

The Honourable Barbara Hagerman
Lieutenant Governor of Prince Edward Island
PO Box 846
Charlottetown, PE C1A 7L9



May it Please Your Honour:

In accordance with Section 6 of the *Civil Service Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund for the fiscal year ended March 31, 2008.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Wes Sheridan'. The signature is fluid and cursive, with a large initial 'W' and 'S'.

Wes Sheridan,
Provincial Treasurer

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Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 and provides retirement income to members and dependents of deceased members, in accordance with the Civil Service Superannuation Act (CSSA).

Plan Description

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

Contributions – In 2007-2008, members of the plan contributed:

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

The YMPE was \$43,700 for 2007 and \$44,900 for 2008.

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

Membership – The general criteria for membership to the CSSF is that an employee must be permanent with an approved participating employer.

Retirement Pension – An unreduced monthly pension is payable for life to a member who has attained the age of 60 with two or more years of pensionable service or a member who has attained the age of 55 years with 30 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 three 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 temporary 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.

Benefits on Termination – A member in the CSSF 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 the change in the Consumer Price (all items) Index for Canada, to a maximum of 6.0 percent, on the first day of April of each year. The pension payment received upon retirement and the value of a deferred pension benefit, are both indexed annually under the CSSF. Indexation applied at April 1, 2007 was 2.0 percent.

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

Fund Administration

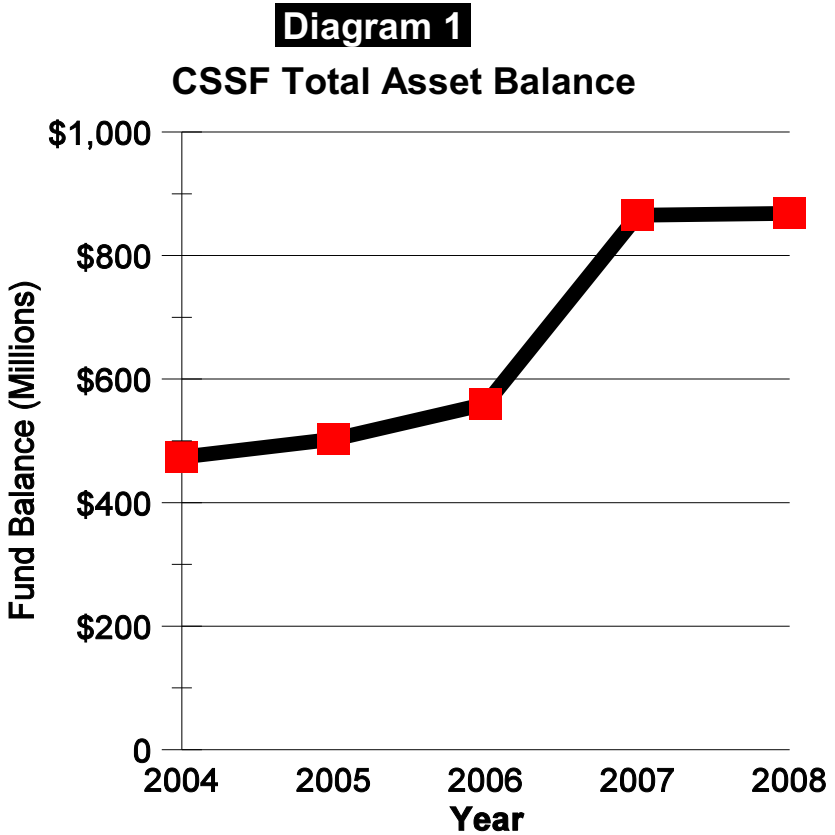
Administration of the CSSA is assigned to the Pensions and Benefits Section of the Fiscal Management Division, Provincial Treasury. The Fiscal Management Division of the Department of the Provincial Treasury also provides investment management support for the Province of Prince Edward Island Master Trust.

The CSSF's assets are managed independently by professional fund managers. The fund managers responsible for the CSSF's investments as at March 31, 2008, 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 CSSF at March 31, 2008 was approximately \$868 million, up from \$865 million in 2007.

Diagram 1 shows the CSSF total asset balance from 2004 - 2008.



