



To Her Honour
the Honourable
Barbara Hagerman

Son Honneur,
L'honorable
Barbara Hagerman

May it please your Honour:

Madame la lieutenant-
gouverneure,

In accordance with section 3 of
the *Teachers' Superannuation
Act*, I am pleased to present to
you the Annual Report of the
Prince Edward Island
Teachers' Superannuation
Commission for the plan year
ended June 30, 2007.

Conformément à l'article 3
de la *Teachers'*
Superannuation Act, j'ai
l'honneur de vous
présenter ce rapport
annuel pour l'exercice
terminé le 30 juin 2007.

Respectfully submitted
Your Obedient Servant,

Je vous prie d'agréer,
Madame la lieutenant-
gouverneure, l'expression
de ma haute considération.

A handwritten signature in cursive script that reads "Doug Currie". The ink is dark and the signature is written in a fluid, personal style.

Doug Currie
Minister of Education and Early Childhood Development
Ministre de l'Éducation et du Développement
de la petite enfance

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Introduction

The Teachers' Superannuation Fund (TSF) was established in 1931 and provides retirement income to members and dependents of deceased members, in accordance with the *Teachers' Superannuation Act (TSA)*.

Plan Description

The TSF is a contributory, defined benefit pension plan financed by contributions from employees and employers, and by investment earnings from the Master Trust Investment Fund.

Contributions – In 2006-2007, members of the plan contributed:

- 9.00 percent of pensionable earnings up to \$3,500 (Canada Pension Plan's (CPP) basic exemption threshold),
- 7.20 percent of pensionable earnings from \$3,501 to CPP's Yearly Maximum Pensionable Earnings (YMPE), and
- 9.00 percent of pensionable earnings in excess of the YMPE.

The YMPE was \$42,100 for 2006 and \$43,700 for 2007.

The employer pays to the fund an amount equal to that paid by the members.

Membership – A teacher, as designated under the *School Act*, is eligible for membership. Substitute teachers are not eligible for membership.

Unreduced Retirement – An unreduced monthly pension is payable for life to a member who meets one of the criteria below:

- has attained the age of 60 with five or more years of pensionable service;
- has attained the age of 55 years with 30 or more years of pensionable service;
- has 35 or more years of pensionable service; or
- is deemed totally and permanently disabled and has five years or more years of pensionable service

The benefit is calculated as 2.0 percent multiplied by the years of pensionable service, multiplied by the average of the five highest years of pensionable earnings. Please note that for salary below the CPP's YMPE, the 2.0 percent benefit is comprised of:

- a) a 1.3 percent life-time benefit, and
- b) a bridge benefit of 0.7 percent from the date of retirement to age 65.

Early Retirement – Eligible members can opt for an early retirement pension benefit as early as age 55. In these cases, the pension amount is reduced by the lessor of:

- a) 3.0 percent for each year prior to age 60, or
- b) 3.0 percent for each year prior to attaining 30 years of pensionable service.

It should be noted that the early retirement reduction is applied to both the bridge benefit and the life-time benefit.

Benefits on Termination - A member in the TSF becomes vested after five years of pensionable service in the plan.

- a) Vested members are eligible for either a deferred pension or a refund of employee contributions plus interest.
- b) Non-vested members are eligible for a refund of employee contributions plus interest.

Inflation Protection – Pensions are increased by 60 percent of the change in the Consumer Price (all items) Index for Canada, to a maximum of 4.0 percent, on the first day of July of each year. The pension payment received upon retirement and the value of a deferred pension benefit, are both indexed annually under the TSF. Indexation applied at July 1, 2006 was 1.4 percent.

Death Benefits – The TSF provides for both spousal and dependent benefits to eligible survivors of vested members.

