



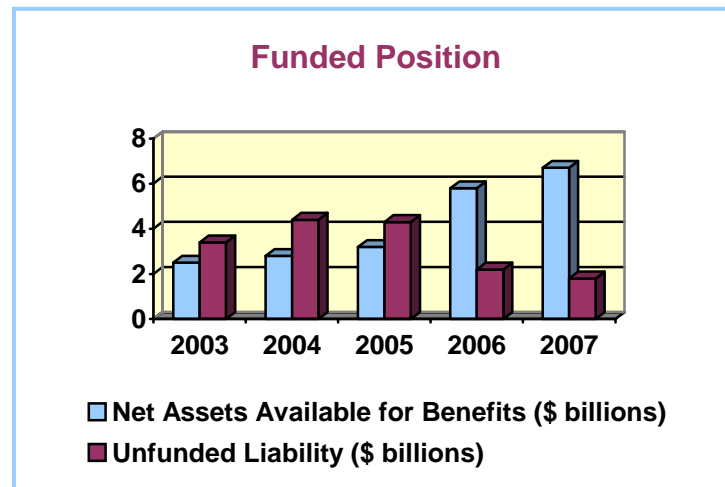
**Province of Newfoundland and Labrador
Pooled Pension Fund**

2007 Plan Update

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND

The Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was created on July 1, 1980 under the authority of the *Pensions Funding Act* to provide for the funding of pension plans sponsored by the Province. The affairs of the Fund are the responsibility of the Minister of Finance, as Trustee.

As of December 31, 2007 total Fund assets were \$6.7 billion, an increase of \$900 million since December 31, 2006. This net increase was mainly the result of \$982 million in special payments made by Government to the Public Service Pension Plan during 2007. The total unfunded liability as of December 31, 2007 was \$1.8 billion, down from \$2.2 billion in 2006.



Legislative Framework

While the plan provisions are governed by the specific enabling legislation for each plan and the *Pensions Funding Act*, pension plans, in general, are closely regulated and monitored by the Provincial pension authority under the *Pension Benefits Act, 1997* (PBA) and by the Canada Revenue Agency under the *Income Tax Act* (ITA). These regulatory bodies, jointly, provide for equitable treatment of all employees who participate in pension plans. Pension Benefit Standards legislation, which is established in the PBA, ensures that all employees under a plan receive similar or equal treatment, while the ITA establishes the level of tax assistance pension plans can provide to their members.

Pension Investment Committee

The Pension Investment Committee (PIC) advises the Minister of Finance, as Trustee, on the operation of the investment of the Fund. The Fund was established to finance benefits under the various Government sponsored pension plans, including the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan and the Provincial Court Judges Pension Plan.

The PIC has 15 members comprised of representatives from Government and the plans' stakeholders, including employee groups and pensioners, with the Deputy Minister of Finance as the Chair. Responsibilities of the PIC include the review of all the financial activities of the Fund; the development, review and implementation of Fund objectives and investment strategies; and the recommendations for the appointment of investment consultants, a custodian and investment managers as required.

The PIC also oversees the operations of Newvest Realty Corporation (Newvest). Newvest was established solely to facilitate the Fund's investment in real estate.

Pension Investment Committee

Government Representatives:

Terry Paddon, Chairperson
Donna Brewer, Vice-Chair

Ron Williams
Rick Hayward
Maureen McCarthy
Earl Saunders
Gerald Dawe, Secretary

Deputy Minister of Finance
Assistant Deputy Minister, Financial Planning and Benefits
Administration, Department of Finance
Comptroller General
Assistant Deputy Minister, Corporate Services, Department of Education
Director, Pension Administration
Director, Debt Management
Manager, Pension Investments

Employee/Pensioner Representatives:

Bert Blundon
Debbie Forward
Edward Hancock
Sharon King
Doug Laing
Eric Salter
Dave Reynolds

