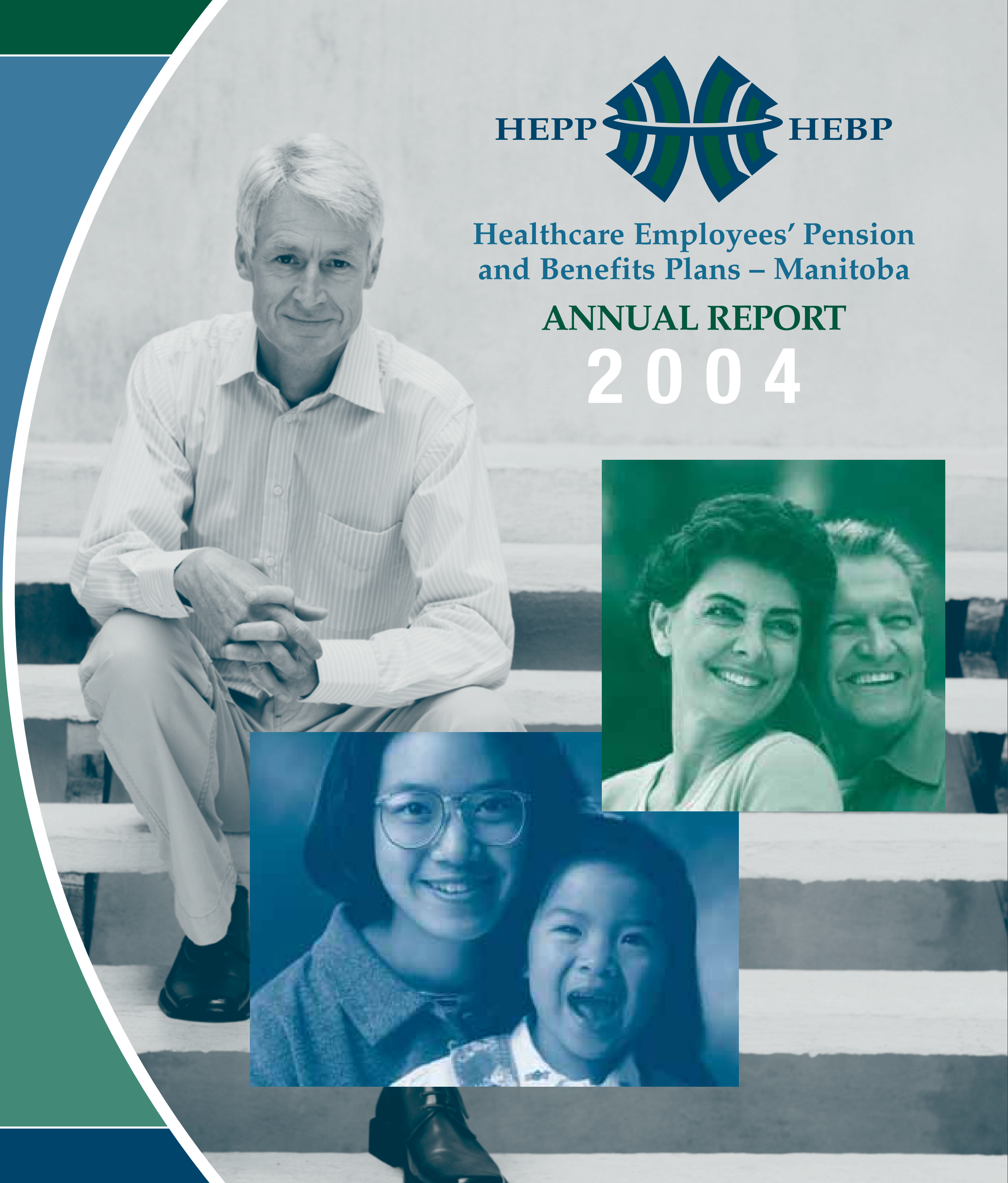
HEPP HEBP

Healthcare Employees' Pension and Benefits Plans – Manitoba

ANNUAL REPORT 2004



CONTENTS

Healthcare Employees' Pension Plan – Manitoba
Healthcare Employees' Benefits Plan – Manitoba

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

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OUR COMMITMENT

Our PURPOSE

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

Our VISION

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

Our VALUES

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

Our MISSION

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

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

Our GUIDING PRINCIPLES

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

Our GOALS

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

REPORT FROM THE EXECUTIVE DIRECTOR

The year 2004 was the second year of fundamental change for HEPP and HEBP. Last year we told you about improvements to systems which would improve data collection from employers, streamline our operations and greatly enhance service to members. These initiatives are in progress, on target and on budget.

The Healthcare Employees' Pension Plan has invested considerable time and energy promoting an understanding of the funding issues faced by the plan and most other pension plans during these challenging economic times. Pension liabilities grow at a predictable rate each year, while over the last five years, the average investment returns have fallen short of the amount required to keep pace with the growing liabilities.

Additionally, the plan faced a contribution shortfall in the range of 25%. It was very rewarding to know that the parties to the trust agreement listened carefully to the arguments supporting an increase in contributions. This has enabled the Trustees to withdraw benefit reductions originally scheduled for July 1, 2005.

The Healthcare Employees' Benefits Plan is in dramatically better shape than it was a year ago. The in-house Disability & Rehabilitation Plan has eliminated a substantial deficit. The plan has placed emphasis on early intervention, rehabilitation and accommodation to ensure that disabled members are able to return to the workforce as soon as possible. Though we are receiving more applications, through these strategies, the length of time during which benefits are paid has been reduced. This has dramatically reduced the projected cost of the plan

A dramatic turnaround has also been achieved for the Enhanced Group Healthcare Plan. A five-year debt reduction plan was introduced in 2004. It is expected that the plan will eliminate its deficit ahead of schedule.

Effective January 1, 2004, HEPP/HEBP became subject to the Personal Information Protection and Electronic Documents Act.

Because personal information and personal health information is collected from members to administer the pension and benefit plans, and provide benefits and services, protecting the privacy of members has become paramount among plan principles.

HEPP/HEBP has designated a chief privacy officer and is developing a Privacy Policy to protect members' privacy in accordance with relevant privacy laws.

Procedures for protecting the privacy, confidentiality, accuracy and security of personal information are being implemented and formalized, including procedures for providing members with access to the existence, use and disclosure of their information. For more information on privacy initiatives, please visit our website at www.hepp.mb.ca.

I would like to take this opportunity to thank the HEPP and HEBP Boards for their guidance and support in initiating changes and improvements. I extend my congratulations to the HEPP/HEBP management and staff for their extraordinary resolve to implement measures to improve services for our members.

