2014 | ANNUAL REPORT

AUDITORS' REPORT

ANNUAL FINANCIAL STATEMENT

ACTUARIAL VALUATION REPORT

HEALTHCARE BENEFIT TRUST

HBT

BENEFIT FROM EXPERIENCE

Contents

Financial Statements

Actuarial Valuation

Message from the Chair

On behalf of the Trustees of the Healthcare Benefit Trust (HBT), I am pleased to report on HBT's performance in 2014, the achievement of the goals set out in our 2012-2014 Strategic Service plan and our vision for HBT to be the "partner of choice" for providing health and welfare benefits on behalf of our clients and stakeholders in the healthcare and community social services sectors in BC.

The Trustees played an active role in the multi-year transition of services and transformation that had a significant and positive impact on HBT as an organization. Most recently, in 2014, the Board conducted a strategic review of operations and services that resulted in the outsourcing of Rehabilitation Services to our business partner Great-West Life, as well as an organizational reduction of HBT administrative staff. These initiatives have reduced the internal administrative cost run rate by 50%.

In 2012-2014, HBT met or exceeded our financial, service and operational targets, despite the challenges of outsourcing, transitioning additional benefits administration services to our claims paying agents, and meeting the demands of new clients. Going forward, HBT will continue to look for opportunities to leverage our external providers and build flexibility, particularly as we look to serving the incoming Health Sector Joint Trusts beyond 2017 and potentially other new clients. Our 2015-2020 Vision and Service Plan will align with this intent and provide for the financial sustainability and stability of the Trust for our existing members and beneficiaries, during a time when benefit contributions will shift to the new plans held by each of the Joint Trusts.

HBT currently holds over $1.4 billion in assets that are managed by the British Columbia Investment Management Incorporation (bcIMC). We are very pleased to be combining the Trust's assets with the strength of bcIMC. As they are also the investment manager for a number of public pension and trust funds in BC, we value their strategic input and deep knowledge of the BC sectors we support. bcIMC continues to provide efficient and streamlined governance structures, competitive fees and positive investment returns to HBT. We will look for their collaboration in the transition ahead to Joint Trusts.

The Trust continues to have the support, expertise and vision of a strong and committed Board and we continue to apply leading governance practices and organizational transparency in our decision making. We have invested significant efforts in collaboration with HBT management to build stronger relationships with our clients, unions and employer associations. As well, we have been diligent in our communication and transparency with various government Ministries including Finance, Health, Social Development & Innovation, and Family & Child Development. We see these relations as critical to resolving historical underfunding issues and more importantly to the development of a new way of working together in the future.

On behalf of the Trustees, it is our pleasure to recognize the professionalism and continuing dedication of our staff and partners who serve our clients. We also thank our clients and stakeholders for their continued support.

I look forward to the year ahead and those that follow as they are certain to bring new opportunities for HBT.

Ed Robinson

Ed Robinson
Chair, Board of Trustees
Healthcare Benefit Trust

Message from the Chief Executive Officer

I am pleased to present the 2014 Annual Report for the Healthcare Benefit Trust (HBT) which includes the 2014 Financial Statements audited by KPMG, and the Actuarial Valuation of the Trust prepared by George & Bell and Morneau Shepell.

HBT currently holds $1.4 billion in Trust to provide benefits for nearly 90,000 public sector employees who work in Healthcare, Community and Social Service organizations across BC. In 2014, the Trust delivered significant investment returns, reductions in contribution rates, savings achieved through a contribution holiday, operational efficiencies and a number of service improvements to its members. Below I have highlighted a summary of claims experience in 2014 and the specific elements of the Trust's overall performance.

2014 Claims Experience

Extended Health & Dental, Group Life and Accidental Death & Dismemberment Claims Experience

Overall Extended Health claims experience remained flat compared to 2013. However, in 2014 the cost of paramedical claims exceeded cost of drugs compared to the prior three years. This change is reflective of plan design changes that limited drug reimbursement, coupled with a general trend in the industry towards increasing paramedical utilization.

LTD Claims Experience

Since 2011, the incidence of new LTD claims has continued to increase. There are a host of factors at play, but the largest impact is an ageing workforce with more complex/serious medical conditions. In 2014, there were a total of 6,602 open claims representing a 1.8 percent increase over 2013 and 1,654 claim terminations representing a 5.3 percent increase compared to 2013. This termination experience was better than expected in part due to the Early Retirement Incentive program.

Trust Funded Position and Contribution Holiday

On a consolidated basis, the funded position of the Trust was budgeted to achieve 105 percent at year-end 2014. Due to strong investment returns on Health Authority contributions in 2013, continued solid investment performance in 2014 and better than expected claims experience, the mid-year forecast of the funded position was a significant surplus by year-end.

The Trust maintains a system of notional pools to collect assets and fund benefits. Of these pools, seven relate to each of the Health Authorities and Providence Healthcare. During 2013, significant surpluses developed primarily due to investment performance. To ensure the best use of healthcare funding and to manage the Trust's funded position down to a target of 100%, the Trust's Board introduced contribution holidays effective May 2014 in alignment with its funding policies for LTD contributions. Overall, Health Authority LTD contributions were reduced in 2014 by $131M due to the application of the contribution holiday.

Asset Management and Investment Performance

Our investments have performed above expectations with an overall annual rate of return of 10.8 percent net of fees. We continue to work closely with British Columbia Investment Management Corporation (bcIMC) on the asset mix and allocation decisions and to maximize investment opportunities and performance on behalf of the BC Health and Community Sectors.

Contribution Rates

Contribution rates were reduced for the Trust as a whole by 4.8 percent in 2014 driven by a combination of improved performance, strong investment returns and active management of claims.

Deficit Management & Pool Restructuring

Although the Health Authority pools are in a healthy surplus position, the pools for smaller employers in the Affiliate sector and the Community and Social Services Employers Association (CSSEA) sector were in deficit positions in the prior years. HBT has invested significant effort toward the management of deficits in these smaller pools within the Trust. For those organizations that are no longer members of HBT, but have a remaining liability, we continue to work in collaboration with the BC government and those organizations to resolve outstanding debts in the most practical manner possible including long term payment plans or a potential sector wide solution.

HBT has seen significant progress in reducing large deficits in the smaller employer pools over the past few years. Solutions to achieve fully funded positions for the smaller employer pools are being developed. As well, alternative underwriting models are being explored for the Affiliate and CSSEA employers. With these changes, HBT can continue to provide current services and rate setting principles with less volatility and risk to these employers.

Operating Expense Performance

Operating expenses decreased in 2014 to 6.66 percent of paid claims, compared to 7.11 percent in 2013, reflecting a number of cost reduction initiatives and service delivery improvements implemented over the course of 2014. In 2014, HBT implemented two key operational changes leading to approximate annualized net savings of 15 percent and a significant reduction in the size of HBT management and administrative staff through outsourcing. The most significant initiative was the transfer of HBT's Rehabilitation Services to Great-West Life. This change was aligned with HBT's overall strategy to leverage the expertise and infrastructure of its Service Providers where there are efficiencies and/or service improvements. Once fully implemented, HBT anticipates annualized net savings of $4M of HBT's total administration expenses. We continue to be committed to providing the most cost-effective, self-insurance option available to members of the Trust.

Building Strong Relationships

Over the course of the year we continued to build stronger relationships with all our constituents, including unions and incoming health sector Joint Trusts. We continue to believe that partnership and collaboration are the most effective ways to address the challenges and opportunities we face in the provision of sustainable health and welfare benefits on behalf of our Clients, Employer and Union Stakeholders and the Government.

Should you have any questions arising from our Annual Report, I would encourage you to contact me directly about the Healthcare Benefit Trust's performance and services. I look forward to updating you on our progress on the year ahead.

Donnie Wing
Chief Executive Officer
Healthcare Benefit Trust

Financial Statements
(Expressed in thousands of dollars)

HEALTHCARE BENEFIT TRUST

Year ended December 31, 2014

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Healthcare Benefit Trust

We have audited the accompanying financial statements of Healthcare Benefit Trust, which comprise the statement of financial position as at December 31, 2014, the statements of changes in net assets and changes in benefit obligations for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Healthcare Benefit Trust
Page 2

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Healthcare Benefit Trust as at December 31, 2014 and its changes in net assets and its changes in benefit obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Accountants

April 9, 2015
Vancouver, Canada

Financial Statements

HEALTHCARE BENEFIT TRUST

Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2014, with comparative information for 2013

	Note	2014	2013
Assets			
Cash and cash equivalents	3	$ 16,327	$ 26,413
Investments	4	1,353,260	1,295,725
Accrued interest and other receivable		-	43
Contributions receivable		41,175	30,897
Exit levies receivable		16,392	16,371
Property, equipment and intangible assets	5	788	1,020
		1,427,942	1,370,469
Liabilities			
Benefits and accounts payable		14,025	14,209
Overfunded actuarial benefits	6	203,982	174,677
Net assets available for benefits		1,209,935	1,181,583
Plan benefit obligations	7	1,206,197	1,125,361
Economic dependence	8		
Commitments	9		
Surplus		$ 3,738	$ 56,222

See accompanying notes to financial statements.

Approved on behalf of the Board of Trustees:

Ed Robinson
Trustee

Bob Smith
Trustee

HEALTHCARE BENEFIT TRUST

Statement of Changes in Net Assets
(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Note	2014	2013
Surplus, beginning of year		$ 56,222	$ 23,471
Contributions and income:			
Contributions	10	338,984	477,486
Investment income	11	98,780	94,640
Changes in unrealized gain on investments		41,644	66,636
Interest on (overfunded) underfunded actuarial benefits		(2,970)	2,917
Change in overfunded actuarial benefits and exit levies receivable		(14,659)	(213,101)
		461,779	428,578
Disbursements and expenses:			
Benefits	12	405,931	395,980
Net changes in plan benefit obligations		80,837	(28,240)
Bad debt expense		461	(60)
Operating expenses	13	27,034	28,147
		514,263	395,827
Contributions and income less disbursements and expenses		(52,484)	32,751
Surplus, end of year		$ 3,738	$ 56,222

See accompanying notes to financial statements.

