

2006 REPORT TO MEMBERS

REPORT FROM THE CHAIR OF THE HEPP BOARD

The Board and staff of Healthcare Employees' Pension Plan (HEPP) remain committed to protecting and preserving the pensions for healthcare workers in Manitoba.

There are many challenges facing us as we move forward: an aging workforce, low interest rates, as well as the financial position of the Plan, which, while positive, leaves little room for benefit improvements for active members or ad hoc cost of living adjustments for retirees.

In dealing with some of these challenges, the Plan has generated solid investment returns and increased contribution rates to ensure a sound financial footing.

Improving service levels for members and stakeholders remains a key focal point. We are taking steps to improve communication and education for all parties amid ever increasing requests for information about the Plan and its benefits. Our investment in systems and process and procedure review will ensure an increasing level of timely and accurate service.

In 2007, the Board will be working closely with stakeholders to explore possible options to provide a level of inflation protection for Plan member pensions.

Board governance continues to evolve as we work closely with the Benefits Board (HEBP) through the Joint Executive and Joint Governance Committees.

I would like to thank the trustees for their commitment, and on behalf of the Board of Trustees, I would like to thank the HEPP management team, staff, and service providers for their on-going hard work and dedication in serving the interests of Plan members.



Bob Romphf
Chair, Healthcare Employees' Pension Plan

REPORT FROM THE CHAIR OF THE HEBP BOARD

The Healthcare Employees' Benefits Plan (HEBP) Board remains committed to providing a high service level to all members along with financially sound plans with competitive benefit levels and premiums. Where appropriate, the Board will be reviewing options to improve benefit levels while maintaining premiums at an acceptable level.

The financial position of our Benefits Plans remained strong in 2006. For the Life Insurance and Disability & Rehabilitation (D&R) Plans, there were no changes in rates or benefits coupled with increases in the financial positions of these plans. For the Basic Healthcare, Enhanced Healthcare and Dental Plans, rate increases were required to support increased utilization, with benefit levels remaining unchanged. The Enhanced Healthcare Plan posted a small deficit at the end of the year, which we forecast will be eliminated by the end of 2007. In 2006, we increased the prescription drug coverage for the Retiree Healthcare Plan, which necessitated increased premium levels.

Our in-house Disability Plan continues to exceed expectations on early intervention, rehabilitation and accommodation. With over 1,100 members receiving benefits from this plan, we continue to strive towards having members return to work as quickly as possible.

The HEBP Board continues to work collaboratively with the Pension Board (HEPP) to ensure there is a shared mission and values for the overall organization. Governance is enhanced through the Joint Executive Committee and Joint Governance Committee of both Boards.

On behalf of the Board of Trustees, I would like to thank the management and staff of HEBP for their commitment to serve the interests of all Plan members.



Jean-Paul Gobeil
Chair, Healthcare Employees' Benefits Plan



REPORT FROM THE HEPP/HEBP EXECUTIVE MANAGEMENT TEAM

As we closed out the year 2006, our commitment to improving service levels to members and stakeholders remained our key objective.

Our call centre was re-organized to deal more effectively with in-coming calls, not only reducing wait times, but also increasing our responsiveness to specific queries.

We began and will continue to re-organize our efforts within the pension and benefits processing group to ensure more timely turn-around and increased accuracy.

Within our D&R Plan, we will continue to focus on assisting members in returning to work safely and efficiently.

As part of HEPP/HEBP's commitment to enhance its service to members, the development of systems is ongoing to ensure

that the technology investment aligns with the organization's business requirements.

The theme for 2006 was to stabilize the technology infrastructure to confirm that systems comply with industry best practices and standards. This renewed, concentrated effort will yield results in continuously improving service to our members.

The management and staff at HEPP/HEBP are committed to improving service levels for all Plan members and stakeholders. We encourage members and stakeholders 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

Privacy

HEPP/HEBP is committed to ensuring that the confidentiality, accuracy and security of each member's personal information and personal health information is maintained in accordance with relevant privacy legislation. HEPP/HEBP's Privacy Policy is available on our website at www.hepp.mb.ca.

Communications

In addition to brochures, annual reports and PlanTalk newsletters for members, HEPP/HEBP regularly publishes PlanFacts newsletters for employer and union stakeholders. Our website at www.hepp.mb.ca provides additional Plan information and forms. Members are encouraged to contact our office with their questions, concerns and feedback.

