



Report from the Chair of the HEPP Board

The stability and long-term sustainability of the Pension Plan was a critical priority for the Healthcare Employees' Pension Plan (HEPP) Board in 2010, as was the preservation of pensions for Manitoba's healthcare employees.

As a result of negotiations that took place within the healthcare sector, two separate Cost of Living Adjustment (COLA) Funds will be established to provide ad hoc COLAs to members of the Pension Plan. While the framework for the COLA Funds was outlined in 2010, the model and related administrative processes will be developed over the next three years. Contributions to the COLA Funds will begin in 2014, and the earliest date a COLA may be granted is 2018.

The Board is pleased to report a total investment return of 10.3% for the Plan in 2010. Although this return is far in excess of the Plan's assumed rate of return, it does not eliminate the existing Plan deficit. As at December 31, 2010, the Plan's going-concern ratio is 94% and its solvency ratio is 81%. The Board continues to monitor the Plan's financial progress in order to ensure the alignment of liabilities and assets, based on Plan experience and investment returns over the long-term.

In 2010, after significant consultation with Plan Settlers (Signatory Employers and Unions), actuaries, and management, the Board implemented a 1.1% contribution rate increase over a three-year period, beginning January 1, 2011. The increase was based on valuation data at the time of the analysis, and will help to offset the negative impact from the financial market downturn in 2008.

Governance and risk management continue to be a high priority for the Board. The 2010 strategic planning session was used to undertake a review of the Canadian Association of Pension Supervisory Authorities (CAPSA) investment and board governance guidelines and to discuss and consider significant mid- to long-term operational and Fund risks. All these efforts are marshalled to ensure our pension benefits are there for members and beneficiaries long into the future.

I would like to acknowledge and thank the Trustees of HEPP for their exceptional leadership and contributions to the Board, and for their commitment to the careful and responsible

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Report from the Chair of the HEBP Board

The Healthcare Employees' Benefits Plan (HEBP) Board remains committed to establishing new and higher standards for its benefit plans by delivering competitive benefits and superior service at a reasonable cost. Through its oversight and governance, the Board maintains financial stability in all Plans while balancing the interests of members and stakeholders. To that end, the Board and management undertake a comprehensive review of each HEBP benefit plan on a rotating basis, known as a Global Plan Review.

The Global Plan Review process identifies any gaps in Plan coverage, design, service provision and financial sustainability. Plan changes resulting from a Global Plan Review generally take place in the following year. To date, Global Plan Reviews have been completed for the Disability & Rehabilitation (D&R) Plan and the Life Insurance Plan. As a result, significant enhancements to the D&R Plan took place in 2009; and in 2010 a further enhancement was implemented with the introduction of an Ad Hoc Cost of Living Adjustment (COLA) for D&R Benefits. Options for enhancements to the Life Insurance Plan are under review for implementation in 2012.

Dental Plan premiums increased, effective May 1, 2010 from \$27.10 to \$27.92 for single coverage, and from \$79.16 to \$81.54 for family coverage. The premium increases were required to fund increased utilization and to cover Manitoba Dental Association fee guide increases.

Premiums for the Level I Retiree Healthcare Plan remained unchanged in 2010. Premiums for the Level II Retiree Healthcare Plan were increased, effective June 1, 2010 from \$42.07 to \$43.75 for single coverage, and from \$66.49 to \$69.15 for family coverage, in order to ensure the Plan is adequately funded to pay future anticipated claims.

Effective April 1, 2009, a new Healthcare Plan was introduced for all eligible active members. The new Plan includes a Healthcare Spending Account (HSA), which came into effect on April 1, 2010. The HSA is 100% employer-funded and provides a benefit amount of \$250 for full-time employees and \$125 for part-time employees. Effective April 1, 2011, the full-time HSA benefit amount is scheduled to increase to \$500 and the part-time benefit amount is scheduled to increase to \$250.

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Report from the Chair of the HEPP Board

continued

management of monies entrusted to our care. On behalf of the Board of Trustees I would like to thank the HEB Manitoba management and staff for their continued commitment to outstanding service for Plan members.



Bob Romphf

Chair
Healthcare Employees' Pension Plan Board

Report from the Chair of the HEBP Board

continued

Premiums for the D&R Plan, Life Insurance Plan, and the new Healthcare Plan remained unchanged in 2010. All three Plans continue to maintain a healthy financial position.

The HEBP Board continues to work in partnership with the HEPP Board to jointly govern and oversee the shared operations of HEB Manitoba, and to leverage efficiencies and enhance service for our members wherever possible.