The administrative staff appreciates the cooperation, patience and understanding of members and employers as HEPP and HEBP strive to complete their ambitious agenda to improve responsiveness to members. Members are encouraged to send feedback and suggestions to enable us to be more responsive to their needs.

John McLaughlin
Executive Director
Healthcare Employees' Pension Plan
Healthcare Employees' Benefits Plan

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the pension and 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 2004 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.

John McLaughlin
Executive Director

Rohini Halli, CA
Director of Finance

HEALTHCARE EMPLOYEES' PENSION PLAN

CONTENTS

REPORT FROM THE CHAIR OF THE HEPP BOARD

The Healthcare Employees' Pension Plan (HEPP) conducts an actuarial valuation of the plan each year. The purpose of this is to determine whether the plan has enough assets to cover the pensions earned to date by all of HEPP's active and retired members. The valuation done as of December 31, 2004 indicated that the plan continues to operate with an extremely small surplus, but that the contribution rates as recently adjusted will be sufficient for at least the next three years.

Pension plans throughout Canada and around the world are facing significant difficulties in delivering their promised benefits. Although our funded position at HEPP continues to be of concern to the Trustees and management, we remain in far better shape than the majority of other plans.

In September of 2003, after many years of operating with a contribution rate that was insufficient to fund our benefits, HEPP asked its Settlors (Unions and Employers) for an increase in the rate. This request was initially denied and the Board of Trustees was forced to announce benefit reductions in order for the plan to remain fully funded. The Executive Director and management team at HEPP expended considerable effort to explain this situation to all stakeholders, including members, Employers, Unions, and Government. It was a rewarding moment for the Board and management when the Settlors consented to increase contributions to a level sufficient to enable us to withdraw the announced benefit reductions.

On another serious matter, the Board has been unable to grant a COLA (cost of living allowance) increase for retirees since 2002. Such COLA increases are not (and have never been) funded by the contributions made by members and employers. In the past, the Board had been able to grant COLAs from surpluses resulting from investment returns that exceeded expectations. Unfortunately, in the current investment climate, the plan will no longer be able to grant COLAs for the foreseeable future. The Board has discussed the implications of this for retired members and will be further discussing the matter with stakeholders in the coming months.

Robert Malazdrewich
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.

One Trustee is appointed by each of the following unions:

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

Board members and their affiliations are listed on page 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 Governance Committee provides recommendations to the Board regarding governance issues such as structure, responsibilities and composition of Board committees and their effectiveness, and is responsible for developing human resource and organizational policies and reporting to the Board on the effectiveness of the Board and its members.

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

Committee members and their affiliations are listed on page 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, and are implemented in January of each year, if approved.

Although there are no explicit provisions for COLAs under the plan, historically, surplus emerging due to better than expected investment performance has been used to fund this benefit. COLAs were last granted in January 2002.

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.

2004 HIGHLIGHTS

MEMBER MIX

	2001	2002	2003	2004
Deferred vested[1]	4,265	4,961	4,822	6,221
Retired	8,006	8,524	8,971	9,505
Active & Disabled	31,817	33,178	34,865	35,635
Total	44,088	46,663	48,658	51,361

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.

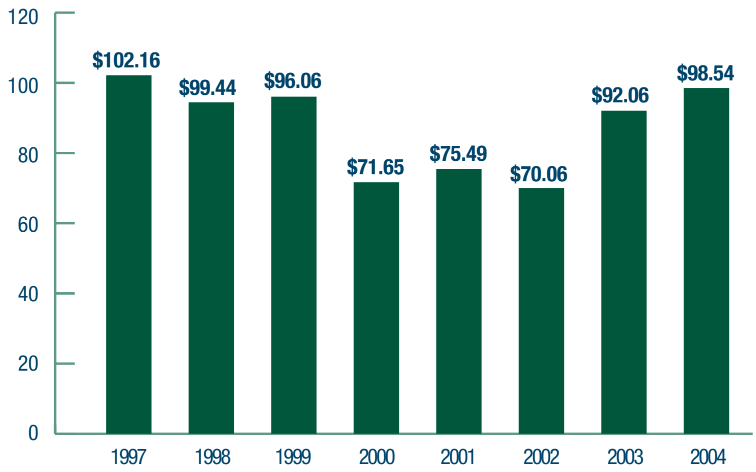
MEMBERSHIP INFORMATION

AVERAGE AGE (YEARS)	2001	2002	2003	2004
Active member	42.6	42.7	42.8	43.1
Retired member	69.7	69.8	69.8	69.8
Deferred member	42.6	41.9	42.6	42.2
Average annual earnings active member	$ 27,463	$ 27,665	$ 30,363	$ 32,449
Average annual pension retired member[1]	$ 7,494	$ 7,703	$ 7,925	$ 8,225
Average annualized earnings active member	$ 36,140	$ 37,758	$ 39,695	$ 41,805

1 Includes bridge benefit

Annual Administrative Cost per Member

(in dollars)

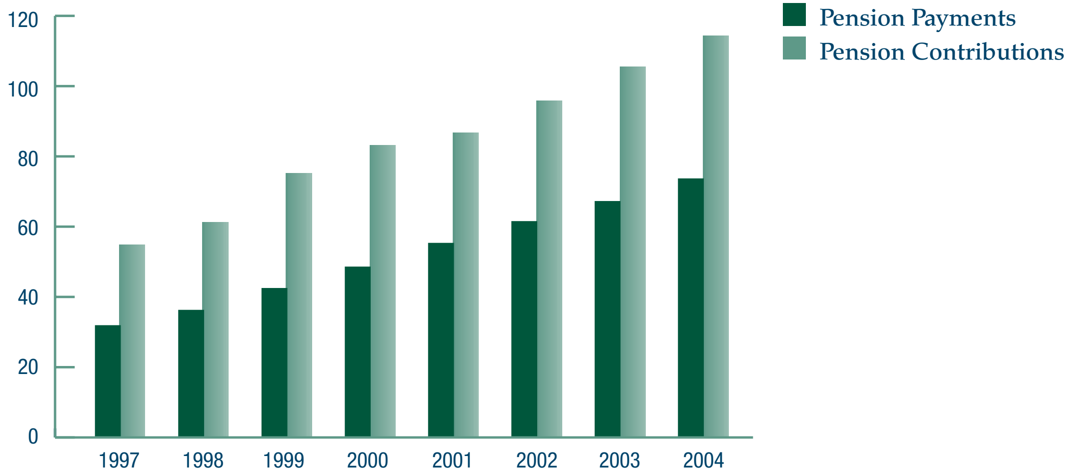


Note: Includes custodial fees.