Newfoundland and Labrador Association of Public and Private Employees
Newfoundland and Labrador Nurses' Union
Newfoundland and Labrador Teachers' Association
Association of Allied Health Professionals
Public Sector Managers' Association
Newfoundland and Labrador Public Service Pensioners' Association
Canadian Union of Public Employees

Non-Government Representative:

Roger Crosbie

Private Sector Representative

Consulting Team

To assist with the implementation of investment policy, the PIC has retained the services of Russell Investments Canada, an internationally recognized firm of investment consultants. Russell assists the PIC in the design, implementation, and ongoing evaluation of all aspects of the pension investment program. More specifically, this firm assists the PIC in matters concerning fund governance, objective setting, asset allocation, investment strategy, manager structure, manager selection, and ongoing performance measurement and manager evaluation.

In addition, the Fund retains the services of RBC Dexia Investor Services as the custodian, to provide trade settlement, income collection, asset valuation and other custodial services related to the securities held by the Fund.

Investment Activity

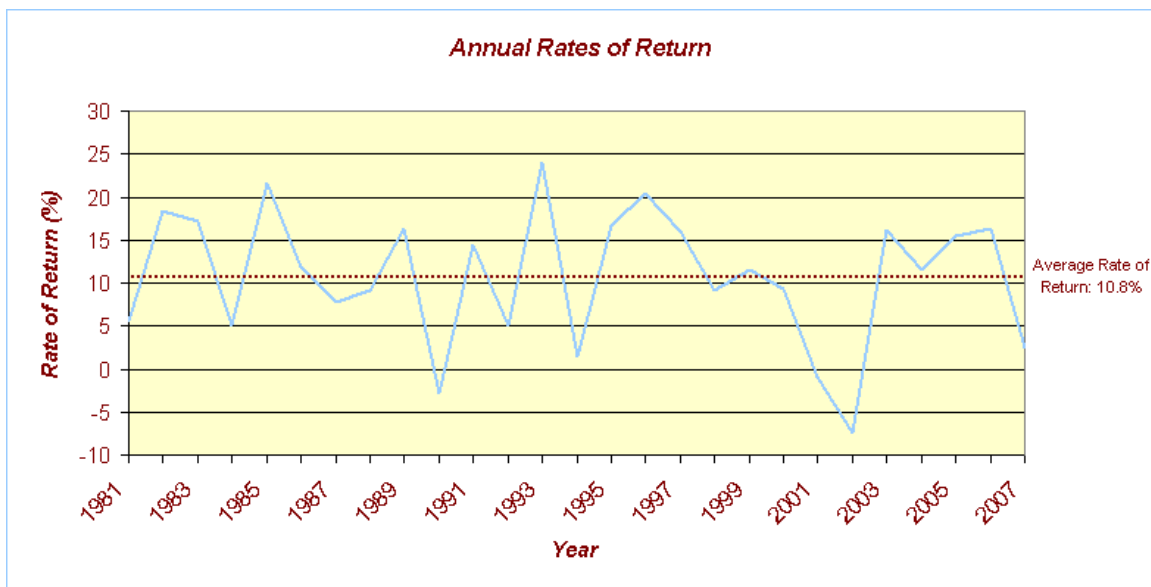
The Fund was established as a vehicle to invest employee and employer pension plan contributions in the capital markets with a long term goal to achieve investment returns on those contributions sufficient to meet the cost of the pension obligations as they become due. As the obligations of the participating pension plans are not fully funded, any excess returns achieved in the portfolio will slow the growth in the unfunded portion.

In evaluating the long term pension obligations of the Province, the Province's actuary currently uses a long term annual interest rate of 7.5% to discount the obligations. Similarly, in determining the cash flow requirements of the plans over the valuation period, the actuary assumes that the assets will achieve a similar rate of return. The PIC is mandated to develop and implement an investment strategy with the primary objective of securing the promised pension benefits at a manageable cost to both government and employees. The long term average targeted rate of return is currently 7.5%.