HEALTHCARE BENEFIT TRUST

Statement of Changes in Benefit Obligations
(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Note	2014	2013
Plan benefit obligations, beginning of year		$ 1,125,361	$ 1,153,601
Changes in actuarial assumptions		42,152	(27,842)
Interest accrued		53,977	53,504
Experience gains		(18,521)	(75,194)
Addition of waiver reserve		5,374	-
Benefits accrued		431,280	443,197
Benefits and operating expenses paid		(433,426)	(423,898)
Data changes		-	1,993
Plan benefit obligations, end of year	7	$ 1,206,197	$ 1,125,361

See accompanying notes to financial statements.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

1. **Description of the Trust:**

The Healthcare Benefit Trust (the Trust) was created to receive contributions forwarded by participating employers and to make investments for the purpose of funding future health and welfare benefits, excluding pension benefits, in accordance with the Healthcare Benefit Trust Plan (the Plan). The Plan provides Long-term Disability (LTD), Group Life, Dependent Life, Extended Health Care (EHC), Dental and Accidental Death & Dismemberment (AD&D) coverage. Adjudication and administration of coverage is provided through third party administrators. Participating employers' plans conform to collectively bargained benefit packages where appropriate.

The Trust was established in 1979 through the Agreement and Declaration of Trust (the Trust Agreement). The Trust Agreement describes the composition, appointment, power, function, and duties of the Board of Trustees. The Board of Trustees is responsible for the governance of the Plan.

Public healthcare services in British Columbia are provided through organizations known as Health Authorities, which are set for each of five geographic regions of the province plus one overall region. Providence Healthcare Society, a society organized for managing certain healthcare facilities, is grouped in the Health Authority category for purposes of these financial statements only. The Trust provides benefits for employees of the Health Authorities, other participating health employers (who are present or past members of the Health Employers Association of BC), community society services sector employers (who are present or past members of the Community Social Services Employers' Association) and other permitted employers.

The Trust's capital is comprised of its net assets. The Trust's objective for managing capital, including member contributions, is to ensure that the assets of the Trust are invested soundly and effectively to meet the future obligations of the Plan.

2. **Significant accounting policies:**

(a) Basis of presentation:

These financial statements have been prepared in accordance with the Canadian Accounting Standards for Pension Plans. For accounting policies that are not related to the Trust's investments or benefit obligations, the Trust has complied with International Financial Reporting Standards (IFRS). The financial statements were authorized for issue by the Board of Trustees on April 9, 2015.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

2. Significant accounting policies (continued):

(b) Financial instruments:

(i) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand, bank balances and investments in money market instruments with original maturities of three months or less.

(ii) Non-derivative financial instruments:

Investments are recorded at fair value and are comprised of units of pooled funds. Pooled fund units are valued based on closing net asset values at the date of the statement of net assets. Changes in fair value of investments are recognized in the statement of changes in net assets as unrealized gains or losses on investments.

Cash and cash equivalents, accrued interest and other receivables, contributions receivable and exit levies receivable are classified as loans and receivables and are measured at amortized cost. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Benefits and accounts payable and overfunded actuarial benefits are classified as other financial liabilities and are measured at amortized cost.

Such assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these assets and liabilities are measured at amortized cost using the effective interest method, and, where applicable for financial assets, less any impairment losses.

At each reporting date, management considers whether there is objective evidence that its financial assets are impaired. If there is objective evidence that a loss in value has occurred, the financial asset is written down. When a subsequent event causes the amount of impairment loss to decrease in impairment loss is reversed in that period.

(c) Property, equipment, and intangible assets:

Property, equipment and intangible assets are recorded at historical cost and amortized using the straight-line method over their estimated useful lives, commencing when they are put into use, as follows:

Asset	Estimated useful lives
Computer hardware	3 years
Leasehold improvements	term of lease
Other property and equipment	5 to 8 years
Computer software	5 to 7 years

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

2. Significant accounting policies (continued):

(c) Property, equipment, and intangible assets (continued):

The Trust reviews the carrying value of property, equipment and intangible assets for impairment annually, and whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. An impairment is recognized if and to the extent the recoverable amount is less than the carrying value.

(d) Plan benefit obligations:

Liabilities are recorded for future benefit payments on claims reported prior to the fiscal year end and on claims that have been incurred prior to the fiscal year end but not reported by that time. These liabilities are actuarially determined based on historical claims experience, current and expected future rates of investment return, and the time value of money. The liabilities include a provision for the future cost of investigation and settlement of those claims incurred prior to the fiscal year end.

Changes to these liabilities based on changes to the underlying actuarial assumptions are recorded in the period during which the change is made.

The provision for Plan benefits and claims are estimates subject to variability because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Estimates may vary because of receipt of additional claim information and significant changes from historical trends in severity and/or frequency of claims.

(e) Revenue recognition:

Investment income is recognized on an accrual basis.

(f) Taxation:

The Trust is a Health and Welfare Trust, which is subject to income tax pursuant to subsections 104(2) and 122(1) of the *Income Tax Act (Canada)*. The Trust, in determining its income subject to tax, may deduct certain expenses and benefits paid, to the extent of its gross trust income. Generally, it is unlikely that the Trust will have taxable income in a taxation year as it is expected that the Trust's deductible expenses and benefits paid will far exceed its gross trust income in any given taxation year. Accordingly, the Trust does not record income taxes.

(g) Use of estimates:

The preparation of financial statements in accordance with Canadian Accounting Standards for Pension Plans requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of income and contributions and disbursements and expenses during the reporting period. Areas of significant estimation include plan benefit obligations, which are further described in note 7. Actual results could differ from these estimates as additional information becomes available in the future.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

2. Significant accounting policies (continued):

(h) Adoption of new and amended standards:

IAS 32 - *Offsetting Financial Assets and Financial Liabilities (Amended):*

Amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014. The impact of adopting the amendments to IAS 32 has not had a significant impact on these financial statements.

(i) Standards and interpretations issued but not yet effective:

At December 31, 2014, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these financial statements. Those which may be relevant to the Trust's financial statements are set out below:

IFRS 4 - *Insurance Contracts:*

The IASB issued a revised exposure draft proposing changes to the accounting standard for insurance contracts in June 2013. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of cash flows associated with fulfilling its insurance contracts. The implementation date for a final standard is not expected to affect the Trust until 2018 at the earliest and the full impact of the changes will be evaluated after the standard is finalized.

IFRS 9 - *Financial Instruments:*

IFRS 9 deals with recognition, derecognition, classification and measurement of financial instruments and its requirements and represent a significant change from the existing requirements in IAS 39 *Financial Instruments: Recognition and Measurement,* in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

This standard is effective for years beginning January 1, 2018, but early adoption is permitted. The Trust is currently in the process of evaluating the potential effect of this standard.

3. Restricted cash:

Included in cash and cash equivalents is restricted cash held solely for monthly benefit payments of employees under a separate agreement. Restricted cash at December 31, 2014 was $1,111,501 (2013 - $1,190,118).

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

4. Investments:

As at December 31, the investments of the Trust were comprised as follows:

	2014	2013
Pooled investment vehicles:		
Canadian pooled fixed income funds	$ 584,094	$ 572,419
United States pooled fixed income funds	2	2
Canadian pooled equity funds	209,450	203,614
Global pooled equity fund	457,956	517,120
Infrastructure pooled funds	4,148	2,653
Real estate limited partnership	97,514	-
Foreign currency contracts	96	(83)
	$ 1,353,260	$ 1,295,725

5. Property, equipment and intangible assets:

	2014	2013
Property and equipment	$ 328	$ 746
Intangible assets	460	274
	$ 788	$ 1,020

(a) Property and equipment:

	Computer hardware	Leasehold improvements	Other property and equipment	Total
Cost:				
Balance, December 31, 2012	$ 2,446	$ 747	$ 1,168	$ 4,361
Additions	159	29	18	206
Disposals	-	-	-	-
Balance, December 31, 2013	2,605	776	1,186	4,567
Additions	52	75	-	127
Disposals	(1,801)	(531)	(798)	(3,130)
Balance, December 31, 2014	$ 856	$ 320	$ 388	$ 1,564

HEALTHCARE BENEFIT TRUST
Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

5. Property, equipment and intangible assets (continued):

(a) Property and equipment (continued):

	Computer hardware	Leasehold improvements	Other property and equipment	Total
Amortization:				
Balance, December 31, 2012	$ 2,273	$ 343	$ 931	$ 3,547
Amortization	112	78	84	274
Disposals	-	-	-	-
Balance, December 31, 2013	2,385	421	1,015	3,821
Amortization	120	58	57	235
Disposals	(1,800)	(311)	(709)	(2,820)
Balance, December 31, 2014	$ 705	$ 168	$ 363	$ 1,236
Carrying amounts:				
December 31, 2013	$ 220	$ 355	$ 171	$ 746
December 31, 2014	151	152	25	328

(b) Intangible assets - software:

Cost:	
Balance, December 31, 2012	$ 25,640
Additions	111
Balance, December 31, 2013	25,751
Additions	286
Disposals	(25,326)
Balance, December 31, 2014	$ 711

Amortization:	
Balance, December 31, 2012	$ 24,725
Amortization for the year	752
Balance, December 31, 2013	25,477
Amortization for the year	100
Disposals	(25,326)
Balance, December 31, 2014	$ 251

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

5. **Property, equipment and intangible assets (continued):**

(b) Intangible assets - software (continued):

Carrying amounts:	
December 31, 2013	$ 274
December 31, 2014	460

6. **Overfunded actuarial benefits:**

The Trust maintains 10 notional LTD pools, one for each of the seven Health Authorities and three Non-Health Authority Pools. Two of these non-Health Authority Pools are made up of a large number of smaller employers, which share claims experience amongst all employers in their respective pool. The Non-Health Authority Pools are:

- CSSEA (present or past members of the Community Social Services Employers' Association);
- Non-HEABC (permitted employers who are not members of an employers association); and
- Employee paid.