HEPP/HEBP ANNUAL REPORT 2004

Pension Payments & Contributions

($ millions)



FINANCIAL SUMMARY*

	2004	2003
Increase		
Current period change in market values	$ 178,131,699	$ 219,513,737
Investment income	79,224,808	70,682,625
Contributions from employers	60,344,795	54,106,397
Contributions from employees	60,401,182	54,102,055
	378,102,484	398,404,814
Decrease		
Benefits paid to pensioners and beneficiaries	75,761,347	69,116,407
Refunds to terminated members	15,287,521	11,290,930
Investment and plan administration expenses	12,472,396	10,687,537
	103,521,264	91,094,874
Net increase in assets	274,581,220	307,309,940
Net assets available for benefits, January 1	2,320,528,567	2,010,514,526
Net assets transferred into the plan	–	2,704,101
Net assets available for benefits, December 31	**$ 2,595,109,787**	**$ 2,320,528,567**

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

ACTUARIAL HIGHLIGHTS 2004

PLAN VALUATION

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

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

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

SOLVENCY VALUATION

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

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

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

For retirees and other non-active members, the value of benefits earned is calculated by determining the amount of funds that would be required to purchase a life annuity based on the monthly pension income. This calculation is based on current interest rate

levels, and as such, is subject to change as interest rates go up or down (lower interest rates would result in more funds being required to purchase a life annuity than at higher interest rates).

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

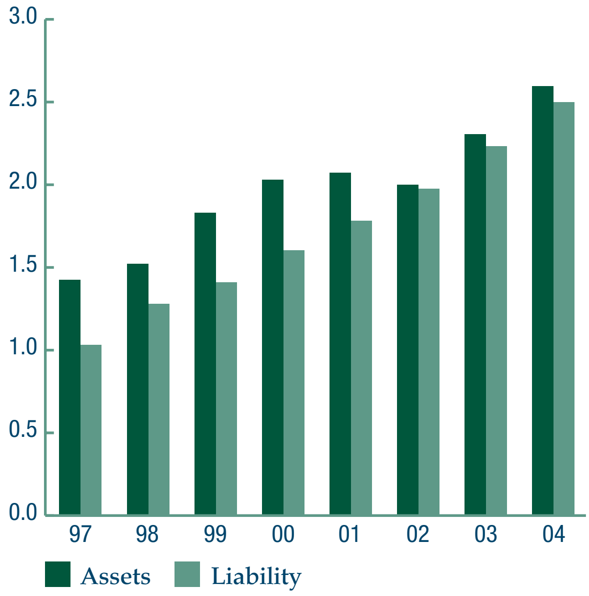
- a surplus - if assets are greater than liabilities, or
- a deficit - if assets are less than liabilities.

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

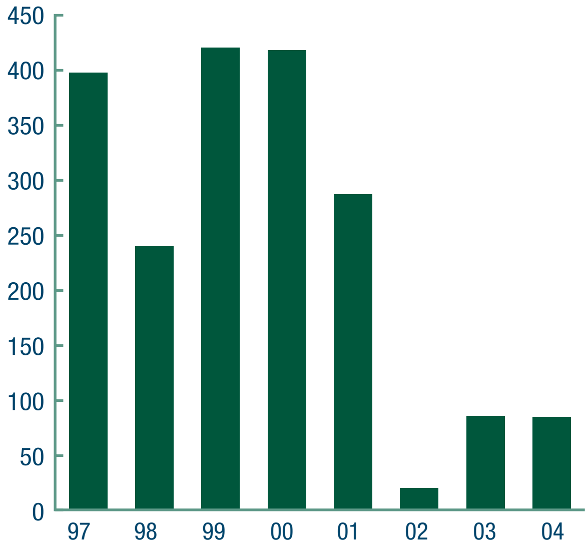
At the end of 2004, the HEPP solvency surplus was $85 million (103% funded ratio), unchanged from $85 million in 2003 (104% funded ratio). The solvency funded ratio remained unchanged even though the plan earned an 11.1% investment return for the year 2004. Offsetting this gain was a negative impact to the solvency ratio as interest rates were lower at the end of 2004 compared to 2003.

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

Solvency Assets vs. Liabilities
($ billions)



Solvency Surplus
($ millions)



The Canadian Institute of Actuaries has announced a new valuation method for calculating the solvency position effective in 2005. It is estimated that the new method will reduce the solvency funded ratio by 2% as compared to the current method.

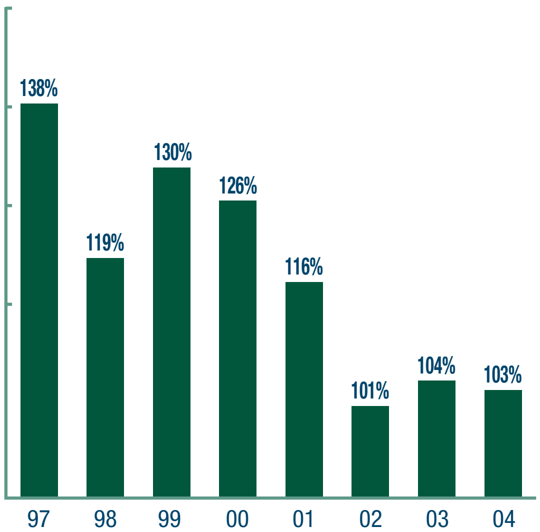
While the solvency funded ratio has remained above 100% since HEPP's inception in 1997, the current level does not provide sufficient margin to allow for adverse investment returns or unexpected changes in the pension liability. This means that the plan cannot provide COLAs for retired members as these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

GOING-CONCERN VALUATION

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

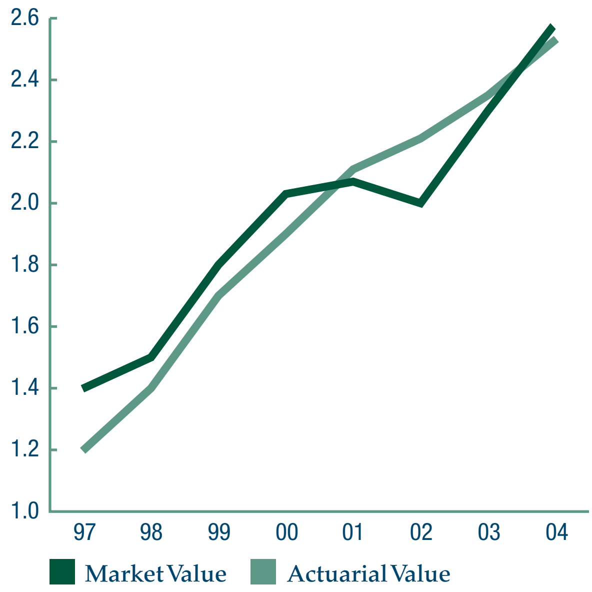
For the going-concern valuation, the market value of the plan's assets are smoothed or averaged over a period of five years. This smoothing helps to lessen the impact of swings in the market value of assets due to changing conditions in the investment markets. The smoothed value of the assets is called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