Fund Administration

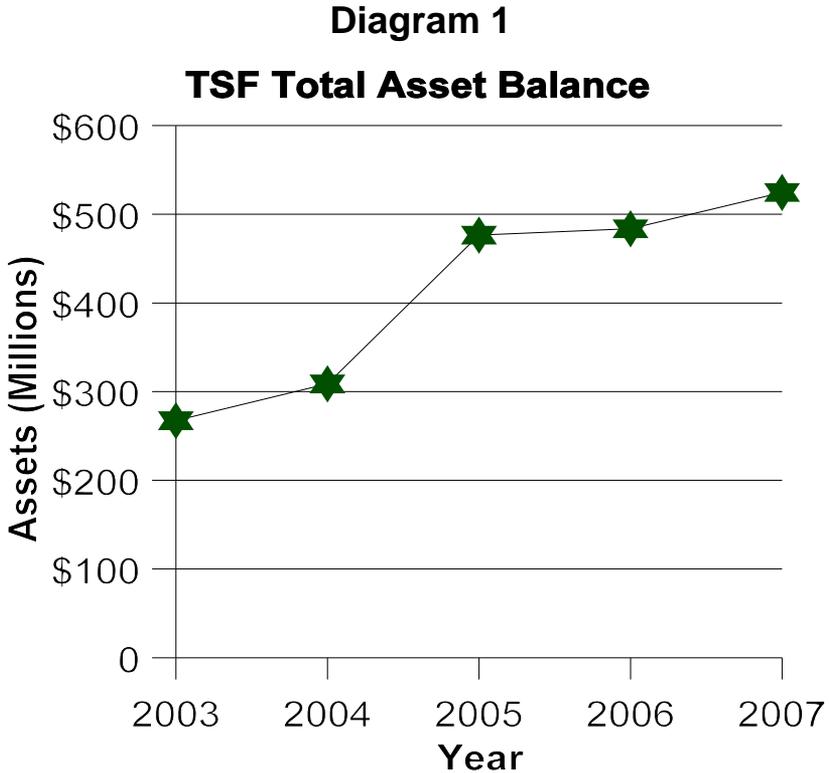
Administration of the TSA is assigned to the Pensions and Benefits Section, of the Fiscal Management Division, Provincial Treasury. The Fiscal Management Division of the Department of the Provincial Treasury also provides investment management support for the Province of Prince Edward Island Master Trust.

The TSF's assets are managed independently by professional fund managers. The fund managers responsible for the TSF's investments as at June 30, 2007, were:

- 1) Beutel, Goodman and Company Limited
- 2) McLean Budden Limited
- 3) Northwater Capital Management Incorporated
- 4) Franklin Templeton Management Limited
- 5) Capital Guardian Trust Company, and
- 6) Burgundy Asset Management Limited

The total asset balance of the TSF at June 30, 2007 was approximately \$525 million, up from \$484 million in 2006.

Diagram 1 shows the TSF total asset balance from 2003 - 2007.

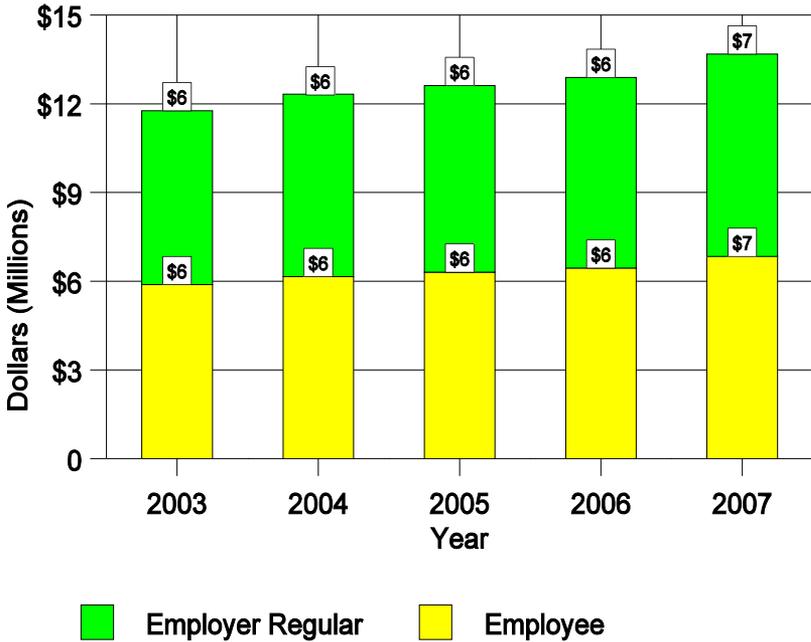


The marked increase in the TSF total asset balance in 2004-2005 relates to an additional investment by the Province of Prince Edward Island, in the form of a promissory note, in the amount of \$160 million.