The Health Authorities are responsible for their own pools included in which are their proportionate share of affiliates that were previously contained in a separate pool. Other entities are amalgamated into pools with other like agencies. As the entities are effectively self-insured through the Trust, if an underfunded actuarial liability exists, participating employers are liable for this amount. Health Authorities are invoiced annually for their share of any underfunded actuarial benefits receivable to bring them to 100% funded. The funding policy of the Trust requires that the Health Authorities make minimum monthly payments in respect of these amounts over 15 to 20 years. This policy was approved by all participating Health Authorities. If a Health Authorities' respective pool is in a surplus at year end the Trust recognizes a liability to the respective Health Authorities which is reduced over 15 to 20 years ("overfunded actuarial benefits"). Health Authorities have the option of having the liability settled net of contributions receivable or can elect not to receive a credit. Alternatively, a contribution holiday has been implemented to reduce the liability (as discussed in note 10). Invoiced amounts are charged interest at an effective annual rate equal to the annual discount rate used for determining the actuarial liability for Plan benefit obligations.

The portion of the underfunded actuarial benefits not related to a Health Authority is not invoiced annually. Recovery of the liability for these groups is through deficit recovery rates applied to long-term disability contributions and through an exit levy for terminating groups. Exit levies are obligations borne by departing employers in respect of their share of any underfunded actuarial benefits that exists at the date of termination of participation in the Trust.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

7. Actuarial liabilities for plan benefit obligations:

	2014	2013
Long-term disability:		
Admitted claims	$ 946,948	$ 895,309
Incurred but not reported claims	140,083	114,498
Group life, accidental death and dismemberment, dental and extended healthcare:		
Disabled extended healthcare	51,049	52,782
Disabled dental	17,141	15,492
Disabled group life/accidental death and dismemberment	33,009	30,125
Incurred but not reported claims	17,967	17,155
	$ 1,206,197	$ 1,125,361

Actuarial liabilities represent the present value of future benefit payments payable by the Trust. The actuarial valuation is performed annually by Morneau Shepell Inc. (Morneau Shepell) and George & Bell Consulting, with the effective date being consistent with the year-end reporting date. The actuarial liabilities were determined using accepted actuarial practices in accordance with the standard of practice established by the Canadian Institute of Actuaries. Liabilities primarily cover benefits payable to claimants on LTD, including both reported and unreported claims at December 31, 2014.

In addition to LTD benefits, actuarial liabilities also provide for the following:

- Incurred but not reported claims of active employees for EHC, dental, group life and AD&D.
- Future costs for EHC, dental, group life and AD&D for existing Health Authorities' disabled claimants (collectively, disabled non-income benefits).

These liabilities are only recognized in respect of certain types of participating employees.

In determining the liabilities of the Trust, the cost of claims, future changes in claims costs, the time value of money (to discount future claims to present value) and expenses to administer the benefits, are included in the calculations. These liabilities are dependent on economic and demographic experience. To determine the liabilities, assumptions about future economic and demographic experience are necessary.

Demographic assumptions are largely derived based on past experience. Economic assumptions, on the other hand, are based more on current market conditions than experience. Demographic and economic assumptions will change over time. It is possible that such changes could cause a material change in the actuarial present value of future benefit payments.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

7. Actuarial liabilities for plan benefit obligations (continued):

The following long-term assumptions were used in the actuarial valuation:

	2014	2013
Discount rate	4.3%	4.8%
Expense assumption (rate varies by benefit product)	4.0 - 10.0%	4.0 - 13.0%
IBNR assumption:		
Group Life	$ 1,500	$ 1,500
AD&D	$ 500	$ 500
LTD[1]	170%	170%
Dental[2]	17 / 365	17 / 365
EHC[3]	38 / 365	38 / 365
Disabled non-income benefits[1]	170%	170%
Assumed Indexing rates[4]	2.5 or 3.5%	2.5 OR 3.5%

1. Percentage of liabilities incurred in previous 12 months.
2. Fraction of payments and expenses in previous 12 months.
3. Fraction of payments and expenses in previous 3 months annualized for full year.
4. Community Social Services agreements assumed 2.5% indexed wages rate increases, all others assume 3.5%.

The rate of terminations of active claims and the Canadian Pension Plan approval rate are also critical assumptions used in the actuarial valuation.

Long-term economic and actuarial assumptions and methods are reviewed periodically. Management believes that the valuation methods and assumptions are, in aggregate, appropriate for the valuation.

The actuarial valuation involves making assumptions about the future. Actuarial assumptions are approved by the Board of Trustees. The rationales for key assumptions are:

- Discount rate: this has been set equal to the Trust's best estimate of investment return of 5.3% (2013 – 5.8%), reduced by 1.0% (2013 – 1.0%) to reflect the implementation of a margin for adverse deviation. The resulting assumption used was 4.3%. Should the discount rate increase or decrease by 1.0% this would impact the actuarial liability by $(66,300,000) or $74,800,000, respectively (2013 - ($67,800,000) or $60,350,000 respectively).
- Rate of terminations of active claims: a study was performed by Morneau Shepell on actual claims terminations in November 2014. The termination assumption utilizes a single termination table provided by the Canadian Institute of Actuaries (CIA) which has been modified by 54 months of the Trust's actual experience to June 30, 2014. A risk could arise that the Trust's future termination experience is worse than the assumed termination rates.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

7. **Actuarial liabilities for plan benefit obligations (continued):**

   - Canadian Pension Plan (CPP) approval rate: a study was performed by Morneau Shepell in November 2014 on actual approvals of CPP disability claims by active claimants. The resulting assumption is the best estimate without margins and incorporates actual experience to June 30, 2014. The CPP approval rate assumption is based on age and duration since disability. A risk could arise that the Trust's future CPP approval experience is worse than the assumed CPP approval rates. To mitigate this risk, the assumption was based on a study of CPP approval rates for the Trust's block of business using data up to June 30, 2014.

   The Trust accepts insurance risk through its provision of health and welfare benefits for participating employees, and is exposed to uncertainty surrounding the timing, frequency, and severity of claims. The Trust manages its insurance risk within an overall risk management framework and through annual review of contribution rates.

   The Trust further reduces exposure to insurance risk through stop loss insurance in respect of its dental, EHC and group life products. The Trust pays stop loss insurance to third party administrators to cover claims costs in excess of predetermined levels each year. The stop loss insurance provides a maximum ceiling of uncertainty for incurred claims. To further tighten the insurance risk, the Trust has reinsurance in place on extended health to insure against large individual losses.

   There is uncertainty inherent in the estimation process. The actual amount of ultimate claims costs can only be ascertained once all claims are closed. Changes in key assumptions used to value insurance contracts would result in increases or decreases to the benefit obligations recorded, with corresponding decreases or increases, respectively to the change in net assets and deficit.

   The Trust is exposed to a risk that actual claims experience will differ from the assumptions used in the rate setting process. As rates are set every year, based on the past experience and assumptions as to future events, this risk is mitigated through adjustments to the following year's rates. Any deficiencies are factored into the rate setting assumptions and will be recovered in future years. The Fund also has the ability to recover any deficit related to its plan benefit obligations. The Trust's participating employers are segregated into pools whereby each pool bears the risk of LTD claims experience. The Health Authorities are billed for their deficiencies in claims experience for LTD, if any, as discussed in note 6, whereas the deficiencies incurred by the non-Health Authority employers' are recovered through deficit recoveries built into their rates. In addition, non-Health Authority employers that wish to leave the Trust are billed an exit levy that covers any deficiencies arising from excess claims experience.

   The Trust is also exposed to concentration risk within its insurance activities with its operating exposure being primarily within BC and with a high percentage of participating employees working for a limited number of employers. Significant risks could potentially arise from epidemics, natural disasters and other catastrophes. However, the Trust's stop loss insurance would limit their exposure to losses that would arise from health related catastrophes.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

8. Economic dependence:

The Trust receives approximately 82% (2013 - 87%) of its participant contributions from the Health Authorities and is dependent upon the ability of the Health Authorities to meet future contribution rate payments.

9. Commitments:

The Trust has entered into a lease agreement for the head office location, expiring March 2018, and the Kelowna location, expiring February 2023, covering office premises used in operations.

The aggregate rentals and operating costs payable for the remaining terms of the leases are as follows:

Year	Amount
2015	$ 403
2016	411
2017	419
2018	180
2019	66
2020 - 2023	218
	$ 1,697

10. Contributions:

	2014	2013
LTD	$ 89,142	$ 216,529
EHC	117,024	125,794
Dental	121,807	123,639
AD&D/Group Life	11,011	11,524
	$ 338,984	$ 477,486

The Health Authorities were provided an LTD contribution holiday for their LTD contributions beginning May 2014 until the end of the year. The LTD contribution holiday is a mechanism to reduce the Health Authorities' surplus as represented in their overfunded actuarial benefits. As a result of the LTD contribution holiday, the Health Authorities reduced their LTD contributions by $131,425,000.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

11. Investment income:

	2014	2013
Interest from cash and cash equivalents	$ 292	$ 310
Income from pooled investment vehicles	101,314	96,636
Realized gain (loss) from foreign currency contracts	-	(24)
Investment expenses	(1,367)	(1,152)
Withholding taxes	(1,459)	(1,130)
	$ 98,780	$ 94,640

12. Benefits paid:

	2014	2013
LTD:		
Active LTD	$ 163,452	$ 156,727
Early Retirement Incentive Benefit	11,975	4,616
Internal EIP/Rehab Costs	1,843	3,737
GWL Rehab Costs	3,402	1,463
Other	544	831
EHC	106,622	106,956
Dental	110,598	109,315
AD&D/Group Life	7,495	12,335
	$ 405,931	$ 395,980

13. Operating expenses:

	Note	2014	2013
Staff costs	14,15	$ 4,565	$ 7,886
Trustee operations		148	300
Actuarial fees		319	417
Audit fees		105	106
Other professional services		1,092	1,184
Claims adjudication and administration	14	17,769	15,176
Amortization		335	1,026
Office expenses		1,190	1,696
Other		1,511	356
		$ 27,034	$ 28,147

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

14. Related party transactions:

As per the Trust Agreement, the administration of the applicable health and welfare plan document requires direction from the Health Employers Association of BC. Therefore, the Health Employers Association of BC provides the Trust with administrative services in this regard at an annual cost of $3,200 (2013 - $10,000). These costs are included in claims adjudication and administration as reflected in note 13.

These transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by the related parties.

The Health Employers Association of BC appoints the trustees of the Trust.

Key management personnel include senior executive officers of the Trust and members of the Board of Trustees. During the year, compensation of key management personnel, which is included in staff costs as set out in note 13, was as follows:

	2014	2013
Compensation and short-term employee benefits	$ 1,302	$ 1,484
Long-term employee benefits	137	141
	$ 1,439	$ 1,625

Short-term employee benefits include: EHC, dental, and MSP. Long-term employee benefits include: group life, LTD, AD&D, and dependent life and contributions to a post-employment defined benefit plan.

15. Employee benefit plans:

The Trust and its employees contribute to the Municipal Pension Plan (the MPP), a jointly trusteed pension plan. A Board of Trustees of the MPP, representing plan members and employers, is responsible for overseeing the management of the MPP, including investment of the assets and administration of the benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The MPP has over 440,000 active members and retired plan members and more than 900 plan employers.

Every three years an actuarial valuation is performed to assess the financial position of the MPP and the adequacy of plan funding. The most recent valuation available as at the date of this report was December 31, 2012. The MPP's actuary does not attribute portions of the unfunded liability to individual employers. The Trust paid $334,317 (2013 - $538,205) for employer contributions to the MPP in the year ended December 31, 2014.

In addition, the Trust itself is a participating employer in Healthcare Benefit Trust and its employees are covered for long-term disability and group life claims on the same basis as employees of other participating non-Health Authority employers. The Trust expensed $135,822 (2013 - $205,000) for employer contributions for these non-pension benefits in the year ended December 31, 2014.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

16. Fair value of financial instruments:

(a) Fair value hierarchy:

The Trust's financial instruments consist of cash and cash equivalents, investments, accrued interest and other receivables, contributions receivable, exit levies receivable, benefits and accounts payable and overfunded actuarial benefits.

The fair value of a financial instrument is the estimated amount that the Trust would receive or pay to settle a financial asset or financial liability as at the reporting date. Investments are carried at fair value in the financial statements. The carrying value of cash and cash equivalents, accrued interest and other receivables, contributions receivable, exit levies receivables and benefits and accounts payable approximates fair value due to their short-term to maturity. The fair value of the underfunded actuarial benefits receivable is considered by management to equal to its carrying value as the interest charged against outstanding amounts is periodically adjusted to market rates.

The Trust has categorized the inputs used to value its financial instruments held at fair value into a three-tier fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets (Level 1).
- Inputs other than quoted prices included in Level 1 that are observable either directly (i.e., prices) or indirectly (i.e., derived from prices) (Level 2).
- Inputs that are not based on observable market data (unobservable inputs) (Level 3).

	Valuation technique			
December 31, 2014	Level 1	Level 2	Level 3	Total
Investments:				
Canadian pooled fixed income funds	$ 147,210	$ 436,884	$ -	$ 584,094
United States pooled fixed income funds	2	-	-	2
Canadian pooled equity funds	-	209,450	-	209,450
Global pooled equity funds	-	457,956	-	457,956
Infrastructure pooled funds	-	-	4,148	4,148
Real estate limited partnership	-	-	97,514	97,514
Foreign currency contracts	-	96	-	96
	$ 147,212	$ 1,104,386	$ 101,662	$ 1,353,260

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

16. Fair value of financial instruments (continued):

(a) Fair value hierarchy (continued):

	Valuation technique			
December 31, 2013	Level 1	Level 2	Level 3	Total
Investments:				
Canadian pooled fixed income funds	$ 139,550	$ 432,869	$ -	$ 572,419
United States pooled fixed income funds	2	-	-	2
Canadian pooled equity funds	-	203,614	-	203,614
Global pooled equity funds	-	517,120	-	517,120
Infrastructure pooled funds	-	-	2,653	2,653
Foreign currency contracts	-	(83)	-	(83)
	$ 139,552	$ 1,153,520	$2,653	$ 1,295,725

There were no transfers into or out of Level 1 or 2 during the years ended December 31, 2014 and 2013.

The following table reconciles the Trust's Level 3 fair value measurements:

	2014	2013
Opening balance, January 1, 2014	$ 2,653	$ -
Purchases	101,939	2,568
Settlements	(8,702)	-
Realized gain	358	-
Unrealized gain	5,414	85
Closing balance, December 31, 2014	$ 101,662	$ 2,653

Level 3 investments are comprised of private market infrastructure pooled funds and a real estate limited partnership. Level 3 investments are valued based on the respective pooled investment vehicles' net asset value, which is determined annually in accordance with the valuation policies established by the Trust's investment managers, and according to generally accepted industry practices. The change in unrealized gain recognized in the Trust's statement of changes in net assets related to Level 3 investments is $5,414,000 (2013 - $85,000).

The Trust's other financial assets and liabilities, which are measured at amortized cost, are considered Level 2 because while observable prices are available, the instruments are not traded in an active market.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

16. Fair value of financial instruments (continued):

(b) Significant unobservable inputs used in measuring fair value:

The table below sets out information about significant unobservable inputs used at year-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

2014

Description	Fair value	Valuation technique	Unobservable input	Amount	Sensitivity to change in significant unobservable input
Pooled investment vechicles	$ 101,662	Net asset value	Net asset value	$ 101,662	The estimated fair value would increase (decrease) if the net asset value was higher (lower)

2013

Description	Fair value	Valuation technique	Unobservable input	Amount	Sensitivity to change in significant unobservable input
Pooled investment vechicles	$ 2,653	Net asset value	Net asset value	$ 2,653	The estimated fair value would increase (decrease) if the net asset value was higher (lower)

Although the Trust believes that its estimates of fair value are appropriate, the use of an unobservable input in determining fair value leads to greater subjectivity in the fair value derived. If the net asset value of the pooled investment vehicles were to increase or decrease by 10% as at December 31, 2014, the fair value of these investments would increase or decrease, respectively, by $10,166,000 (2013 - $265,000).

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

17. Financial risk management:

The Trust has exposure to financial risks associated with its financial instruments and benefit obligations. Analysis of sensitivity to specified risks is provided where there may be an effect on the financial position. These financial risks include credit risk, liquidity risk and market risks (currency, interest rate and other price risk). Sensitivity analysis is performed by relating the reasonably possible changes in the risk variables at December 31, 2014 to financial instruments outstanding on that date.

(a) Credit risk:

The Trust is exposed to credit risk resulting from:

- The possibility that parties may default on their financial obligations;
- If there is a concentration of transactions carried out with the same party; and
- If there is a concentration of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Trust does not directly hold any collateral as security for financial obligations.

The maximum exposure of the Trust to credit risk at December 31 is as follows:

	2014	2013
Cash and cash equivalents	$ 16,328	$ 26,413
Investments (fixed income)	584,096	572,516
Accrued interest and other receivables	-	43
Contributions receivable	41,175	30,897
Exit levy receivable	16,392	16,371
	$ 657,991	$ 646,240

Cash and investments:

Credit risk associated with cash and cash equivalents and fixed income investments is minimized substantially by ensuring that these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other creditworthy parties. The Trust’s investment policy requires that a majority of fixed income investments are rated BBB or better. The Trust's investments in pooled fixed income funds are similar to equity instruments. While the Trust has no direct credit risk arising from its investments in pooled fixed income funds, the Trust is exposed to the credit risks of these funds’ underlying investments. The manager of these funds ensures that the investments of these funds meet the Trust’s investment policy.

HEALTHCARE BENEFIT TRUST
Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

17. Financial risk management (continued):

(a) Credit risk (continued):

Contributions and other receivables:

The Trustees believe credit risk with respect to receivables is limited due to the credit quality of the parties extended credit. Credit risk associated with amounts receivable from the Health Authorities, which represent the Trust's largest receivables, is minimal as the Health Authorities form part of the government reporting entity of the Province of British Columbia.

The Trust maintains allowances for potential credit losses, and any such losses to date have been within the Trustees' expectations. The following table presents an analysis of the age of amounts outstanding at the year-end in respect of accrued interest and other receivables, contributions receivable and exit levy receivable net of allowances for doubtful accounts:

	2014	2013
Current	$ 39,634	$ 29,592
30 - 60 days past billing date	321	344
61 - 90 days past billing date	108	234
Greater than 90 days past billing date	18,747	18,357
	58,810	48,527
Allowance for doubtful accounts	(1,243)	(1,216)
	$ 57,567	$ 47,311

The Trust must make estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information, reasons for the accounts being past due and line of business from which the receivable arose are all considered in the determination of when to allow for past due accounts; the same factors are considered when determining whether to write off amounts receivable as a charge to the allowance account. The following table presents a summary of the activity related to the Trust's allowances for doubtful accounts.

	2014	2013
Balance, beginning of year	$ 1,216	$ 1,319
Receivables written off during the year as uncollectible	(219)	(212)
Changes to the provision, net of recoveries	246	$ 109
Balance, end of year	$ 1,243	$ 1,216

In 2014, $430,650 of contributions receivable were written off, for which no provision had been set up previously (2013 - $43,000).

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

17. Financial risk management (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Trust will not be able to meet its obligations as they come due.

The Trust meets its liquidity requirements by holding assets that can be readily converted into cash and preparing annual cash flow budgets, including capital expenditure budgets, which are monitored and updated as required.

The Trust's benefits and accounts payable liabilities are due within one year of the Trust's year-end. The nature of the overfunded actuarial benefit liability is described in note 6.

(c) Market risks:

The Trust is exposed to market risks through the fluctuation of financial instrument fair values or cash flows due to changes in market factors. The significant market risks to which the Trust is exposed are interest rate risk, currency risk, and other price risk.

(i) Interest rate risk:

Interest rate risk refers to the risk that the fair value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in market interest rates.

The interest rate exposure of the Trust arises from its interest bearing assets and its fixed income investments including bonds and mortgages.

The Trust's cash includes amounts on deposit with financial institutions that earn interest at market rates. The Trust manages its exposure to the interest rate risk of its cash by maximizing the interest income earned on excess funds while maintaining sufficient liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash do not have a significant impact on the Trust's results of operations.

