SUPPLEMENTARY

RETIREMENT PLAN

FOR PUBLIC SERVICE

MANAGERS

ANNUAL REPORT
for the fiscal year ended December 31, 2003

APA
corporation

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Plan Profile

The Supplementary Retirement Plan for Public Service Managers (SRP) was established on July 1, 1999 to provide additional pension benefits to public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the yearly maximum pensionable earnings limit under the *Income Tax Act*.

SRP is supplementary to MEPP. Years of service under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both plans and the pension payable is in the same form. Members of MEPP who have attained 35 years of combined pensionable service prior to 1999 are not eligible to participate in SRP.

SRP and MEPP are two distinct pension plans, each with its own separate funding, investments, accounting, pension benefits and entitlements. SRP is funded as a Retirement Compensation Arrangement, which under the federal tax rules is an acceptable means of providing a supplementary pension on the salary above the yearly maximum pensionable earnings limit.

Current service costs for SRP are funded by employee and employer contributions, which together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund, are expected to provide for all benefits payable under SRP. The contribution rates for designated employers equals or exceeds the rate for eligible employees.

The contribution rate in effect at December 31, 2003 was 9.5% of pensionable salary in excess of the yearly maximum pensionable earnings limit for eligible employees and designated employers. The contribution rate became effective April 1, 2003.

Employers also make additional contributions to the SRP Reserve Fund. An actuarial valuation is performed periodically to determine the accrued assets and liabilities of the SRP. The latest actuarial valuation was performed as at December 31, 2002.

All Alberta government employees who are part of MEPP and whose annual salary exceeds the yearly maximum pensionable earnings limit under the *Income Tax Act* are members of SRP effective July 1, 1999 or the date of participation in MEPP, if later. Agencies, boards and commissions associated with the Government of Alberta have the option of participating in SRP, if their employees are contributing members of MEPP and their application is approved by the Minister of Finance.

Plan Administration

The Minister of Finance has delegated responsibility to Alberta Pensions Administration (APA) Corporation to administer the SRP.

In 2003, an Advisory Committee for the Supplementary Plan for Public Service Managers was established by the Minister of Finance to oversee administration, investment and funding of the SRP.

Investment Management

Alberta Investment Management, the investment management group of Alberta Revenue, manages and invests Plan assets on behalf of the Minister of Finance.

Financial Highlights

- Plan assets at December 31, 2003, including amounts available in the SRP Reserve Fund, were $23.47 million, up from $16.76 million in 2002.
- Contributions made to the SRP for 2003 totaled $6.60 million, down from $8.45 million in 2002. This included $1.38 million each from active members and employers and $3.84 million from employers to the SRP Reserve Fund.
- Payments from SRP totaled $412,000, up from $376,000 in 2002. Payments included $44,000 in pension benefits and refunds to members (2002: $46,000) and $368,000 in administration expenses (2002: $330,000).
- Further details of the Plan's finances are presented in the 2003 Financial Statements on page 8.
- The rules governing the SRP require that an actuarial valuation be completed every three years.
- The latest actuarial valuation was performed as at December 31, 2002, by Aon Consulting Inc.
- In that valuation, the actuary recommended that the employer contribution rate to the Reserve Fund be reduced from 42.5% to 6.8% of pensionable earnings in excess of the yearly maximum pensionable earnings limit, effective July 1, 2003.
- The Actuaries' Opinion is attached on page 6.
- The next actuarial valuation will be carried out no later than December 31, 2005.

Operational Highlights

- At December 31, 2003, the SRP had 881 active members, 32 deferred members and 86 pensioners. In comparison, for 2002, there were 870 active members, 44 deferred members and 58 pensioners.
- The average monthly pension paid in 2003 was $39 ($31 in 2002).
- The highest monthly pension paid was $326 ($232 in 2002).

Additional Information

- Prior to 2002, the SRP financial statements were included in the MEPP Annual Reports.
- The Management Employees Pension Board provides advice to the Minister of Finance on the administration and communication of the SRP including its interface with MEPP.
- Additional information on the SRP is available on the MEPP website at www.mepp.ca.
- Financial statements for the SRP are included in the Alberta Finance Annual Reports.

List of Employers Participating in the SRP as at December 31, 2003

- Government of Alberta
- Agriculture Financial Services Corporation
- Alberta Gaming and Liquor Commission
- Alberta Energy and Utilities Board
- Alberta Alcohol and Drug Abuse Commission
- Natural Resources Conservation Board

Actuaries' Opinion

Aon Consulting Inc. was retained by Alberta Finance to perform an actuarial valuation of the assets and liabilities of the Supplementary Retirement Plan (SRP) as at December 31, 2002. Aon Consulting Inc. was further retained to prepare an extrapolation of the valuation results to December 31, 2003 for inclusion in the Annual Report with respect to the SRP for the Year Ended December 31, 2003.

The valuation and extrapolation of the SRP's actuarial assets and liabilities were based on:

- Membership data provided by the Alberta Pensions Administration Corporation (APA) as at December 31, 2001 and asset data provided by Alberta Finance as at December 31, 2002, and December 31, 2003.
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Aon Consulting Inc. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the SRP's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the SRP's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the SRP. As part of the valuation prepared as at December 31, 2002, I recommended that the designated employers contribute 6.8% of members' pensionable earnings in excess of the yearly maximum pensionable earnings limit to the Reserve Fund.

I have tested the data for reasonableness and consistency with prior valuations and in my opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. I also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. My opinions have been given, and my valuation and extrapolation have been performed in accordance with accepted actuarial practice.