HEALTHCARE EMPLOYEES' PENSION PLAN

HEPP FINANCIAL SUMMARY*

	2006	2005
Increase in Net Assets		
Current period change in market values	\$ 301,019,949	\$ 248,889,987
Investment income	98,574,039	88,699,798
Contributions from employers	85,064,668	72,616,881
Contributions from employees	85,143,219	72,658,253
Total	569,801,875	482,864,919
Decrease in Net Assets		
Benefits paid to pensioners and beneficiaries	91,247,538	83,804,729
Refunds to terminated members	19,992,030	23,632,155
Investment and Plan administration expenses	16,872,521	14,112,188
Total	128,112,089	121,549,072
Net increase in net assets	441,689,786	361,315,847
Net assets available for benefits, January 1	2,956,425,634	2,595,109,787
Net assets available for benefits, December 31	\$ 3,398,115,420	\$ 2,956,425,634

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

PENSION PLAN MEMBERSHIP

Member Mix	2006	2005	Average Age (years)	2006	2005
Deferred Vested	8,716	7,353	Active member	43	43
Retired	10,691	10,151	Retired member	70	70
Active & Disabled	36,961	36,818	Deferred member	42	42
Total	56,368	54,322			

PENSION PLAN HIGHLIGHTS

Each year the Pension Plan conducts an actuarial evaluation to determine if the Plan has sufficient assets to pay for accrued benefits and if the level of contributions being made is sufficient to cover the cost of future benefit accruals.

The Plan is required to conduct two valuations – a going-concern valuation which assumes the Plan carries on indefinitely, and a solvency valuation which assumes the Plan terminates on the date the valuation is done.

The Plan's financial position improved during the year, with the solvency position of the Plan showing a \$34 million surplus as compared to a \$39 million deficit at the end of 2005. The funded ratio of the Plan was 101.0% at the end of 2006 versus 98.7% at the end of 2005.

The Plan's going concern position also improved, showing a surplus of \$11 million versus a deficit of \$5 million at the end of 2005. The funded ratio of the Plan was 100.4% at the end of 2006 versus 99.8% at the end of 2005.

The Plan's investment returns and higher contribution

levels were the major contributors to the improved funded position. The actuary has advised that as at December 31, 2006, the contribution levels will be sufficient to fund the cost of accruing benefits until December 31, 2009.

No changes were made to benefit levels in 2006. As the Plan reported a small deficit at the end of 2005, the Board could not consider granting an ad hoc cost of living adjustment for retired members in 2006.

In 2005, the Signatory Boards and Unions approved increases to contribution rates over three years as follows:

		January 1 to June 30	July 1 to December 31
2005	Below YMPE	5.0%	6.4%
	Above YMPE	6.6%	8.0%
2006	Below YMPE	6.4%	6.6%
	Above YMPE	8.0%	8.2%
2007	Below YMPE	6.6%	6.8%
	Above YMPE	8.2%	8.4%

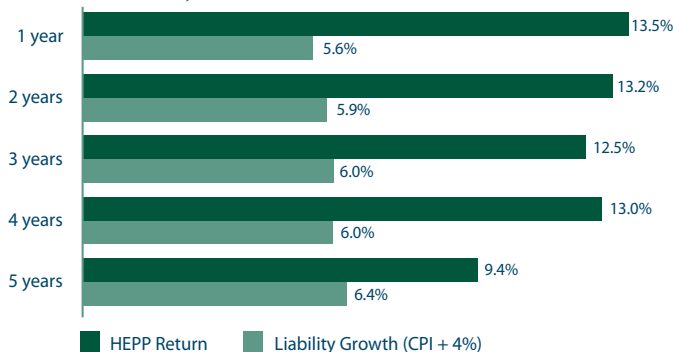
INVESTMENT HIGHLIGHTS

2006 was another good year for investment returns for HEPP. We achieved a 13.5% return in 2006 following a 13.0% return in 2005.

All asset classes produced positive returns last year. Following weak equity market returns in 2001 and 2002, we have now achieved four years of strong investment returns and are keeping pace with our pension liability growth. Most major equity markets generated double-digit returns in 2006, well ahead of returns in fixed income markets.

