

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, 2005.

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 2005.

Respectfully submitted
Your Obedient Servant,

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

Mildred Dover,
Minister of Education
Ministre de l'Éducation

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Introduction

The Teachers' Superannuation Fund (TSF) was established in 1931 to provide retirement allowances to retired teachers, and to the dependents of deceased retirees, in accordance with the *Teachers' Superannuation Act* (TSA).

Plan Description

The Teachers' Superannuation Fund is a contributory defined benefit pension plan financed by contributions from teachers and employers under the TSA, and by investment earnings from the Master Trust Investment Fund. The Teachers' Superannuation Fund and the Canada Pension Plan are integrated when a retiree is 65.

Contributions – In 2004/05 members of the Plan contributed 9.0% of their first \$3,500 (CPP's basic exemption threshold) of pensionable income, 7.2% on earnings from \$3,501 to \$41,100 (CPP's Yearly Maximum Pensionable Earnings for 2005), and 9.0% of their salary in excess of the YMPE. The employer paid to the fund an amount equal to that paid by the members.

Membership – the general criteria for membership to the Teachers' Superannuation Fund is a teacher, as designated under the *School Act*, but does not include substitute teachers.

Eligibility for Pension – a member becomes entitled to receive a pension at retirement age when he or she is vested. A person becomes vested in the TSF after five years of service in the plan.

Unreduced Retirement – a member who satisfies one of the following criteria is eligible for an unreduced pension:

- minimum age of 55 and 30 or more years of service
- minimum age of 60 and five or more years of service
- member who has 35 or more years of service
- member who is deemed totally and permanently disabled and has 5 or more years of service.

The benefit is calculated as 2.0% for each year of pensionable service times the average of the five highest years of pensionable earnings. Please note that for salary below the CPP's Yearly Maximum Pensionable Earnings the 2% benefit is comprised of:

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

Early Retirement – eligible members who retire:

- for reasons other than disability
- between ages 55 and 60, and
- who have less than 30 years of pensionable service

will have an early retirement reduction applied to their pension. In these cases, the pension amount is reduced by the lesser of

- a) 3% for each year prior to age 60, or
- b) 3% for each year prior to attaining 30 pensionable years.

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

Benefits on Termination

- *for vested members:* a deferred pension or a refund of employee contributions plus interest;
- *for non-vested members:* a refund of employee contributions plus interest.

Inflation Protection – pensions are adjusted at the rate of 60% of the increase in the Canada All-items Consumer Price Index (CPI), to a maximum of 4%, on the 1st day of July of each year. The pension payment received upon retirement and the value of a deferred pension benefit are both indexed under the TSF.

Death Benefits – the TSF provides for both a spousal and dependent entitlement for vested members.

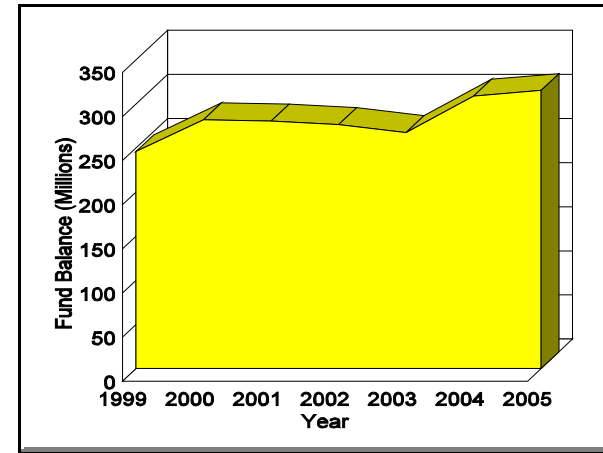
Reciprocal Transfers – a member who has previous employment with a school board in another province and with whom the TSF has a reciprocal transfer agreement, may be eligible to transfer his or her service and benefits to the TSF (and vice versa).

Pension Fund Activity

The TSF's assets are managed independently by professional fund managers. The balance of the TSF in 2005 was approximately \$315 million, up from \$309 million in 2004.

Diagram 1 shows the TSF balance from 1999 to 2005.