I would like to thank each Trustee for the skills, knowledge and insight that they bring to the boardroom table, and for their time and dedication towards ensuring outstanding plan governance. In addition, on behalf of the Trustees I would like to thank the employees of HEB Manitoba for their continued hard work and service to our members.



Gerry Gattinger

Chair
Healthcare Employees' Benefits Plan Board

Report from the HEB Manitoba Chief Executive Officer

Throughout 2010, the management and employees of HEB Manitoba continued to work toward the execution and implementation of various multi-year strategic initiatives that were established within the organization's 2008-2010 Operational Plan. Highlights of some of the initiatives include the re-architecture of Disability & Rehabilitation (D&R) Plan systems, a comprehensive global review of the Life Insurance Plan, the introduction of a new name and logo for the organization, the update of publications and communications with our new identity, and the development of a new HEB Manitoba website.

In addition, significant time and effort has been dedicated to the development of a 2011-2013 Operational Plan that maps out the next phases for advancing HEB Manitoba. Many of the 2011-2013 initiatives are based upon foundational work that is well underway, such as the review of data integrity on a file-by-file basis, the redesign of business processes and the re-architecture of essential information technology systems. As before, our guiding principle remains the fair and just treatment of our members and stakeholders through prudent fiscal management, excellent member service, and open communication.

In 2010, administration of the Pension Plan was significantly impacted by the introduction of changes to The Pension Benefits Act of Manitoba (Bill 10). Considerable work was undertaken on a priority basis to adapt our systems, processes and data to comply with Bill 10. In addition to the unplanned activity related to Bill 10, HEB Manitoba experienced substantial membership growth in all of its Plans, ultimately resulting in increased member activity and increased

workloads. Management, in consultation with the Board, continues to assess the need for additional resources on an annual basis. Employees at HEB Manitoba continue to work diligently to meet the ever increasing demands and provide members with superior services at a reasonable cost.

The financial sustainability and security of all HEB Manitoba Plans are paramount in the decisions and recommendations made by management and the direction set by the HEPP and HEBP Boards. In 2010, the HEPP Board implemented a contribution rate increase for the Pension Plan, to be phased-in over a three-year period beginning January 1, 2011. The increase was based on consultation with employer and union stakeholders and significant analysis undertaken by the HEPP Board, management, and Plan actuaries over the last several years.

I would like to thank the HEPP and HEBP Boards for their ongoing support of management and consistent application of good governance principles. I would also like to acknowledge and thank executive management and HEB Manitoba employees for their attentiveness to members and commitment to providing a secure tomorrow together.



Winston Maharaj

Chief Executive Officer
HEB Manitoba

Pension Plan Financial Summary*

	2010	2009
Increase in net assets		
Current period change in market values	\$ 255,476,597	332,303,247
Investment income	114,810,575	116,054,995
Contributions from employers	117,655,722	114,777,923
Contributions from employees	117,514,421	114,799,829
Total	605,457,315	677,935,994
Decrease in net assets		
Benefits paid to pensioners and beneficiaries	134,873,689	123,654,940
Refunds to terminated members	27,257,814	27,405,255
Investment and Plan administration expenses	17,601,960	15,709,764
Total	179,733,463	166,769,959
Net increase in net assets	425,723,852	511,166,035
Net assets available for benefits, January 1	3,573,018,544	3,061,852,509
Net assets available for benefits, December 31	\$ 3,998,742,396	3,573,018,544

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

Pension Plan Membership

Member Mix	2010		2009		Average Age (years)	2010		2009	
	2010	2009	2010	2009		2010	2009	2010	2009
Deferred Vested	10,285	9,513	Active member	43	43				
Retired	13,428	12,732	Retired member	70	70				
Active & Disabled	41,441	40,426	Deferred member	43	44				
Total	65,154	62,671							

Pension Plan Highlights

The Healthcare Employees' Pension Plan (HEPP) provides pension benefits to eligible employees of participating healthcare employers.

The Plan is a defined benefit (DB) pension plan, which uses a formula, rather than investment income derived from pension contributions, to determine benefits payable to eligible members at retirement.

In 2010, we continued to review and correct members' historical pension data received from employers. In 2011, we will concentrate on a file-by-file review of members' individual accounts to ensure the accuracy of the pension data. These measures will enable us to provide members with more accurate pension information in a timely manner.