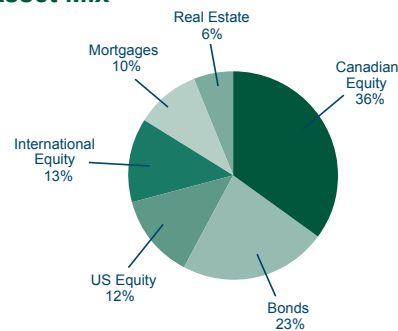
Our investment focus in 2006 was to largely stay the course with the asset mix that was in place at the end of 2005. Our exposure to real estate investments continued to grow to 6% of assets, from 4% in 2005, as we selectively acquired properties in the Canadian market. Funds were drawn from our bond holdings which were reduced to 23% from 26% in 2005.

HEPP Investment Returns versus Pension Liability Growth at December 31, 2006

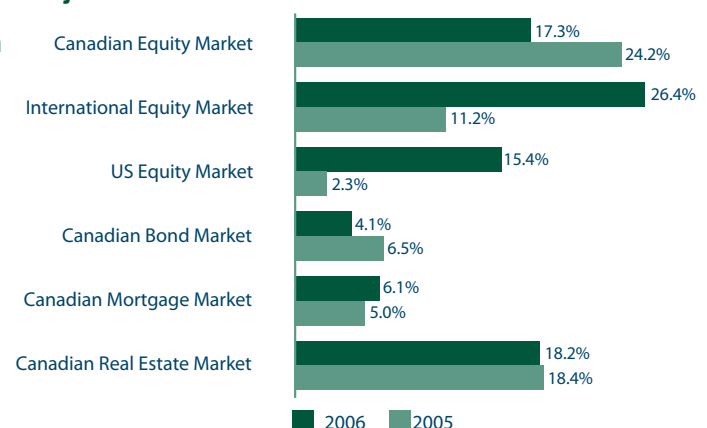


The past four years have provided attractive investment returns for the Plan. For 2007, we will continue to review opportunities that will provide enhanced returns as compared to our fixed income investments, where current market yields are below the level required to fund the Plan's benefits.

HEPP Asset Mix



Major Market Returns



HEALTHCARE EMPLOYEES' BENEFITS PLAN

BENEFITS INFORMATION

HEBP offers Group Healthcare, Dental, 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.

FINANCIAL SUMMARY*

BASIC HEALTHCARE PLAN			
		2006	2005
Increases			
Premiums	\$	2,370,963	2,200,066
Investment income		38,390	26,020
		2,409,353	2,226,086
Decreases			
Claims and related expenses		2,409,548	2,099,659
Administrative expenses		163,280	153,461
		2,572,828	2,253,120
Net decrease prior to change in obligations		(163,475)	(27,034)
Change in obligations		108,715	(487,386)
Net decrease after change in obligations		(54,760)	(514,420)
Net Assets Beginning		311,372	825,792
Net Assets Ending	\$	256,612	311,372

BENEFITS HIGHLIGHTS

In order to support increased utilization of the Basic Healthcare Plan, a rate increase was implemented in 2006. No changes were made to benefit levels. Claims and related expenses were at 102% of premiums in 2006, up from 95% in 2005. The Plan's funded position decreased slightly during the year, and all reserves are fully funded. Of claims incurred, 78% were for drugs, 9% were for physiotherapy, 7% were for ambulance/hospital, and 6% were for other benefits.

Plan Membership: 10,184

ENHANCED HEALTHCARE PLAN

ENHANCED HEALTHCARE PLAN			
		2006	2005
Increases			
Premiums	\$	8,724,698	8,216,666
Investment income		50,959	33,436
		8,775,657	8,250,102
Decreases			
Claims and related expenses		7,756,078	7,138,313
Administrative expenses		599,423	603,947
		8,355,501	7,742,260
Net increase prior to change in obligations		420,156	507,842
Change in obligations		420,991	612,234
Net increase after change in obligations		841,147	1,120,076
Net Assets Beginning		(900,765)	(2,020,841)
Net Assets Ending	\$	(59,618)	(900,765)

In order to support increased utilization in the Enhanced Healthcare Plan, a rate increase was implemented in 2006. No changes were made to benefit levels. Claims and related expenses were at 89% of premiums in 2006, up from 87% in 2005. The Plan's financial position improved during the year, but still shows a small deficit. We anticipate that the Plan and all reserves will be fully funded within three years. Of claims incurred, 44% were for drugs, 12% were for vision care, and 44% were for paramedic and other benefits.