The primary objective of the Trust with respect to its investments in fixed income investments is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory investment return.

Maturity position - December 31, 2014

	Demand	Less than twelve months	One to five years	Over five years	Total
Cash and cash equivalents	$ 16,327	$ -	$ -	$ -	$ 16,327
Underlying fixed income investments held through pooled investment vehicles	-	178,222	127,174	278,700	584,096
	$ 16,327	$ 178,222	$ 127,174	$ 278,700	$ 600,423

HEALTHCARE BENEFIT TRUST
Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

17. Financial risk management (continued):

(c) Market risks (continued):

(i) Interest rate risk (continued):

Maturity position - December 31, 2013

	Demand	Less than twelve months	One to five years	Over five years	Total
Cash and cash equivalents	$ 26,413	$ -	$ -	$ -	$ 26,413
Underlying fixed income investments held through pooled investment vehicles	-	34,169	256,096	282,251	572,516
	$ 26,413	$ 34,169	$ 256,096	$ 282,251	$ 598,929

The weighted average yield of these financial instruments is 2.09% at December 31, 2014 (2013 - 2.67%). The weighted average term to maturity of interest bearing investments is 95 months (2013 - 98 months).

Should prevailing market interest rates increase by 2%, with all other variables held constant, this would decrease the December 31 carrying value of the Trust's investments by ($83,292,415) (2013 - ($83,413,225)). Similarly, should prevailing market interest rates decrease by 2%, this would increase the December 31 carrying value of the Trust's investments by $99,221,933 (2013 - $99,717,983).

(ii) Currency risk:

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

The functional currency of the Trust is the Canadian dollar. The Trust infrequently transacts in U.S. dollars due to certain operating costs being denominated in U.S. dollars.

The Trust's investment manager monitors the Trust's foreign currency exposure and manages this risk through diversification and consideration of global asset mix.

At December 31, 2014, the Trust had $459,877,000 (2013 - $517,881,000) of investments denominated in foreign currencies held indirectly through pooled investment vehicles. If the Canadian dollar had appreciated or depreciated by 2% against the underlying foreign currencies of these investments at that date, with all other variables held constant, the fair value of the investments would have decreased or increased, respectively, by $9,198,000 (2013 - $10,358,000).

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

17. Financial risk management (continued):

(c) Market risks (continued):

(ii) Currency risk (continued):

The underlying foreign currencies in which investments are denominated are:

	2014	2013
United States	$ 261,183	$ 281,309
Japan	36,239	45,037
European Union	56,657	74,332
Switzerland	16,150	20,211
United Kingdom	36,164	48,188
Hong Kong	11,300	9,024
Singapore	3,889	3,612
China	675	120
Other	37,620	36,048
	$459,877	$517,881

(iii) Other price risk:

Other price risk refers to the risk that the fair value of financial instruments or cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Trust is exposed to other price risk through its investment in equities, infrastructure and real estate.

The long term investment policy provides for an asset mix at the end of 2014 of 45.5% fixed income investments, 45% equities, and 9.5% private market investments, which includes infrastructure and real estate (2013 - 45.5% fixed income investment, 45% equities, and 9.5% private market investments). Risk and volatility of investment returns are mitigated through diversification of investments in different countries, business sectors, and corporation sizes.

At December 31, 2014, the Trust's total investments exposed to other price risk is $769,164,000 (2013 - $723,292,000) and excludes pooled fixed income funds, which are otherwise subject to interest rate risk. The Trustee's best estimate of the effect on net assets as at December 31, 2014, of a reasonably possible increase or decrease of 10% in the equity and private markets, with all other variables held constant, would amount to an increase or decrease of approximately $76,916,400 (2013 - $72,329,200), respectively. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2014

17. Financial risk management (continued):

(d) Sensitivity analyses:

The sensitivity analyses included herein should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may either magnify or counteract the effect on the fair value of the financial instrument.

Actuarial Valuation

HEALTHCARE BENEFIT TRUST

BENEFIT FROM EXPERIENCE

Benefit from Experience

Healthcare Benefit Trust Actuarial Valuation

PREPARED BY

Jeremy Bell, Ian Leznoff

March 2015

Benefit from Experience

#1200 - 1333 W. Broadway
Vancouver, BC V6H 4C1
T: 604.736.2087/1.888.736.2087

www.hbt.ca

Table of Contents

EXECUTIVE SUMMARY

This report represents the results of the actuarial valuation of the Healthcare Benefit Trust (the "Trust"), as of December 31, 2014. The next calculation date is set to be March 31, 2015.

The principal purposes of this report are:

- To provide a summary of the results of the actuarial valuation of the Trust's financial position to the Trustees, and
- To review the financial experience of the Trust in the year ending December 31, 2014.

Unless specifically stated, references to assets, deficits or funded positions in this report exclude UAL/UFL Receivables.

Financial Position of the Trust

The financial position of the Trust has reduced since December 31, 2013. At December 31, 2013, the Trust's assets exceeded liabilities by $214,500,000. At December 31, 2014, the Trust's assets exceeded liabilities by $191,300,000. This represents a reduction in the funding position of $23,200,000 over the year.

The major reasons for this reduction were:

- Health Authorities and Providence Healthcare did not make LTD contributions from May 2014 onwards, as part of an agreed upon contribution holiday. *This resulted in a loss of $110 million.*
- New claims have been higher than expected. Contributions for current coverage are collected to fund benefits for new claimants and changes in reserve for claims incurred but not yet reported. New claimants have arrived with higher frequency than anticipated. *This resulted in a loss of $55 million.*

- The discount rate assumption was changed from 4.8% to 4.3% (both assumptions include a 1.0% margin). *This resulted in a loss of $36 million.*
- The future expense assumptions for each benefit, excluding Dental, were changed based on HBT's 2015 expense allocation estimate. *This resulted in a loss of $16 million.*

Major items offsetting this reduction were the following:

- Investment performance for the twelve months ending December 31, 2014 was good. The net investment return was 10.8% versus last year's discount rate assumption of 4.8%. *This resulted in a gain of $78 million.*
- Wage increase assumptions were replaced with bargained wage increases where known and CPP thresholds were updated. *This resulted in a gain of $47 million.*
- Significant special payments to relieve deficits were made during the twelve month period. *These amounted to an approximate $30 million gain in the period.*
- Contributions for active extended health, dental, life and accidental death and dismemberment exceeded claims, expenses and changes in reserves over the period. *This resulted in a gain of $24 million.*
- The termination assumption was changed based on recent experience. *This resulted in a gain of $13 million.*
- Assets exceeded liabilities from the start of the year to the end of the year. *The interest on the Trust's funded position resulted in a gain of $8 million.*

- Reserves for claimants from the December 31, 2013 valuation are lower now than they were expected to be at the time. The primary reason was termination experience and savings related to the ERIB program. At December 31, 2013, there were 6,480 active claimants in the valuation with a total net monthly benefit entitlement of $12,114,000[1]. At the time, the valuation projected that 5,411 of these would still be on claim at December 31, 2014 with a total net monthly benefit of $9,997,000[1]. Only 5,242 of these remain at December 31, 2014 with a total net monthly benefit of $9,657,000[1]. 200 claimants participated in the ERIB program, resulting in lump sum payouts of approximately $12 million. *The combined gain was approximately $6 million over the period.*

The remainder of this report covers:

- Data and assumptions underlying this report
- Financial position as at December 31, 2014
- Analysis of change in financial position
- Actuaries' Opinions

In addition, data, plan details and valuation assumptions are covered in the attached appendices.

[1]Including deemed CPP offsets and deemed indexing adjustments

SECTION 1 – DATA, PLAN PROVISIONS AND ASSUMPTIONS

This section discusses the data, plan provisions and assumptions applied in performing the actuarial valuation. More detail is provided in the attached appendices.

Data

Data for this valuation was provided by the Trust.

LTD Claimant Data

Great-West Life provides the Trust with LTD Claimant information. For the valuation data, the Trust's Benefits, Design and Reporting Department reviewed and revised the raw claims data from their system, which we were then provided. We performed a series of tests on the valuation data to ensure that it is reasonable, complete and accurate for the purposes of the valuation. The data provided was changed as necessary based upon the results of these tests.

Other Claims Data

Aside from LTD, the actuarial valuation does not require individual claim data to perform the valuation. Reserves held are based on either the aggregate payments in recent periods – for extended health and dental – or are held constant – for life and accidental death and dismemberment.

Aggregate claims data is collected from the Trust's Financial Services Department where checks and validation occur on receipt. The data is provided to the Financial Services Department by Pacific Blue Cross and Great-West Life, depending on benefit type. In this valuation, we rely on this data.

Asset Data

In performing this valuation, we use asset data and financial statements provided to us by the Trust's Financial Services Department. The calculation of the asset position of the Trust within this report is detailed in Appendix B.

Key Data is summarized in the attached Appendix A.

Plan Provisions

The plan provisions are varied, with different provisions by labour agreement and employer group.

For most of the LTD plans, the key provisions are:

- There is a 4, 5 or 6 month qualification period depending on agreement (must be disabled 4, 5 or 6 months before LTD benefits commence);
- Benefits are 70% of earnings up to a specified amount and 50% of the excess earnings, subject to a minimum of 66 2/3% of earnings;
- Benefits are offset by CPP, WCB, and rehabilitation earnings;
- For disabilities occurring after April 1998, benefits are indexed on the quadrennial anniversaries of the commencement of benefits. Indexing is done according to the collectively bargained wage increases for the particular union agreement (when indexing is calculated the CPP offset is revised to the current CPP benefit). Special cases can exist within a collective agreement where annual indexing or no indexing is applied; and
- The definition of disability typically changes from own occupation to any occupation at 12, 19 or 24 months depending on agreement.

Plan Provisions are summarized in Appendix C.

Assumptions

The assumptions underlying this report are the same as those used at the previous valuation at December 31, 2013, except:

- A termination study based on the experience over the 54 month period ending June 30, 2014 was performed. The termination assumption for the December 31, 2014 valuation is based upon this study, which is, in general, less conservative than the termination assumption used in the December 31, 2013 valuation. A comparison of the current assumption to the December 31, 2013 assumption can be seen in Appendix D.

