Supplementary Retirement Plan For Public Service Managers 2010 Annual Report

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Plan Profile

The Supplementary Retirement Plan for Public Service Managers (SRP) was established on July 1, 1999.

The Plan provides 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 maximum pensionable salary 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 is payable in the same form.

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 salary above the yearly maximum pensionable salary 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 rate in effect at December 31, 2010 was 10.5 per cent of pensionable salary in excess of the yearly maximum pensionable earnings limit for eligible employees and designated employers.

Employers also make additional contributions to the SRP Reserve Fund. The employer contribution rate to the Reserve Fund is 11.4 per cent of excess earnings.

An actuarial valuation is performed periodically to determine the accrued assets and liabilities of SRP. The last actuarial valuation was performed in August 2010, as at December 31, 2009.

All Alberta government employees who are part of MEPP and who earn more than the salary cap as determined each year are members of the 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 and Enterprise.

Plan Administration

The Minister of Finance and Enterprise has delegated the responsibility of administering SRP to Alberta Pensions Services Corporation (APS).

In 2003, the SRP Advisory Committee was established by the Minister of Finance and Enterprise pursuant to Treasury Board Directive 01/06 (previously 01/99 as amended by Directive 04/99). The mandate of the Committee is to oversee the administration, investment, and funding of SRP. The Committee is composed of three members, all of which are Government of Alberta employees.

Investment Management

The Minister of Finance and Enterprise is responsible for the investment management of the Plan assets through its provincial corporation, Alberta Investment Management Corporation (AIMCo).

Financial Highlights

- Contributions made to SRP for 2010 totalled $9.3 million, down from $9.8 million in 2009. This included $3 million from active members and $3 million from employers, as well as $3.3 million from employers to the SRP Reserve Fund.
- Payments from the SRP totalled $2,225,000, up from $1,721,000 in 2009. Payments included $1,700,000 in pension benefits and refunds to members ($1,307,000 in 2009) and $525,000 in administration expenses ($414,000 in 2009).
- The rules governing the SRP require an actuarial valuation be completed every three years.
- The latest actuarial valuation was performed in August 2010, as at December 31, 2009, by Aon Consulting Inc.
- The contribution rate for eligible employees and designated employers is 10.5 per cent of pensionable salary (in excess of the yearly maximum pensionable earnings limit). This parallels the member contribution rate for MEPP.
- For 2010, the employer contribution to the SRP Reserve Fund remained at 11.4 per cent.

Operational Highlights

- At December 31, 2010, the SRP had 1,067 active members, 107 deferred members and 541 pensioners. In 2009, there were 1,106 active members, 68 deferred members and 410 pensioners.
- In comparison, MEPP had 5,036 active members, 946 deferred members, and 3,384 pensioners.
- Approximately 21 per cent of active MEPP members participate in the SRP.
- The average monthly pension paid from the SRP in 2010 was $217 to members and $78 to non-member recipients (2009: $196 to members and $110 to non-member recipients).
- In 2010, the highest monthly pension paid from the SRP was $3,230 (also $3,230 in 2009).

Investment Highlights

The SRP consists of two accounts, the Retirement Compensation Arrangement Plan (RCA Fund) and a refundable income tax account. Half of the contributions from eligible employees and designated employers are deposited in the RCA Fund. The other half of contributions and 50 per cent of the RCA Fund's realized income are forwarded to Canada Revenue Agency and held in a refundable income tax account. The refundable income tax account does not earn interest. Refundable income tax is returned to the Plan at the same rate when pension benefits are paid to Plan members and beneficiaries.

Additionally, due to the tax treatment of the SRP, contributions to and investment income from the RCA Fund are not large enough to provide for all expected future benefit payments. As a result, the Government of Alberta established a regulated Reserve Fund which is administered by the Minister of Finance and Enterprise. Contributions are collected from designated employers; the funds are invested and then reserved to meet future benefits of the SRP.

Investment Performance

Investment Returns
Ending December 31, 2010
(in percent)

	One Year Return				Four Year Compound Annualized Return
	2010	**2009**	**2008**	2007	
Actual gain (loss)	**9.4**	**13.3**	**(16.2)**	1.2	**1.3**
*Benchmark gain (loss)**	***9.1***	***12.6***	***(11.7)***	*1.3*	***2.4***
Value added (lost) by investment manager	**0.3**	**0.7**	**(4.5)**	(0.1)	**(1.1)**

* The policy benchmark return is the product of the weighted average policy sector weights and sector returns.

