



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, 2009.

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 2009.

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 fluid and legible.

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

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

## Plan Description

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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 2008-2009, members of the plan contributed the following for the calendar year 2008:

- 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.

At January 1, 2009, the plan moved from the 3-tier formula above, to a 2-tier formula as follows:

- 7.30 percent of pensionable earnings up to the YMPE, and
- 9.00 percent of pensionable earnings in excess of the YMPE.

The YMPE was \$44,900 for 2008 and \$46,300 for 2009.

The employer paid 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 two 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 two or more years of 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 lesser 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 two years of continuous 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, 2008 was 1.3 percent.

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

# Fund Administration

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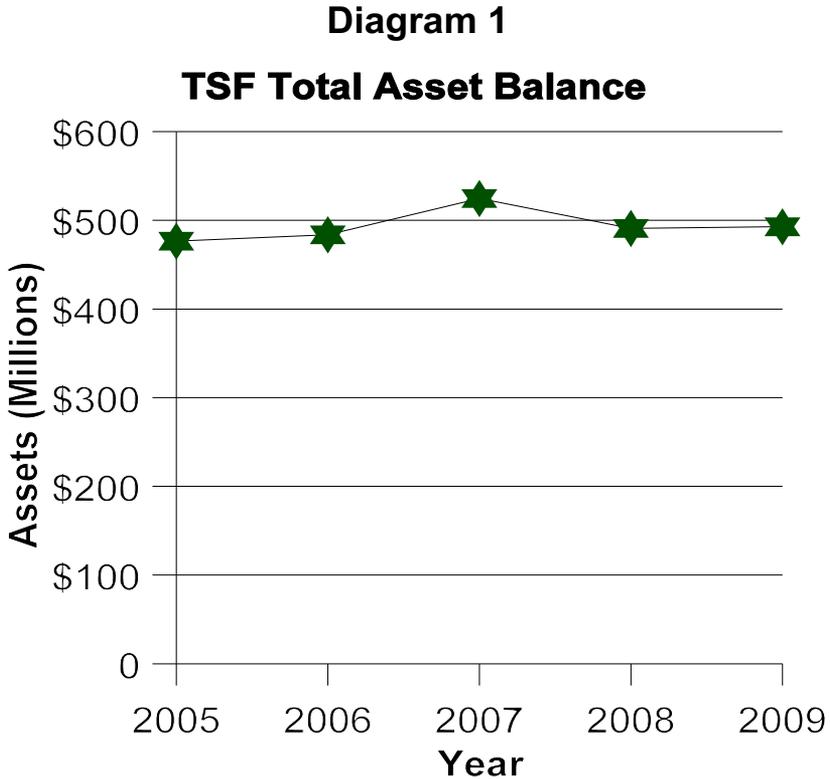
Administration of the TSA is assigned to the Pensions and Benefits Section, of the Fiscal Management Division, Provincial Treasury. The Fiscal Management Division of the Department of the Provincial Treasury also provides investment management support for the Province of Prince Edward Island Master Trust.

The TSF's assets are managed independently by professional fund managers. The fund managers responsible for the TSF's investments as at June 30, 2009, 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, 2009 was approximately \$493 million, up from \$491 million in 2008.