The marked increase in the CSSF total asset balance in 2006-2007 relates to the merger of the Uniform Pension Plan (UPP) assets with the CSSF assets. Also, an additional investment by the Province of Prince Edward Island involved a promissory note in the amount of \$52 million.

Employers – There are 15 remitting payrolls in the CSSF with a total of 6,300 full- and part-time employees. The Province of PEI is the largest employer with 5,880 active contributors, three insurance companies contribute for 180 employees on long-term disability claims, and 240 contributors are employed with 11 other agencies. In addition, there are approximately 155 deferred members.

Table 1 lists employers and the corresponding number of members.

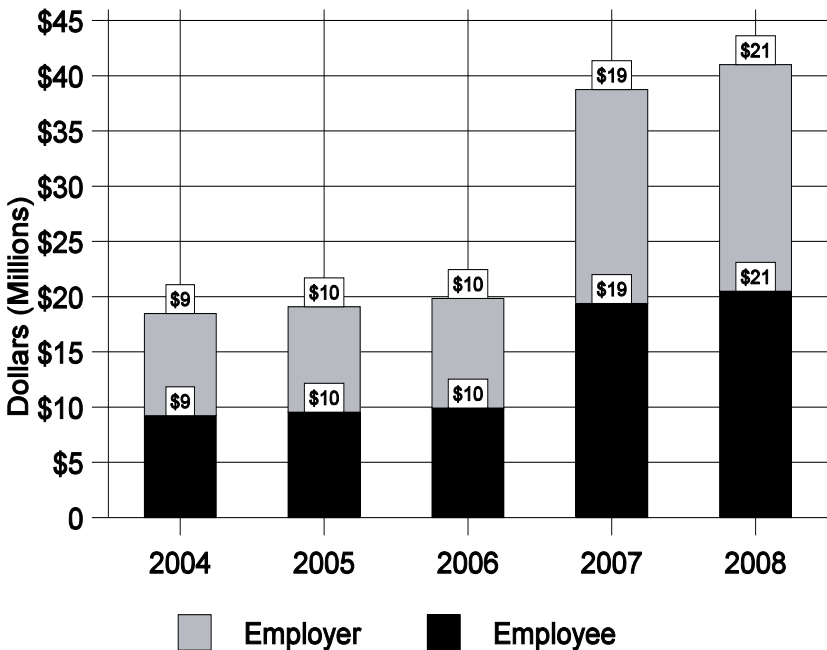
Table 1
Employers and Total Members

Employer	Total Members
Province of P. E. I. Departments	5,880
Business Development	94
Grain Elevators	10
Health Association	2
IRAC	22
IWMC	1
Lending Agency	10
PEI School Boards	13
Potato Board	10
Status of Women	3
UPSE	9
WCB	66
Great West Life	29
Manulife Ltd	141
Sunlife Ltd	10
Members	6,300

Regular Contributions – Regular contributions are made to the CSSF via payroll deductions. In 2008, the regular contributions, from both the employer and employees combined, were approximately \$41.0 million, up from \$38.7 million in 2007. Other contributions include special payments from the Province, payments for prior service, and transfers in from other plans via reciprocal agreements. As with the total asset balance, the increase in contributions in 2006-2007 relates to an influx of approximately 3,400 members into the CSSF due to the merger with the UPP.

