



TEACHERS' SUPERANNUATION FUND

ANNUAL REPORT

For the Fiscal Year Ending

June 30, 2004

To His Honour
the Honourable J. Leonce Bernard

May it please your Honour:

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, 2004

Respectfully submitted
Your Obedient Servant,

Mildred Dover,
Minister of Education

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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 2003/04 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 \$40,500 (CPP's Yearly Maximum Pensionable Earnings for 2004), 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.

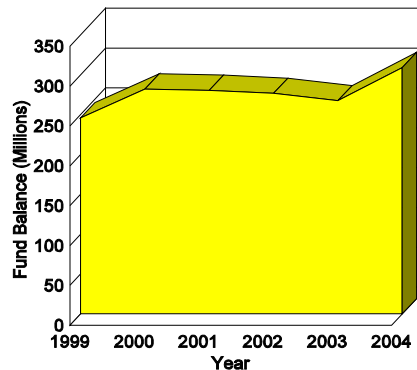
Reciprocal Transfers - a member who has previous employment with a school board in another province and with whom the TSF has a reciprocal transfer agreement, may be eligible to transfer his or her service and benefits to the TSF (and vice versa).

Pension Fund Activity

The TSF's assets are managed independently by professional fund managers. The balance of the TSF in 2004 was approximately \$309 million, up from \$267 million in 2003.

Diagram 1 shows the TSF balance from 1999 to 2004.

**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 2004 the regular contributions from both the employer and employee combined, were approximately the \$12.3 million up from \$11.7 million in 2003.

Special Contributions - 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.

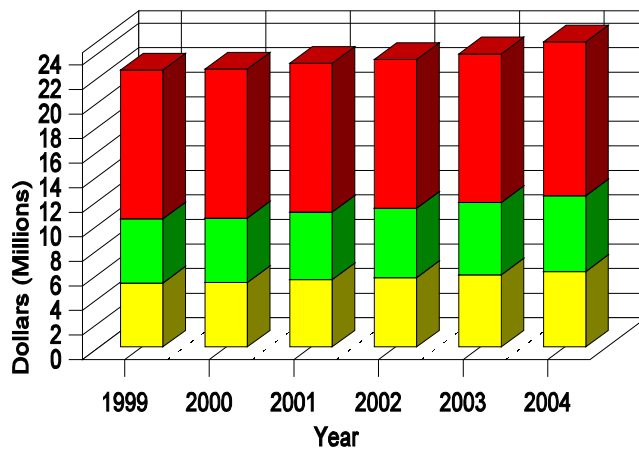


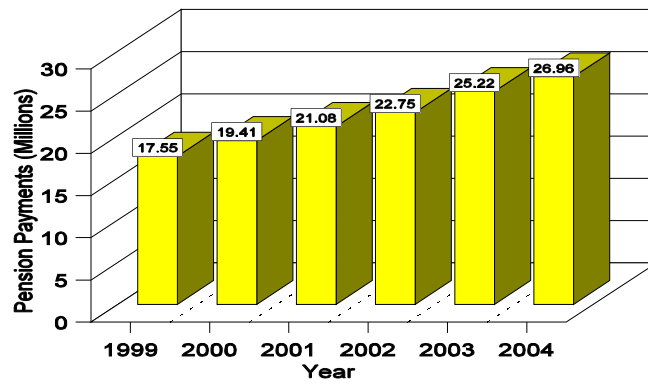
Diagram 2 depicts, by year, the regular employer and employee contributions made to the TSF as well as the special payments made by the Province.

Diagram 2

■ Employer Special ■ Employer Regular
■ Employee

**Contri
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Regul
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Special



Pension Payments -

Annual pension

payments increased from

\$17,550,885 in 1999 to \$26,961,886 in 2004. This is shown in Diagram 3. In the fiscal year 2003-2004,

approximately 95% of the pension payroll was paid

to members and the remaining 5% was paid out as spousal and dependent benefits.

**Diagram 3
Pension Payments**

Pensioners - The respective number of persons receiving pension in the 2003/2004 fiscal year were 1183 individuals. 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
Members	1025	\$24,432
Disability Pensions	51	\$ 18,708
Spousal	86	\$ 11,423
Dependents	21	\$ 2,688
Total Pensions	1183	

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) 1614 Active Members
 Average Salary of \$49,409
 Average Age of 42.7 years
- 2) 445 Inactives and Deferreds
 Average contributions without interest of \$8,330
 Estimated average contributions with interest of \$13,427
- 3) 1101 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 were \$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. The next required actuarial valuation will be conducted as of July 1, 2005.

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

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

Highlights For 2003/04

Act / Regulations

In May, 2004 the Teachers' Superannuation Act was amended to:

- change the appointments of the members of the Teachers' Superannuation Commission
- adjust the annual reporting requirements to comply with the *Freedom of Information and Protection of Privacy Act*

Administration Initiatives

The Teachers' Superannuation Commission hired an independent disability adjudicator for the purposes of determining members' eligibility to collect a disability pension

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 2004 approximately 37.31% 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, 2004 was 16.8 %, which is indicative of the market value increase of the Teachers' Superannuation Fund. The total return on the Master Trust Fund since 1997 was 7.0%, 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 provide 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, 2004 were :

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

TSF Assets

During 2003/04 there was a net increase to TSF assets of \$41,413,000.

Table 4 shows the receipts and incomes, by source, which totalled a increase of \$69,565,000.

Table 5 shows the expenditures for 2003/2004, which totalled \$28,153,216.

**Table 4
Receipts and Income**

Type	\$ Amount
Employer Contributions	6,159,000
Employee Contributions	6,159,000

Special Payment	12,546,000
Investment Income	8,318,000
Transfer from Other Plans	170,000
Purchased Service	319,000
Market Value Increase	35,894,000
TOTAL	69,565,000

Table 5
TSF Expenditures

Type	\$ Amount	% of Expenditures
Benefits Paid	26,961,886	
Transfers	42,443	
Refunds	44,082	
Total Benefit Expenditures	27,048,411	96.0%
Benefit Administration	91,845	
Consulting Fees	3,387	
Miscellaneous	19,349	
Total Benefit Administration Expenditures	114,581	0.5%
Investment Manager Fees	855,860	
Monitoring Fees	37,765	
Custodial Fees	54,178	
Investment Management Support	42,420	
Total Investment Management Expenditures	990,223	3.5%
TOTAL	28,153,215	100.00%

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:

- 3 - Minister of Education representatives - Shauna Sullivan Curley (Chairperson), Ken MacRae, and John Cummings
- 3 - PEI Teachers' Federation representatives - Michel Plamondon, Donald Mulligan and Pamela Shaw
- 1 - Provincial Treasury representative - Terry Hogan

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:

Prince Edward Island Teachers' Federation	Duncan McKillop and Michel Plamondon
Retired Prince Edward Island Teachers' Federation	Alan Ledgerwood
Provincial Government	Doug Clow, Bill Harper, Terry Hogan, Ken MacRae and Scott Stevens
Excluded Employee Group	Vacant
Union of Public Sector Employees	Mike Doyle and Don MacDonald
Retired Union of Public Sector Employees	Vacant
Member of the Legislative Assembly	Wilbur MacDonald
Ex Officio outside designates	Mike Butler, RBC Dominion Securities; Bill Hastie, Scotia Capital; and a 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
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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