

To Her Honour
the Honourable
Barbara Hagerman

Son Honneur,
L'honorable
Barbara Hagerman

May it please your Honour:

Madame la lieutenante-
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,
2006.

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 2006.

Respectfully submitted
Your Obedient Servant,

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

Gerard Greenan,
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 2005/06 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 \$42,100 (CPP's Yearly Maximum Pensionable Earnings for 2006), 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% 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 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 increased by 60% of the change 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.

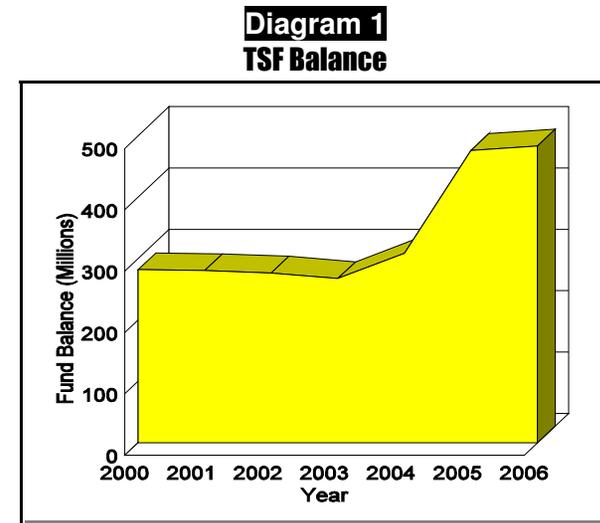
Death Benefits – the TSF provides for both a spousal and dependent entitlement for vested members.

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 2006 was approximately \$483.8 million, up from \$476.5 million in 2005.

Diagram 1 shows the TSF balance from 2000 to 2006.



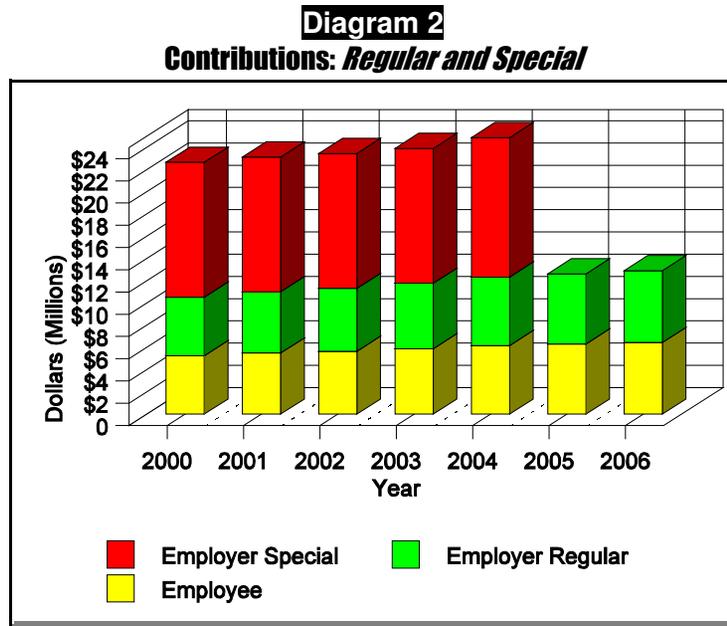
To reduce the unfunded liability of the Teacher's Superannuation Fund the Province of Prince Edward Island agreed to invest \$160,000,000 in the Fund. The investment was in the form of a \$160,000,000 promissory note from the Province of Prince Edward Island to the Fund. This note is receivable in ten equal annual installments of \$16,000,000 beginning April 15, 2005 plus interest at the rate of 4.345% per annum. Interest is to be paid semi-annually on April 15 and October 15.

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 2006 the regular contributions from both the employer and employee combined, were approximately \$12.9 million up from

\$12.6 million in 2005.

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 up to April 1, 2004. As of June 2006 there were 1608 active members.

Pension Payments – Annual pension payments increased



from \$19.41 million in 2000 to \$33.19 million in 2006. This is shown in Diagram 3. In the fiscal year 2005-2006, approximately 92% of the pension payroll was paid to members and the remaining 8% was paid out as spousal and dependent benefits.

Pensioners – The number of persons receiving pension in the 2005/2006 fiscal year was 1,335 individuals.