The PIC has implemented an asset mix policy and selected investment managers with a view to achieving annual investment returns that exceed the annual returns earned by the relevant capital market indices. It is hoped that this investment strategy will result in a long term return that exceeds the actuarial discount rate.

Asset Mix	Actual (%)		Policy (%)	
	2007	2006	Target	Range
Canadian Equities	39	46	45	40 – 50
U.S. Equities	19	16	15	10 – 20
Non North American Equities	19	17	15	10 – 20
Real Estate	1	2	5	-
Canadian Bonds	22	19	20	15 – 25

The current asset mix strategy of 80% equities and 20% fixed income was adopted based on the plans' going concern funded ratio and the need to manage the growth of the unfunded liabilities. To further diversify the impact of investment volatility and enhance expected returns, equity and debt investments are allocated among broad asset classes. While returns in excess of the discount rate will not be achievable every year, since the inception of the Fund in 1980, the annual rate of return has averaged 10.8%.



The PIC has delegated the investment of pension fund assets to a team of prominent investment management firms selected with the assistance of Russell Investments Canada. Each firm is selected through a disciplined process to ensure that the investment style of that firm is compatible with the investment structure and objectives of the Fund. Upon hiring, an investment manager contract and an

investment manager mandate is signed. This mandate sets out the performance standards, describes the roles, responsibilities and investment guidelines for the manager.

The external investment management team and the assets being managed by each firm is as follows:

Baillie Gifford Overseas Ltd.	Non North American Equity
Beutel Goodman & Company Ltd.	Canadian Equity, Canadian Bonds
Connor, Clark & Lunn Investment Management Ltd.	Canadian Equity
Genus Capital Management Inc.	Canadian Equity
Mulvihill Capital Management Inc.	Canadian Equity
Bentall Investment Management Ltd.	Real Estate
Phillips, Hager & North Investment Management Ltd.	Canadian Bonds
Sprucegrove Investment Management Ltd.	Non North American Equity
UBS Global Asset Management (Canada) Co.	Canadian Equity, U.S. Equity, Canadian Bonds
Jacobs Levy Equity Management Inc.	U.S. Equity
Systematic Financial Management Ltd.	U.S. Equity

The Fund's return of 2.5% in 2007 was 0.6% ahead of the policy benchmark of 1.9%. This added return was primarily driven by the Canadian equity managers, who outperformed their benchmarks. The bond managers and U.S. equity managers added return above their benchmarks, while the non-North America category was the only detractor. The real estate portfolio (Newvest) also outperformed its benchmark. The Fund's investment results for the five years ending December 31, 2003 to 2007 are presented below.

<i>Investment Performance</i>	<i>Annual Returns (%)</i>				
	2007	2006	2005	2004	2003
<i>Total Fund</i>	2.5	16.4	15.4	11.6	16.3
<i>Policy Benchmark Return*</i>	1.9	15.8	15.0	10.9	16.5
<i>Canadian Equities</i>	11.2	19.2	23.2	15.8	28.1
<i>S&P/TSX Index</i>	9.8	17.3	24.1	14.5	26.7
<i>U.S. Equity</i>	-10.1	14.3	6.5	5.0	3.8
<i>S&P 500 Index</i>	-10.5	15.4	2.3	2.8	5.3
<i>Non-North American Equity</i>	-6.4	27.1	12.7	13.1	10.1
<i>MSCI EAFE Index</i>	-5.3	26.4	11.2	11.9	13.8
<i>Real Estate (Newvest)</i>	21.8	16.8	13.0	7.4	1.8
<i>ICREIM/IPD</i>	18.6	19.4	18.3	13.0	8.2
<i>Canadian Bonds</i>	3.8	4.3	6.6	7.3	7.4
<i>SC Universe Index</i>	3.7	4.1	6.5	7.1	6.7

*Policy Benchmark Return is defined as the rate of return which would have been earned had the fund been invested in securities identical to the various indices.