Regular Contributions – Regular contributions are made to the TSF via payroll deductions. In 2007, the regular contributions from both the employer and employees combined were approximately \$13.7 million, up from \$12.9 million in 2006. Other contributions include special payments from the Province, payments for prior service, and transfers in from other plans via reciprocal agreements.

Diagram 2 depicts, by year, the regular employer and employee contributions made to the TSF.

Diagram 2
Regular Contributions

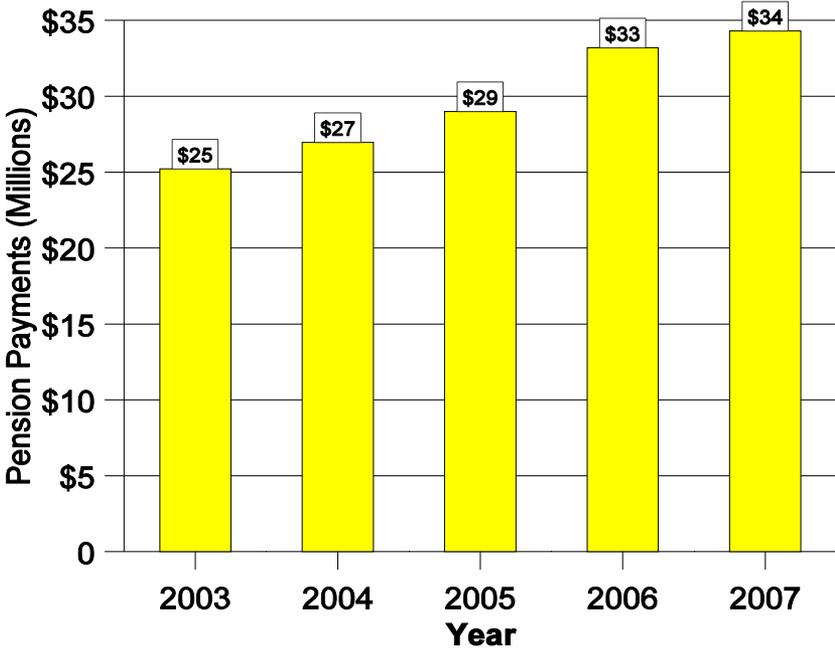


Special Contribution - To reduce the unfunded liability of the TSF, the Province of Prince Edward Island agreed to invest \$160 million in the Fund. The investment was in the form of a promissory note from the Province of Prince Edward Island to the Fund. This note is receivable in ten equal annual installments of \$16 million beginning April 15, 2005, plus interest at the rate of 4.345 percent per annum. Interest is to be paid semi-annually on April 15 and October 15.

Pension Payments – Annual pension payments in 2006-2007 were approximately \$34 million. This is shown in **Diagram 3**. In the fiscal year 2006-2007, approximately 97 percent of the pension payroll was paid to members and the remaining 3 percent was paid out as spousal and dependent benefits.

Diagram 3

Pension Payments



Pensioners – The number of persons receiving pension was 1,344 at June 30, 2007. **Table 1** outlines the number of new pensioners, their average age and average annual pension for fiscal year ending June 30, 2007.

Table 1
Number of New Pensioners with
Average Age and Average Annual Pension

Fiscal Year	No. of New Pensioners	Average Age	Average Annual Pension
2006-2007	36	56.67	\$ 30,789

Table 2 outlines the categories with the average annual pension for each category at June 30, 2007.