Plan Membership: 12,705

RETIREE HEALTHCARE PLAN

RETIREE HEALTHCARE PLAN			
		2006	2005
Increases			
Premiums	\$	2,216,199	1,826,462
Investment income		44,916	36,388
		2,261,115	1,862,850
Decreases			
Claims		2,606,714	2,007,691
Administrative expenses		199,654	165,412
		2,806,368	2,173,103
Net decrease prior to change in obligations		(545,253)	(310,253)
Change in obligations		84,885	(871,046)
Net decrease after change in obligations		(460,368)	(1,181,299)
Net Assets Beginning		422,781	1,604,080
Net Assets Ending	\$	(37,587)	422,781

Prescription drug coverage provided under Level II of the Retiree Healthcare Plan was increased in 2006. In order to support this improvement, and as a result of an increase in the total claims paid under the Plan, premiums were increased effective June 1, 2006. Premiums for Level I coverage remained unchanged. With the increased drug coverage and higher utilization, the Plan's financial position shows a small deficit, however all reserves are fully funded.

Plan Membership: 4,813

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

BENEFITS INFORMATION *continued*

FINANCIAL SUMMARY*

	DENTAL PLAN	
	2006	2005
Increases		
Premiums	\$ 14,422,155	14,004,170
Investment income	103,385	39,184
	14,525,540	14,043,354
Decreases		
Claims	12,613,691	12,283,076
Administrative expenses	728,080	742,175
	13,341,771	13,025,251
Net increase prior to change in obligations	1,183,769	1,018,103
Change in obligations	(52,676)	(1,425,553)
Net (decrease) increase after change in obligations	1,131,093	(407,450)
Net Assets Beginning	135,283	542,733
Net Assets Ending	\$ 1,266,376	135,283

LIFE INSURANCE PLAN

	2006	2005
Increases		
Premiums	\$ 7,626,986	7,381,144
Investment income	3,320,469	3,065,124
	10,947,455	10,446,268
Decreases		
Claims and related expenses	6,308,011	6,726,245
Administrative expenses	671,345	706,364
	6,979,356	7,432,609
Net increase prior to change in obligations	3,968,099	3,013,659
Change in obligations	(669,090)	(5,500,000)
Net (decrease) increase after change in obligations	3,299,009	(2,486,341)
Net Assets Beginning	11,274,115	13,760,456
Net Assets Ending	\$ 14,573,124	11,274,115

DISABILITY & REHABILITATION (D&R) PLAN

	2006	2005
Increases		
Premiums	\$ 26,465,213	25,148,805
Investment income	3,635,071	4,459,372
	30,100,284	29,608,177
Decreases		
Claims and related expenses	14,597,508	12,902,829
Administrative expenses	3,711,184	3,599,415
	18,308,692	16,502,244
Net increase prior to change in obligations	11,791,592	13,105,933
Change in obligations	(2,280,000)	(1,062,602)
Net increase after change in obligations	9,511,592	12,043,331
Net Assets Beginning	16,317,502	4,274,171
Net Assets Ending	\$ 25,829,094	16,317,502

BENEFITS HIGHLIGHTS

A Dental Plan rate increase was implemented effective June 1, 2006 to offset the 2006 adjustment to the Manitoba Dental Fee Guide. No changes to benefit levels were made in 2006. Claims were at 87% of premiums in 2006, versus 88% in 2005. The Plan's funded position improved during the year, and all reserves are fully funded. Of claims incurred, 84% were for basic services, and 16% were for major and orthodontic services.

Plan Membership: 20,842

Claims and related expenses were at 83% of premiums in 2006, versus 91% in 2005. There were no premium increases or benefit changes during 2006 nor are any expected for 2007. The Plan's funded position improved during the year and all reserves are fully funded.

Plan Membership: 30,364

There were 1,146 members receiving D&R Benefits at December 31, 2006. Of these claims, 625 were being administered by our in-house program, up from 561 in 2005. Premium rates were unchanged in 2006 and are expected to remain unchanged for 2007. Benefit levels also remained unchanged in 2006. The Plan is fully funded.