Solvency Funded Ratio



Market Value of Assets vs. Actuarial Value of Assets

($ billions)



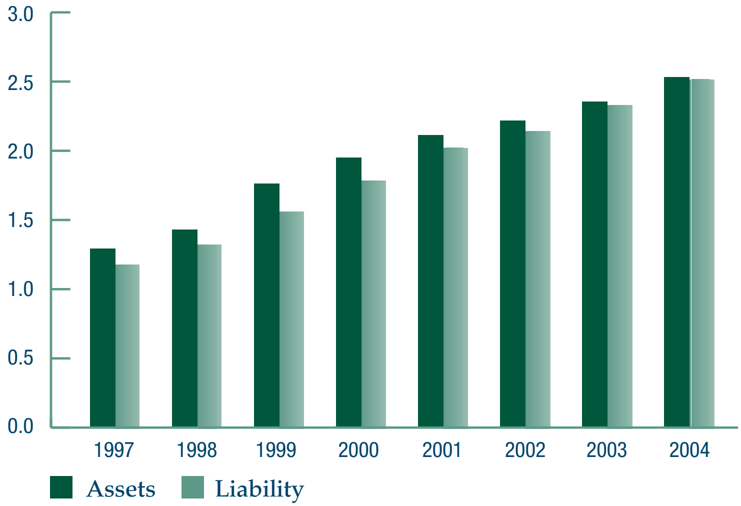
Up to the year 2000, investment markets produced very favourable returns, which resulted in the market value of assets being higher than the actuarial assets. For the years 2001 and 2002, investment returns were below long-term expectations, which resulted in the market value of assets being lower than the actuarial value of assets through the end of 2003. This occurred despite a favourable return of 14.4% in 2003, and is a direct result of the asset smoothing method. At the end of 2004, the market value of assets was once again higher than the actuarial value of assets (by $59 million) as a direct result of the 11.1% investment return in 2004.

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

Actuarial Assets vs. Liability

($ billions)



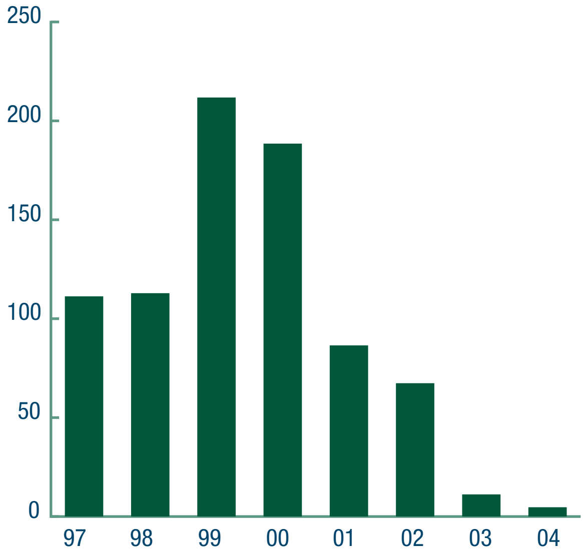
assets is greater than the pension liability, then the plan has a surplus, or sufficient assets to meet future obligations. If the assets are less than the pension liability, then the plan has a deficit, and does not have sufficient assets to meet future pension obligations. If the plan reports a deficit,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

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

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 2004, the funded ratio was 100%, unchanged from 2003, despite having earned 14.4% in 2003 and 11.1% in 2004. This is again a direct result of the impact of the asset smoothing formula as well as the plan's five-year investment return being 6.5%, equal to the long-term

Going-Concern Surplus

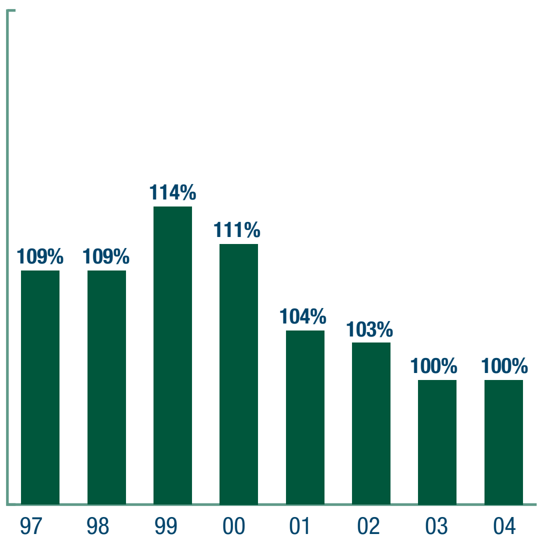
($ millions)



investment assumption of 6.5%. With the increasing growth in pension liabilities and the impact of the asset smoothing formula, the plan will require returns above the long-term assumption for the next several years to ensure that the funded ratio does not fall below 100%.

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. Should the funded ratio fall below 100%, corrective action would have to be taken, again in the form of increasing contribution rates and/or reducing benefit levels.

Going-Concern Funded Ratio



CONTRIBUTION RATES

In last year's annual report we indicated that the plan's actuary had advised that the current level of contributions were 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, which are discussed in the message from the Board chair.

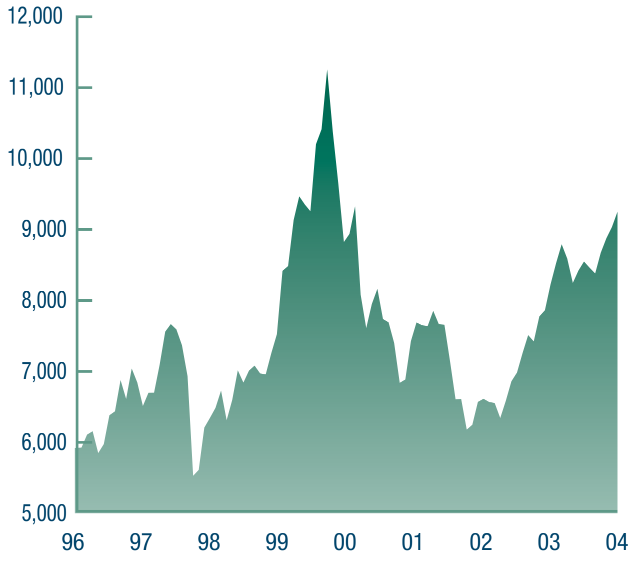
REPORT FROM THE DIRECTOR OF INVESTMENTS

2004 was another good year for investment returns for HEPP. We achieved an 11.1% return in 2004 following a 14.4% return in 2003.

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

The past two years have seen a dramatic improvement in returns with the Canadian market up 14.4% in 2004 and up 26.7% in 2003. Despite this strong performance, the market is still 18% below the market peak established in 2000.