(original signed by Wayne R. Berney)

Wayne R. Berney
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditor’s Report

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Supplementary Retirement Plan for Public Service Managers (the Plan) as at December 31, 2003 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 Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2003 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

(original signed by Fred Dunn)

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
April 16, 2004

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2003

	2003	2002
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	$ 2,813	$ 1,724
Refundable income tax	3,707	2,319
Contributions receivable	4	5
	6,524	4,048
Liabilities		
Income tax payable	190	119
Other payables	87	86
	277	205
	6,247	3,843
Amounts owing from the SRP Reserve Fund (Note 4)	17,226	12,912
Net assets available for benefits	23,473	16,755
Accrued Benefits		
Actuarial value of accrued benefits (Note 5)	14,161	10,283
Actuarial surplus	**$ 9,312**	**$ 6,472**

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2003

	2003	2002
	($ thousands)	
Increase in assets		
Contributions		
Employees	$ 1,376	$ 1,083
Employers	1,376	1,083
Investment income	64	34
	2,816	2,200
Decrease in assets		
Benefits and refunds	44	46
Administration expenses (Note 6)	368	330
	412	376
	2,404	1,824
Increase in amounts owing from the SRP Reserve Fund (Note 4)	4,314	6,534
Increase in net assets	6,718	8,358
Net assets available for benefits at beginning of year	16,755	8,397
Net assets available for benefits at end of year	**$ 23,473**	**$ 16,755**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2003

Note 1 Summary Description of the Plan

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/99 and 04/99), as amended.

(a) General

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the *yearly maximum pensionable earnings limit* as defined by the federal *Income Tax Act*. The Plan is supplementary to the MEPP. Services under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who have attained 35 years of combined pensionable service at the Plan's inception are not eligible to participate in the Plan.

(b) Funding Policy

Current service costs are funded by employee and employer contributions which together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund (see Note 4), are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2003 were 9.5% (2002: 7.75%) of pensionable salary in excess of the *yearly maximum pensionable earnings limit* for eligible employees and designated employers. An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the Minister of Finance.

Note 1 Summary Description of the Plan (continued)

(c) Benefits

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the *Income Tax Act's yearly maximum pensionable earnings limit* for each year of pensionable service after July 1, 1999, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan follow those of MEPP.

(d) Guarantee

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

(e) Plan Surplus

The Government has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Government.

(f) Income Taxes

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefits payments are made to plan members and beneficiaries.

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. 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.

Due to uncertainties about the timing of benefits and refunds payments, it is not practicable to estimate the fair value of refundable income tax. Refundable income tax is carried at cost.

The fair values of other 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 benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

(d) Measurement Uncertainty (continued)

While best estimates have been used in the calculation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the note describing changes in the actuarial value of accrued benefits (see Note 5(a)).

Note 3 Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF 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, 2003, securities held by the Fund have an average effective market yield of 2.38% (2002: 2.90%) per annum and an average duration of 98 days (2002: 80 days).

Note 4 Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1 (d)). To provide for their future obligations to the Plan, designated employers contribute to a Reserve Fund at rates established by the Minister of Finance. The rate in effect at December 31, 2003, as recommended by the Plan's actuary, was 6.8% (2002: 42.5%) of pensionable salary of eligible employees that was in excess of the *yearly maximum pensionable earnings limit* as defined by *the Income Tax Act.* The actuary has advised that any impairment of the Plan's actuarial surplus will result in an increase in the 6.8% employer contribution rate to the Reserve Fund.

The Reserve Fund is a regulated fund established and administered by the Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2003, the Reserve Fund had net assets with fair value totalling $17,226,000 (2002 $12,912,000), comprising $17,792,000 (2002 $12,402,000) in cash and cash equivalents (see Note 3), $117,000 (2002 $510,000) in contributions receivable and $683,000 in payables (2002 $nil). The increase during the year of $4,314,000 (2002 $6,534,000) is attributed to contributions from employers of $3,837,000 (2002 $6,284,000) and investment income of $477,000 (2002 $250,000).

Note 5 Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2003. The 2002 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events, taking into account the increase in the *yearly maximum pension accruals limit* for defined benefit pension plans under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. After consultation with the Plan's actuary, the Plan's management approved this best estimate.

The major assumptions used were:

	2003 Extrapolation %	2002 Valuation %
Discount rate *	4.50	4.50
Inflation rate	3.00	3.00
Investment rate of return	6.00	6.00
Salary escalation rate **	3.50	3.50
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

* Discount rate is on an after-tax basis.

** In addition to merit and promotion which averages 1.5%.

The following table shows the principal components of the change in the actuarial value of accrued benefits:

Note 5 Accrued Benefits (continued)

(a) Actuarial Valuation (continued)

	2003	2002
	($ thousands)	
Actuarial value of accrued benefits at beginning of year	$ 10,283	$ 8,796
Interest accrued on benefits	611	444
Benefits earned	3,311	3,153
Benefits and refunds	(44)	(46)
Changes in actuarial assumptions and experience gains and losses, net	-	1,744
Impact of changes to the *yearly maximum pension accruals limit* on accrued pension benefits at beginning of year	-	(3,808)
Actuarial value of accrued benefits at end of year	**$ 14,161**	**$ 10,283**

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or 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 actuarial surplus and current service cost to changes in assumptions used in the actuarial valuation at December 31, 2003:

Note 5 Accrued Benefits (continued)

(c) Sensitivity of Changes in Major Assumptions (continued)

		Sensitivities	
	Changes in Assumptions %	**Decrease in Actuarial Surplus ($ millions)**	**Increase in Benefits Earned ($ millions)**
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 1.1	$ 0.3
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.7	0.2
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	3.7	0.9

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 4).

Note 6 Administration Expenses

Administration expenses, which were paid to the Alberta Pensions Administration Corporation on a cost-recovery basis, amounted to $373 (2002 $362) per member.

Note 7 Responsibility for Financial Statements

These financial statements were approved by the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.