units. On retirement, the maximum number of units cannot exceed the number of units the member had while actively at work. Each unit is equal to $7,000 of insurance before the age of 60, and at age 60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

2005 Group Life Insurance Plan Experience

Paid claims under the Group Life Plan increased in 2005.

Group Life Insurance Plan Comparison of Paid Claims

($ millions)



GROUP LIFE INSURANCE PLAN FINANCIAL SUMMARY*

		2005		2004
Increase				
Premiums	$	7,381,144	$	7,017,873
Investment income		3,065,124		2,190,448
		10,446,268		9,208,321
Decrease				
Claims incurred		6,564,246		5,577,210
Plan administration expenses – HEBP		380,891		433,862
Plan administration expenses – Great-West Life		487,472		455,488
		7,432,609		6,466,560
Net increase before undernoted		3,013,659		2,741,761
Appropriations to Disabled Life waiver reserve		(5,000,000)		(600,000)
Appropriations to Paid-up reserve		-		(1,558,681)
Net (decrease) increase		(1,986,341)		583,080
Fund balances – unrestricted, January 1		13,760,456		13,577,376
Transfers to internally restricted funds		(500,000)		(400,000)
Fund balances – December 31	**$**	**11,274,115**	**$**	**13,760,456**

** Full Audited Financial Statements are available on our website at* ***www.hepp.mb.ca.***

DISABILITY & REHABILITATION PLAN

Benefit Coverage for Active Employees

The Disability & Rehabilitation (D&R) Plan provides members with income replacement should they be unable to work due to a disability. The disability may be due to illness or injury, and need not be work-related (some exclusions apply).

The D&R Plan also supports rehabilitation programs for qualified claimants. Programs are developed with support from the member's physician and employer. D&R claims specialists and/or vocational rehabilitation providers may assist in managing and coordinating claims.

D&R Return to Work Initiatives

Rehabilitation Claim Specialists focused on assisting members in work trials and in planning graduated return to work programs. Working collaboratively with the employers, unions and community resources, a number of members have returned to active employment.

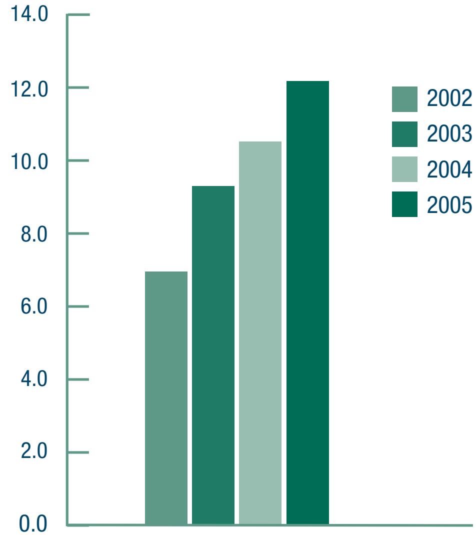
Information Available on Website

D&R Plan information, including a summary of 2005 claims and an employment resources manual, is available in the D&R section of the HEPP/HEBP website at www.hepp.mb.ca.

2005 Disability & Rehabilitation Plan Experience: Comparison of Paid Claims

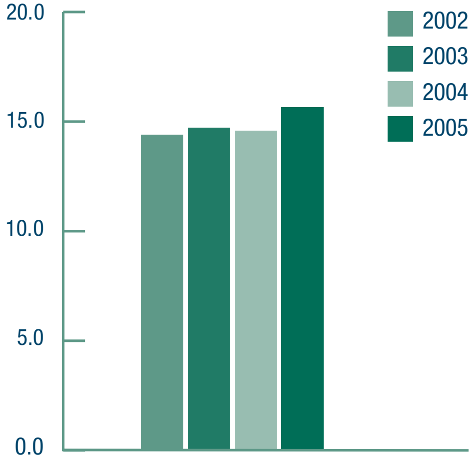
D&R Self-insured Claims

($ millions)

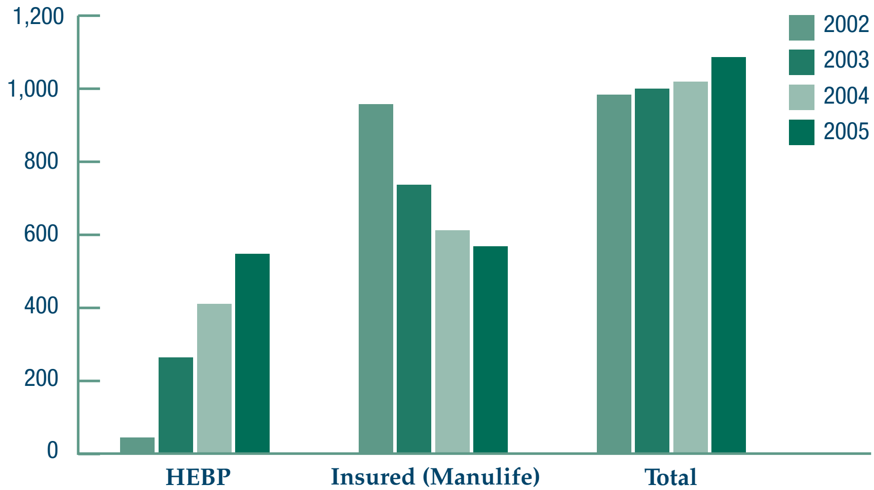


D&R Insured (Manulife) and Self-insured Claims

($ millions)