In March 2010, the Manitoba Pension Commission announced a significant number of changes to The Pension Benefits Act, effective May 31, 2010. These changes impacted most

of the Plan's processes, including retirement, termination, and marriage/common-law relationship break-up processes. In addition, the changes require that the Plan maintain and report additional member information on Annual Pension Statements.

The balance of the year centered on interpreting and identifying the impacts of the legislative changes and on implementing the critical changes. The majority of the legislative changes have been implemented, however this work will continue into 2011.

Due to the impact of Bill 10, members may have experienced delays in receiving requested information related to events such as terminations and marriage/common-law relationship break-ups in the fall of 2010; however, most of these backlogs have now been addressed.

Pension Plan Investment Highlights

HEPP Investment Returns

HEPP's investment returns continued to show strong results in 2010, earning 10.3% following the 14.5% return from 2009. To fund the Plan's obligations, we need to achieve a long-term rate of return of 6.5%, as determined by the Plan's actuary. In the Plan's 14-year history, we have enjoyed ten years of returns equal to or in excess of 6.5%, two years of returns that were positive but below 6.5%, and only two years of negative returns. Unfortunately, the impact of the 2008 financial crisis is still being felt as our five-year return of 4.7% is still below 6.5%. For the Plan's investment return to equal 6.5% within the next two-year period, we will need double-digit investment returns in each year.

With long-term government bond yields averaging approximately 4% over the past five years, the Plan requires exposure to investments that will generate higher returns. Over the long-term, equity-type investments are expected to outperform fixed-income returns, but their performance is more volatile. In this regard, the Plan's investment policy has an exposure biased toward public equity markets and real estate.

Major Market Returns

Global equity markets enjoyed positive returns in 2010 following on the strong rebound in markets in 2009. Of the major markets we invest in, the Canadian market was the strongest with a 17.6% return as compared to a 9.1% return for US markets and a 2.6% return for international markets.

The Canadian dollar rose in value against most major currencies during the year, lowering returns from foreign equity markets when expressed in Canadian dollar terms. We continue to have the majority of our equity holdings in the Canadian market. The Canadian market has returned 6.6% over the past decade as compared to -2.7% for the US market and -0.3% for international markets.

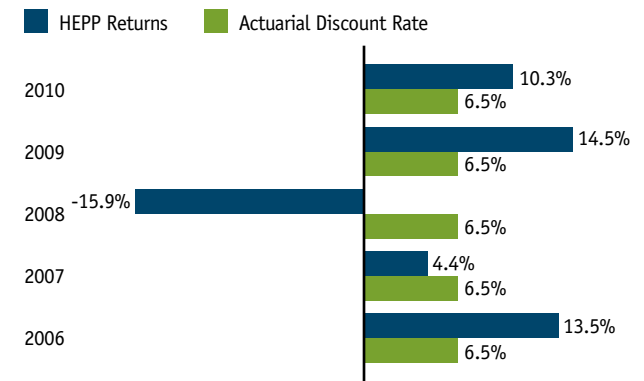
Bond market returns were positive, largely due to favourable returns in the corporate bond sector and strong performance from longer-dated maturities as interest rates fell during the year.

The Canadian real estate market, as measured by the REALpac/IPD Canada Annual Property Index, returned 11.1% in 2010 as compared to the 2009 return of -0.3%, the first negative return since 1993. Income returns for the four main property sectors in the Index (retail, office, industrial, and residential) averaged 6.9% in 2010, largely unchanged from 2009. All four sectors experienced a positive valuation adjustment in 2010 following negative valuation adjustments for all sectors in 2009. The valuation adjustment for the retail sector was 8.4% for the year versus an average of 1.4% for the remaining sectors.

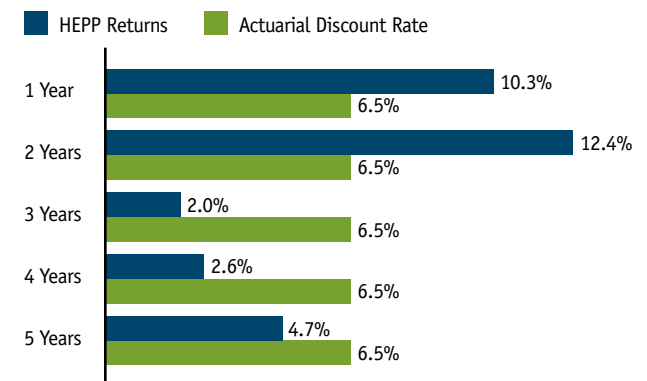
HEPP Asset Mix

At the end of 2010, our overall asset mix was largely unchanged from 2009 with 57% of the Fund in equities, 34% in fixed income, and 9% in real estate. We have been reducing our exposure in commercial mortgages for some time, adding the proceeds to our bond holdings. At year-end, we held 4% in mortgages, which we reduced from the 10% held several years ago to improve the overall liquidity in our fixed income holdings. We are maintaining our exposure to the real estate market, which has been one of our best and most consistent long-term investments.