Diagram 1
TSF Balance

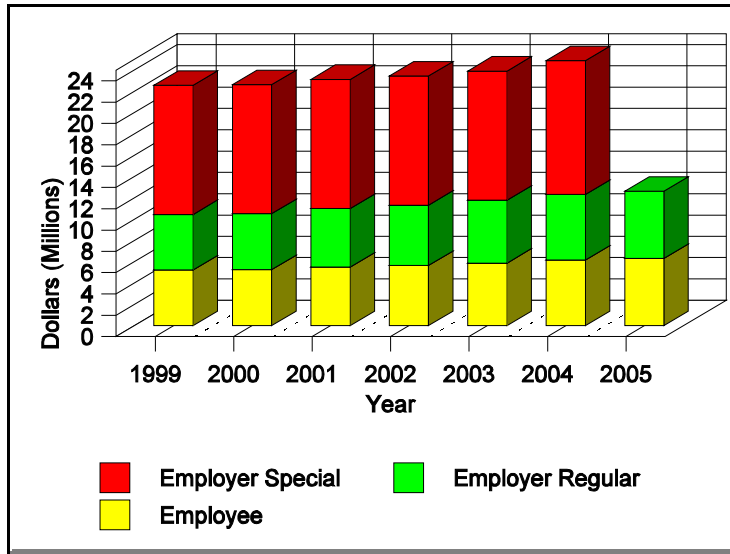


Regular Contributions – Regular contributions are made to the TSF via payroll deductions. Other contributions include: special payments from the Province; payments for prior service; and transfers in from other plans via reciprocal agreements. In 2005 the regular contributions from both the employer and employee combined, were approximately \$12.6 million up from \$12.3 million in 2004.

Special Contributions – In 1995, Government commenced a series of annual payments totalling \$129.44 million to help address the underfunded status of the Plan. The final special payment of \$11.76 million remaining to be paid into the Fund, was deposited on April 1, 2004.

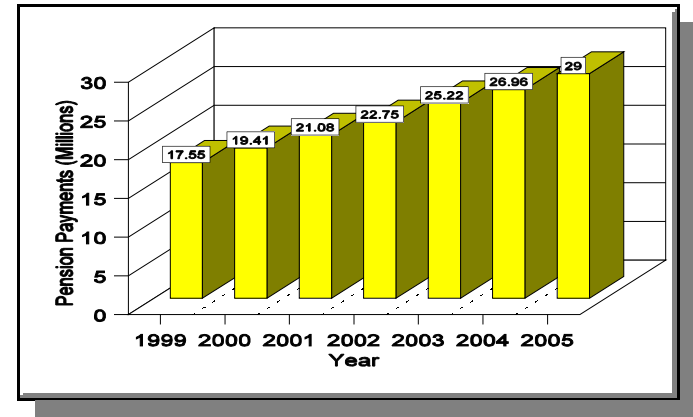
Diagram 2 depicts, by year, the regular employer and employee contributions made to the TSF as well as the special payments made by the Province. It should be noted that, at date of publication of this report, the Province has issued a promissory note totalling \$160 million which is payable in 10 annual instalments and annual interest on the declining balance.

Diagram 2
Contributions: Regular and Special



Pension Payments – Annual pension payments increased from \$17,550,885 in 1999 to \$28,885,701 in 2005. This is shown in Diagram 3. In the fiscal year 2004-2005, approximately 93% of the pension payroll was paid to members and the remaining 7% was paid out as spousal and dependent benefits.

Diagram 3
Pension Payments



Pensioners – The number of persons receiving pension in the 2004/2005 fiscal year was 1,220 individuals.

Table 1 outlines the number of new pensioners and the average age covering the last three fiscal years (2002-2005).

Table 1

Fiscal Year	No. of New Pensioners	Average Age
2002-2003	38	56.36
2003-2004	24	55.03
2004-2005	67	56.86

Table 2 outlines the categories with the average annual pension for each category.

Table 2
Pension Categories with Average Annual Pension

Category	Number of Pensions		Average Annual Pension	
	2004	2005	2004	2005
Members	1,025	1,064	\$24,432	\$25,184
Disability Pensions	51	50	\$18,708	\$17,789
Spousal	86	82	\$11,423	\$12,747
Dependents	21	24	\$2,688	\$2,621
Total Pensions	1,183	1,220		

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 subtracted from the liabilities to determine the unfunded liability.

The most recent actuarial valuation was completed as of July 1, 2002, based on the following membership data:

- 1) 1,614 Active Members
Average Salary of \$49,409
Average Age of 42.7 years

- 2) 445 Inactives and Deferred
Average contributions without interest of \$8,330
Estimated average contributions with interest of \$13,427
- 3) 1,101 Retirees
Average Annual pension of \$21,967
Average Age of 68.9 years.

The actuarial value of the Plan assets as at July 1, 2002, was \$276,454,000, which represents 58.3% of the actuarial liability of \$473,838,000. Table 3 details the actuarial valuation statement of financial position as at July 1, 2002. As of report date the next required actuarial valuation is currently being conducted.