Investment Performance

Alberta Investment Management Corporation (AIMCo) manages and invests the assets of the Plan on behalf of the Minister of Finance and Enterprise and the SRP Advisory Committee. The primary investment objective for the Plan is to earn a before-tax long-term rate of return for funding purposes of 6.25 per cent, which includes the real rate of return of 4.00 per cent and inflation of 2.25 per cent. The real rate of return is the return earned above inflation; it measures the return after taking into account the decrease in the purchasing power of the Canadian dollar. Over a rolling four-year time horizon, the investment manager is expected to achieve a value-added target of 0.5 per cent measured by comparing actual returns against the return of the policy benchmark (on a before tax basis).

In 2010, the Plan's actual before-tax return was 9.4 per cent compared to its policy benchmark of 9.1 per cent.

Asset Allocation

The table below shows the Plan's long-term target asset mix in comparison to the Plan's actual asset mix at December 31, 2010 and 2009.

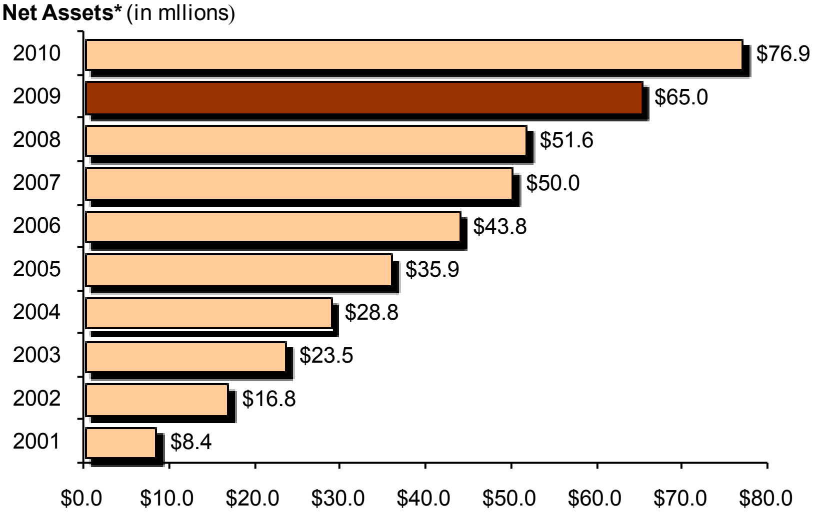
ASSET MIX %

	Target Policy	Actual 2010	Actual 2009
Fixed income			
Cash & short term	*0.5*	1.9	1.7
Bonds and mortgages	*36.0*	37.2	37.5
	36.5	**39.1**	**39.2**
Equities			
Canadian	*16.0*	15.2	14.6
Foreign	*30.0*	33.6	35.0
	46.0	**48.8**	**49.6**
Inflation Sensitive and alternative investments			
Real return bonds	*4.5*	4.9	5.1
Real estate	*5.0*	3.6	3.5
Infrastructure and private debt	*4.0*	1.6	1.7
Private equities	*2.0*	1.6	0.5
Timberland	*2.0*	0.4	0.4
	17.5	**12.1**	**11.2**
Total	*100.0*	100.0	100.0

Change in Assets

Net Assets available to pay benefits at the end of 2010 for the SRP were $76.9 million including $16.5 million in the RCA Fund, $19.3 million in the refundable income tax account and $41.1 million in the Reserve Fund.

Net Assets* (in mllions)



* Net of miscellaneous receivables and payables.

Additional Information

- The Management Employees Pension Board may advise the Minister of Finance and Enterprise on any pension matter related to the interface of SRP with MEPP.
- Financial statements for the SRP Reserve Fund are included in the Alberta Finance and Enterprise annual reports.
- Additional information on the SRP is available on the MEPP website at www.mepp.ca.