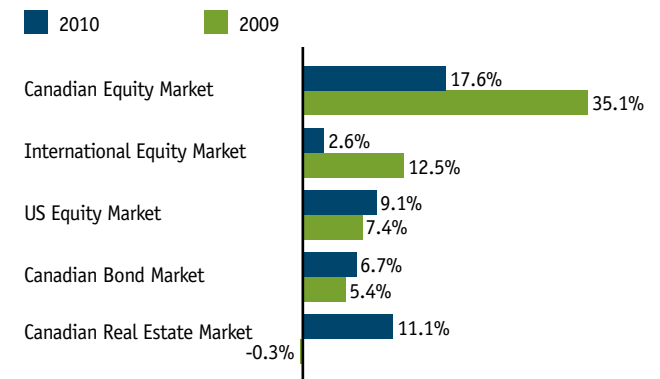
HEPP Investment Returns - Annual



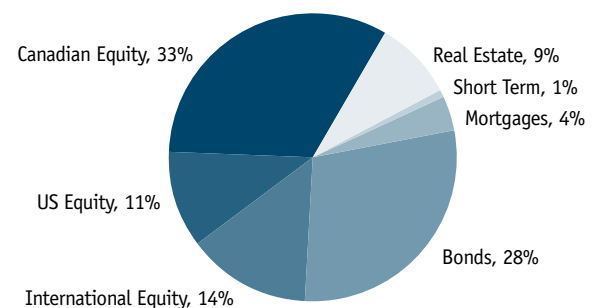
HEPP Investment Returns - Annualized



Major Market Returns



Asset Mix



Benefits Information

The Healthcare Employees' Benefits Plan (HEBP) offers Healthcare, Dental, Life Insurance, and Disability & Rehabilitation 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

Active Healthcare Plan

	2010	2009
Increases		
Premiums	\$ 23,862,426	20,110,422
Investment income	96,928	52,653
	23,959,354	20,163,075
Decreases		
Claims and related expenses	17,070,567	14,326,422
Administrative expenses	2,588,343	2,218,808
	19,658,910	16,545,230
Net increase prior to change in obligations	4,300,444	3,617,845
Change in obligations and internally restricted funds	(176,086)	(2,680,114)
Net increase after change in obligations	4,124,358	937,731
Net Assets Beginning	1,386,896	449,165
Net Assets Ending	\$ 5,511,254	1,386,896

Healthcare Spending Account (HSA)

This benefit is 100% funded by your Employer.

Retiree Healthcare Plan

	2010	2009
Increases		
Premiums	\$ 3,994,700	3,742,599
Investment income	11,542	7,960
	4,006,242	3,750,559
Decreases		
Claims	3,439,159	3,175,282
Administrative expenses	320,074	250,279
	3,759,233	3,425,561
Net increase prior to change in obligations	247,009	324,998
Change in obligations and internally restricted funds	(145,905)	(292,146)
Net increase after change in obligations	101,104	32,852
Net Assets Beginning	68,936	36,083
Net Assets Ending	\$ 170,040	68,936

Benefit Highlights

Plan Membership: 31,166

After comparing the projected Plan premiums to anticipated claim costs and reserve levels, it was determined that a rate change was not required for the Healthcare Plan in 2010. Benefit levels also remained unchanged. The Plan and all reserves are fully funded as at the end of 2010. Of claims incurred, 42% were for drugs, 11% were for vision care, and 47% were for paramedical and all other benefits.

Plan Membership: Members of the Active Healthcare Plan are eligible for an HSA.

Effective April 1, 2010, a new Healthcare Spending Account (HSA) was provided to eligible full-time and part-time employees. Eligible Healthcare Plan members, with 1500 or more hours of regular paid hours, were provided with a full time HSA amount of \$250.00; Healthcare Plan members with less than 1500 regular paid hours were provided with a part-time HSA in the amount of \$125.00. The HSA provides members with an additional way to pay for healthcare and dental expenses in excess of existing HEB Manitoba benefit maximums.

