



CIVIL SERVICE SUPERANNUATION FUND

ANNUAL REPORT

For the Fiscal Year Ending

March 31, 2004

To His Honour
the Honourable J. Leonce Bernard

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, 2004

Respectfully submitted
Your Obedient Servant,

Mitch Murphy,
Provincial Treasurer

Table of Contents	Page
Introduction	1
Plan Description	1
Fund Administration	3
Highlights	8
Administrative Advisory Committee	10
Master Trust Investment Advisory Committee	11
Contact Information	11
Auditor's Report	13
Audited Financial Statements for 2003/2004	

Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 to provide retirement allowances to civil service retirees, and to the dependents of deceased retirees, in accordance with the *Civil Service Superannuation Act* (CSSA).

Plan Description

The Civil Service Superannuation Fund 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. The Civil Service Superannuation Fund and the Canada Pension Plan are integrated when a retiree is 65.

Contributions - In 2003/04 members of the Plan contributed 8.75% of their first \$3,500 (CPP's basic exemption threshold) of pensionable income, 6.95% on earnings from \$3,501 to \$39,900 (CPP's Yearly Maximum Pensionable Earnings for 2003), and 8.75% 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 Civil Service Superannuation Fund is that an employee must be permanent, working a minimum of 600 hours per year with an approved participating employer.

Normal Retirement Pension - a monthly pension is payable for life to a member who has attained the age of 60 with 5 or more years of pensionable service. The benefit is calculated as 2.0% for each year of pensionable service times the average of the three highest years of pensionable earnings, to a maximum of 35 years. 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 can opt for an early retirement pension benefit at age 55. 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. For those members with a minimum age of 55 and at least 30 years of pensionable service, the above penalty is waived.

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 to the Consumer Price Index to a maximum of 6% on the 1st day of April of each year. The pension payment received upon retirement and the value of a deferred pension benefit are both indexed under the CSSF.

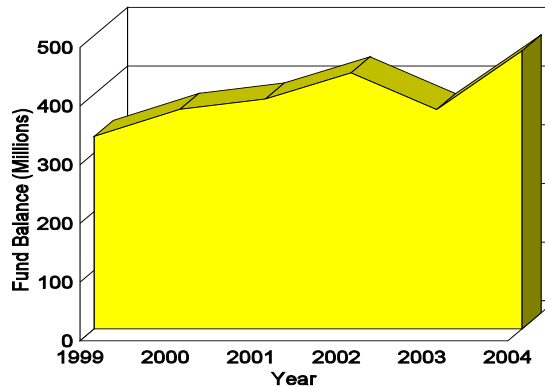
Death Benefits - the CSSF provides for both a spousal and dependent entitlement for vested members.

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

Fund Administration

Administration of the CSSA is assigned to the Pensions & Benefits Section, of the Corporate Services, Systems & Administration Division, of the PEI Public Service Commission. The CSSF's assets are managed independently by professional fund managers. The balance of the CSSF in 2004 was approximately \$474 million, up from \$374 million in 2003. Diagram 1 shows the CSSF balance from 1999 to 2004.

Diagram 1
CSSF Balance



Employers - There are eighteen active participating employers in the CSSF, with a total of approximately 3,300 full and part-time employees. The Province of PEI is the largest employer with 2,250 active contributors, the 5 Health Authorities have a combined total of 550 contributors, 2 Insurance Companies contribute for 130 employees on long term disability claims, and 220 contributors are employed with eleven other Agencies. In addition, there are approximately 150 deferred members. Table 1 lists employers and the corresponding number of members.

