



**Public Service
Pension Plan**

2006 REPORT TO MEMBERS



Trustees' Message

BRITISH COLUMBIA'S PUBLIC SERVICE PENSION PLAN is one of the largest defined benefit plans in the country with nearly 50,000 members currently making contributions to the plan, and almost 31,000 retired members collecting their pensions. As the board of trustees, we are responsible for managing the plan's \$15.9 billion in assets. We develop policies and make decisions knowing that, for most of our members, their Public Service pension is the most important asset they have to ensure a comfortable retirement. Highlights from our board meetings are posted on our website.

Pension plans are receiving more attention in the media these days, and for good reason. Baby boomers are entering their retirement years and people are generally living longer – factors that are placing significant strain on pension plans. The Public Service Pension Plan is not immune to the same pressures faced by other plans. To address an unfunded liability, the board announced a contribution rate increase shared equally by plan members and employers effective April 1, 2006. That said, we can report that the plan is financially sound and your basic pension is guaranteed.

This 2006 *Report to Members* provides a summary of the plan's finances and key developments over the last year. We encourage you to stay informed about your Public Service Pension Plan and the role it plays in your personal retirement plans.

Public Service Pension Board of Trustees

Trustees as at March 31, 2006

John W. Cook, Chair

Ed Bodner

Joyce Burns

Adam Charania

Bruce Clow

David Day

Andy Jani

Jodi Jensen

Bruce Kennedy

Paul Martin

Laurie McAmmond

Ron McEachern

Sandi McLean

David Vipond

Diane Wood

Partners, Trustees and Agents

- Plan partners: the provincial government and the B.C. Government and Service Employees' Union (BCGEU). These partners and other organizations representing plan employers and plan members are responsible for nominating and appointing the trustees.
- Public Service Pension Board of Trustees: responsible for the management of the pension plan, including asset investment and plan administration.
- British Columbia Pension Corporation: provides benefit administration services as an agent of the board of trustees. The corporation enrolls members, collects contributions, processes benefits and issues pension payments.
- British Columbia Investment Management Corporation (bcIMC): provides investment management services as an agent of the board of trustees. The bcIMC is one of the largest institutional investors in the country, offering a wide range of fund management services.

What Is the Public Service Pension Plan?

THERE ARE THREE COMPONENTS to the Public Service Pension Plan: basic pension benefits, inflation adjustments, and non-pension group health benefits.

The plan provides entitlement to a basic pension benefit after two years of contributory service and after a qualifying age. The plan also provides survivor and disability benefits. The basic pension benefit is based on how many years the member contributed to the plan, the average of the five highest years of salary, and age at retirement.

While future increases are not guaranteed, inflation adjustments, once granted, become part of the basic, guaranteed benefit. Adjustments for inflation are calculated every January and are only offered subject to available funding. This year the inflation adjustment was 3.4%, matching the increase in Canada's Consumer Price Index as measured from September 2004 to September 2005.

Group health benefits are not guaranteed. These non-pension benefits are funded from employer contributions designated for this purpose.

Transfer Agreements With Other Pension Plans

TRANSFER AGREEMENTS ALLOW PLAN MEMBERS who meet the eligibility criteria to transfer their service from other pension plans into the Public Service Pension Plan, thereby increasing the pension benefits they will receive. Visit our website to view a list of the Canadian pension plans included in our transfer agreements.

New Website Address for Your Pension Plan

pspp.pensionsbc.ca

Update your bookmark! The Public Service Pension Plan website is now located at a new address: **pspp.pensionsbc.ca**.

This link takes you directly to the Public Service Pension Plan homepage, and marks a change from the previous address which required site visitors to select from one of five plans administered by the Pension Corporation.

Act Now to Increase Your Pension

Purchase of Service deadline: March 31, 2007

YOU MAY BE ABLE TO INCREASE YOUR PENSION by paying back a refund you received when you left an earlier job, or by buying service for a period when you did not contribute.

Members who joined the plan **prior** to April 1, 2002 have until **March 31, 2007** or termination of employment (whichever comes first) to purchase service.

If you took a refund of contributions from the Public Service, Municipal, Teachers' or College Pension Plans, you may be eligible to reinstate those periods of service for transfer into the Public Service Pension Plan. The deadline to apply to reinstate a refund is also **March 31, 2007 or termination of employment**. If you were an active member on March 31, 2002, and if you don't apply by the deadline, you will not have the opportunity to purchase or reinstate those historical periods of service again.

If you received a commuted value for any service, that service cannot be reinstated. You also cannot reinstate additional voluntary contributions.