Canadian Stock Market
at December 31



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

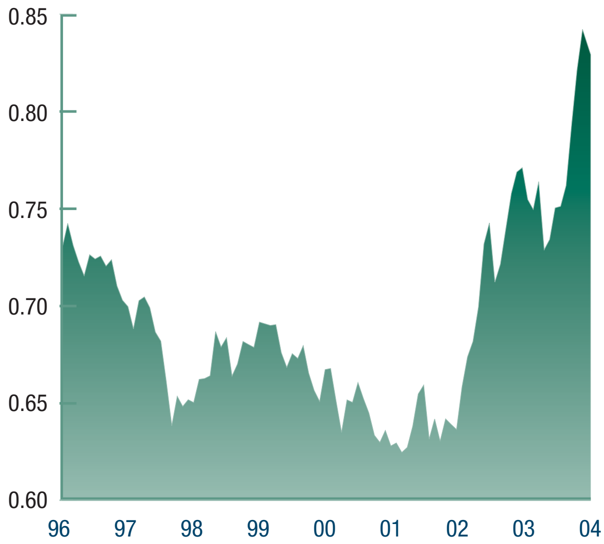
Due to the impact of a rising Canadian dollar, the US equity market remained our lowest return asset class.

As the chart to the right shows, during 2004 the Canadian dollar rose 7% versus the US dollar (from $0.77 at the end of 2003 to $0.83 at the end of 2004).

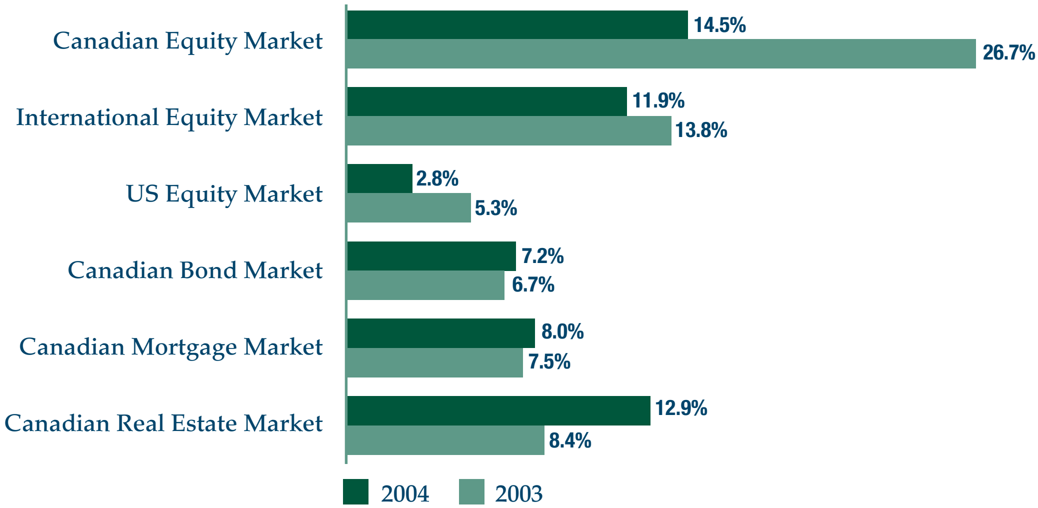
The rising Canadian dollar impacted our US equity portfolio with the US stock market rising 11% in US dollar terms versus 2.8% in Canadian dollar terms.

The impact of currency movements was not as pronounced in our international holdings where the MSCI EAFE Index rose 11.9% in Canadian dollar terms and 13% in local currency terms.

Canadian Dollar vs. US Dollar
at December 31



Major Market Returns

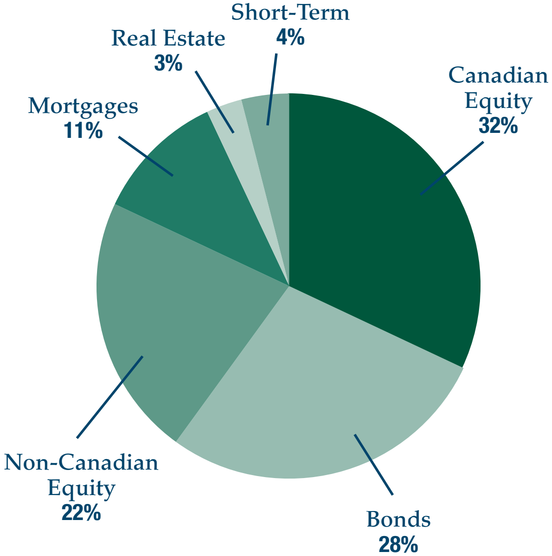


HEPP/HEBP ANNUAL REPORT 2004

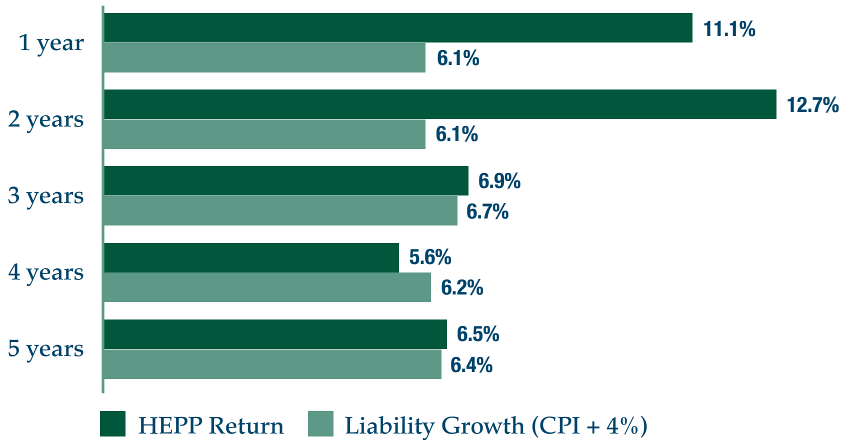
Our asset weights at the end of 2004 reflected our favouring the Canadian market over foreign stock markets.

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

HEPP Asset Mix



HEPP Investment Returns vs. Pension Liability Growth
at December 31, 2004



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

We initiated a number of changes to our investment mix in 2003, which will take some time to fully establish.

We are increasing our exposure to real estate and the mortgage market with a subsequent reduction in our Canadian bond holdings. We believe that an investment in mortgages will provide us with returns higher than those available from bonds, and that these returns will also grow over time relative to inflation.

Our shift into mortgages also provides for higher income potential. Additionally, we believe that the environment of continually falling interest rates, which began in 1981, is largely over. Our mortgage investments are less sensitive to interest rates moving higher and, at the same time, offer a yield advantage over bonds.