Table 2
Pension Categories and
Average Annual Pension

Category	Number of Pensions		Average Annual Pension	
	2007	2006	2007	2006
Members	1,197	1,188	\$ 26,875	\$ 26,404
Disability Pensions	49	46	\$ 18,133	\$ 18,015
Spousal	81	86	\$ 13,360	\$ 12,821
Dependents	17	22	\$ 2,256	\$ 2,385
Total Pensions	1,344	1,342		

Actuarial Requirement – Federal legislation requires that an actuarial valuation be performed once every three years to evaluate the funding status of the TSF. Actuarial valuation reports require best estimate assumptions about future events to determine the liabilities of the Fund as of the valuation date. The actual assets of the Fund, as of the valuation date, are then compared to the liabilities to determine the plan’s funding status.

The most recent actuarial valuation was completed as of July 1, 2005. This valuation was based on the following membership data:

- 1) 1,520 Active Members
Average Salary of \$54,124
Average Age of 41.6 years
- 2) 474 Inactives and Deferred
Estimated average contributions with interest of \$2,668
- 3) 1,338 Retirees
Average Annual pension of \$24,629
Average Age of 66.8 years

The value of the Plan assets as at July 1, 2005, was \$476,548,000, which represents 86.4 percent of the actuarial liability of \$551,469,000. **Table 3** details the actuarial valuation statement of financial position as at July 1, 2005.

Table 3**Going-Concern Financial Position****July 1, 2005**

Value of Assets		
Market Value	\$ 476,548,000	
	Actuarial Liability	Percentage of Total Liabilities
Active Members	\$ 183,524,000	33%
Inactives and Deferred Vested Members	8,837,000	2%
Retired Members and Beneficiaries	359,108,000	65%
Total	\$ 551,469,000	
Actuarial Surplus (unfunded liability)	\$ (74,921,000)	
Funding Ratio	86.4%	

Highlights for 2006-2007

Act/Regulations

During the fiscal year 2006-2007, staff of Pensions and Benefits, in co-ordination with Legal and Judicial Services, Office of the Attorney General, received assent on the following amendments to the Act:

Flexibility introduced for vested members who terminate

- Vested members who terminate now have the ability to receive a refund of their contributions, if, at the time of the election, the member is not already in receipt of a TSF pension.

Non-vested members to receive refund without application

- Non-vested members who terminate, will now receive a full refund of their contributions made to the TSF, without application. This will be administered as the Minister determines.

Indexation of deemed salary for the purposes of calculating “average salary”

- Deemed salary may be used during certain periods of unpaid leave, as prescribed by the regulations, when calculating the average salary of a teacher. This deemed salary will be indexed annually by 60% of the percentage increase in the Consumer Price (all items) Index for Canada, subject to a maximum increase of 4%.

Administration Initiatives

Work continues on collecting and verifying historical data for all members in order to populate the pension administration system. This will allow the Pension Office to begin to analyze member data for the purpose of issuing annual pension statements to members.

Investment Management

The largest contributor to the growth of TSF assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The TSF, MLA Pension Fund and the Civil Service Superannuation Fund participate in the Master Trust. In 2006-2007, approximately 33 percent of the funds in the Master Trust were assets of the TSF.

The annual rate of return of the Master Trust as of June 30, 2007 was 16.4 percent, which is indicative of the market value increase of the TSF. The total return on the Master Trust Fund since June 30, 1998 was 7.5 percent.

TSF Assets

During 2006-2007, there was a net increase to TSF assets of approximately \$41 million.

Table 4 shows the receipts and income, by source, which totalled approximately \$77 million.

Table 4
Receipts and Income

Type	Amount
Employer Contributions	\$ 6,841,625
Employee Contributions	6,841,625
Investment Income	22,808,968
Transfer from Other Plans	566,231
Purchased Service	290,591
Market Value Increase (Decrease)	39,819,159
Total	\$ 77,168,199

Table 5 shows the expenditures for 2006-2007, which totalled approximately \$36 million.