PLAN ACTIVITY REPORT

The following pension plans participated in the Fund at December 31, 2007. All contributions deducted from employees, together with matching amounts from their employers, are paid into the Fund for investment.

<i>Plan</i>	<i>Effective Date</i>	<i>Authority</i>	<i>Administrator</i>
<i>Public Service Pension Plan (PSPP)</i>	April 1, 1967	<i>Public Service Pensions Act, 1991</i>	Pensions Administration Division, Department of Finance
<i>Teachers' Pension Plan (TPP)</i>	January 1, 1991	<i>Teachers' (Pensions) Act</i>	Pensions Administration Division, Department of Finance, in cooperation with the Department of Education, the School Boards, and the Newfoundland and Labrador Teachers' Association (NLTA)
<i>Uniformed Services Pension Plan (USPP)</i>	December 3, 1982	<i>Uniformed Services Pensions Act</i>	Pensions Administration Division, Department of Finance, in cooperation with the Department of Justice, the Royal Newfoundland Constabulary and the City of St. John's Fire Department
<i>Members of the House of Assembly Pension Plan (MHAPP)*</i>	January 1, 1976	<i>Members of the House of Assembly Retiring Allowances Act</i>	Pensions Administration Division, Department of Finance, in cooperation with the House of Assembly
<i>Provincial Court Judges Pension Plan (PCJPP)*</i>	April 1, 2002	<i>Provincial Court Judges' Pension Plan Act</i>	Pensions Administration Division, Department of Finance

* In order to meet the plan registration requirements of Canada Revenue Agency, the MHAPP and the PCJPP are comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. This report contains information which pertains to the Registered Plans only.

Actuarial Valuations

In accordance with the requirements of the *Pension Benefits Act, 1997*, actuarial valuations have been completed on each plan. The purpose of the valuation is to determine and examine the funded status of the plans as of the valuation date, the funding arrangements from the date of the valuation and the long-term cash flow projections for the plan. All actuarial valuations were completed by Mercer Human Resource Consulting.

<i>Actuarial Valuations – Summary of Results</i>						
Plan	Date of Valuation	Actuarial Value of Assets	Actuarial Liability	(Unfunded Liability) Excess	Funded Ratio	Next Valuation
<i>PSPP</i>	December 31, 2006	\$2,630,150,000	\$4,464,970,000	(\$1,834,820,000)	58.9%	December 31, 2009 (to be completed during 2010)
	December 31, 2003	\$1,671,110,000	\$3,636,500,000	(\$1,965,390,000)	46.0%	
<i>TPP</i>	August 31, 2006	\$2,750,940,000	\$3,344,950,000	(\$594,010,000)	82.2%	August 31, 2009 (to be completed during 2010)
	August 31, 2003	\$779,390,000	\$2,952,440,000	(\$2,173,050,000)	26.4%	
<i>USPP</i>	December 31, 2005	\$62,530,000	\$269,590,000	(\$207,060,000)	23.2%	December 31, 2008 (to be completed during 2009)
	December 31, 2003	\$28,990,000	\$238,660,000	(\$209,670,000)	12.1%	
<i>MHAPP</i>	December 31, 2006	\$11,220,000	\$9,820,000	\$1,400,000	114.3%	December 31, 2009 (to be completed during 2010)
	December 31, 2003	\$11,120,000	\$5,630,000	\$5,490,000	197.5%	
<i>PCJPP</i>	December 31, 2004	\$1,206,000	\$1,244,000	(\$38,000)	96.9%	December 31, 2007 (to be completed during 2008)
	December 31, 2002	\$549,100	\$571,100	(\$22,000)	96.1%	

Contributions and Payments

In accordance with an agreement entered into with the public sector unions, the Province made special contributions totaling \$982 million to the Public Service Pension Plan during 2007. Special payments totaling \$1,953 million were made to the Teacher's Pension Plan during 2006.