**Diagram 1** shows the TSF total asset balance from 2005 - 2009.

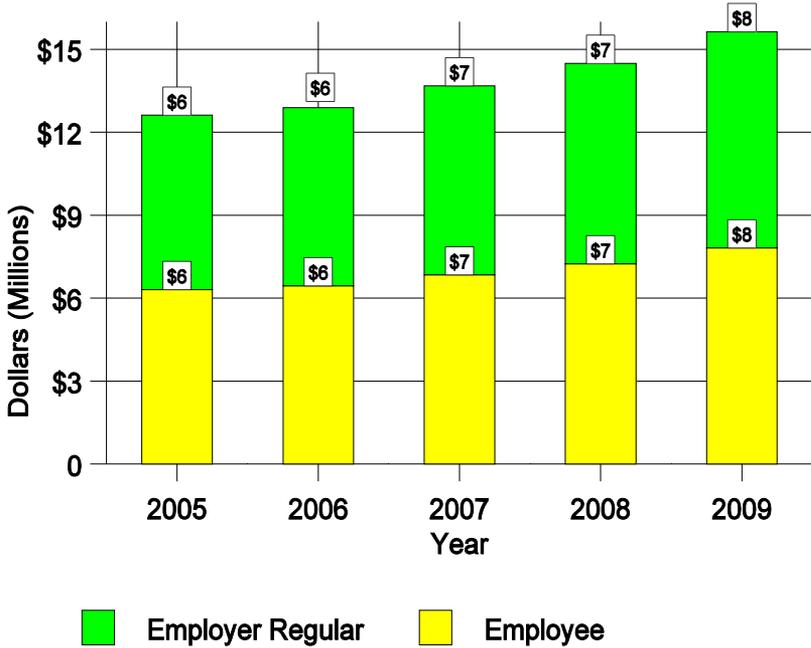


**One Time Contribution** - To reduce the unfunded liability of the TSF, the Province of Prince Edward Island agreed to a one time investment of \$53 million in the Fund.

**Regular Contributions** – Regular contributions are made to the TSF via payroll deductions. In 2009, the regular contributions from both the employer and employees combined were approximately \$15.6 million, up from \$14.5 million in 2008. 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.

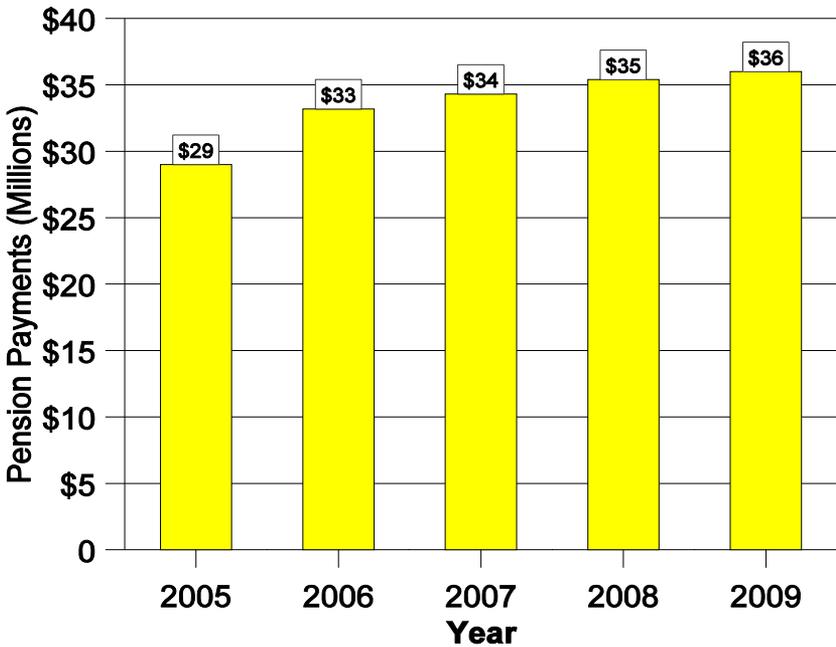
**Diagram 2**  
**Regular Contributions**



**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 2008-2009 were approximately \$36 million. This is shown in **Diagram 3**. In the fiscal year 2008-2009, approximately 96 percent of the pension payroll was paid to members and the remaining 4 percent was paid out as spousal and dependent benefits.

**Diagram 3**  
**Pension Payments**



**Pensioners** – The number of persons receiving pension was 1,372 at June 30, 2009. **Table 1** outlines the number of new pensioners, their average age and average annual pension for fiscal year ending June 30, 2009.

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

<b>Fiscal Year</b>	<b>No. of New Pensioners</b>	<b>Average Age</b>	<b>Average Annual Pension</b>
2008-2009	26	56.94	\$ 32,267
2007-2008	41	57.06	\$ 35,575
2006-2007	36	56.67	\$ 30,789

**Table 2** outlines the categories with the average annual pension for each category at June 30, 2009.

**Table 2**  
**Pension Categories and**  
**Average Annual Pension**

<b>Category</b>	<b>Number of Pensions</b>		<b>Average Annual Pension</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Members	1,218	1,213	\$ 27,680	\$ 27,335
Disability Pensions	48	48	\$ 18,225	\$ 18,326
Spousal	94	87	\$ 13,981	\$ 13,677
Dependents	12	12	\$ 2,120	\$ 1,985
<b>Total Pensions</b>	1,372	1,360		

**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, 2008. This valuation was based on the following membership data:

- 1) 1,781 Active Members  
Average Salary of \$61,598  
Average Age of 41.8 years
- 2) 417 Inactives and Deferred  
Estimated average contributions with interest of \$3,661
- 3) 1,348 Retirees  
Average Annual pension of \$26,198  
Average Age of 68.5 years

The value of the Plan assets as at July 1, 2008, was \$490,419,000, which represents 79.0 percent of the actuarial liability of \$620,909,000. **Table 3** details the actuarial valuation statement of financial position as at July 1, 2008.