Table 5
TSF Expenditures

Type	Amount	% of Expenditures
Benefits Paid	\$ 34,298,341	
Transfers	600,617	
Refunds	44,719	
Total Benefit Expenditures	\$ 34,943,677	96%
Benefit Administration	\$ 115,699	
Consulting Fees	45,657	
Miscellaneous	217	
Pension System Fees	2,173	
Total Benefit Administration Expenditures	\$ 163,746	1%
Investment Manager Fees	\$ 1,054,385	
Monitoring Fees	40,665	
Custodial Fees	74,144	
Investment Management Support	43,174	
Total Investment Management Expenditures	\$ 1,212,368	3%
Total	\$ 36,319,791	100%

Teachers' Superannuation Commission

The Commission provides a forum for the purposes of reviewing issues which may arise in the administration of the plan and providing advice to the Provincial Treasurer on such issues. As of June 30, 2007, the Commission had seven members as follows:

No of Members		Member
1	<i>Chairperson -</i> Deputy Minister of Education	Shauna Sullivan Curley
2	Department of Education	Ken MacRae John Cummings
3	PEI Teachers' Federation	Michel Plamondon Mary Catherine Compton Blaine Bernard
1	Provincial Treasury	Scott Stevens

Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Provincial Treasurer on the following items:

- protection of the principal assets of the Master Trust;
- monitoring of costs;
- recommendations on investment fund asset mix;
- review of investment fund and fund manager performance standards; and
- compliance with both federal and provincial requirements relating to ownership of foreign equities.

At June 30, 2007, the committee is comprised of the following:

<i>Chairperson</i> - Deputy Provincial Treasurer	Paul Jelley
Department of Education	Ken MacRae
Department of Health & Social Services	Bill Harper
Member of the Legislative Assembly	Wilbur MacDonald
Prince Edward Island Teachers' Federation	Michel Plamondon Allan Ledgerwood Duncan McKillop
Provincial Government	Doug Clow Terry Hogan Scott Stevens
Union of Public Sector Employees	Donalda Docherty Don MacDonald Harry MacDonald Shelley Ward
Ex Officio outside designates	Tim Van Alstyne, <i>Dominion Securities</i> Bill Hastie, <i>Scotia Capital</i> Paul Malizia and Tony Politano, <i>Hewitt Associates</i> <i>Investment Council</i>

Audit Requirement

In accordance with section 31 of the *Teachers' Superannuation Act*, the financial statements have been examined by the Office of the Auditor General whose report is included in the appendix of this annual report.

Contact Information

For further information concerning the administration of the **Teachers' Superannuation Act** please contact:

Pensions and Benefits
Finance and Municipal Affairs
Sullivan Building
16 Fitzroy Street
PO Box 2000
Charlottetown, PE C1A 7N8

Telephone: (902) 368-4200

Fax: (902) 620-3096

Terry Hogan, Manager
Crystal Burrows, Operations Supervisor
Pamela MacEachern, a/Pension Information Officer

For further information concerning the **Master Trust Fund** contact:

Alan Silliker, Manager
Investments and Banking
Department of Finance and Municipal Affairs
Tel: (902) 569-7666

Appendix

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

FINANCIAL STATEMENTS

JUNE 30, 2007

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

AUDITOR'S REPORT

To the Commissioners of the
Teachers' Superannuation Commission
Province of Prince Edward Island

I have audited the Statement of Net Assets Available for Benefits of the Province of Prince Edward Island Teachers' Superannuation Fund as at June 30, 2007 and the Statement of Changes in Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the Teachers' Superannuation Commission. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2007 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.


Colin Younker, CA
Auditor General

Charlottetown, Prince Edward Island
April 4, 2008

STATEMENT 1

PROVINCE OF PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AS AT JUNE 30, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash	\$ 33,663	\$ 218,944
Receivables		
Contributions receivable - employees	257,131	250,873
Contributions receivable - employers	351,897	322,381
Other	69,206	61,316
Accrued interest receivable	1,013,721	1,154,867
Current portion of note receivable	<u>16,000,000</u>	<u>16,000,000</u>
	<u>17,725,618</u>	<u>18,008,381</u>
Investments (Note 3)	411,437,067	354,252,110
Note receivable (Note 5)	<u>96,000,000</u>	<u>112,000,000</u>
Total Assets	<u>\$525,162,685</u>	<u>\$484,260,491</u>
 LIABILITIES		
Accounts payable	<u>\$ 541,318</u>	<u>\$ 487,532</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$524,621,367</u>	<u>\$483,772,959</u>

(The accompanying notes are an integral part of these financial statements.)