<i>Pension Contributions</i>					
Plan	Contributions from Active Members	Regular Employer Contributions	Special Payments by Government	Total Contributions 2007	Total Contributions 2006
<i>PSPP</i>	\$88,534,000	\$86,938,000	\$982,000,000	\$1,157,472,000	\$220,400,000
<i>TPP</i>	\$37,187,000	\$34,420,000	-	\$71,607,000	\$2,021,100,000
<i>USPP</i>	\$2,948,000	\$2,920,000	-	\$5,868,000	\$24,800,000
<i>MHAPP</i>	\$446,000	\$550,000	-	\$996,000	\$585,000
<i>PCJPP</i>	\$192,000	\$69,000	-	\$261,000	\$269,000
Totals	\$129,307,000	\$124,897,000	\$982,000,000	\$1,236,204,000	\$2,267,154,000

There were no changes in the contribution rates for members of the participating plans during 2007.

<i>Contribution Rates</i>	
Plan	Rates
<i>PSPP</i>	8.6% of earnings up to YBE*; 6.8% of earnings from YBE up to YMPE**; 8.6% of earnings above YMPE; matched by the employer
<i>TPP</i>	9.35% for both members and employers
<i>USPP</i>	8.5% of earnings up to YBE; 6.7% of earnings from YBE up to YMPE; 8.5% of earnings above YMPE: matched by the employer
<i>MHAPP</i>	9.0% for members; balance paid by the employer
<i>PCJPP</i>	9.0% for members; balance paid by the employer

* Canada Pension Plan's Year's Basic Exemption

** Canada Pension Plan's Year's Maximum Pensionable Earnings

Total pension payments in 2007 were approximately \$34 million higher than in 2006, largely due to the increased numbers of pensioners.

<i>Pension Payments</i>					
Plan	Pension Benefit Payments	Refunds to Members	Administrative Expenses	Total Pension Payments 2007	Total Pension Payments 2006
<i>PSPP</i>	\$190,723,000	\$18,405,000	\$9,947,000	\$219,075,000	\$198,176,000
<i>TPP</i>	\$214,030,000	\$3,462,000	\$7,716,000	\$225,208,000	\$214,836,000
<i>USPP</i>	\$15,629,000	\$1,248,000	\$311,000	\$17,188,000	\$15,008,000
<i>MHAPP</i>	\$205,000	\$5,000	\$96,000	\$306,000	\$166,000
<i>PCJPP</i>	\$51,000	-	\$38,000	\$89,000	\$45,000
Totals	\$420,638,000	\$23,120,000	\$18,108,000	\$461,866,000	\$428,231,000

Plan Participation

Overall participation in the Fund increased from 2006 to 2007 due to increases in the numbers of active members and pensioners in the PSPP, TPP and the USPP. The number of pensioners in the MHAPP was reduced during 2007 as a result of those former MHA's who were transferred to the Supplementary Plan.

<i>Plan Participation</i>					
Plan	Year	Active Members	Deferred Members	Pensioners	Total
<i>PSPP</i>	2007	27,620	941	13,155	41,716
	2006	26,429	216	12,530	39,175
<i>TPP</i>	2007	6,022	757	7,545	14,324
	2006	5,786	17	7,339	13,142
<i>USPP</i>	2007	642	11	650	1,303
	2006	606	1	621	1,228
<i>MHAPP</i>	2007	48	3	8	59
	2006	48	4	42	94
<i>PCJPP</i>	2007	12	0	1	13
	2006	9	0	1	10
Total	2007	34,344	1,712	21,359	57,415
	2006	32,878	238	20,533	53,649

**PROVINCE OF NEWFOUNDLAND AND LABRADOR
POOLED PENSION FUND**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007



OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

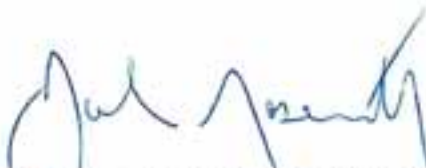
AUDITOR'S REPORT

To the Trustee
Province of Newfoundland and Labrador
Pooled Pension Fund
St. John's, Newfoundland and Labrador

I have audited the consolidated statement of net assets available for benefits of the Province of Newfoundland and Labrador Pooled Pension Fund as at 31 December 2007 and the consolidated statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Fund'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 consolidated financial statements present fairly, in all material respects, the net assets available for benefits of the Fund as at 31 December 2007 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.