Table 3
Going-Concern Financial Position – July 1,2002

Actuarial value of assets		
• Market Value	\$276,454,000	
Actuarial Liability		% of Total Liabilities
• Active members	\$201,928,000	42%
• Inactives and vested members	11,381,000	3%
• Retired members and Beneficiaries	260,529,000	55%
Total Actuarial Liability	\$473,838,000	
Actuarial Surplus (unfunded liability)	(\$197,384,000)	
Funding Ratio	58.3%	

Highlights for 2004/05

Act/Regulations

In 2004-2005 there was no significant change in the Act nor in the regulations of the Teacher's Superannuation Plan.

Investment Management

The largest contributor to the growth of Teachers' Superannuation Fund assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The Teachers' Superannuation Fund (TSF), MLA Pension Funds and the Civil Service Superannuation Fund participate in the Master Trust. In 2005 approximately 36.9% 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, 2005, was 8.0%, which is indicative of the market value increase of the Teachers' Superannuation Fund. The total return on the Master Trust Fund since 1997 was 7.1%, slightly above the Master Trust's benchmark return of 6.2%. The actuarial valuation as at July 1, 2002, assumed rate of return is 7.64%.

The Fiscal Management Division of the Department of the Provincial Treasury provides investment management support for the Province of Prince Edward Island Master Trust.

The fund managers responsible for the TSF's investments as at June 30, 2005 were:

- 1) Beutel Goodman & Company Ltd;
- 2) McLean Budden Limited;
- 3) Northwater Capital Management Inc;
- 4) Franklin Templeton Management Limited;
- 5) Capital Guardian.

TSF Assets

During 2004/05 there was a net increase to TSF assets of \$7,737,026.

Table 4 shows the receipts and incomes, by source, which totalled \$38,233,279.

Table 4
Receipts and Income

Type	\$ Amount
Employer Contributions	6,302,125
Employee Contributions	6,302,125
Special Payment	0
Investment Income	11,371,199
Transfer from Other Plans	766,938
Purchased Service	292,130
Market Value Increase	13,198,762
Total	38,233,279

Table 5 shows the expenditures for 2004/2005, which totalled \$30,496,254.

Table 5
TSF Expenditures

Type	\$ Amount	% of Expenditures
Benefits Paid	28,885,701	
Transfers	443,742	
Refunds	70,658	
Total Benefit Expenditures	29,405,388	96.41%
Benefit Administration	103,962	
Consulting Fees	2,498	
Miscellaneous	8	
Total Benefit Administration Expenditures	106,468	0.35%
Investment Manager Fees	868,394	
Monitoring Fees	39,369	
Custodial Fees	43,451	
Investment Management Support	38,470	
Total Investment Management Expenditures	989,684	3.24%
Total	30,496,254	100%

Teachers' Superannuation Commission

The TSA is administered by the Teachers' Superannuation Commission.

The seven member committee of the Teachers' Superannuation Commission consists of the following representatives:

- three Minister of Education representatives – Shauna Sullivan Curley (Chairperson), Ken MacRae and John Cummings
- three PEI Teachers' Federation representatives – Michel Plamondon, Donald Mulligan and Pamela Shaw
- one Provincial Treasury representative – Carl Doucette

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;
- making recommendations on investment fund asset mix;
- review performance standards of the investment fund and their respective fund managers;
- ensure compliance with both federal and provincial requirements relating to ownership of foreign equities.

The committee is comprised of a Chairperson (Deputy Provincial

Treasurer), along with representatives from the following:

Chair person (Deputy Provincial Treasurer)	Paul Jelley
Prince Edward Island Teachers' Federation	Duncan McKillop Michel Plamondon
Retired Prince Edward Island Teachers' Federation	Alan Ledgerwood
Provincial Government	Doug Clow Terry Hogan Ken MacRae Scott Stevens Bill Harper
Excluded Employee Group	Vacant
Union of Public Sector Employees	Don MacDonald Harry MacDonald Sandy MacKay and Donalda Docherty
Retired Union of Public Sector Employees	Vacant
Member of the Legislative Assembly	Wilbur MacDonald
Ex Officio outside designates	Tim Van Alstyne, RBC Dominion Securities; Bill Hastie, Scotia Capital; One vacant position

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 this annual report.

Contact Information

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

Pensions and Benefits
Public Service Commission
Sullivan Building
16 Fitzroy Street
PO Box 2000
Charlottetown, PE C1A 7N8
Telephone: (902) 368-4004
Fax: (902) 368-6622

Terry Hogan, Manager
Denise Lewis, Operations Supervisor
Jane Smith, Pension Information Officer

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

Doug Clow, Director of Fiscal Management
Provincial Treasury

Appendixes