For more information, refer to the Pensionfacts, *Purchasing Non-contributory Service*, *Purchasing Leaves of Absence* and *Reinstating a Refund*, available on the Public Service Pension Plan website at pspp.pensionsbc.ca.

It's Never Too Soon to Plan For Retirement

THE PENSION YOU HAVE EARNED can be a very significant financial asset; it's important to know the value of your future pension payments and how they fit into your overall retirement plans. The Public Service Pension Plan encourages you to take advantage of the products and services we've created to keep you informed.

Retirement Seminars: Coming to a Location Near You

RETIREMENT SEMINARS ARE HELD a few times each year throughout the province. The seminars provide information that is valuable at any stage of your career. Topics include pension basics, calculating your pension, increasing pensionable service, and the retirement process. There is no charge to attend. The current seminar schedule and application forms can be found at pspp.pensionsbc.ca. If you are unable to attend, the seminar's Powerpoint presentation is also available online.

Member's Benefit Statements

Each year that you are working and contributing to the Public Service Pension Plan, you receive a *Member's Benefit Statement*. This statement provides a record of your service and contributions to the plan and, where appropriate, pension estimates. Keep this document for your records.

Online Pension Estimator

Use this online calculator at our website to estimate the value of your pension upon retirement. Have your most recent *Member's Benefit Statement* handy; you'll want to refer to it as you enter information.

Retirement Planning and Application Packages

The online *Retirement Planning Package* provides concise information, asks key questions and includes a check list of issues for you to consider. Once you've made the decision to retire, contact the plan to receive your *Retirement Application Package*.

Seek Professional Advice from an Independent Financial Advisor

The Public Service Pension Plan provides information about your pension benefits, but we always recommend that you speak with an independent financial advisor when considering your overall retirement plans.

Contribution Rates

On April 1, 2006, the contribution rates for plan members and employers rose by 1.88% of salaries

THE PUBLIC SERVICE PENSION PLAN benefited from higher than expected investment returns throughout the 1980s and 1990s. This resulted in a steady improvement in the plan's funded status and, as a result, allowed for lower contribution rates. However, investment returns between 2000/01 and 2002/03 were below the assumed rate and, in the current low interest environment, the outlook is for more subdued returns in the future.

Cost pressures have also developed from demographic changes in the membership (e.g., increased life expectancy and aging plan membership). Following a report from the plan actuary in December of 2005, the Public Service Board of Trustees announced the 1.88% of salaries contribution rate increase to ensure the plan remains on a solid financial footing and continues to meet its current and future payment obligations.

It is important to note that pension plans throughout the country are experiencing similar funding challenges and the resulting higher contribution rates caused by weaker investment returns. In the case of the Public Service Pension Plan, the rise in contribution rates is magnified because previous surpluses have allowed the plan's actuary to set past contribution rates significantly below the plan's normal cost. The new contribution rates are set at the plan's normal cost.

With these rate changes, the long-term health of the Public Service Pension Fund continues to be sound.

Plan Member Contribution Rates as of April 1, 2006

7.63% of pensionable salary up to the YMPE, and
9.13% of pensionable salary in excess of the YMPE.

Employer Contribution Rates as of April 1, 2006

8.63% of pensionable salary up to the YMPE, and
10.13% of pensionable salary in excess of the YMPE.

Note: Year's Maximum Pensionable Earnings (YMPE) are the earnings on which you make Canada Pension Plan contributions. The 2006 YMPE is \$42,100.

Financial Health

A MAJOR RESPONSIBILITY OF TRUSTEES is the financial health of the plan. While member and employer contributions play an important role in funding the plan, investments are also important to the plan's financial viability.

Every three years the plan's actuary assesses the financial health of the plan's Basic Account. At the last valuation as at March 31, 2005, the plan had an unfunded liability of \$767 million which was addressed by the contribution rate increase announced in December, 2005. A surplus means there are more than enough funds to meet the basic benefits, whereas an unfunded liability indicates there is a shortfall between the benefits promised and the assets available to pay for benefits. The next valuation will be as at March 31, 2008, with the results available in 2009.

The following shows the plan's investments, investment performance and financial statement highlights.

Basic Account Investment Asset Mix and Performance

March 31, 2006				
Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark* (%)
Fixed Income	25-45			
Short-term	0-5	2.0	2.2	2.8
Mortgages	0-10	3.7	5.8	3.4
Bonds	17-28	21.5	6.0	5.9
Real Return Bonds	0-10	4.7	9.2	11.8
Equity	55-75			
Canadian Equities	15-25	22.3	27.6	28.7
U.S. Equities	10-20	14.8	10.1	10.1
International Equities	10-20	17.5	21.4	20.4
Real Estate	8-15	10.9	24.0	6.2
Private Placements	0-10	2.6	**	**

* Benchmarks are standards to compare against actual investment returns.