Table 1
Employers & Total Members

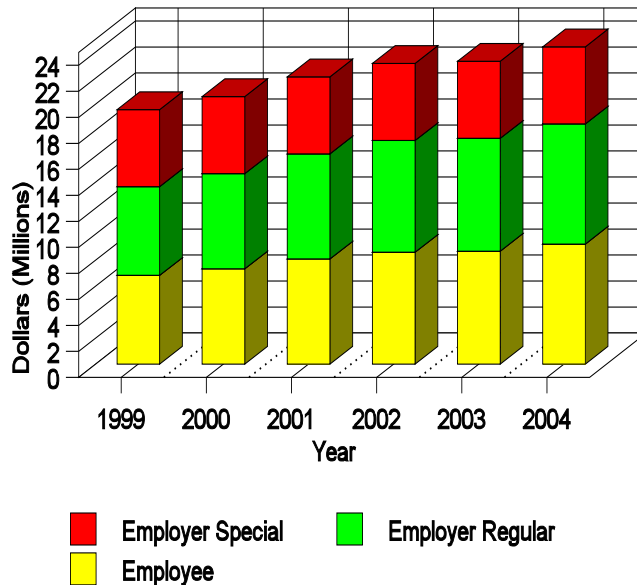
EMPLOYER	# Female Members	# Male Members	Total Members
Province of PEI	990	1268	2258
East Prince Health	93	9	102
Kings Health Region	59	12	71
Provincial Health Services Authority	60	36	96
Queens Health Region	182	53	235
West Prince Health	33	9	42
Advisory Council on the Status of Women	3	0	3
Grain Elevators Corporation	3	8	11
Island Regulatory & Appeals Commission	11	10	21
Lending Agency	6	7	13
PEI Business Development	38	22	60
PEI Potato Board	5	7	12
PEI Union of Public Sector Employees	6	3	9
Technology PEI & Food Technology Centre	10	13	23
Workers Compensation Board	41	27	68
Manulife & Sunlife	92	45	137
Deferred Members	91	61	152
TOTAL	1723	1590	3313

Regular Contributions - Regular contributions are made to the CSSF 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 \$18.5 million up from \$17.2 million in 2003.

Special Contributions - Special Contributions - In 1995, Government commenced a series of annual payments to help address the underfunded status of the Plan. There is one special payments of \$ 5.93 million remaining to be paid into the Fund, which will be deposited on April 1, 2004.

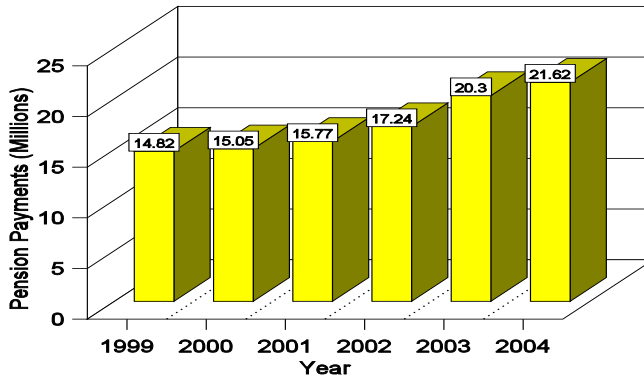
Diagram 2 depicts, by year, the regular employer and employee contributions made to the CSSF as well as the special payments made by the Province.

Diagram 2
Contributions: Regular and Special



Pension Payments - Annual pension payments increased from \$14,817,381 in 1999 to \$21,615,973 in 2004. This is shown in **Diagram 3**. In the fiscal year 2003-2004, approximately 89% of the pension payroll was paid to members and the remaining 11% was paid out as spousal and dependent benefits.

**Diagram 3
Pension Payments**



Pensioners - The respective number of persons receiving pension increased from 1,234 in 1999 to 1,530 in 2004. In the fiscal year 2003/2004 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	1225	\$15,636
Spousal	289	\$ 8,136
Dependents	16	\$ 1,320
Total Pensions	1530	

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 subtracted from the liabilities to determine the unfunded liability.

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

- 1) 3048 Active Members
 Average Salary of \$39,817
 Average Age of 46.5 years
- 2) 135 deferred members
 Average Annual Pension of \$13,397
 Average Age of 49.2 years
- 3) 1465 Retirees
 Average Annual pension of \$13,540
 Average Age of 69.5 years.

The actuarial value of the Plan assets as at April 1,2002 were \$436,093,000, which represents 89% of the actuarial liability of \$488,558,000. Table 3 details the statement of financial position as at April 1, 2002. The next required actuarial valuation will be completed as of April 1, 2005.

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

Actuarial value of assets • Market Value	\$436,093,000	
Actuarial Liability		<i>% of Total Liabilities</i>
• Active members	\$254,515,000	52%
• Deferred members	15,750,000	3%
• Retired members & Beneficiaries	218,293,000	45%
• Total	\$488,558,000	
Actuarial Surplus (unfunded liability)	(\$52,465,000)	
Funding Ratio	89%	

Highlights For 2003/04

Act / Regulations

During the fiscal year 2003/2004 staff of Pensions & Benefits in coordination with Legal and Judicial Services, Office of the Attorney General have been drafting new regulations re “contributions for service prior to permanent appointment”. These regulations have not been finalized so there were no amendments or regulations to the Civil Service Superannuation Act completed in this fiscal year.

