

Board of Directors' Meeting of May 23, 2006

Website Summary

2007-2011 Budget and Financial Planning Assumptions

Decision

To approve the 2007-2011 budget and financial planning assumptions.

Rationale

The financial planning assumptions provide direction to management on the key drivers and assumptions on which the 2007-2011 budget and financial plan should be built. The projected outcomes based on the key drivers and assumptions include:

- Insurable earnings are expected to continue their positive trend upward. The forecast model suggests 2006 insurable earnings will be \$57.4 billion; an increase of 8.0% from \$53.2 billion in 2005, with a further increase of 6.8% to \$61.3 billion expected for 2007.
- Transaction year claim costs are estimated to increase by 9.0% in 2006 and 5.9% in 2007. With the continued success in reducing duration, claim duration is expected to decrease to 35.2 days in 2006 (versus 36.3 days in 2005) and remain unchanged for 2007.
- Investment revenue is forecasted to grow from a budget of \$461 million to \$768 million for 2006 due to the following factors:
 - Expected realized gains associated with portfolio restructuring to move towards the new investment policy asset mix, coupled with the asset liquidation to fund the 2005 surplus distribution, is responsible for the majority of the revenue increase.
 - A higher opening portfolio balance compared to budget, as well as a higher weighting towards fixed income, accounts for approximately 20% of the investment asset revenue difference.
- The forecasted rate of return for 2006 is 8%, while the forecasted rate of return and revenue for 2007 is 6% and \$351 million respectively.
- Based on the forecasted funded position, higher dividends will be paid out for 2006 and 2007.
- In the near term, the funded position is projected to continue to remain above the target funding level of 122% after recognition of significant dividends.

	2005 Actual	2006	2007
Funded Position (before dividend)	145.8%	141.8%	132.7%
Dividend	\$433M	\$441M	\$314M
Funded Position (after dividend)	132.4%	129.3%	124.7%

- The average required premium rate for 2006 is forecast to be \$1.48, dropping to \$1.45 for 2007, based on assumptions that claims costs will remain stable, safety initiatives will continue to be effective and the growth in claim volume will be less than the growth in insurable earnings.

	2005 Actual	2006	2007
Budgeted Rate	\$1.83	\$1.57	\$1.45
Required Rate	\$1.41	\$1.48*	\$1.45
Collected Rate	\$1.83	\$1.68*	–

*based on April forecast

Cost of Living Adjustment

Decision

To approve a cost of living adjustment of 2.13%, effective January 1, 2007, bringing maximum insurable earnings to \$64,600 and the maximum compensation rate adjusted accordingly.

Rationale

In accordance with Application 4 of Policy 04-01, the annual cost of living adjustments (COLA) for 2007 are based on 100% of the change in the rolling average Alberta Consumer Price Index for the 12 months ending March 31, 2006, compared with the rolling average as at March 31, 2005, less 0.5%. The policy states the COLA are applied on the 1st day of January of each year. It further goes on to say that the annual COLA, arrived at through the formula, is to be ratified by the Board of Directors prior to its application.

The recommended COLA was calculated in accordance with this policy.