** Annual rate of return not applicable.

Investment Performance

	Performance Benchmarks*	Actual March 31	
		2006	2005
Market Value (\$ Billions)		(unaudited)	
		\$15.9	\$14.0
Market Value Rates of Return			
Basic Account			
Annual	13.4%	15.3%	8.1%
Five-year Annualized	7.1%	7.4%	3.7%
Inflation Account			
Annual	13.5%	15.9%	8.5%
Five-year Annualized	7.6%	8.1%	4.3%

* Benchmarks are standards to compare against actual investment returns.

Financial Statement Highlights

	\$ Millions	
	March 31	
	2006	2005
	(unaudited)	
Net Assets—Beginning of Year	\$14,030	\$13,165
Investment Income*	2,167	1,079
Contributions	362	373
Benefit Payments	(615)	(564)
Investment and Administration Costs*	(26)	(23)
Net Assets—End of Year	\$15,918	\$14,030

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of \$14.3 million (2005 – \$6 million) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets.

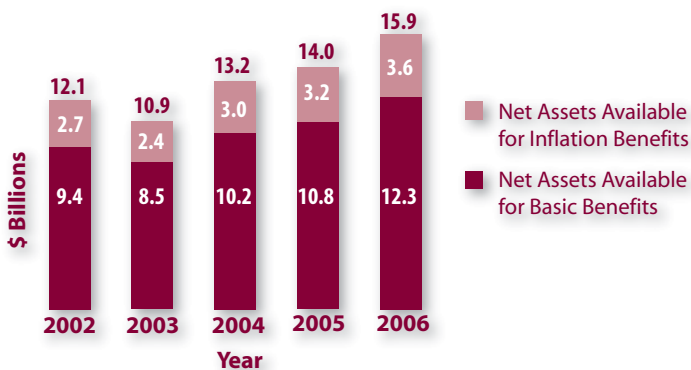
Administration Costs

	As a Percentage of Net Assets				
	2006	2005	2004	2003	2002
Benefit Administration	0.06%	0.06%	0.07%	0.09%	0.07%
Investment Management*	0.19%	0.15%	0.14%	0.16%	0.14%

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of \$14.3 million (2005 – \$6 million) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets.

Net Assets Available for Benefits

as at March 31

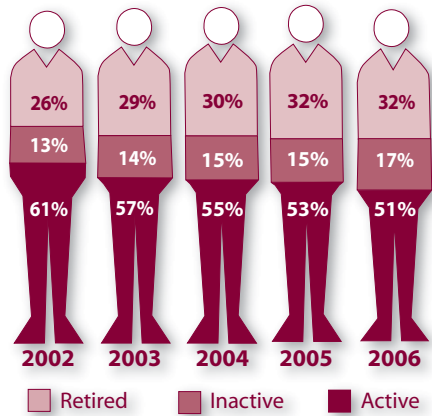


Membership

THERE ARE THREE CATEGORIES of members in the Public Service Pension Plan:

- Active—those currently contributing, or on a leave of absence, or receiving benefits from an approved salary continuance plan.
- Inactive—those who have terminated employment but whose contributions remain on deposit in the plan. They may or may not be eligible for a pension in the future.
- Retired—those who are receiving a pension, including those who are receiving a disability pension.

The number of retired members is expected to continue to grow as more and more baby boomers reach retirement age. The change in ratio between active, contributing members and retired members may impact future indexing and group benefits. The trustees are monitoring these changes as they focus on the long-term management of the fund for the benefit of the plan and its members.



Questions? Find the answers at pspp.pensionsbc.ca

YOUR PENSION PLAN WEBSITE contains up-to-date tools and resources to assist you throughout your working career, and into retirement. Log on to use the purchase of service and pension estimators, read the latest news and updates from your pension plan, and find the forms you need.

Public Service Pension Plan

General Contact Information

Phone: Victoria: 250 953-3033
Vancouver: 604 660-5299
Toll-free: 1 800 665-3554

E-mail: PSPPT@pensionsbc.ca

Mail: Public Service Pension Plan
PO Box 9460
Victoria, BC V8W 9V8

Web: pspp.pensionsbc.ca

Public Service Pension Board of Trustees Contact Information

Phone: Victoria: 250 387-8200

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Mail: Public Service Pension Board of Trustees
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