**Table 3**  
**Going-Concern Financial Position**  
**July 1, 2008**

<b>Value of Assets</b>		
Market Value	\$ 490,419,000	
	<b>Actuarial Liability</b>	<b>Percentage of Total Liabilities</b>
Active Members	\$ 236,486,000	38%
Inactives and Deferred Vested Members	6,605,000	1%
Retired Members and Beneficiaries	377,818,000	61%
<b>Total</b>	<b>\$ 620,909,000</b>	
Actuarial Surplus (unfunded liability )	\$(130,490,000)	
Funding Ratio	79.0%	

# Highlights for 2008-2009

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## Act/Regulations

During the fiscal year 2008-2009, 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:

### **Move from 3-tier to a 2-tier contribution formula**

- The TSA was amended to change the contribution rate. It was a cost-neutral change that moved from a 3-tier formula to a 2-tier formula as follows:
- 7.30 percent of pensionable earnings up to the YMPE, and
- 9.00 percent of pensionable earnings in excess of the YMPE.

### **Change in age at which you must begin to draw a benefit from the TSF**

- The TSA was amended to require employees to start drawing their pension by the end of the calendar year in which they turn 71.

### **Vesting goes from 5 to 2 years**

- In order to be entitled to draw a pension benefit from the TSF, a member must be vested. The vesting period has changed from 5 years to 2 years.

## **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 2008-2009, approximately 31 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, 2009 was -8.0 percent, which is indicative of the market value decrease of the TSF. The total return on the Master Trust Fund since June 30, 1998 was 4.4 percent.

## TSF Assets

During 2008-2009, there was a net increase to TSF assets of approximately \$2 million.

**Table 4** shows the receipts and income, by source, which totalled approximately \$40 million.

**Table 4**  
**Receipts and Income**

Type	Amount
Employer Contributions	\$ 7,817,522
Employee Contributions	7,817,522
Investment Income	16,460,100
Transfer from Other Plans	236,354
Purchased Service	303,078
Market Value Increase (Decrease)	(45,587,011)
One Time Contribution	53,000,000
<b>Total</b>	<b>\$40,047,565</b>

**Table 5** shows the expenditures for 2008-2009, which totalled approximately \$38 million.

**Table 5**  
**TSF Expenditures**

Type	Amount	% of Expenditures
Benefits Paid	\$ 36,103,592	
Transfers	4,176	
Refunds	183,525	
<b>Total Benefit Expenditures</b>	<b>\$ 36,291,293</b>	<b>96%</b>
Benefit Administration	\$ 140,375	
Investment Management Support	43,423	
<b>Total Administrative Expenditures</b>	<b>\$ 183,798</b>	<b>1%</b>
Consulting Fees	82,309	
Pension System Fees	70,382	
Miscellaneous	34	
<b>Total Consulting Fee Expenditures</b>	<b>\$ 152,725</b>	<b>1%</b>
Monitoring Fees	46,965	
Custodial Fees	59,635	
Investment Manager Fees	\$ 957,374	
<b>Total Investment Expenditures</b>	<b>\$ 1,063,974</b>	<b>2%</b>
<b>Total</b>	<b>\$ 37,691,790</b>	<b>100%</b>

# Teachers' Superannuation Commission

The TSA is administered by the Teachers' Superannuation Commission. The seven member Commission consists of the following representatives at June 30, 2009:

No of Members		Member
1	<i>Chairperson - Deputy Minister of Education and Early Childhood Development</i>	Shauna Sullivan Curley
2	Department of Education and Early Childhood Development	Gordon MacFadyen John Cummings
3	PEI Teachers' Federation	Michel Plamondon Blaine Bernard Denise Gaudet-McPhail
1	Provincial Treasury	Scott Stevens