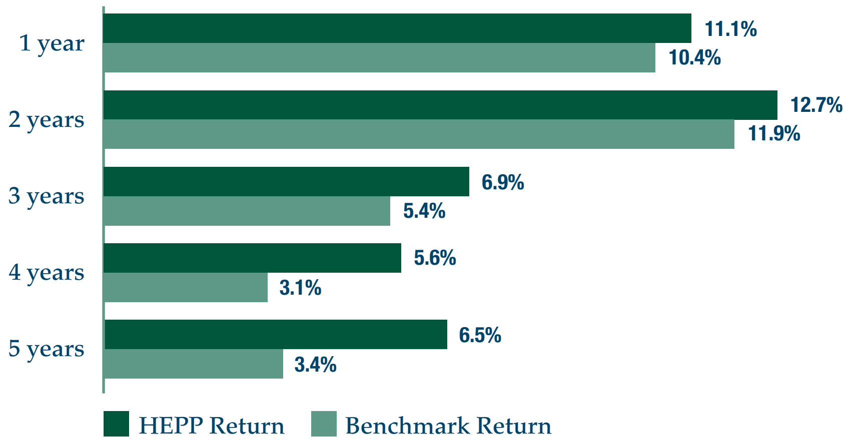
We made our first investment in private equity markets in 2004. This type of investing involves committing funds for up to 10 years in private companies with a return potential that should be higher than that achieved through public markets.

We are still viewing the outlook over the next several years with caution, believing that investment returns for the plan will be in the single digit range.

Ronald Queck

Ronald Queck, CFA
Director of Investments

HEPP Investment Returns vs. Policy Benchmark Returns
at December 31, 2004



HEALTHCARE EMPLOYEES' BENEFITS PLAN

CONTENTS

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*			
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**
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 2004 saw significant improvement in the financial health of the Healthcare Employees' Benefits Plan. The 2002 decision by the Board to bring the Disability & Rehabilitation Plan in-house is beginning to pay dividends. The plan has eliminated its significant deficit during a period when applications for benefits has increased. The plan's emphasis on early intervention, rehabilitation and accommodation has been successful in reducing the period of disability for many members. This has allowed them to return to work earlier and reduced the amount of benefits paid from the fund.

The basic and extended healthcare plans were amended on June 1, 2003 with the bundling of paramedical benefits under one annual maximum. This caused concern for a number of members. The Board received numerous letters and petitions asking it to reconsider the decision. In response to the concerns, the Board has unbundled the paramedical benefits in 2005.

The Dental Plan continues to perform satisfactorily with demand for services relatively stable. Modest increases in contributions have been required only to meet the annual increase in fees charged by dental practitioners.

During the year, the Board, with the assistance of Manitoba Blue Cross, surveyed members of the Retiree Group Healthcare Plan to determine the changes that they would like to see made to the plan. The overwhelming response from members supported increasing the prescription drug maximum to $450 per year. The change will be made effective in June 2005.

The HEBP Board has been working closely with the HEPP Board over the past two years to improve accountability and service to members of the pension and benefit plans. The Boards conducted joint strategic planning sessions in both 2003 and 2004 to develop consistent strategies focussed on service to members. In addition, the Boards authorized the development of modern systems to improve data accuracy, internal controls, disaster recovery contingencies and service response time for members. These initiatives will ensure that appropriate coverage is extended to all eligible members.

I would like to take this opportunity to thank the Executive Director, the Senior Management team and the staff of HEBP for their dedication and perseverance in serving the members of the Healthcare Employees' Benefits Plan and assisting the Board in meeting its fiduciary responsibilities.

Sincerely,

Jean-Paul Gobeil
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.

AUDIT COMMITTEE

The Audit Committee assists the Board in fulfilling its responsibility to oversee the financial reporting, accounting system and internal controls.

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
- 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:

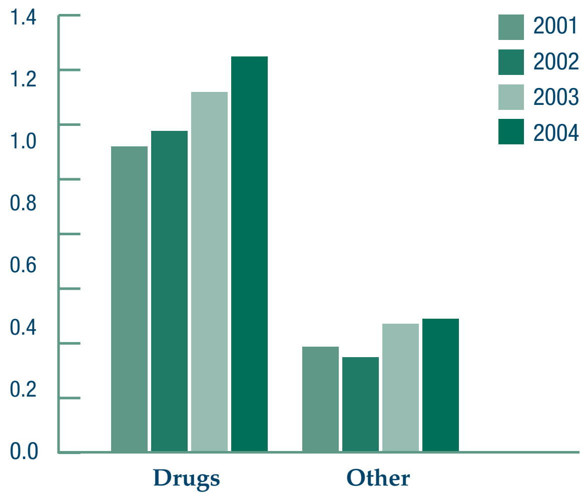
- Acupuncturist
- Audiologist
- Chiropractor
- Licensed Massage Therapist
- Naturopath
- Osteopath
- Speech Therapist

2004 Group Healthcare Plan Experience

Rate increases were implemented on June 1, 2004 to Basic and Enhanced Group Healthcare premiums to offset continued increases in utilization.

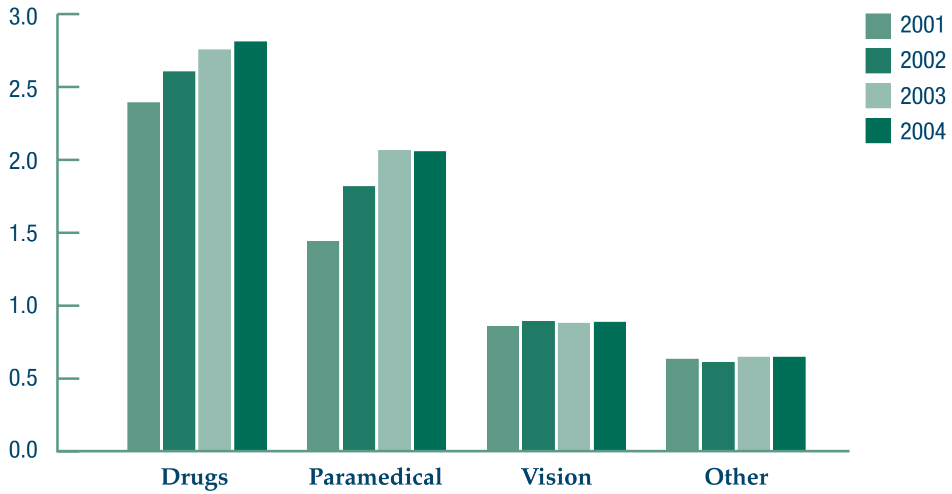
Basic Group Healthcare Plan Comparison of Paid Claims

($ 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:

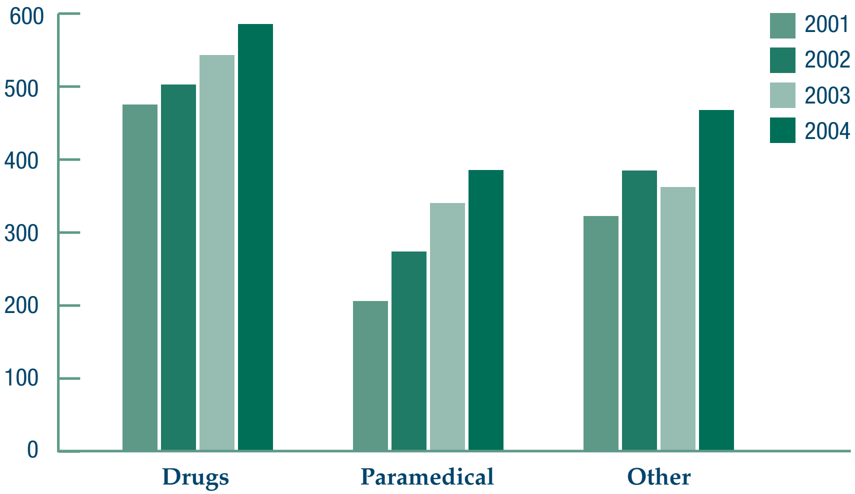
- Athletic Therapist
- Audiologist
- Certified Foot Care Nurse
- Chiropractor
- Clinical Psychologist
- Licensed Massage Therapist
- Naturopath
- Osteopath
- Registered Dietician
- Speech Therapist
- Podiatrist

2004 Retiree Group Healthcare Plan Experience

Though the total of claims paid under the Retiree Group Healthcare Plan continued to increase in 2004, premiums remained unchanged.

Retiree Group Healthcare Plan Comparison of Paid Claims

($ thousands)



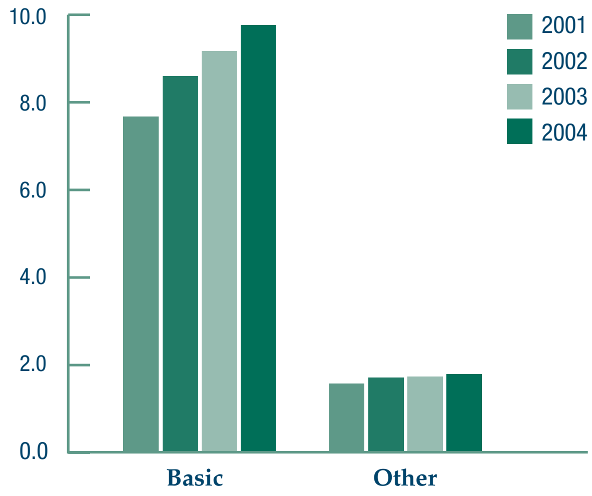
DENTAL PLAN

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

($ thousands)



2004 Dental Plan Experience

A rate increase was implemented effective June 1, 2004, to offset the Manitoba Dental Fee Guide adjustment and the increase in claims paid.

DENTAL AND GROUP HEALTHCARE PLANS FINANCIAL SUMMARY*

		2004		2003 *(Restated)*
Increase				
Premiums	$	24,455,442	$	22,319,933
Investment income		142,362		138,649
		24,597,804		22,458,582
Decrease				
Claims incurred		21,092,351		20,066,869
Payments to travel plan		528,943		521,269
Plan administration expenses – HEBP		218,848		123,324
Plan administration expenses – Manitoba Blue Cross		1,322,500		1,260,042
Interest charges – Manitoba Blue Cross		89,170		99,945
		23,251,812		22,071,449
Net increase before undernoted		1,345,992		387,133
Appropriations from reserves		398,209		15,567
Net increase		1,744,201		402,700
Fund balances, January 1		(792,437)		(1,195,137)
Fund balances, December 31	**$**	**951,764**	**$**	**(792,437)**

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

GROUP LIFE INSURANCE PLAN

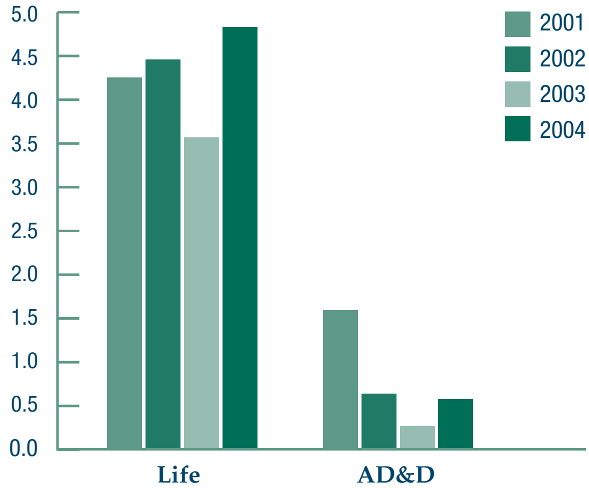
Benefit Coverage for Active Employees

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.

Group Life Insurance Plan Comparison of Paid Claims

($ millions)



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.

2004 Group Life Insurance Plan Experience

Paid claims under the Group Life Plan increased in 2004.

GROUP LIFE INSURANCE PLAN FINANCIAL SUMMARY*

		2004		2003
Increase				
Premiums	$	7,017,873	$	6,490,437
Investment income		2,190,448		3,077,252
		9,208,321		9,567,689
Decrease				
Claims incurred		5,577,210		3,970,246
Plan administration expenses – HEBP		433,862		306,542
Plan administration expenses – Great-West Life		455,488		410,600
		6,466,560		4,687,388
Net increase before undernoted		2,741,761		4,880,301
Appropriations to Disabled Life waiver reserve		(600,000)		(100,000)
Appropriations to Paid-up reserve		(1,558,681)		–
Net increase		583,080		4,780,301
Fund balances – unrestricted, January 1		13,577,376		9,197,075
Transfers to internally restricted funds		(400,000)		(400,000)
Fund balances – unrestricted, December 31	**$**	**13,760,456**	**$**	**13,577,376**

** 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).

D&R 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 System

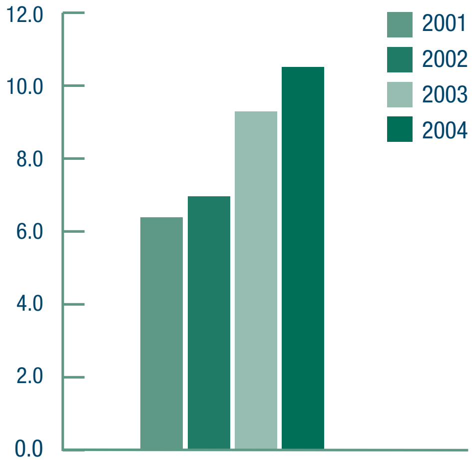
A new D&R system was implemented in December 2004 with efficiencies immediately identified. This system, along with moving toward a paperless office, has supported the D&R staff in effectively documenting and administering claims.