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

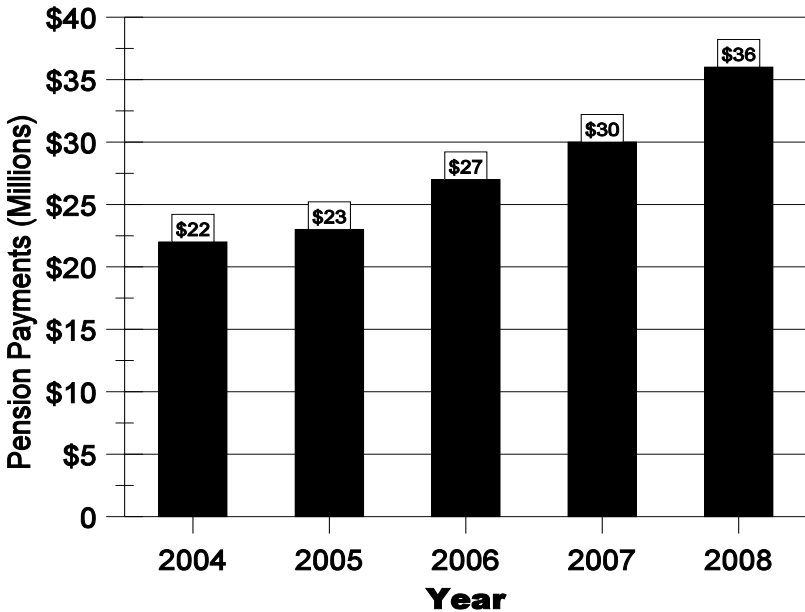
Diagram 2
Regular Contributions



Special Contribution – To reduce the unfunded liability of the CSSF, the Province of Prince Edward Island agreed to invest \$52 million in the Fund. The investment was in the form of a \$52 million promissory note from the Province of Prince Edward Island to the Fund. This note is receivable in ten equal annual installments of \$5.2 million beginning October 15, 2006 plus interest at the rate of 4.41% per annum. Interest is to be paid semi-annually on October 15 and April 15.

Pension Payments – Annual pension payments in 2008 were approximately \$36 million, an increase from \$22 million in 2004. This is shown in **Diagram 3**. In the fiscal year 2007-2008, approximately 91 percent of the pension payroll was paid to members and the remaining 9 percent was paid out as spousal and dependent benefits.

Diagram 3
Pension Payments



Pensioners – The respective number of pensioners was 2,563 in 2008. **Table 2** outlines the number of new pensioners, their average age and their average annual pension.

Table 2
Number of New Pensioners with Average Age and Average Annual Pension

Fiscal Year	No. of New Pensioners	Average Age	Average Annual Pension
2007-2008	117	59.16	\$ 18,542

Table 3 outlines the categories of pension recipients and the average annual pension for each category.

Table 3
Pension Categories and Average Annual Pension

Category	Number of Persons		Average Annual Pension	
	2008	2007	2008	2007
Members	2,210	1,484	\$ 15,145	\$ 18,381
Spousal	338	330	\$ 9,023	\$ 8,766
Dependents	15	18	\$ 3,822	\$ 2,639
Total Pensions	2,563	1,832		

The CSSF became responsible for an additional 636 retirees from the UPP that are not included in the 2007 numbers above. Their average annual UPP Basic Benefit pension is \$6,528.

Actuarial Requirement – Federal legislation requires that an actuarial valuation be performed once every three years to evaluate the funding status of the CSSF. 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 April 1, 2005. This valuation was based on the following membership data:

- 1) 3,214 Active Members
Average Salary of \$43,501
Average Age of 47.5 Years

- 2) 158 Deferred Members
Average Annual Pension of \$10,667
Average Age of 49.5 Years

- 3) 1,584 Retirees
Average Annual Pension of \$15,121
Average Age of 70.0 Years

The value of the plan assets as at April 1, 2005, was \$502,034,000, which represents 80 percent of the actuarial liability of \$625,265,000. Table 4 details the statement of financial position as at April 1, 2005.

Table 4**Going-Concern Financial Position****April 1, 2005**

Value of Assets		
Market Value	\$ 502,034,000	
	Actuarial Liability	Percentage of Total Liabilities
Active Members	\$ 345,987,000	55%
Deferred Members	14,588,000	3%
Retired Members and Beneficiaries	264,690,000	42%
Total	\$ 625,265,000	
Actuarial Surplus (Unfunded Liability)	\$ (123,231,000)	
Funding Ratio	80.3%	

Highlights for 2007-2008

Act/Regulations

During the fiscal year 2007-2008, 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:

Minimum number of hours required to remain in the CSSF

- There is no longer a requirement for permanent employees to work a minimum of 600 hours each year in order to retain their membership in the CSSF. Regardless of hours worked per year, a permanent employee will continue to be a member of the CSSF.