JOHN L. NOSEWORTHY, CA
Auditor General

St. John's, Newfoundland and Labrador
5 May 2008

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

31 December	2007	2006
	(000's)	(000's)
ASSETS		
Investments (Note 2)		
Short-term notes and deposits	\$ 136,065	\$ 122,059
Bonds and debentures	1,420,273	1,065,366
Equities - Canadian	2,478,344	2,575,407
- Foreign	2,525,365	1,898,934
Real estate (Note 3)	178,460	171,764
	<u>6,738,507</u>	<u>5,833,530</u>
Receivables		
Employee contributions	3,975	4,382
Employer contributions	3,942	4,294
Accrued investment income	16,371	14,792
Accounts receivable	633	896
	<u>24,921</u>	<u>24,364</u>
Cash	28,583	23,104
Prepaid expenses	202	318
Deferred charges	4,521	3,459
	<u>6,796,734</u>	<u>5,884,775</u>
LIABILITIES		
Accounts payable and accrued liabilities	11,932	8,650
Refunds payable	1,687	1,364
Due to Province of Newfoundland and Labrador	1,499	1,024
Mortgages payable (Note 4)	71,951	79,534
	<u>87,069</u>	<u>90,572</u>
NET ASSETS AVAILABLE FOR BENEFITS	\$ 6,709,665	\$ 5,794,203

See accompanying notes

Signed on behalf of the Fund:


 Minister of Finance
 and President of Treasury Board
 Trustee


 Chairperson
 Pension Investment Committee

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For the Year Ended 31 December

2007

2006

	Public Service Pension Plan (000's)	Teachers' Pension Plan (000's)	Uniformed Services Pension Plan (000's)	Members of the House of Assembly Pension Plan (000's)	Provincial Court Judges' Pension Plan (000's)	Total (000's)	Total (000's)
Increase in net assets							
Investments (Note 5)							
Investment income	\$ 147,314	\$ 135,001	\$ 3,386	\$ 559	\$ 103	\$ 286,363	\$ 192,370
Gain on sale of investments	153,247	140,437	3,522	581	107	297,894	127,150
Current period change in market value of investments	(227,962)	(208,907)	(5,240)	(865)	(159)	(443,133)	429,729
	72,599	66,531	1,668	275	51	141,124	749,249
Contributions							
Employee	88,534	37,187	2,948	446	192	129,307	119,604
Employer (Note 6)	86,938	34,420	2,920	550	69	124,897	114,583
Special payments (Note 6)	982,000	-	-	-	-	982,000	2,033,000
	1,230,071	138,138	7,536	1,271	312	1,377,328	3,016,436
Decrease in net assets							
Pensions	190,723	214,030	15,629	205	51	420,638	395,495
Refund of contributions with interest	18,405	3,462	1,248	5	-	23,120	19,117
Administrative costs (Note 7)	9,947	7,716	311	96	38	18,108	13,619
	219,075	225,208	17,188	306	89	461,866	428,231
Total increase (decrease) in net assets	1,010,996	(87,070)	(9,652)	965	223	915,462	2,588,205
Net assets available for benefits, beginning of year	2,630,518	3,066,308	84,072	11,224	2,081	5,794,203	3,205,998
Net assets available for benefits, end of year	\$ 3,641,514	\$ 2,979,238	\$ 74,420	\$ 12,189	\$ 2,304	\$ 6,709,665	\$ 5,794,203

See accompanying notes

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2007

Authority and description

The Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was created 1 July 1980 under the authority of the *Pensions Funding Act* for the purpose of providing for the funding of pension plans sponsored by the Province. The affairs of the Fund are managed by the Minister of Finance, as Trustee of the Fund. Section 9 of the *Act* states that where there are insufficient assets to meet the obligations of the Fund, or the equity apportioned to a plan is insufficient to meet the obligations of the plan, the Minister shall pay out of the Consolidated Revenue Fund sufficient monies as may be necessary to cover the deficiency.