Return to Work Initiatives

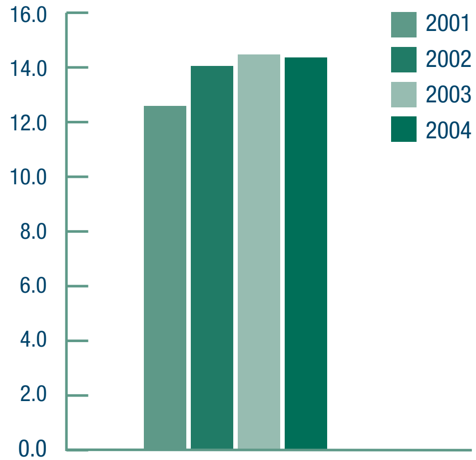
Rehabilitation Claim Specialists focused on assisting members in work trials and in planning graduated return to work programs. Working collaboratively with the employers, unions and community resources, a number of members have returned to active employment.

2004 Disability & Rehabilitation Plan Experience: Comparison of Paid Claims

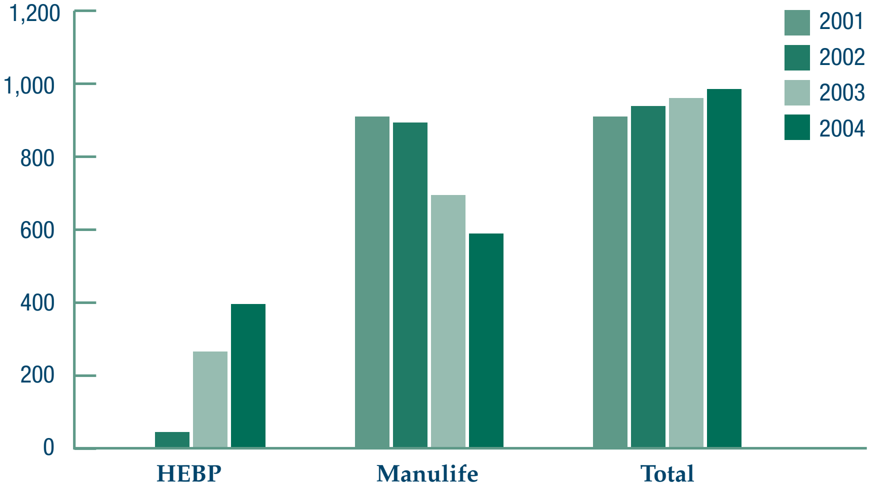
D&R Self-insured Claims
($ millions)



D&R Insured and Self-insured Claims
($ millions)



D&R Number of Paid Claims



DISABILITY & REHABILITATION PLAN FINANCIAL SUMMARY*

		2004		2003
Increase				
Premiums	$	23,330,971	$	20,305,350
Investment income		4,258,999		2,942,617
		27,589,970		23,247,967
Decrease				
Claims incurred		10,499,715		9,282,283
Claims-related expenses		401,590		335,750
Plan administration expenses – HEBP		2,918,682		1,970,382
Plan administration expenses – Manulife		125,450		223,904
		13,945,437		11,812,319
Net increase before undernoted		13,644,533		11,435,648
Appropriations to reserves		(5,479,929)		(6,364,226)
Net increase		8,164,604		5,071,422
Fund balances, January 1		(3,890,433)		(8,961,855)
Fund balances, December 31	$	4,274,171	$	(3,890,433)

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

2004 HEPP DIRECTORY *(As of December 31, 2004)*

BOARD OF TRUSTEES

Union Representatives

Ray Erb
Manitoba Government and General Employees Union

Doug Laurie
Manitoba Council of Health Care Unions

Bob Malazdrewich *(Chair)*
Canadian Union of Public Employees

Bob Romphf
Manitoba Nurses Union

Ken Swan
Manitoba Association of Health Care Professionals

Robert Ziegler
United Food & Commercial Workers Union Local 832

Employer Representatives

Janet Wilcox-McKay
Brandon Regional Health Authority

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

Ray Spokes
St. Boniface General Hospital

Don Onofriechuk
Winnipeg Regional Health Authority

Merv Toderian
Parkland Regional Health Authority

Jean-Paul Gobeil
Winnipeg Regional Health Authority

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Retired Investment Executive

Bob Darling
Retired Investment Executive

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Manitoba Government and General Employees Union

Bob Malazdrewich
Canadian Union of Public Employees

Michael Nesbitt *(Chair)*
Montrose Mortgage Corp.

Bob Romphf
Manitoba Nurses Union

Ray Spokes
St. Boniface General Hospital

Darcy Strutinsky
Winnipeg Regional Health Authority

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Winnipeg Regional Health Authority

Doug Laurie
Manitoba Council of Health Care Unions

Jean-Paul Gobeil
Winnipeg Regional Health Authority

AUDIT COMMITTEE

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

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

Ken Swan
Manitoba Association of Health Care Professionals

Gordon Webster *(Chair)*
The Faneuil Group

David Rubel
Winnipeg Regional Health Authority

Jim Husiak
The Exchange Consulting Group

Don Onofriechuk
Winnipeg Regional Health Authority

CONSULTANTS

Custodian – *CIBC Mellon Global Securities Services Company*

Legal Counsel – *Koskie Minsky*

Auditor – *KPMG LLP*

Actuary – *Towers Perrin*

2004 HEBP DIRECTORY *(As of December 31, 2004)*

BOARD OF TRUSTEES

Union Representatives

Ray Erb
Manitoba Government and General Employees Union

Doug Laurie
International Union of Operating Engineers

Bob Romphf *(Vice-Chair)*
Manitoba Nurses Union

Brian Ellis
Canadian Union of Public Employees

Ken Swan
Manitoba Association of Health Care Professionals

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Jean-Paul Gobeil
Winnipeg Regional Health Authority

Gloria O'Rourke
Winnipeg Regional Health Authority

Frank Ryplanski
Regional Health Authorities of Manitoba

Janet Wilcox-McKay
Brandon Regional Health Authority

Merv Toderian
Parkland Regional Health Authority

AUDIT COMMITTEE

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.*

2004 HEBP DIRECTORY *(As of December 31, 2004)*

HEPP/HEBP MANAGEMENT TEAM

John McLaughlin, *Executive Director*

Rohini Halli, CA, *Director of Finance*

Ronald Queck, CFA, *Director of Investments*

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

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

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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Toll-free (Outside Winnipeg): 1-888-842-4233

Fax: (204) 943-3862

Website: www.hepp.mb.ca or **www.hebp.mb.ca**

E-mail: communications@hepp.mb.ca