- The discount rate assumption in the December 31, 2014 valuation has been set at 4.3% (except non-taxable claims which are valued using an annual discount rate of 3.3%). The best estimate return after fees is expected to be 5.3%. A 1.0% margin has been applied to the assumption in arriving at the 4.3% discount rate. In the December 31, 2013 valuation a discount rate of 4.8% was used for all claims (except non-taxable claims which were valued using an annual discount rate of 3.8%), which included a 1.0% margin.
- A CPP approval rate study based on HBT's experience was performed. As a result, the CPP approval assumption was changed at December 31, 2014. A comparison of the current assumption to the December 31, 2013 assumption can be seen in Appendix D.
- The assumption for future expenses as a percentage of claims payments has changed based on the latest expense allocation study from HBT. A comparison of the current assumption to the December 31, 2013 assumption can be seen in Appendix D.

The resulting assumptions are best estimate assumptions, not incorporating provisions for adverse deviations, with the exception of:

- The discount rate, which explicitly incorporates a 1.0% margin.
- The wage increase for indexed claims, which explicitly incorporates a 1.0% margin.

Assumptions are summarized in the attached Appendix D.

Rounding

The sum of components may not equal the total within tables due to rounding.

SECTION 2 – CONTRIBUTION HOLIDAYS AND IMPACT OF JOINT TRUSTS

The information within this section has been communicated to us by HBT.

Background

Since November 2013, the following bargaining associations have agreed to introduce joint trusts to provide health and welfare benefits starting on April 1, 2016:

- Health Science Professional Bargaining Association (HSPBA);
- Communities Bargaining Association (CBA); and
- Facilities Bargaining Association (FBA).

Together, these bargaining associations represent approximately 52% of the LTD covered lives within the Trust.

Once joint trusts are introduced, employers will cease to participate in the Trust on a similar basis going forward for an appreciable proportion of their employees. For these employees, contributions and incurred claims costs after April 1, 2016 will flow through the joint trusts.

Health Authorities and Providence Contribution Holiday

The Trust maintains a system of notional pools to collect assets and fund benefits. Of these pools, 7 relate to each of the Health Authorities and Providence Healthcare (Providence). During 2013 significant surpluses developed. As a result, in 2014, the Trust's Board introduced contribution holidays for Health Authorities and Providence as follows:

- LTD contributions effective May 2014; and
- All non-LTD contributions effective January 2015.

This contribution holiday will continue until it is determined (individually for each pool) that contributions should resume to meet a funding level (as set by the Trust's Board) equal to:

- 90% of the projected liabilities of each pool at December 31, 2015; plus
- 3 years of estimated costs (benefit payments, expenses and change in reserves) from January 1, 2016.

Post March 31, 2016

From April 1, 2016:

- Contributions relating to the bargaining associations mentioned previously will flow through each respective joint trust;
- Claims payments for claims incurred from April 1, 2016 will flow through each respective joint trust;
- Claims payments for claims incurred prior to April 1, 2016 will flow through the Trust; and
- All other contributions and claims related to the Trust will flow through the Trust.

Following the introduction of the joint trusts, the Trust's assets and liabilities will start to steadily decrease due to the payment of claims incurred prior to April 1, 2016.

Invested Asset Mix

The Trust's invested asset mix and long-term policy is shown within Appendix B. The long-term policy was set without the knowledge that the joint trusts would be introduced. The Trust is reviewing its current investment asset mix and policy, taking the above into consideration. With regards to the valuation, we have been instructed by the Trust's Finance and Audit Committee to set the assumptions used within the valuation based upon the current investment asset mix.

Impacts on December 31, 2014 Valuation

There were no changes in the valuation methodology for the contribution holidays, other than identifying the impact of the contribution holidays during 2014.

We have made one change in methodology as a result of the introduction of joint trusts: we have used a discount rate assuming a 10-year investment horizon this year. In the prior valuation, we assumed a 25-year investment horizon. The impact of this shorter horizon at December 31, 2014 was a decrease in the discount rate by approximately 0.5% per annum.

SECTION 3 – FINANCIAL POSITION AT DECEMBER 31, 2014

The following table shows the financial positions of the Trust at December 31, 2014 and December 31, 2013:

Table 1
Trust Financial Positions ($000,000s)

	December 31, 2014	December 31, 2013
Assets (excluding UAL / UFL Receivables)	**$1,397.5**	**$1,339.9**
Assets (including UAL / UFL Receivables)	**$1,209.9**	**$1,181.6**
Active Group Life and AD&D (IBNR)	$2.0	$2.0
Active Dental (IBNR)	$5.1	$5.1
Active Extended Health (IBNR)	$10.8	$10.1
Long-term Disability (IBNR)	$140.1	$114.5
Admitted LTD Claims (Reported)	$946.9	$895.3
Extended Health for Disabled Claimants	$51.0	$52.8
Dental for Disabled Claimants	$17.1	$15.5
Group Life and AD&D for Disabled Claimants	$33.0	$30.1
Total Liability	**$1,206.2**	**$1,125.4**
Surplus/(Deficit) (excluding UAL / UFL Receivables)	**$191.3**	**$214.5**
Surplus/(Deficit) (including UAL / UFL Receivables)	**$3.7**	**$56.2**

The financial position reduced in the year ending December 31, 2014. The $214.5 million surplus at December 31, 2013 became a $191.3 million surplus at December 31, 2014. This represents a reduction of $23.2 million over the period. Including UAL/UFL Receivables, the $56.2 million surplus at December 31, 2013 became a $3.7 million surplus at December 31, 2014. This represents a reduction of $52.5 million over the period.

SECTION 4 – ANALYSIS OF CHANGE IN FINANCIAL POSITION EXCLUDING UAL / UFL RECEIVABLES

As important as the financial position of the Trust is the understanding of how the financial position developed. In this section, we cover the change in financial position of the Trust.

Trust Analysis of Change in Financial Position

The Trust had a surplus of $214.5 million at December 31, 2013. At December 31, 2014 the Trust had a surplus of $191.3 million. The following table reconciles the $23.2 million reduction in financial position over the period:

Table 2
Trust Reconciliation of Financial Positions

	$000,000s
Financial Position at December 31, 2013	**$214.5**
Contributions Different than Base Contributions	$29.7
Base Contribution Holiday[2]	($110.4)
Interest on Funded Position	$8.4
Investment Return Different than Expected	$78.1
LTD - Existing Claims (Non-ERIB Terminations)	$2.5
LTD - Existing Claims (ERIB Terminations)	$7.9
LTD - Existing Claims (Demographics)	($4.0)
LTD - New Claims	($54.9)
Active EHC/Dental/Life/AD&D Experience	$24.3
Disabled EHC/Dental/Life/AD&D Experience	($4.7)
Change in Assumptions	($42.2)
Update to CPP thresholds / Wage increases	$47.4
Indexing Calculation Changes / Additional Reserve	($5.4)
Miscellaneous	$0.0
Financial Position at December 31, 2014	**$191.3**

[2] As provided by HBT

We now comment on the major components of the reconciliation of financial position:

Contributions Different than Base Contributions

Every dollar collected in excess of the contributions necessary for current coverage serves to improve the financial position of the Trust. During the year to December 31, 2014, these amounted to approximately $29.7 million dollars.

Base Contribution Holiday

Health Authorities and Providence Healthcare did not make LTD contributions from May 2014 onwards, as part of an agreed upon contribution holiday. The expected base contributions not made in 2014 was approximately $110.4 million.

Interest on Funded Position

The plan was overfunded at December 31, 2013 and as at December 31, 2014. If invested assets were equal to the liability, investment income would be assumed to grow at the same rate as the liability. As invested assets were not equal to the liability during the year, even assuming assets growing at the same rate as liabilities, asset growth is not equal to liability growth.

The $8.4 million gain is calculated as the discount rate on the starting funded position and $^1/_2$ of the discount rate on the base contribution holiday plus contributions in excess of base contributions.

Investment Return Different than Expected

In the December 31, 2013 valuation the discount rate assumption was 4.8% per annum. This means that future payments were brought back to the present day using a discount rate of 4.8%. For a funded plan, like the Trust, if assets are equal to liabilities, then the assets need to grow at the discount rate to keep pace with the growth in liabilities. If assets grow at a slower rate, then losses develop, and at a faster rate gains develop.

During the year to December 31, 2014, assets returned 10.8% after investment management fees. If they had grown at the discount rate, they would have grown by 4.8% over this period. The difference in these two figures represents the gain on investments. In dollars, this amounted to a gain of $78.1 million over the period.

LTD – Existing Claims (Terminations and Demographics)

At December 31, 2013, the reserve in respect of reported claimants for disability income was $895.3 million. Underlying the calculation of this reserve are a number of assumptions. Key among them are:

- The rate that claimants terminate claim, return to work, no longer satisfy disability provisions, die or retire, and
- The amount of expected offset in the future.

We calculated the expected December 31, 2014 reserve based on the December 31, 2013 valuation and claims payments (including ERIB) during 2014 as part of this report to identify the reserve and number of claimants expected to be on claim at December 31, 2014. We had the following results:

- The anticipated reserve at December 31, 2014 for those on claim at December 31, 2013 was: $782.9 million.
- The anticipated number of claimants at December 31, 2014 that were on claim at December 31, 2013 was 5,411.

We identified those individuals who remained on claim at December 31, 2014. There were 5,242 of these individuals. The reserve at December 31, 2014 for these individuals, was $776.5 million. This gain of $6.4 million represents:

- a lower level of reserve due to a higher level of terminations of claims than anticipated which resulted in a gain of $2.5 million,
- changes to the amount of offsets which resulted in a loss of $4.0 million, and
- reserve savings due to the Early Retirement Incentive Benefit (ERIB) program of $19.8 million. These reserve savings were offset by lump sum payments of $11.9 million for a net savings of $7.9 million.

LTD – New Claims

At the December 31, 2013 valuation, a reserve of $114.5 million was set aside for claims that had been incurred but not yet reported. By their very nature, these claims are unknowable, a provision is made based on past experience; but there is significant doubt until experience actually develops.