The following pension plans participate in the Fund: Public Service Pension Plan, Teachers' Pension Plan, Uniformed Services Pension Plan, Members of the House of Assembly Pension Plan and the Provincial Court Judges' Pension Plan.

(a) Public Service Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering full-time employees of the Government of the Province of Newfoundland and Labrador and various Crown corporations, agencies and commissions created by or under a statute of the Province.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act (Canada)*, and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act (Canada)* maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

(ii) Employee contributions

Employee contributions are equal to 8.6% of the Canada Pension Plan (CPP) basic exemption, plus 6.8% of the employee's salary between the CPP basic exemption and the Year's Maximum Pensionable Earnings (YMPE) under the CPP, plus 8.6% of the employee's salary in excess of the YMPE, up to a maximum allowed under the *Income Tax Act (Canada)*. Amounts in excess of the maximum allowed are paid to the Supplementary Plan.

(iii) Accrued service pensions

A service pension is available from the Registered Plan based on the number of years of pensionable service times 2% of the member's best five years average salary. When a retired member reaches age 65, this pension is reduced by 0.6% of the member's best five years average salary up to average YMPE times years of pensionable service after 1 April 1967. The calculated amount shall not exceed the maximum allowable benefit as determined under the *Income Tax Act (Canada)*.

Authority and description (cont.)

(a) Public Service Pension Plan (cont.)

(iii) Accrued service pensions (cont.)

Where the calculated amount does exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada), a vested member who is no longer an employee can receive a pension from the Supplementary Plan. The total pension received from both the Registered Plan and the Supplementary Plan equals the amount calculated based on the number of years of pensionable service times 2% of the member's best five years average salary.

Employees who have reached age 50 and have at least 30 years of service are permitted to retire with a 0.5% reduction in pension benefit for each month under age 55.

Employees who have reached age 55 and have 30 years of service may retire with an unreduced pension. Employees age 55 or greater with less than 30 years service and with age and service equal to 85 may retire with a pension reduced by 0.5% for each month under age 60.

(iv) Disability pensions

A disability pension equal to the accrued service pension is available on permanent incapacity at any age with a minimum of five years pensionable service.

(v) Survivor pensions

A survivor pension of 60% of the member's accrued service pension is paid to the surviving principal beneficiary (and on the surviving principal beneficiary's death, to dependent children) following the death of a pensioner, a deferred pensioner or an employee with at least five years pensionable service.

(vi) Pre-retirement death benefits

Where an employee with at least five years pensionable service dies before receiving a pension and a survivor benefit is payable, the surviving principal beneficiary may elect to receive either the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the employee's pension entitlement. Where a survivor pension is not payable, the commuted value of the pension entitlement is paid to the deceased plan member's estate.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2007

Authority and description (cont.)

(a) Public Service Pension Plan (cont.)

(vii) Termination benefits

On termination of employment, an employee may elect to receive a refund of the employee's own contributions with interest or, if the employee has at least five years pensionable service, may elect to receive a deferred pension or commuted value.

(viii) Indexing

Effective 1 October 2002 and each 1 October thereafter the amount of a pension or survivor benefit paid to an individual who has reached the age of 65 will be adjusted by 60% of the Consumer Price Index for Canada for the previous calendar year as published by Statistics Canada, to a maximum of 1.2% of the annual pension or survivor benefit.