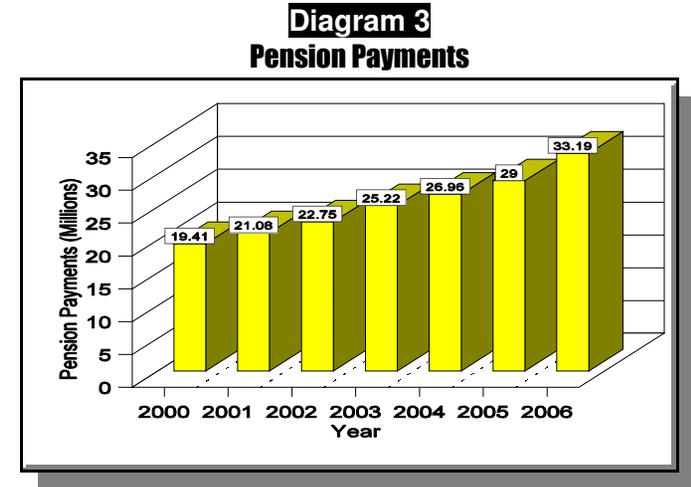


Table 1 outlines the number of new pensioners and the average age covering the last three fiscal years (2003-2006).

Table 1

Fiscal Year	No. of New Pensioners	Average Age
2003-2004	24	55.03
2004-2005	67	56.86
2005-2006	142	57.03

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	
	2005	2006	2005	2006
Members	1,064	1188	\$25,184	\$26,404
Disability Pensions	50	46	\$17,789	\$18,015
Spousal	82	86	\$12,747	\$12,821
Dependents	24	22	\$2,621	\$2,385
Total Pensions	1,220	1342		

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, 2005 based on the following membership data:

- 1) 1,520 Active Members
Average Salary of \$54,124
Average Age of 41.6 years
- 2) 387 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% 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		% 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 Actuarial Liability	\$551,469,000	
Actuarial Surplus (unfunded liability)	(\$74,921,000)	
Funding Ratio	86.4%	

Highlights for 2005/06

Act/Regulations

In 2005-2006 there were some significant changes in the Act and in the regulations of the Teacher's Superannuation Plan. These changes are as follows:

Section 11(1) of the Act was amended effective December 15, 2005 to allow for the purchase of sabbatical leave. This change now allows a teacher who has returned from a sabbatical leave to be eligible to purchase the period of sabbatical leave when no pension contributions were made during the leave. Previously, this ability to purchase service was contained in the School Act.

Section 18 (1.01) of the Act was amended effective April 1, 2006 to ensure all teachers are treated equitably. Average salary is now defined as the average of the five highest years of salary paid to the teachers during which the teacher made contributions. Annualized full-time equivalent salary will be used for all school years except, if in the most recent teaching year, retirement occurred part way through the school year. In this case, a salary equivalent to the portion of the year worked will be used in the average salary calculation.

Section 18 (1.02) was added to include the use of deemed salary during certain periods of unpaid leave, as prescribed by the regulations, when calculating the average salary of a teacher.

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 2006 approximately 38.7% 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, 2006, was 7.2% 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 6.6%. The actuarial valuation as at July 1, 2005, assumed rate of return is 7.38%.

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, 2006 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 2005/06 there was a net increase to TSF assets of \$7,224,917.

Table 4 shows the receipts and incomes, by source, which totalled \$41,875,883.

Table 4
Receipts and Income

Type	\$ Amount
Employer Contributions	6,444,299
Employee Contributions	6,444,299
Special Payment	0
Investment Income	16,481,130
Transfer from Other Plans	791,734
Purchased Service	303,315
Market Value Increase	11,411,106
Total	41,875,883

Table 5 shows the expenditures for 2005/2006, which totalled \$34,650,996.

Table 5
TSF Expenditures

Type	\$ Amount	% of Expenditures
Benefits Paid	33,186,721	
Transfers	96,251	
Refunds	75,730	
Total Benefit Expenditures	33,358,702	96.27%
Benefit Administration	120,750	
Consulting Fees	1,904	
Miscellaneous	2,729	
Pension System Fees	57,509	
Total Benefit Administration Expenditures	182,892	0.53%
Investment Manager Fees	930,632	
Monitoring Fees	44,536	
Custodial Fees	95,046	
Investment Management Support	39,152	
Total Investment Management Expenditures	1,109,366	3.20%
Total	34,650,960	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, Mary Catherine Compton and Blair Bernard
- one Provincial Treasury representative – 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;
- 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
Retired Provincial Government	Bill Harper
Excluded Employee Group	Vacant
Union of Public Sector Employees	Shelly Ward Don MacDonald Donalda Docherty
Retired Union of Public Sector Employees	Harry MacDonald
Member of the Legislative Assembly	Wilbur MacDonald
Ex Officio outside designates	Tim Van Alstyne <i>Dominion Securities;</i> Bill Hastie, <i>Scotia Capital;</i> 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
Provincial Treasury
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
David Berrigan A/Pension Information Officer

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

Doug Clow
Dir. of Fiscal Management
Provincial Treasury
Telephone: (902) 368-5802
Alan Silliker

Manager of Debt and
Investments

Appendixes