ON BEHALF OF THE COMMISSION

COMMISSIONER: *Sharon S. Ealey*

COMMISSIONER: *Michael Smith*

STATEMENT 2

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>2007</u>	<u>2006</u>
INCREASE IN ASSETS		
Investment income		
Interest	\$ 17,595,751	\$ 12,468,499
Dividends	5,178,305	3,960,308
Other income	<u>34,912</u>	<u>52,323</u>
	<u>22,808,968</u>	<u>16,481,130</u>
Market value increase	<u>39,819,159</u>	<u>11,411,106</u>
Contributions		
Employees' contributions	6,841,625	6,444,299
Employers' contributions	6,841,625	6,444,299
Transfers from other plans	566,231	791,734
Buybacks	<u>290,591</u>	<u>303,315</u>
	<u>14,540,072</u>	<u>13,983,647</u>
Total Increase in Assets	<u>77,168,199</u>	<u>41,875,883</u>
DECREASE IN ASSETS		
Administrative expenses	163,746	182,892
Custodial and management fees	1,212,368	1,109,366
Refunds	44,719	75,730
Benefits paid	34,298,341	33,186,727
Transfers to other plans	<u>600,617</u>	<u>96,251</u>
Total Decrease in Assets	<u>36,319,791</u>	<u>34,650,966</u>
INCREASE IN NET ASSETS	40,848,408	7,224,917
NET ASSETS AVAILABLE FOR BENEFITS		
AT BEGINNING OF THE YEAR	<u>483,772,959</u>	<u>476,548,042</u>
NET ASSETS AVAILABLE FOR BENEFITS		
AT END OF THE YEAR	<u>\$524,621,367</u>	<u>\$483,772,959</u>

(The accompanying notes are an integral part of these financial statements.)

PROVINCE OF PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

1. Description of Plan

The following description of the Teachers' Superannuation Plan is a summary only. For more complete information, reference should be made to the Teachers' Superannuation Act.

- a) **General**
The Plan is a contributory defined benefit plan covering teachers as defined in the Teachers' Superannuation Act.
- b) **Contributions**
Under the Plan, employees and the employer make equal contributions amounting to 7.2% on that part of the salary on which Canada Pension Plan contributions are made and 9.0% on salary when Canada Pension Plan contributions are not required.
- c) **Retirement Benefits**
A teacher who has attained age 60 and has completed at least 5 years of service or has attained age 55 and has completed 30 years of service or has completed 35 years of service is entitled to an immediate pension which is payable in equal monthly installments.

The annual amount of the pension is equal to 2% of the average of the five highest annual pensionable salary, multiplied by the number of years of pensionable service. When the teacher reaches the age of 65 (or if he or she is 65 or over at retirement) the amount of pension described above is reduced by 0.7% of the average salary up to the average Yearly Maximum Pensionable Earnings under the Canada Pension Plan during the five year period over which the average salary has been computed, multiplied by the number of years of the teacher's pensionable service after July 1, 1972.

Reduced benefits are available at age 55 with at least 5 years of pensionable service. The pension for a teacher who retires prior to age 60 (and who is not entitled to an unreduced pension) is calculated as described in the previous paragraph but then is reduced by 0.25% for each full month by which the early retirement date precedes the teacher's earliest unreduced retirement age.

The above formula determines the amount of a teacher's initial pension at retirement. In subsequent years the amount of a teacher's pension is increased by 60% of the percentage increase in the Consumer Price Index. The increase in any one year is limited to no more than 4%.