Plan Membership: 5,994

Premium adjustments were not required for Level I coverage in 2010. After comparing projected premiums to anticipated claim costs and reserve levels, a premium increase was implemented for Level II coverage. The benefit levels for both Level I & Level II coverage remained unchanged. The Plan's financial position improved moderately during 2010, and all reserves became closer to being fully funded at the end of 2010. Of claims incurred, 58% were for drugs, 11% were for ambulance & hospital benefits, and 31% were for paramedical and other benefits.

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Financial Summary

Dental Plan

	2010	2009
Increases		
Premiums	\$ 18,398,628	17,078,435
Investment income	41,569	43,651
	18,440,197	17,122,086
Decreases		
Claims	18,074,376	16,673,868
Administrative expenses	1,410,713	1,198,542
	19,485,089	17,872,410
Net decrease prior to change in obligations	(1,044,892)	(750,324)
Change in obligations and internally restricted funds	557,349	(232,903)
Net decrease after change in obligations	(487,543)	(983,227)
Net Assets Beginning	569,895	1,553,122
Net Assets Ending	\$ 82,352	569,895

Life Insurance Plan

	2010	2009
Increases		
Premiums	\$ 9,658,609	9,245,049
Investment income	3,439,798	4,657,434
	13,098,407	13,902,483
Decreases		
Claims and related expenses	8,874,610	5,786,591
Administrative expenses	1,271,899	908,207
	10,146,509	6,694,798
Net increase prior to change in obligations	2,951,898	7,207,685
Change in obligations and internally restricted funds	229,000	(2,548,000)
Net increase after change in obligations	3,180,898	4,659,685
Net Assets Beginning	13,731,946	9,072,261
Net Assets Ending	\$ 16,912,844	13,731,946

Disability & Rehabilitation (D&R) Plan

	2010	2009
Increases		
Premiums	\$ 35,335,811	33,643,586
Investment income	9,183,708	7,005,768
	44,519,519	40,649,354
Decreases		
Claims and related expenses	22,073,512	20,508,814
Administrative expenses	4,320,424	4,055,299
	26,393,936	24,564,113
Net increase prior to change in obligations	18,125,583	16,085,241
Change in obligations	(10,907,000)	(16,774,000)
Net increase (decrease) after change in obligations	7,218,583	(688,759)
Net Assets Beginning	28,592,839	29,281,598
Net Assets Ending	\$ 35,811,422	28,592,839

Benefit Highlights

Plan Membership: 25,467

In order to support anticipated claim costs and maintain Dental Plan reserve levels, premium increases were implemented in 2010. The premium increases were the result of increased benefit utilization, Manitoba Dental Association fee guide increases, and inflationary increases. Of claims incurred, 85% were for basic services and 15% were for major and orthodontic services. Dental Plan benefit levels remained unchanged.

Plan Membership: 34,719

Life Insurance Plan claims and related expenses were at 92% of premiums in 2010, up from 63% in 2009. There were no premium increases or benefit changes during 2010, and the Plan's reserves are fully funded.

In 2010, HEB Manitoba completed a Global Review of the Life Insurance Plan for active members. The review looked at various components of the Life Insurance Plan and assessed its competitiveness within the market, and in relation to life insurance plans offered in the public sector by other healthcare employers. As a result of the Global Review, several enhancements to the Plan will be considered over 2011. Please look for notices of changes in upcoming communications.

Plan Membership: 35,613

There were 1,278 members receiving D&R Benefits at December 31, 2010. Of these claims, 923 were being administered by our in-house program, up from 848 in 2009. Premium rates were unchanged in 2010. Obligations include reserves and assumption changes that occurred in 2010. The Plan is fully funded.

Directories

Board and Committee Members as of December 31, 2010

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Canadian Union of Public Employees

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Montrose Mortgage Corporation Ltd.

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

Bob Romphf
Manitoba Nurses' Union

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Directories *continued*

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HEB Manitoba Executive Management

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Ronald Queck, CFA
Director of Investments

Melanie Bready, BA, CHRP
Director of Corporate Services & Development

Brigitte Fisher, CEBS, PPAC
Director of Pension & Benefits Administration

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

Kerry Poole, BSc, PMP
Director of Information Services

Grant D. Slater, B.Comm, CA
Director of Finance

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Custodian
CIBC Mellon Global Securities Services Company

Legal Counsel
Koskie Minsky

Auditor
KPMG LLP

Actuary
Towers Watson

HEBP Professional Advisors

Auditor
KPMG LLP

Legal Counsel
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