

PUBLIC SERVICE MANAGEMENT
(CLOSED MEMBERSHIP) PENSION PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2002

Auditor's Report

Statement of Accrued Benefits and Net Assets Available for Benefits

Statement of Changes in Net Assets Available for Benefits

Notes to the Financial Statements



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, 2002 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, 2002 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 11, 2003

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN
STATEMENT OF ACCRUED BENEFITS AND
NET ASSETS AVAILABLE FOR BENEFITS
AS AT DECEMBER 31, 2002
(\$ thousands)

	2002	2001
Accrued Benefits		
Actuarial value of accrued pension benefits (Note 5)	\$ 622,461	\$ 633,268
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	2,449	3,055
Accounts receivable	79	57
	2,528	3,112
Liabilities		
Accounts payable	4	3
Net assets available for benefits	2,524	3,109
Excess of actuarial value of accrued pension benefits over net assets	\$ 619,937	\$ 630,159

See accompanying notes.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002
(\$ thousands)

	2002	2001
Increase in assets		
Contributions from the Province of Alberta (Note 1(b))	\$ 56,300	\$ 55,902
Investment income	69	120
	56,369	56,022
Decrease in assets		
Pension benefits	56,659	56,100
Administration expenses (Note 4)	295	193
	56,954	56,293
Decrease in net assets	(585)	(271)
Net assets available for benefits at beginning of year	3,109	3,380
Net assets available for benefits at end of year	\$ 2,524	\$ 3,109

See accompanying notes.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP)
PENSION PLAN
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2002

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.

(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) 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.

(e) Cost-of-Living Adjustments

Pensions payable by the Plan are increased each year by an amount equal to at least 60 percent of the increase in the Alberta Consumer Price Index.

(f) Income Taxes

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.

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 (d)). 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.

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 five years. As at December 31, 2002, securities held by the Fund have an average effective market yield of 2.90% per annum (2001: 2.24% per annum) and an average duration of 80.3 days (2001: 80.3 days).

NOTE 4 ADMINISTRATION EXPENSES

	2002	2001
	(\$ thousands)	
General administration costs	\$ 283	\$ 176
Investment management costs	9	15
Actuarial fees	3	2
	<u>\$ 295</u>	<u>\$ 193</u>

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

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

Total administration expenses amounted to \$111 per member (2001 \$72 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, 1999 by Aon Consulting Inc. and was then extrapolated to December 31, 2002. The 1999 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation 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 Management Employees Pension Board approved this best estimate.

The major assumptions used were as follows:

	December 31,	
	2002 Extrapolation %	1999 Valuation and 2001 Extrapolation %
Asset real rate of return	4.25	4.25
Inflation rate	2.75	3.0
Investment rate of return	7.0	7.25

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

	2002	2001
	(\$ thousands)	
Actuarial value of accrued pension benefits at beginning of year	\$ 633,268	\$ 644,664
Interest accrued on benefits	42,575	44,704
Changes in actuarial assumptions	3,277	-
Net benefits paid	(56,659)	(56,100)
Actuarial value of accrued pension benefits at end of year	<u>\$ 622,461</u>	<u>\$ 633,268</u>

In accordance with the *Public Sector Pension Plans Act*, an actuarial valuation of the Plan as at December 31, 2002 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2003.

(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, 2002:

	Sensitivities	
	Changes in Assumptions %	Increase in Plan Deficiency (\$ million)
Inflation rate increase holding the nominal investment return assumption constant	1.0%	\$ 36
Investment rate of return decrease holding the inflation rate assumption constant	(1.0%)	61

NOTE 6 BUDGET INFORMATION

The accrued benefits are based on the Management Employees Pension Board's best estimate of future events. Differences between actual results and management's expectations are disclosed as net experience gains and losses in Note 5. Accordingly, a budget is not included in these financial statements.

NOTE 7 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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