# Master Trust Investment Advisory Committee

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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, 2009, the committee is comprised of the following:

<i>Chairperson</i> - Acting Deputy Provincial Treasurer	Doug Clow
Canadian Union of Public Employees	Gordon Muncey
International Union of Operating Engineers	Bill Bylhouwer
Member of the Legislative Assembly	Francis (Buck) Watts
PEI Nurses' Union	Susan Marchbank
PEI Teacher's Federation	Michel Plamondon
Provincial Government	Terry Hogan John Cummings Scott Stevens
Union of Public Sector Employees	Shelley Ward Donalda Docherty
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

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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

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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, 2009**

## 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, 2009 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, 2009 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  
June 4, 2010

PROVINCE OF PRINCE EDWARD ISLAND  
TEACHERS' SUPERANNUATION FUND  
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

JUNE 30, 2009

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash	\$ 2,724,433	\$ 2,627,973
Receivables		
Contributions receivable - employees	3,489	3,077
- employers	184,122	98,175
Special contribution (Note 5)	53,000,000	-
Other	109,298	48,986
Accrued interest	722,114	869,282
Current portion of note receivable	<u>16,000,000</u>	<u>16,000,000</u>
	<u>72,743,456</u>	<u>19,647,493</u>
Investments (Note 2(c) and 3)	356,642,750	391,281,402
Note receivable (Note 5)	<u>64,000,000</u>	<u>80,000,000</u>
Total Assets	<u>493,386,206</u>	<u>490,928,895</u>
 <b>LIABILITIES</b>		
Accounts payable	<u>611,865</u>	<u>510,329</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$492,774,341</u>	<u>\$490,418,566</u>

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

ON BEHALF OF THE COMMISSION

COMMISSIONER: \_\_\_\_\_

COMMISSIONER: \_\_\_\_\_

**PROVINCE OF PRINCE EDWARD ISLAND**  
**TEACHERS' SUPERANNUATION FUND**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>2009</u>	<u>2008</u>
<b>INCREASE IN ASSETS</b>		
Investment income		
Interest	\$ 10,761,264	\$ 14,186,349
Dividends	5,679,344	5,839,373
Other income	19,492	35,330
	<u>16,460,100</u>	<u>20,061,052</u>
Change in fair value of investments (Note 2(c))	<u>(45,587,011)</u>	<u>(32,142,264)</u>
Contributions		
Employee contributions	7,817,522	7,243,522
Employer contributions	7,817,522	7,243,522
Transfers from other plans	236,354	66,767
Buybacks	303,078	332,638
Government contribution towards unfunded liability (Note 5)	<u>53,000,000</u>	-
	<u>69,174,476</u>	<u>14,886,449</u>
Total increase in assets	<u>40,047,565</u>	<u>2,805,237</u>
<b>DECREASE IN ASSETS</b>		
Operating expenses (Note 6)	1,400,497	1,460,038
Refunds	183,525	110,388
Benefits paid	36,103,592	35,433,140
Transfers to other plans	4,176	4,472
	<u>37,691,790</u>	<u>37,008,038</u>
Total decrease in assets	<u>37,691,790</u>	<u>37,008,038</u>
Increase (decrease) in net assets	2,355,775	(34,202,801)
Net assets available for benefits, beginning of the year	<u>490,418,566</u>	<u>524,621,367</u>
Net assets available for benefits, end of the year	<u>\$492,774,341</u>	<u>\$490,418,566</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, 2009

1. Plan Description

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

a) General

The Plan is a contributory defined benefit plan covering members 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.

Effective January 1, 2009, the *Teachers Superannuation Act* was amended and employees and the employer started contributing equally at a rate of 7.3% of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canada Pension Plan Act* and 9.0% on the amount that exceeds the YMPE. For those employees whose employment is excluded from the *Canada Pension Plan Act* and is not subject to that Act, they continue to contribute 9.0% of their salary as previously arranged.

c) Retirement Benefits

A member who has attained the age of 60 and has completed at least 2 years of service or has attained the age of 55 and has completed 30 years of service or has completed 35 years of service is entitled to an unreduced 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 years pensionable salary multiplied by the number of years of pensionable service. When the member 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 member's pensionable service after July 1, 1972.