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2007

1. Description of Plan (continued)

d) Disability Benefits

Disability benefits are available at any age to a teacher who retires from teaching service because of total and permanent disability who contributed to the Fund for 5 or more years.

e) Death Benefits

On the death of a teacher prior to completing 5 years of pensionable service, or after completing 5 years of service but leaving no surviving spouse or dependant children, the teacher's contributions accumulated with interest will be refunded. If a teacher dies prior to retirement but after completing 5 years of service, the teacher's spouse is entitled to an immediate lifetime pension equal to 60% of the accrued, unreduced pension of the teacher at the time of death. In addition to the spousal pension, an allowance equal to one quarter of the remaining 2/5 of pension which the teacher was receiving is payable in respect of each dependent child, until the child attains age 16, or until 25 if the child is attending school full-time. In no case shall payment to such children exceed 3/4 of the remaining 2/5 of pension.

f) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a teacher may elect to receive either:

- a refund of the teacher's own contributions with interest, or
- if the teacher has completed at least five years of service, a deferred annuity commencing when the teacher attains the age of 60.

Where there are portability arrangements between the Plan and other plans, teachers may be able to carry certain pension benefits to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the Plan.

g) Income Tax

The Plan is a Registered Pension Plan as defined under the Income Tax Act and is not subject to income tax.

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2007

2. Significant Accounting Policies

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Province of Prince Edward Island and Plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual members. The following accounting policies are considered significant.

a) Investments

With the exception of real estate investments which are valued at cost, investments are stated at market value, as reported by the custodian of the Master Trust.

Changes in the market value of investments, including realized and unrealized gains resulting from changes in foreign exchange, are reflected in the financial statements as a market value adjustment.

b) Investment Transactions

Investment transactions are recorded on the settlement date. Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Distributions are recognized on the record date.

3. Investments

a) Investments consist of the following:

	<u>2007</u>		<u>2006</u>
Cash held for investment	\$	-	\$ 772
Short term investment fund units		-	24,385
Province of Prince Edward Island Master Trust	<u>411,437,067</u>		<u>354,226,953</u>
	<u>\$411,437,067</u>		<u>\$354,252,110</u>

The investments of the Civil Service Superannuation Fund, MLA Pension Fund, and the Teachers' Superannuation Fund are consolidated into the Province of Prince Edward Island Master Trust. Units are held by each of these funds in the Master Trust. As of June 30, 2007 there were 986,024.801 (2006-775,352.393) units held in the Province of Prince Edward Island Master Trust, of which the Teachers' Superannuation Fund held the following:

	<u>2007</u>	<u>2006</u>
Units held	322,571.297	300,436.557
Market Value per unit	\$1,275.49	\$1,179.04
Total market value held	\$411,437,067	\$354,226,953

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2007

3. Investments (continued)

Investments of the Province of Prince Edward Island Master Trust are as follows:

	<u>2007</u>	<u>2006</u>
Canadian T-Bills	\$ 20,388,215	\$ 19,960,808
U.S. T-Notes	12,985,085	2,667,470
Other liquid assets	1,435,499	(1,359,058)
Bonds, debentures and notes	416,448,973	289,495,516
Canadian equity securities	461,467,216	336,909,732
Foreign equity securities	340,326,661	260,856,335
Accrued income receivable	4,607,512	3,175,945
Real estate	<u>7,446</u>	<u>2,465,339</u>
Total	<u>\$1,257,666,607</u>	<u>\$914,172,087</u>

The investments include amounts which three Master Trust Fund managers have invested in their own pooled funds. The market values of these investments are as follows:

	<u>2007</u>	<u>2006</u>
Beutel, Goodman & Company Ltd.	\$ 25,890,412	\$ 25,996,871
Northwater Capital Management Inc.	139,720,245	106,018,114
Capital Guardian	<u>155,852,628</u>	<u>125,547,566</u>
Total	<u>\$321,463,285</u>	<u>\$257,562,551</u>

b) Risk Management

Rates of return vary based on the degree of uncertainty. The fundamental sources of uncertainty to which investments are exposed are credit risk and price risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk is the risk that the value of an investment will fluctuate due to future changes in foreign exchange rates. Interest rate risk is the risk that the value of an investment will fluctuate due to future changes in market interest rates. Market risk is the risk the value of a financial instrument will fluctuate as a result of future changes in the market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The policy of the Master Trust is to invest in a diversified portfolio of investments based on criteria established in the Statement of Investment Policies and Procedures.