In addition, contributions in respect of current coverage for long-term disability were expected to be $181.4 million over the period, before taking into account the contribution holiday. These contributions are set to be equal to the cost of accruing benefits and expenses.

Put together, approximately $295.9 million of LTD liability was expected to develop during the twelve month period. When adjusted for timing to December 31, 2014, this amount increased to $305.8 million.

The main components that developed, with the same valuation basis as was used at December 31, 2013, were:

- Claims costs in 2014 for claims that didn't exist at December 31, 2013: $38.1 million.
- 2014 LTD expenses allocated to claims that didn't exist at December 31, 2013: $1.9 million.
- Unallocated LTD expenses in 2014: $7.2 million.
- Reserve for reported claims that didn't exist at December 31, 2013 as at December 31, 2014: $170.5 million.
- Incurred but not yet reported reserve as at December 31, 2014: $143.0 million.

Between these components, $360.7 million was required for claims incurred during 2014. Overall, the resulting loss for new claims was $54.9 million.

Active EHC/Dental/Life/AD&D

Contributions collected in respect of these benefits exceeded claims plus expenses and any changes to incurred but not reported claims. This amounted to a gain of $24.3 million.

Disabled EHC/Dental/Life/AD&D

Claims plus expenses and any changes to incurred but not reported claims exceeded contributions collected in respect of these benefits. This amounted to a loss of $4.7 million.

Update to CPP thresholds / Wage increases

The CPP thresholds used for assumed CPP offsets were changed to reflect the amounts effective January 1, 2015.

In the December 31, 2013 valuation assumptions were made around unknown wage increases relating to both past and future years. During 2014 a number of collective bargaining agreements were ratified. The December 31, 2014 valuation includes the ratified wage increases from these agreements.

Combined, these changes amounted to a gain of $47.4 million.

Change of Assumptions

As discussed previously, various assumptions changed from the December 31, 2013 valuation to this valuation.

The changes are:

- Change of discount rate from 4.8% for all taxable claims and 3.8% for non-taxable claims to 4.3% for all taxable claims and 3.3% for non-taxable claims, which resulted in a loss of $35.7 million.
- Updating of termination experience to the most recent 54 month period. This resulted in a gain of $13.1 million.
- Updating the CPP approval rates based on a revised study of HBT's block of business. This resulted in a loss of $4.0 million.
- Updating the future expense assumptions based on the latest expense allocation study from HBT. This resulted in a loss of $15.5 million.

Overall, the change of assumptions resulted in a loss of $42.2 million.

The following table lists all of the assumptions that have changed and the resulting gain or loss:

Table 3
Impact of change in Assumptions ($000,000s)

	Gain/(Loss)
Discount Rate	($35.7)
Termination from Disability	$13.1
CPP Approval	($4.0)
Expenses	($15.5)
Compounding Impact	($0.1)
Total Impact	**($42.2)**

Indexing Calculation Changes

It was discovered during 2014 that the year end file used for prior valuations had changed with regards to an identifier used to determine eligibility for indexing. Additionally, a number of claims at year end had also been red-circled, which would affect future indexing increases. Applying indexing correctly to the affected claims resulted in a loss of $4.1 million.

Additional Reserve

During 2014 the Trust approved the continuation of Life and AD&D coverage for disabled claimants within the CSSEA pool if their employer terminated from the Trust. This continuation is limited to claimants associated with a current employer within the CSSEA pool. An additional waiver reserve has been created for these claimants, resulting in a loss of $1.3 million.

SECTION 5 – ACTUARIES' OPINIONS

In our opinions, the membership and financial data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

In our opinions, the assumptions are appropriate for the purpose of the valuation.

In our opinions, the methods employed in the valuation are appropriate for the purpose of the valuation.

This report has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

Respectfully submitted,

Jeremy Bell, Fellow of the Canadian Institute of Actuaries

Ian Leznoff, Fellow of the Canadian Institute of Actuaries

APPENDIX A – SUMMARY OF LTD CLAIMS DATA

In the following three tables we summarize the composition of LTD claimants, their benefits and their reserves at December 31, 2014.

Table 4
Count of Disabled Employees as at December 31, 2014

Duration of Disability	Age at Disability					
	Under Age 30	30–39	40–49	50–59	Age 60 and Over	Total
‹ 1 year	23	81	166	309	85	**664**
1 to 2 years	33	126	270	448	117	**994**
2 to 3 years	13	79	191	297	59	**639**
3 to 5 years	18	94	254	482	34	**882**
5 to 10 years	28	200	637	750		**1,615**
› 10 years	89	529	938	252		**1,808**
Total	**204**	**1,109**	**2,456**	**2,538**	**295**	**6,602**

Table 5
Net Monthly Benefits after assumed CPP approval of Disabled Employees as at December 31, 2014 ($000s)

Duration of Disability	Age at Disability					
	Under Age 30	30–39	40–49	50–59	Age 60 and Over	Total
‹ 1 year	$60.1	$200.3	$425.2	$752.6	$190.6	**$1,628.9**
1 to 2 years	$74.1	$289.2	$574.2	$907.2	$252.3	**$2,096.9**
2 to 3 years	$26.2	$166.4	$393.9	$641.4	$125.4	**$1,353.4**
3 to 5 years	$35.3	$191.0	$503.6	$913.6	$76.0	**$1,719.4**
5 to 10 years	$58.8	$383.8	$1,163.9	$1,397.1	$0.0	**$3,003.5**
› 10 years	$104.9	$813.5	$1,581.5	$417.4	$0.0	**$2,917.3**
Total	**$359.4**	**$2,044.1**	**$4,642.2**	**$5,029.3**	**$644.3**	**$12,719.4**

Table 6
Actuarial Liability of Disabled Employees – Reported – as at December 31, 2014 ($000,000s)

Duration of Disability	Age at Disability					
	Under Age 30	30–39	40–49	50–59	Age 60 and Over	Total
‹ 1 year	$3.9	$14.0	$23.6	$36.7	$4.2	**$82.3**
1 to 2 years	$5.5	$24.5	$38.1	$45.4	$4.5	**$118.0**
2 to 3 years	$3.7	$20.5	$37.3	$39.2	$1.6	**$102.3**
3 to 5 years	$6.6	$31.4	$58.1	$53.0	$0.8	**$149.7**
5 to 10 years	$13.2	$69.3	$125.6	$56.5	$0.0	**$264.6**
› 10 years	$16.3	$102.5	$103.2	$8.1	$0.0	**$230.1**
Total	**$49.1**	**$262.0**	**$385.9**	**$238.8**	**$11.0**	**$946.9**

APPENDIX B – ASSET POSITION

Trust Financial Statements

The asset position is calculated from the Trust's financial statements (as provided by the Trust's Finance department), and excludes future contributions to relieve past deficits as well as current payables. The Trust's Financial Statements are prepared in accordance with International Financial Reporting Standards.

The table below shows the development of these assets from December 31, 2013 to December 31, 2014.

Table 7 – Calculation of Asset position ($000,000s)

Assets – December 31, 2013	**$1,339.9**
Regular Contributions	$320.9
Deficit Recovery Contributions	$29.7
Investment Return (net of investment expenses)	$140.4
Benefit Payments	($406.4)
Non-Investment Expenses	($27.0)
Assets – December 31, 2014	**$1,397.5**

Calculation of Asset Position

The following table shows the calculation of the asset position as at December 31, 2013 and December 31, 2014.

Table 8 – Calculation of Asset position ($000,000s)

	December 31, 2014	December 31, 2013
Cash and cash equivalents	$16.3	$26.4
Investments	$1,353.3	$1,295.7
Accrued interest and other receivables	$0.0	$0.0
Contributions receivable	$41.2	$30.9
Property, equipment and intangible assets	$0.8	$1.0
Benefits and accounts payable	($14.0)	($14.2)
Asset Position	**$1,397.5**	**$1,339.9**

Invested Asset Mix

The invested asset mix at December 31, 2014 of the Trust is broken down by category as follows:

Asset	Actual	Long-term policy
Fixed Income	43.1%	42.5%
Equities	49.3%	45.0%
Real Estate and Infrastructure	7.5%	12.5%

The Trust is in the process of implementing an allocation to real estate and infrastructure.

Asset Valuation

Reliance is placed on the provided Financial Statements for the appropriate valuation of the assets as well as the benefits and accounts payable balance.

APPENDIX C – PLAN PROVISIONS

Summary of Plan Provisions

The primary benefits provided by the Healthcare Benefit Trust are Life Insurance, Accidental Death and Dismemberment (AD&D), Long Term Disability (LTD), Dental and Extended Health Care (EHC).

Although benefit provisions do vary by benefit package, there are a number of the typical LTD benefit provisions which have been summarized below by the major collective agreements. This is not an exhaustive list and some benefit packages may have provisions which differ from those shown in the table.

Provision	Community	Facilities	Nurses	Health Science Professionals	Community Social Services
Qualification Period	5 months after the date of disability	5 months after the date of disability	4 months after the date of disability	5 months after the date of disability	6 months after the date of disability
Eligibility for Benefits	After the Qualification Period has elapsed; the claimant is eligible for benefits if they continue to meet the Definition of Disability criteria.				
Definition of Disability	During the qualification period and for the subsequent own occupation period, the claimant is unable to perform each of the essential duties of their own occupation due to injury or sickness. After this period, the claimant is prevented from performing each of the essential duties of any occupation for which they are or may become reasonably qualified by education, training or experience.				
Own Occupation Period[3]	19 months	19 months	24 months	24 months	12 months
Gross Benefit Amount	70% of basic monthly earnings to a limit[4] and 50% of the excess or 66-2/3% of basic monthly earnings, whichever is greater.				

[3]A common termination assumption is used for the Trust without adjustment for different own occupation periods by agreement.

[4]Adjusted annually for new claims based on increases in the weighted average wage rate.

Provision	Community	Facilities	Nurses	Health Science Professionals	Community Social Services
Limit for Gross Benefit Amount	$3,540 as at April 1, 2014	$3,540 as at April 1, 2014	$6,199 as at April 1, 2014	$5,863 as at April 1, 2014	$3,168 ($3,156 for the Aborginal Services agreement) as at April 1, 2014
Indexation	Adjustments every 4 years after the date of qualification based on weighted average wage rate.				
Offsets	The Gross Benefit Amount will be reduced by other sources of income including CPP Disability, rehabilitation and Workers' Compensation benefits.				
Benefit End Date	Benefits cease the earlier of recovery, failure to provide proof of continuing disability, death, retirement or the attainment of age 65.				