Employers Participating in the SRP as at December 31, 2010

- Government of Alberta
- Agriculture Financial Services Corporation
- Alberta Gaming and Liquor Commission
- Alberta Innovates - Technology Futures [1]
- Alberta Livestock and Meat Agency Ltd.
- Alberta Local Authorities Pension Plan Corp.
- Alberta Pensions Services Corporation
- Energy Resources Conservation Board [2]
- Legislative Assembly of Alberta
- Natural Resources Conservation Board
- The Alberta Utilities Commission [2]
- Travel Alberta

1 Previously known as Alberta Research Council.

2 Previously known as the Alberta Energy and Utilities Board.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Minister of Finance and Enterprise

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statement of net assets available for benefits and liability for accrued benefits as at December 31, 2010, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance Canadian generally accepted accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the net assets available for benefits and liability for accrued benefits of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2010, 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 Merwan N. Saher, CA>

Auditor General

May 9, 2011

Edmonton, Alberta

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	($ thousands) 2010	2009
Net Assets Available for Benefits		
Assets		
Portfolio investments (Note 3)	$ 16,516	$ 14,551
Refundable income tax (Note 1(f) and Note 6)	19,327	16,348
Contributions receivable	45	104
	35,888	31,003
Liabilities		
Income tax payable	48	41
Other payables	-	8
Liability for investment purchases	50	300
Due to (from) Alberta Pensions Services Corportion	36	(36)
	134	313
Net assets available for benefits	35,754	30,690
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	(116,427)	(104,478)
SRP Reserve Fund (Note 8)	41,114	34,272
Deficiency at end of year	$ (39,559)	$ (39,516)

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

	($ thousands)	
	2010	**2009**
Increase in assets		
Contributions (Note 9)	$ 5,971	$ 6,449
Net investment income (Note 10)		
Investment income	1,380	1,022
Investment expenses	(62)	(43)
	7,289	7,428
Decrease in assets		
Benefits and refunds	1,700	1,307
Administration expenses (Note 11)	525	414
	2,225	1,721
Increase in net assets	5,064	5,707
Net assets available for benefits at beginning of year	30,690	24,983
Net assets available for benefits at end of year	$ 35,754	$ 30,690

The accompanying notes are part of these financial statements.

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 *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The Minister of Alberta Finance and Enterprise is the legal trustee of the Plan fund and Alberta Finance and Enterprise is management of the Plan.

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 *maximum pensionable salary limit* under the *Income Tax Act.* The Plan is supplementary to the MEPP. Service under MEPP is 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 had attained 35 years of combined pensionable service at the Plan's inception are not eligible to participate in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 8) 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, 2010 were unchanged at 10.5% of pensionable salary in excess of the maximum pensionable salary 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 Alberta Finance and Enterprise. As a result of this review, the contribution rates have increased at January 1, 2011 to 11.16% of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the *maximum pensionable salary limit* under the *Income Tax Act* for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, 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 the 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) SURPLUS PLAN ASSETS

The Province of Alberta 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 Province of Alberta.

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 and net investment income received 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.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments are stated at fair value. The method used to determine fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraph:

i) Short-term securities and public fixed income securities are valued at the year-end closing sale price or average of the latest bid and ask prices quoted by an independent securities valuation company.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts,credit default swaps, cross-currency interest rate swaps, and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discount cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) 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 magnitude of 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.

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 short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as actuarial assumption changes and net experience gains or losses in the note describing changes in the actuarial value of accrued benefits in the year when actual results are known (see Note 7(a)).

NOTE 3 INVESTMENTS

	($ thousands)					
	2010			2009		
	Fair Value			Fair Value		
			%			%
Interest bearing securities						
Cash and short-term securities [(a)]	$	647	3.9	$	682	4.7
Bonds [(b)]		13,070	79.1		11,408	78.4
Real return bonds [(c)]		2,799	17.0		2,461	16.9
Total Investment [(d)]	$	16,516	100.0	$	14,551	100.0

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's Advisory Committee. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Plan's proportionate share of securities held in the pooled fund. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Cash and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).

b) The bond portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing bonds and mortgages had an average effective market yield of 4.4% per annum (2009: 5.1% per annum) and the following term structure based on principal amount: under 1 year: 10% (2009: 4%); 1 to 5 years: 30% (2009: 34%); 5 to 10 years: 30% (2009: 32%); 10 to 20 years: 15% (2009: 15%); and over 20 years: 15% (2009: 15%).

c) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

d) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	Level one	Level two	Level three	Total
Interest-bearing securities	$ -	$ 16,516	$ -	$ 16,516
2010 - Total Amount	$ -	$ 16,516	$ -	$ 16,516
- Percent	0%	100%	0%	100%
2009 - Total Amount	$ -	$ 14,551	$ -	$ 14,551
- Percent	0%	100%	0%	100%
Increase during the year	$ -	$ 1,965	$ -	$ 1,965

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Advisory Committee. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Advisory Committee manages the Plan’s return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments, including assets held in the Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund). In order to earn the best possible return at an acceptable level of risk, the Advisory Committee has established policy asset mix ranges of 33-45% fixed income instruments, 40-55% equities, and 7.5-19.5% alternative investments.

Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Plan. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 are directly or indirectly impacted by credit risk to some degree. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (medium safe investment) to AAA (safe investment with almost no counterparty credit risk).

Interest rate risk

Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of $1.1 million (2009: $1.0 million).

Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation.

NOTE 5 DERIVATIVE CONTRACTS

A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party.

i) Interest rate derivatives provide for the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

ii) Foreign exchange derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Credit risk derivatives include credit default swaps allowing the Plan to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

($ thousands)

	2010					2009	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%					
Interest rate derivatives	76	3	21	$ 2,941	$ 119	$ 1,634	$ 2
Foreign currency derivatives	100	-	-	512	18	985	72
Credit risk derivatives	48	11	41	7,920	(85)	9,430	(68)
Derivative related receivables, net					52		6
Deposits in futures margin accounts					4		13
Net derivative related investments (included in Note 3)					$ 56		$ 19

The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining the fair value of derivative contracts is described in Note 2(e).

NOTE 6 REFUNDABLE INCOME TAX

($ thousands)

	2010	2009
Refundable income tax at beginning of year	$ 16,348	$ 13,778
Tax on employees and employers contributions received	3,014	3,185
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(35)	(615)
Refundable income tax at end of year	$ 19,327	$ 16,348

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2010 as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $116,427 (2009: $104,478) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate, and the salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2010	2009
	%	
Discount rate *	4.50	4.70
Inflation rate	2.25	2.25
Investment rate of return	6.00	6.30
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 age specific merit and promotion increases.

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

	($ thousands)	
	2010	2009
Actuarial value of accrued benefits at beginning of year	$ 104,478	$ 58,676
Interest accrued on opening liability for accrued benefits	4,836	4,501
Benefits earned	8,779	11,825
Net change due to changes in actuarial assumptions	5,150	(5,311)
Experience (gains) losses	(5,116)	36,094
Benefits and refunds paid	(1,700)	(1,307)
Actuarial value of accrued benefits at end of year	$ 116,427	$ 104,478

Experience gains of $5,116 (2009: losses of $36,904) arose from differences between the actuarial assumptions used in the 2009 valuation and 2010 extrapolation for reporting compared to actual results.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will 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 net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2010:

	($ thousands)		
	Changes in Assumptions	**Decrease in Net Assets**	**Increase in Benefits Earned**
	%	**$**	**$**
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	9,083	1,038
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	26,403	8,794
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	23,815	3,449

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 8).

NOTE 8 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 the SRP Reserve Fund at rates established by the Minister of Alberta Finance and Enterprise. The employer contribution rate is 11.4% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*. Effective July 1, 2011 the new rate will be 22.6% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the Minister of Alberta Finance and Enterprise 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, 2010, the SRP Reserve Fund had net assets with fair value totalling $41,114 (2009: $34,272), comprising of $41,114 (2009: $34,261) in portfolio investments and $nil (2009: $11) in receivables. The increase during the year of $6,842 (2009: increase $7,690) is attributed to contributions from employers of $3,317 (2009: $3,358) and investment gain of $3,525 (2009: gain $4,332).

NOTE 9 CONTRIBUTIONS

	($ thousands) 2010	2009
Employers	$ 2,980	$ 3,240
Employees	2,991	3,209
	$ 5,971	$ 6,449

NOTE 10 NET INVESTMENT INCOME

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class:

	($ thousands) 2010			2009		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Interest-bearing securities	$ 1,380	$ (62)	$ 1,318	$ 1,022	$ (43)	$ 979
	$ 1,380	$ (62)	$ 1,318	$ 1,022	$ (43)	$ 979

Income is comprised of income from investments in pooled funds managed by AIMCo.

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided directly by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments are provided below:

	($ thousands) 2010	2009
Total investment expenses	$ 62	$ 43
Average fair value of investments	$ 15,534	$ 12,872
Percent of investments at average fair value	0.40%	0.33%
Investment expenses per member	$ 37	$ 28

NOTE 11 ADMINISTRATION EXPENSES

Administration expenses of $525 (2009: $414) were charged to the Plan on a cost recovery basis.

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

NOTE 12 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 10(b) and administration expenses per Note 11 are $587 (2009: $457) or $348 (2009: $292) per member and 1.64% (2009: 1.49%) of net assets under administration.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 14 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.