Reduced benefits are available at age 55 with at least 2 years of pensionable service. The pension for a member 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 member's earliest unreduced retirement age.

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

JUNE 30, 2009

1. Plan Description (continued...)

The above formula determines the amount of a member's initial pension at retirement. In subsequent years, the amount of a member'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%.

d) Disability Benefits

Disability benefits are available at any age to a member who retires from teaching service because of total and permanent disability provided the member contributed to the Fund for 2 or more years.

e) Death Benefits

On the death of a member prior to completing 2 years of pensionable service, or after completing 2 years of service but leaving no surviving spouse or dependant children, the member's accumulated contributions with interest will be refunded. If a member dies prior to retirement but after completing 2 years of service, the member's spouse is entitled to an immediate pension equal to 60% of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one quarter of the remaining 40% of pension is payable in respect of each dependent child, until the child attains the age of 16, or until the age of 25 if the child is attending school full-time. In no case shall payment to such children exceed 75% of the remaining 40% of pension.

f) Termination and Portability of Benefits

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

- a refund of the member's own contributions with interest; or
- if the member has completed at least two years of service, a deferred pension commencing when the member attains the age of 60.

Where there are portability arrangements between the Plan and other plans, members 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

JUNE 30, 2009

2. Summary of Significant Accounting Policies

a) Basis of Presentation

These financial statements are prepared on a going concern basis and in accordance with Canadian generally accepted accounting principals 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.

b) Consolidation

These financial statements are prepared using the proportionate consolidation method of accounting whereby a plan's pro-rata share of each of the assets, liabilities, revenues and expenses of the Province of Prince Edward Island Master Trust (the "Master Trust") are aggregated with those of the plan in its statement of net assets available for benefits and statement of changes in net assets available for benefits.

c) Investments

Investments are valued at quoted market value, or estimated 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 fair value adjustment.

Investment revenue includes interest on bank deposits and interest and dividends on long-term investments.

d) Investment Transactions

Investment transactions are recognized on the transaction 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.

e) Revenue and Expenses

Revenue and expenses are recorded on an accrual basis in the period to which the transactions or events that gave rise to the revenue and expenses occurred.

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

2. Summary of Significant Accounting Policies (continued...)

f) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates. Assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates and the differences may be material.

g) Changes in Accounting Policies

The fund plans to adopt the recommendations of the Canadian Institute of Chartered Accountants, Section 4600 which will replace section 4100 for financial statements relating to fiscal years beginning on or after January 1, 2011. Management is reviewing the standard and will assess the impact on the financial statements.

3. Investments

- a) Teachers' Superannuation Fund investments consist of units held in the PEI Master Trust. At year end, there were 318,418.338 (2008 - 347,853.580) units held in the Master Trust with a fair value of \$1,120.04 (2008 - \$1,124.85) per unit.

Investments of the Master Trust consist of the following listed assets owned by the Teachers' Superannuation Fund:

	<u>2009</u>	<u>2008</u>
Canadian T-Bills	\$ 12,234,204	\$ 17,971,191
U.S. T-Notes	-	14,971,326
Other liquid assets	82,142,062	908,330
Bonds, debentures and notes (Note 3(c))	580,722,370	452,028,326
Canadian equity securities	298,108,396	435,035,453
Foreign equity securities	157,685,292	307,685,736
Accrued income receivable	<u>4,577,072</u>	<u>5,081,619</u>
Total	1,135,469,396	1,233,681,981
Pro-rated share	<u>31.4093%</u>	<u>31.7165%</u>
Teachers' Superannuation Fund-Investments	<u>\$ 356,642,750</u>	<u>\$ 391,281,402</u>

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

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3. Investments (continued...)	<u>2009</u>	<u>2008</u>
Beutel, Goodman & Company Ltd.	\$ 16,008,620	\$ 17,514,453
Northwater Capital Management Inc.	10,741,494	116,782,393
Capital Guardian	<u>-</u>	<u>137,421,423</u>
Total	26,750,114	271,718,269
Pro-rated share	<u>31.4093%</u>	<u>31.7165%</u>
Teachers' Superannuation Fund - Pooled Funds	<u>\$ 8,402,024</u>	<u>\$ 86,179,525</u>

b) Risk Management

Rates of return vary based on the degree of uncertainty. The fundamental sources of uncertainty to which investments are exposed is credit 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, its issuer, and/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.

c) MAV II Notes / Asset Backed Commercial Paper

On July 1, 2008, the Master Trust held units in a pooled fund containing non-trading and illiquid third-party issued asset backed commercial paper. These units were managed by Northwater Capital Management Inc.