Removal of the 35-year pensionable service cap

- With the removal of the 35-year cap on membership in the CSSF, it is now required that a member continue to contribute to the CSSF beyond their 35th year of pensionable service. This also means that a member's pension benefit will be calculated based on their total pensionable service.

Change to the vesting period

- In order to have the right to draw a pension benefit from the CSSF, 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 the employees of crown corporations, agencies, boards, and commissions who participate in the CSSF. When this data is complete, it will allow annual pension statements to be produced for these employees.

As a result of the UPP conversion, a project is underway to load all of the data relating to this conversion into the pension administration system.

Investment Management

The largest contributor to the growth of CSSF assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The CSSF, MLA Pension Fund and the Teachers' Superannuation Fund participate in the Master Trust. In 2008, approximately 67 percent of the funds in the Master Trust were assets of the CSSF.

The annual rate of return of the Master Trust as of March 31, 2008 was -3.1 percent. The total return on the Master Trust Fund since March 31, 1998 was 5.7 percent.

CSSF Assets

During 2007-2008, there was a net increase to CSSF assets of approximately \$3 million.

Table 5 shows the receipts and income, by source, which totalled approximately \$45 million.

Table 5
Receipts and Income

Type	Amount
Employer Contributions	\$ 20,501,187
Employee Contributions	20,501,187
Investment Income	34,077,305
Transfers From Other Plans	2,457,934
Purchased Service	25,386,753
Refund Repayments	1,016,398
Market Value Increase (Decrease)	(58,598,632)
Total	\$ 45,342,132

Table 6 shows the expenditures for 2007-2008, which totalled approximately \$42 million.

Table 6
CSSF Expenditures

Type	Amount	Percentage of Expenditures
Benefits Paid	\$ 36,220,107	
Transfers	1,053,451	
Refunds	930,090	
Total Benefit Expenditures	\$ 38,203,648	91%
Benefit Administration	\$ 343,052	
System Fees	51,491	
Consulting Fees	921,459	
Bank/Miscellaneous Expenses	1,420	
Pension Payroll TPA fees	22,922	
Total Benefit Administration Expenditures	\$ 1,340,344	3%
Investment Manager Fees	\$ 2,286,703	
Monitoring Fees	100,013	
Custodial Fees	145,803	
Investment Management Support	77,845	
Total Investment Management Expenditures	\$ 2,610,364	6%
Total	\$ 42,154,356	100%

Administrative Advisory Committee

The Administrative Advisory Committee 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 March 31, 2008, the committee had eleven members as follows:

No of Members	Member	
1	<i>Chairperson</i> - Deputy Provincial Treasurer	Paul Jelley
1	International Union of Operating Engineers	Bill Bylhouwer
1	PEI Nurses' Union	Blair MacDonald
1	Canadian Union of Public Employees	Lane MacLaren
2	Union of Public Sector Employees	Shelley Ward Don MacDonald
2	Provincial Treasury	Scott Stevens Doug Clow
2	Department of Health	Muriel MacLeod Gordon MacFadyen
1	PEI Public Service Commission	Allan O'Keefe

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.

Due to the merger of the CSSF and the former Uniform Pension Plan, the Master Trust Investment Advisory Committee and the Province of Prince Edward Island committed to restructuring the committee.

At March 31, 2008, restructuring had not yet taken place.

At March 31, 2008, the following were members of the Master Trust Investment Advisory Committee:

Chairperson - Deputy Provincial Treasurer	Paul Jelley
Prince Edward Island Teachers' Federation	Duncan McKillop Michel Plamondon Allan Ledgerwood
Union of Public Sector Employees	Don MacDonald Donalda Docherty Harry MacDonald Shelley Ward
Provincial Government	Doug Clow Terry Hogan Ken MacRae Scott Stevens Bill Harper
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 13 of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included as an appendix to this annual report.

Contact Information

For further information concerning the administration of the **Civil Service Superannuation Act**, please contact:

Pensions and Benefits
Department of Finance and Municipal Affairs
Sullivan Building, 16 Fitzroy Street
PO Box 2000
Charlottetown, PE C1A 7N8
Telephone: (902) 368-4200
Fax: (902) 368-6622

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

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

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

Appendix

