



Appendix 9.1

Actuary Report

31 May 2007

Mr. David Norris
c/o Hon. J. Derek Green
Chief Justice
Supreme Court of Newfoundland and Labrador
Trial Division
P.O. Box 397
St. John's, NL A1C 5M3

Private & Confidential

Subject:

Definition of MHA Salary under the Members of the House of Assembly
Retiring Allowances Act

Dear Mr. Norris:

This is further to our discussions regarding a potential change in the compensation structure for Members of the House of Assembly and the associated impact on benefits payable under the Members of the House of Assembly Retiring Allowances Act (“MHARAA”). We offer the following for your consideration:

- our derivation of an adjustment to the definition of MHA salary under the MHARAA such that benefits are relatively unaffected by the change in compensation structure; and,
- sample wording changes to the MHARAA to effect this change.

Following are sections under the MHARAA that relate to earnings.

Total pension benefits are determined under Section 20 with benefits relating to MHA service determined on “base MHA salary”. This is defined in Section 2(b):

“ ‘base MHA salary’ means the average of the member’s annual MHA salary in the 3 years of MHA service in which his or her salary was highest, in respect of which contributions have been made under this Act ”

Page 2

31 May 2007

Mr. David Norris

“MHA salary” is defined in Section 2(g):

“ ‘MHA salary’ means the salary authorized by the Legislature to be paid to an MHA and an amount that the Minister of Finance may prescribe in a directive under this Act ”

As discussed, the proposed change in the structure of MHA remuneration to replace the tax-free allowance with an increased taxable sessional indemnity will mean an overall increase in pre-tax remuneration, with the intent that after-tax remuneration remains roughly equivalent. Without amending the MHARAA, such a change would mean an increase in the benefit ultimately paid from the pension plan. The impact on pension benefits would be left neutral by defining ‘MHA salary’ as a percentage of the salary paid, derived as follows:

	Current (Effective July 1, 2006)	Proposed
Sessional indemnity	\$48,657	\$90,946
Tax-free allowance	<u>24,328</u>	<u>0</u>
Total	\$72,985	\$90,946
Adjustment factor	= Total Current / Total Proposed = 72,985 / 90,946 = 80.3%	

We understand that the sessional indemnity and tax-free allowance are scheduled to increase by 3% effective July 1, 2007. In addition, we understand that the proposed salary level could also be impacted at that time by tax changes resulting from the recent Provincial Budget.

Accordingly, the following parallel calculation of the adjustment factor is provided, based on the expected increases and tax changes:

Page 3
 31 May 2007
 Mr. David Norris

	Revised (Effective July 1, 2007)	Proposed
Sessional indemnity	\$50,117	\$92,580
Tax-free allowance	<u>25,058</u>	<u>0</u>
Total	\$75,175	\$92,580
Adjustment factor	= Total Current / Total Proposed = 75,175 / 92,580 = 81.2%	

The desired effect of neutrality to the retirement arrangement can be achieved by redefining definition 2(g) “MHA salary” as follows:

“ ‘MHA salary’ means the salary authorized by the Legislature to be paid to an MHA and an amount that the Minister of Finance may prescribe in a directive under this Act.

Effective July 1, 2007, ‘MHA salary’ means 81.2% of the salary authorized by the Legislature to be paid to an MHA and an amount that the Minister of Finance may prescribe in a directive under this Act.”

We presume that the intent of the amendment will be communicated to the appropriate individuals within Government for drafting of the amendment. Attention should be paid to any transitional issues to ensure that benefits remain neutral.

We note that there are other ways to amend the MHARAA to achieve the same effect; for example, one could alter the pension accrual formula under the Act. This type of alternative, however, is complex and difficult to communicate.

Finally, we note that our proposed changes will not impact the amount of required member contributions (based on current limits under the *Income Tax Act*).

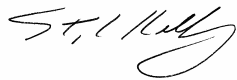
Page 4

31 May 2007

Mr. David Norris

Should you require any additional information, please do not hesitate to contact us.

Yours truly,



Stephen Kelloway, FCIA, FSA

Senior Associate

902 490 2120

steve.kelloway@mercer.com

w:\nfgovt\pension\general\corre-2007\norris - mha earnings definition - no allowance(3).doc/sp