On January 21, 2009, the investments were restructured and the original paper was replaced with new longer-term floating-rate notes. These notes were issued via new trusts called Master Asset Vehicles (MAV I and MAV II). The pooled funds managed by Northwater were invested in MAV II notes.

The total value of the MAV II notes held within the pooled funds at June 30, 2009 was \$10,741,000 (or \$23,363,000 face value less a \$12,622,000 discount). Fair value of the MAV II notes are calculated using managements best estimates based on available information reflecting an illiquid market.

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3. Investments (continued...)

The fair value assigned to the MAV II notes held by the Master Trust may differ from the actual value realized on any sale or other liquidation. As a result of these uncertainties, the fair value reported may change materially in subsequent periods.

4. Obligations for Pension Benefits for Accounting Purposes

The present value of accrued pension benefits was determined using the projected unit credit method pro-rated 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, 2008 of \$78,400,000.

The estimated present value of benefits as of June 30, 2009, the principal components of changes in actuarial present values during the year and the estimated unfunded liability were as follows:

	<u>2009</u>	<u>2008</u>
Estimated present value of accrued benefits, beginning of year	\$570,108,000	\$553,029,000
Interest accrued on benefits	41,601,000	41,273,000
Benefits accrued	12,410,000	11,239,000
Increase due to purchase of service	539,000	-
Benefits paid	(36,291,000)	(35,433,000)
Changes due to actuarial valuation and other adjustments	<u>6,021,000</u>	<u>-</u>
Estimated present value of accrued benefits, end of year	594,388,000	570,108,000
Net assets available for benefits	<u>492,774,000</u>	<u>490,419,000</u>
Unfunded liability	<u>\$101,614,000</u>	<u>\$ 79,689,000</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	7.37%
Basic salary escalation rate (excluding promotional increases)	2.50%
Pension cost of living increases	1.40%

The Consolidated Financial Statements of the Province records the obligation using the method of accounting disclosed above.

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5. Funding Policy

In accordance with the *Teachers' Superannuation Act*, employees are required to contribute to the Fund 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.

As a result of an unfunded liability at July 1, 2005, the Province of Prince Edward Island made a special contribution through the signing of a \$160,000,000 promissory note. The note, which is held by the Fund, is receivable in ten equal annual installments of \$16,000,000 beginning April 15, 2005. Interest on the note is accrued at a rate of 4.345% per annum and is receivable semi-annually on April 15 and October 15. 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, excluding any outstanding balances on promissory notes, to be at a level of 90% on a going concern basis as defined in the Province of Prince Edward Island Funding Policy for Government Sponsored Registered Pension Plans. Interest will be accrued to the date of any suspension implemented. Any monies suspended prior to and including April 15, 2014, are no longer due and owing. Provided no further monies are payable, 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:

Date of Payment	Principal Payments	Interest Payable	
	Principal Payment	April 15	October 15
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.

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5. Funding Policy (continued...)

The most recent going concern actuarial valuation for funding purposes, dated July 1, 2008, determined an unfunded liability of \$130,500,000. At this date, after taking into account the outstanding balance on the promissory note and the present value of excess contributions as stipulated in the Funding Policy, the funding level was 81%. As a result, the Province made a special cash contribution of \$53,000,000 to the Fund on March 12, 2010 to bring the funding level, including the outstanding balance on the promissory note, to 90%.

6. Operating Expenses

The Fund is charged with administrative and certain other expenses. The following is a summary of these operating expenses:

	<u>2009</u>	<u>2008</u>
Administrative expenses - pension section	\$ 140,375	\$ 144,578
- investment section	43,423	37,512
Consulting fees	152,725	70,225
Investment expenses	<u>1,063,974</u>	<u>1,207,723</u>
Total	<u>\$1,400,497</u>	<u>\$1,460,038</u>

Administration expenses incurred directly by the Province and recovered from the Fund were \$183,798 (2008 - \$170,282).