Plan Membership: 31,076

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

Board and Committee Members as of December 31, 2006

HEPP BOARD OF TRUSTEES

Union Representatives

Ray Erb
Manitoba Government and General Employees Union

Doug Laurie
International Union of Operating Engineers

Bob Malazdrewich, CEB
Canadian Union of Public Employees

Bob Romphf (Chair)
Manitoba Nurses Union

Ken Swan
Manitoba Association of Health Care Professionals

Bruno Zimmer
United Food and Commercial Workers Union - Local 1869

Employer Representatives

Jean-Paul Gobeil, CA, CMC
Winnipeg Regional Health Authority

Paul Kochan, CPA, CBV, FCA
Winnipeg Regional Health Authority

Gloria O'Rourke (Vice-Chair)
Winnipeg Regional Health Authority

Ray Spokes
St. Boniface General Hospital

Merv Toderian
Regional Health Authorities of Manitoba

Janet Wilcox-McKay, BA, CGA
Brandon Regional Health Authority

HEPP INVESTMENT COMMITTEE

Alan Brownridge
Retired Investment Executive

Bob Darling
Retired Investment Executive

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Winnipeg Regional Health Authority

Bob Malazdrewich, CEB
Canadian Union of Public Employees

Michael Nesbitt (Vice-Chair)
Montrose Mortgage Corporation Ltd.

Bob Romphf
Manitoba Nurses Union

Darcy Strutinsky
Winnipeg Regional Health Authority

HEPP AUDIT COMMITTEE

Jim Husiak
The Exchange Consulting Group

Paul Kochan, CPA, CBV, FCA
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Gloria O'Rourke (Ex-officio member)
Winnipeg Regional Health Authority

Bob Romphf (Ex-officio member)
Manitoba Nurses Union

David Rubel, CA
Winnipeg Regional Health Authority

Ken Swan
Manitoba Association of Health Care Professionals

Gordon Webster, FCA (Chair)
Retired Partner, PricewaterhouseCoopers

HEPP PROFESSIONAL ADVISORS

Custodian – *CIBC Mellon Global Securities Services Company*

Legal Counsel – *Koskie Minsky*

Auditor – *KPMG LLP*

Actuary – *Towers Perrin*

HEBP BOARD OF TRUSTEES

Union Representatives

Brian Ellis, BSW, CEB (Vice-Chair)
Canadian Union of Public Employees

Ray Erb
Manitoba Government and General Employees Union

Doug Laurie
International Union of Operating Engineers

Bob Romphf
Manitoba Nurses Union

Ken Swan
Manitoba Association of Health Care Professionals

Employer Representatives

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Regional Health Authorities of Manitoba

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Winnipeg Regional Health Authority

Merv Toderian
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HEBP AUDIT COMMITTEE

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Jean-Paul Gobeil, CA, CMC (Ex-officio member)
Winnipeg Regional Health Authority

Frank Ryplanski (Chair)

Janet Wilcox-McKay, BA, CGA
Brandon Regional Health Authority

HEBP CONSULTANTS

Auditor – *KPMG LLP*

Legal Counsel – *Koskie Minsky*

Actuarial Consulting – *Morneau Sobeco*

HEPP/HEBP JOINT GOVERNANCE COMMITTEE

Jean-Paul Gobeil, CA, CMC (Chair)
Winnipeg Regional Health Authority

Doug Laurie
International Union of Operating Engineers

Bob Malazdrewich, CEB
Canadian Union of Public Employees

Gloria O'Rourke
Winnipeg Regional Health Authority

Merv Toderian
Regional Health Authorities of Manitoba

Bruno Zimmer
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Canadian Union of Public Employees

Jean-Paul Gobeil, CA, CMC
Winnipeg Regional Health Authority

Gloria O'Rourke (Co-Chair)
Winnipeg Regional Health Authority

Bob Romphf
Manitoba Nurses Union

HEPP/HEBP MANAGEMENT TEAM

Winston Maharaj, B.Comm, MPA
Chief Executive Officer (eff. June 2007)

Lawrence Eta, BSc, eMBA, MM
Director of Information Services

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

Ronald Queck, CFA
Director of Investments

Grant D. Slater, CA
Director of Finance (eff. May 2007)



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