D&R Number of Paid Claims



DISABILITY & REHABILITATION PLAN FINANCIAL SUMMARY*

	2005	2004
Increase		
Premiums	$ 25,148,805	$ 23,330,971
Investment income	4,459,372	4,258,999
	29,608,177	27,589,970
Decrease		
Claims incurred	12,263,571	10,499,715
Claims-related expenses	639,258	401,590
Plan administration expenses – HEBP	3,490,020	2,918,682
Plan administration expenses – Manulife	109,395	125,450
	16,502,244	13,945,437
Net increase before undernoted	13,105,933	13,644,533
Appropriations to reserves	(1,062,602)	(5,479,929)
Net increase	12,043,331	8,164,604
Fund balances, January 1	4,274,171	(3,890,433)
Fund balances, December 31	$ 16,317,502	$ 4,274,171

** Full Audited Financial Statements are available on our website at* ***www.hepp.mb.ca.***

2005 HEPP DIRECTORY *(As of December 31, 2005)*

BOARD OF TRUSTEES

INVESTMENT COMMITTEE

AUDIT COMMITTEE

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The Exchange Consulting Group

Bob Malazdrewich *(Ex-officio member)*
Canadian Union of Public Employees

Gloria O'Rourke *(Ex-officio member)*
Winnipeg Regional Health Authority

Don Onofriechuk
Winnipeg Regional Health Authority

David Rubel
Winnipeg Regional Health Authority

Ken Swan
Manitoba Association of Health Care Professionals

Gordon Webster *(Chair)*
Retired Partner, Pricewaterhouse Coopers

CONSULTANTS

Custodian – *CIBC Mellon Global Securities Services Company*

Legal Counsel – *Koskie Minsky*

Auditor – *KPMG LLP*

Actuary – *Towers Perrin*

2005 HEBP DIRECTORY *(As of December 31, 2005)*

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Canadian Union of Public Employees

Ray Erb
Manitoba Government and General Employees Union

Doug Laurie
International Union of Operating Engineers

Bob Romphf *(Chair)*
Manitoba Nurses Union

Ken Swan
Manitoba Association of Health Care Professionals

Employer Representatives

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Winnipeg Regional Health Authority

Gloria O'Rourke
Winnipeg Regional Health Authority

Frank Ryplanski
Regional Health Authorities of Manitoba

Merv Toderian
Parkland Regional Health Authority

Janet Wilcox-McKay
Brandon Regional Health Authority

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Terry Dyck
Accounting and IT Coordinator, MNU

Gabriel Forest
Retired Partner, PricewaterhouseCoopers

Monica Girouard
Financial Coordinator, MGEU

Pat Matthews
Retired CFO, Gendis

Bob Vandewater *(Chair)*
VP, CIBC Wood Gundy

CONSULTANTS

Auditor – *KPMG LLP*

Legal Counsel – *Koskie Minsky*

Actuarial Consulting – *Morneau Sobeco, Eckler Partners Ltd.*

2005 HEPP/HEBP DIRECTORY *(As of December 31, 2005)*

JOINT GOVERNANCE COMMITTEE

Jean-Paul Gobeil
Winnipeg Regional Health Authority

Doug Laurie
International Union of Operating Engineers

Bob Malazdrewich
Canadian Union of Public Employees

Gloria O'Rourke
Winnipeg Regional Health Authority

Frank Ryplanski
Regional Health Authorities of Manitoba

Bruno Zimmer
Manitoba Council of Health Care Unions

JOINT EXECUTIVE COMMITTEE

Jean-Paul Gobeil
Winnipeg Regional Health Authority

Bob Malazdrewich
Canadian Union of Public Employees

Gloria O'Rourke
Winnipeg Regional Health Authority

Bob Romphf
Manitoba Nurses Union

HEPP/HEBP EXECUTIVE MANAGEMENT TEAM

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

Rohini Halli, CA, *Director of Finance*

Barbara Kieloch, RN, BN, MScA, *Director, Disability & Rehabilitation*

Ronald Queck, CFA, *Director of Investments*

HEPP HEBP

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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