APPENDIX D – ASSUMPTIONS

We summarize the key assumptions in this appendix.

Incurred But Not Reported Liabilities

Benefit	Basis
Life Insurance	$1,500,000
Accidental Death and Dismemberment (AD&D)	$500,000
Long Term Disability	170% of LTD liabilities for reported active disability claims incurred in the previous 12 month period.
Active Dental	Calculated as 17/365ths of the dental payments and expenses from the last 12 months.
Active Extended Health	Calculated as 38/365ths of the annualized extended health care payments and expenses from the last 3 months.
Disabled Non-income Benefits (Extended Health, Dental, Life)	170% of corresponding liability for reported active LTD claims with dates of disability in the previous 12 month period.

Reported Liabilities

Assumption	Basis
Termination from Disability	Assumed based on adjustments for the plan's experience applied to the table of actual to expected ratios for females all elimination periods combined as published in Appendix 1 of the Canadian Institute of Actuaries Report entitled "Canadian Group Long-Term Disability Termination experience 1988-1994" dated May 1998. The adjustments are split into two tables for those below and above 40, which are provided with this appendix.
Discount Rate	4.3% compounded annually for taxable claims. 3.3% compounded annually for non-taxable claims.
CPP	CPP approval rates are based on age and duration since disability. Where CPP is assumed, retroactive CPP to a maximum of 18 months is assumed. Potential CPP benefits are calculated based on the following information (as set by the Canada Pension plan): 2015 Flat CPP monthly amount: $465.84 2015 Maximum CPP monthly amount: $1,264.59 Table is provided at the end of this appendix for more details.

Assumption	Basis
Benefit Indexing	***Indexing to Wage Increases*** Annual wage increases of 3.5% are assumed for all non-Community Social Services agreements, except where negotiated wage increases are known. Where negotiated wage increases are known, these negotiated wage increases apply. Annual wage increases of 2.5% are assumed for all Community Social Services, except where negotiated wage increases are known. Where negotiated wage increases are known, these negotiated wage increases apply. ***Indexing to CPI*** Future CPI increases are assumed to be 2%. ***Red-Circling*** Benefits are never reduced below their original disability benefit.
Extended Health Escalation	Extended health costs for disabled employees are assumed to increase by 7.0% in the first year and decreasing by 0.5% per year until reaching the ultimate escalation rate of 5.0% per annum.
Dental Escalation	Dental costs for disabled employees are assumed to increase by 4.5% per annum.
Death from Disability	Assumed to be in accordance with CIA 88-94 Mortality Tables for Males and Females.
Provision for Adverse Deviations	The Trust's liabilities have been calculated with a 1.0% margin with regards to the discount rate and a 1.0% margin with regards to wage increases.

HBT LTD Valuation Assumptions – Termination Rates

The table below shows the December 31, 2014 valuation assumption as a percent of the 1988-1994 Canadian Institute of Actuaries (CIA) study of Disability Termination experience. The table also provides the December 31, 2013 valuation assumptions expressed as a percentage of the same CIA table

Months since Disability	Dec 31, 2013 Assumption - To age 40	Dec 31, 2013 Assumption - After age 40	Dec 31, 2014 Assumption - To age 40	Dec 31, 2014 Assumption - After age 40
4-12	45%	55%	45%	60%
13-24	85%	120%	95%	130%
25	100%	105%	110%	115%
26	100%	105%	110%	115%
27	100%	105%	110%	115%
28	50%	60%	50%	65%
29	550%	725%	560%	750%
30	70%	110%	65%	95%
31	85%	65%	85%	60%
32	85%	100%	85%	95%
33	85%	100%	85%	95%
34	85%	100%	85%	95%
35	85%	100%	85%	95%
36	85%	100%	85%	95%
37-48	100%	90%	100%	90%
49-60	145%	125%	130%	135%
61-72	145%	155%	130%	170%
73-84	145%	155%	130%	170%
85-96	145%	155%	130%	170%
97-108	145%	155%	130%	170%
109-120	145%	155%	130%	170%
120+	105%	105%	105%	105%

HBT LTD Valuation Assumptions - CPP Qualification Rates

The table below shows the assumed probabilities of eventual CPP qualification. The rates differ by duration of claim and age at the date of disability.

	Age of Disability		
Duration of claim (months)	**‹ 55**	**55-60**	**› 60**
Less than 12	40%	60%	60%
13-24	40%	60%	60%
24-36	40%	55%	45%
37-48	45%	55%	50%
49-60	40%	50%	50%
60+	0%	0%	0%

For comparison purposes the table below shows the assumed probabilities of eventual CPP qualification that was used for the December 31, 2013 valuation.

	Age of Disability		
Duration of claim (months)	**‹ 55**	**55-60**	**› 60**
Less than 12	40%	60%	60%
13-24	40%	60%	60%
24-36	50%	65%	45%
37-48	45%	75%	50%
49-60	40%	50%	50%
60+	0%	0%	0%

HBT LTD Valuation Assumptions - Expenses

The table below shows the assumption for future expenses as a percentage of claims payments. The table also provides the December 31, 2013 valuation assumptions.

	December 31, 2014	December 31, 2013
Disability Income[5]	6.5%	5.0%
Extended Health	6.0%	5.0%
Dental	4.0%	4.0%
Life	10.0%	13.0%

[5]Assumed disability expenses aren't intended to cover all disability expenses. The majority of disability expenses are incurred at the beginning of a claim and are covered with contributions, but not incorporated in reserves.

APPENDIX E – CLAIMS MOVEMENT

The table below shows the movement of active LTD claims by notional pool within the Trust.

Table 9 – Movement of Active LTD claims

Notional Pool	Claims as at Dec 31, 2013	Termination Reasons							New Entrants	Claims as at Dec 31, 2014
		Age 65	Death	Return to Work	ERIB	Change of Definition	Retired/ Resigned	Other		
Fraser	**1,193**	(33)	(14)	(157)	(38)	(42)	(29)	(26)	344	**1,198**
Coastal	**844**	(42)	(8)	(71)	(39)	(65)	(14)	(9)	270	**866**
Island	**957**	(35)	(14)	(106)	(39)	(44)	(23)	(4)	326	**1,018**
Interior	**1,097**	(18)	(11)	(115)	(46)	(57)	(22)	(22)	279	**1,085**
Northern	**328**	(14)	(3)	(43)	(7)	(20)	(6)	(4)	109	**340**
Provincial	**253**	(4)	(4)	(48)	(5)	(10)	(3)	(7)	139	**311**
Providence	**269**	(8)	(4)	(36)	(10)	(9)	(5)		76	**273**
Affiliates	**1,050**	(54)	(12)	(50)	(16)	(27)	(5)	(17)	176	**1,045**
CSSEA	**396**	(13)	(6)	(15)		(13)		(2)	43	**390**
Non-HEABC	**45**	(1)	(2)	(7)		(5)	(1)	(1)	6	**34**
Non-taxable	**48**	(7)		(5)		(1)	(1)		8	**42**
Total	**6,480**	(229)	(78)	(653)	(200)	(293)	(109)	(92)	1,776	**6,602**

APPENDIX F – SENSITIVITY ANALYSIS

Discount Rate

The discount rate used within the valuation is 4.3% for all taxable claims and 3.3% for non-taxable claims, compounded annually. The effect on the total actuarial liability of a 1% increase and 1% decrease to the discount rate is shown in the following table:

Table 10 – Discount Rate Sensitivity Analysis

Discount Rate Change	Liability (000,000's)	Original Liability (000,000's)	Gain / (Loss) (000,000's)
-1%	$1,281.0	**$1,206.2**	($74.8)
+1%	$1,139.9	**$1,206.2**	$66.3

APPENDIX G – ADMINISTRATOR REPRESENTATION

With respect to the information used within this report, I hereby confirm that to the best of my knowledge and belief:

- The LTD claimant data provided to the actuaries and summarized in Appendix A and Appendix E are a complete and accurate description of all individuals meeting the definition of disability under the Plan;
- The financial data provided to the actuaries and summarized in Appendix B are a complete and accurate representation of the contributions, claims and expenses by benefit line and notional pool;
- The plan provisions summarized in Appendix C are an accurate description of the provincial collective agreement disability related plan provisions in effect at the valuation date; and
- There have been no events subsequent to the valuation date that would materially change the December 31, 2014 valuation results or the Plan's financial position or cost.

Sarah Hoffman Chief Financial Officer	Darren McKnight Director, Benefits Administration & Reporting

APPENDIX H – BEST ESTIMATE RECONCILIATION

Margin

Both the discount rate and the wage increase assumptions include a 1% margin. The best estimate liability and the impact of these margins are shown in the following table:

Table 10
Liability as at December 31, 2014 ($000,000s)

	Best Estimate	Impact of wage increase margin	Impact of discount rate margin	Liability with margin
Active Group Life and AD&D (IBNR)	$2.0	$0.0	$0.0	$2.0
Active Dental (IBNR)	$5.1	$0.0	$0.0	$5.1
Active Extended Health (IBNR)	$10.8	$0.0	$0.0	$10.8
Long-term Disability (IBNR)	$128.3	$4.2	$7.6	$140.1
Admitted LTD Claims (Reported)	$865.3	$28.6	$53.0	$946.9
Extended Health for Disabled Claimants	$47.9	$0.0	$3.1	$51.0
Dental for Disabled Claimants	$16.1	$0.0	$1.0	$17.1
Group Life and AD&D for Disabled Claimants	$31.5	$0.0	$1.5	$33.0
Total Liability	**$1,107.1**	**$32.8**	**$66.3**	**$1,206.2**

ANNUAL REPORT 2014

HEALTHCARE BENEFIT TRUST
#1100-1333 W. BROADWAY
VANCOUVER, BC V6H 4C1

t: 604.736.2087
tf: 1.888.736.2087
f: 604.736.8218
www.hbt.ca