Administration Initiatives

- 1) Pensions & Benefits has taken a proactive role in keeping members up to date on the provisions their pension plan by conducting in the last year eleven information sessions for more than 300 employees. These sessions were conducted for both employees approaching retirement and other active members wishing more information on their Pension Plan.
- 2) The 2003 Public Sector Pension Plan Administrators Conference took place in Charlottetown from July 27-20,2003 and was jointly hosted by the Province of PEI and the PEI Teachers Federation. Staff from Pensions & Benefits played a key role in hosting 75 delegates from public sector and teacher pension plans from across Canada. The conference provided public sector pension plan administrators with the opportunity to meet with their counterparts and discuss issues relevant or unique to public sector pensions.
- 3) Pensions & Benefits provides leadership and direction to both employees and employers from the Public Sector with regards to information needs on enrollment, retirement, termination and pension projections. Staff are committed to ongoing education to ensure maintaining a high level of knowledge and proficiency to answer members questions in the area of pension benefits for the CSSF.
- 4)With the introduction of the new pension administration system (ARIEL) members from the Civil Service and Regional Health Authorities have received pension statements. The work continues on cleaning historical data for the remaining employers and their employees.
- 5)The enactment in November 2002 of the Freedom of Information and Protection of Privacy Act, has given rise to increased scrutiny for staff in regards to information requests and records retention. A disclosure of information policy has been developed where the information is used solely for the purposes it is gathered.

Investment Management

The largest contributor to the growth of Civil Service Superannuation Fund assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The Civil Service Superannuation Fund (CSSF), MLA Pension Funds and the Teachers’ Superannuation Fund participate in the Master Trust. In 2004 approximately 59.8% of the funds in the Master Trust were assets of the CSSF.

The annual rate of return of the Master Trust as of March 31,2004 was 26.0 %, which is indicative of the market value increase of the Civil Service Superannuation Fund. The total return on the Master Trust Fund since 1997 was 7.1%, slightly above the Master Trust’s benchmark return of 6.3%. The actuarial

valuation as at April 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 CSSF's investments as at March 31, 2004 were :

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

CSSF Assets

During 2003/04 there was a net increase to CSSF assets of \$100,102,475.

Table 4 shows the receipts and incomes, by source, which totalled a increase of \$124,750,210.

Table 5 shows the expenditures for 2003/2004, which totalled \$24,647,735.

**Table 4
Receipts and Income**

Type	\$ Amount
Employer Contributions	9,233,847
Employee Contributions	9,233,847
Special Payment	5,926,605
Investment Income	14,268,300
Transfer from Other Plans	519,227
Other	751,193
Market Value Increase	84,817,191
TOTAL	124,750,21

**Table 5
CSSF Expenditures**

Type	\$ Amount	% of Expenditures
Benefits Paid	21,615,973	
Transfers	903,697	
Refunds	306,607	
Total Benefit Expenditures	22,826,277	92.6%
Benefit Administration	218,387	
System Fees	18,980	
Consulting Fees	6,421	
Total Benefit Admin Expenditures	243,788	1.0%
Investment Manager Fees	1,398,099	
Monitoring Fees	59,821	
Custodial Fees	60,125	
Investment Management Support	59,625	
Total Investment Management Expenditures	1,577,669	6.4%
TOTAL	24,647,735	100%

Administrative Advisory Committee

The Administrative Advisory Committee advises the Provincial Treasurer on administrative pension issues and provides a forum for the purposes of reviewing issues which may arise in the administering of the plan. This forum permits open consultation on matters relating to the CSSA.

The six member committee is made up of representatives from the following:

- 1 - Secretary to Treasury Board (Chairperson) - Mike O'Brien
- 2 - Union of Public Sector Employees - Ken Campbell and Brian Moriarity
- 1 - Comptroller's Office - Scott Stevens
- 1 - Department/Division responsible for Fund Administration - Allan O'Keefe
- 1 - Health and Social Services Ministry - Bill Harper
- 1 - Ex Officio - Doug Clow

Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Provincial Treasurer in order to protect the principal assets of the Master Trust; monitor costs; make recommendations on investment fund asset mix; review performance standards of the investment fund and their respective fund managers; and to 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:

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

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 in this annual report.

Contact Information

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

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Public Service Commission
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16 Fitzroy Street
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Charlottetown, PE C1A 7N8
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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