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2007

4. Obligations for Pension Benefits for Accounting Purposes

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and best estimate assumptions. The most recent Actuarial Valuation for accounting purposes prepared by Morneau Sobeco disclosed an unfunded liability as at April 1, 2005 of \$47,509,000.

The estimated present value of benefits as of June 30, 2007, the principal components of changes in actuarial present values during the year and the estimated unfunded liability, were as follows:

	<u>2007</u>	<u>2006</u>
Estimated present value of accrued benefits at beginning of year	\$536,666,000	\$521,133,000
Interest accrued on benefits	40,044,000	38,872,000
Benefits accrued	10,617,000	9,848,000
Benefits paid	<u>(34,298,000)</u>	<u>(33,187,000)</u>
Estimated present value of accrued benefits at end of year	\$553,029,000	\$536,666,000
Net assets available for benefits	<u>524,621,000</u>	<u>483,773,000</u>
Unfunded liability	<u>\$ 28,408,000</u>	<u>\$ 52,893,000</u>

The economic assumptions used in determining the actuarial value of accrued pension benefits for accounting purposes were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the valuation were:

Asset rate of return	7.63%
Basic salary escalation rate (excluding promotional increases)	2.75%
Pension cost of living increases	1.60%

The Consolidated (Summary) Financial Statements of the Province record the obligation using the accounting method.

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2007

5. Funding Policy

In accordance with the Teachers' Superannuation Act, employees are required to contribute as described in Note 1(b). The employer matches employee contributions to the Fund. Under Section 9 of the Teachers' Superannuation Act, payments out of the Fund are guaranteed by the Province of Prince Edward Island. The most recent actuarial valuation for funding purposes was prepared by Morneau Sobeco as of July 1, 2005. This valuation disclosed an unfunded liability as at July 1, 2005 of \$74,291,000.

To reduce the unfunded liability of the Teachers' Superannuation Fund the Province of Prince Edward Island has agreed to invest \$160,000,000 in the Fund. The investment is in the form of a \$160,000,000 promissory note from the Province of Prince Edward Island to the Fund. This note is receivable in ten equal annual installments of \$16,000,000 beginning April 15, 2005 plus interest at the rate of 4.345% per annum receivable semi annually on April 15 and October 15. Provided that at any such time prior to April 15, 2014 any monies owing may be suspended, on six months prior notice, if the Provincial Treasurer deems the funding level of the Teachers' Superannuation Fund to be at a level of 90%, as defined in the Pension Fund Policy. Any interest shall include accrued interest to the date of any suspension implemented. Any monies suspended at any time or times prior to and including April 15, 2014 are no longer due and owing and no further monies are payable and the promissory note shall be deemed paid in full.

The following is a schedule of payments of principal and interest as disclosed in the promissory note:

<u>Date of Payment</u>	<u>Principal Payments</u>	<u>Interest Payable</u>	
	<u>Principal Payment</u>	<u>April 15</u>	<u>October 15</u>
April 15, 2005	\$ 16,000,000	\$ -	\$ 3,128,400
April 15, 2006	16,000,000	3,128,400	2,780,800
April 15, 2007	16,000,000	2,780,800	2,433,200
April 15, 2008	16,000,000	2,433,200	2,085,600
April 15, 2009	16,000,000	2,085,600	1,738,000
April 15, 2010	16,000,000	1,738,000	1,390,400
April 15, 2011	16,000,000	1,390,400	1,042,800
April 15, 2012	16,000,000	1,042,800	695,200
April 15, 2013	16,000,000	695,200	347,600
April 15, 2014	16,000,000	347,600	-
	<u>\$160,000,000</u>	<u>\$15,642,000</u>	<u>\$15,642,000</u>

Since the promissory note was not signed until February 16, 2006, but provided for a principle payment as of April 15, 2005; additional interest was paid on the scheduled principal payment of April 15, 2005 as the first payment was not made until March 16, 2006.

