

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

YEAR ENDED DECEMBER 31, 2004

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AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Accrued Benefits and Net Assets Available for Benefits of the Public Service Management (Closed Membership) Pension Plan (the Plan) as at December 31, 2004 and the Statement of Changes in Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the Plan's management. 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 Accrued Benefits and Net Assets Available for Benefits of the Plan as at December 31, 2004 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
March 4, 2005

[Original Signed]
Fred J. Dunn, FCA
Auditor General

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

STATEMENT OF ACCRUED BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS

As at December 31, 2004 (*thousands*)

	2004	2003
Accrued Benefits		
Actuarial value of accrued pension benefits (Note 5)	\$ 661,418	\$ 680,472
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	672	2,073
Accounts receivable	88	119
	760	2,192
Liabilities		
Accounts payable	6	2
Net assets available for benefits	754	2,190
Excess of actuarial value of accrued pension benefits over net assets	\$ 660,664	\$ 678,282

See accompanying notes.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2004 (*thousands*)

	2004	2003
Increase in assets		
Contributions from the Province of Alberta	\$ 57,000	\$ 57,057
Investment income	54	60
	57,054	57,117
Decrease in assets		
Pension benefits	58,138	56,980
Administration expenses (Note 4)	352	409
Refunds and transfer to members	-	62
	58,490	57,451
Decrease in net assets	(1,436)	(334)
Net assets available for benefits at beginning of year	2,190	2,524
Net assets available for benefits at end of year	\$ 754	\$ 2,190

See accompanying notes.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000.

(a) General

The Plan is a defined benefit pension plan for eligible retired management employees of the Province of Alberta and certain provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were retired or were entitled to receive deferred pensions or had attained 35 years of service before August 1, 1992 continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*, and is not subject to income taxes. The Plan's registration number is 1006923.

(b) Funding Policy

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of service. In addition, those members who had achieved 35 years of service at August 1, 1992 and subsequently terminated are also entitled to a pension.

(d) Cost-of-Living Adjustments

Pensions payable by the Plan are increased on January 1st of each year by an amount equal to at least 60 percent of the average of the increases in the Alberta Consumer Price Index in the twelve-month period ending on October 31st of the previous year.

(e) Guarantee

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan and the plan costs.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES**(a) Basis of Presentation**

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles (see Note 1 (e)). The statements provide information about the net assets available in the Plan to meet future benefit payments, and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

(b) Valuation of Assets and Liabilities

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued pension benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued pension benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the actuarial value of accrued pension benefits (see Note 5(a)).

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NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund. The Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2004, securities held by the Fund have an average effective market yield of 2.6% per annum (2003 2.4% per annum) and an average duration of 125 days (2003 98 days).

NOTE 4 ADMINISTRATION EXPENSES

(thousands)

	2004	2003
General administration costs	\$ 340	\$ 377
Investment management costs	8	17
Actuarial fees	4	15
	<u>\$ 352</u>	<u>\$ 409</u>

General administration costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance, and do not include custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to \$135 per member (2003 \$155 per member).

NOTE 5 ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS**(a) Actuarial Valuation**

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was extrapolated to December 31, 2004.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates.

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NOTE 5 (continued)

The major assumptions used were as follows:

	2004 Extrapolation %	2002 Valuation and 2003 Extrapolation %
Asset real rate of return	3.0	3.0
Inflation rate	3.0	3.0
Investment rate of return	6.0	6.0
Mortality rate	1994 Uninsured Pensioner Table	

The following statement shows the principal components of the change in the actuarial value of accrued pension benefits.

(thousands)

	2004	2003
Actuarial value of accrued pension benefits at beginning of year	\$ 680,472	\$ 622,461
Interest accrued on benefits	39,084	40,132
Net benefits paid	(58,138)	(57,041)
Changes in actuarial assumptions	-	78,181
Net experience gains	-	(3,261)
Actuarial value of accrued pension benefits at end of year	\$ 661,418	\$ 680,472

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NOTE 5 (continued)**(b) Sensitivity of Changes in Major Assumptions**

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation at December 31, 2004:

	Sensitivities	
	Changes in Assumptions	Increase in Plan Deficiency (\$ million)
	%	
Inflation rate increase holding the nominal investment return assumption constant	1.0%	\$ 38
Investment rate of return decrease holding the inflation rate assumption constant	(1.0%)	57

NOTE 6 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Management Employees Pension Board.