(b) Teachers' Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering teachers employed by school boards or the Province of Newfoundland and Labrador and full-time employees of the Newfoundland and Labrador Teachers' Association.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act (Canada)*, and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act (Canada)* maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

(ii) Employee contributions

Employee contributions are equal to 9.35% of salary, up to the maximum allowed under the *Income Tax Act (Canada)*. Amounts in excess of the maximum allowed are paid to the Supplementary Plan.

(iii) Accrued service pensions

A service pension is available from the Registered Plan based on $1/45^{\text{th}}$ of the member's best five years average salary times years of pensionable service prior to 1 January 1991, plus 2% of the member's best five years average salary times years of pensionable service after 1 January 1991. When a member who retired after 31 August 1998 reaches age 65, this pension is reduced by 0.6% of the member's best five years average salary up to average YMPE times years of pensionable service after 1 April 1967. The calculated amount shall not exceed the maximum allowable benefit as determined under the *Income Tax Act (Canada)*.

Authority and description (cont.)

(b) Teachers' Pension Plan (cont.)

(iii) Accrued service pensions (cont.)

Where the calculated amount does exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada), a vested member who is no longer an employee can receive a pension from the Supplementary Plan. The total pension received from both the Registered Plan and the Supplementary Plan equals the amount calculated based on 1/45th of the member's best five years average salary times years of pensionable service prior to 1 January 1991, plus 2% of the member's best five years average salary times years of pensionable service after 1 January 1991.

(iv) Disability pensions

A disability pension equal to the accrued service pension is available on permanent incapacity at any age with a minimum of five years pensionable service.

(v) Survivor pensions

A survivor pension of 60% of the member's accrued service pension is paid to the surviving principal beneficiary (and on the surviving principal beneficiary's death, to dependent children) following the death of a pensioner, a deferred pensioner or an employee with at least five years pensionable service.

(vi) Pre-retirement death benefits

Where an employee with at least five years pensionable service dies before receiving a pension and a survivor benefit is payable, the surviving principal beneficiary may elect to receive either the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the employee's pension entitlement. Where a survivor pension is not payable, the commuted value of the pension entitlement is paid to the deceased plan member's estate.

(vii) Termination benefits

On termination of employment, a teacher may elect to receive a refund of the teacher's own contributions with interest or, if the teacher has at least five years pensionable service, may elect to receive a deferred pension.

Authority and description (cont.)

(b) Teachers' Pension Plan (cont.)

(viii) Indexing

Effective 1 September 2002 and each 1 September thereafter the amount of a pension or survivor benefit paid to an individual who has reached the age of 65 will be adjusted by 60% of the Consumer Price Index for Canada for the previous calendar year as published by Statistics Canada, to a maximum of 1.2% of the annual pension or survivor benefit. This provision only applies to a pension or survivor benefit where the teacher to whom that pension or benefit relates retires after 31 August 1998.

(c) Uniformed Services Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering members of the Royal Newfoundland Constabulary, warders at various Provincial correctional institutions, and some members of the St. John's Regional Fire Department.

(ii) Employee contributions

Employee contributions are equal to 8.5% of the Canada Pension Plan (CPP) basic exemption, plus 6.7% of the employee's salary between the CPP basic exemption and the Year's Maximum Pensionable Earnings (YMPE) under the CPP, plus 8.5% of the employee's salary in excess of the YMPE. Grandfathered members, who are now all retired, contributed an additional 3.5% of salary, which was also matched by the Province.

(iii) Accrued service pensions

A service pension is available based on the number of years of pensionable service times 2% of the member's best three years average salary. When a retired member reaches age 65, this pension is reduced by 0.6% of the member's best three years average salary up to average YMPE times years of pensionable service after 1 April 1967. Grandfathered members have higher service pensions in recognition of higher contributions (as set out in Employee contributions above).

(iv) Disability pensions

A disability pension equal to the accrued service pension is available on permanent incapacity at any age with a minimum of five years pensionable service.

Authority and description (cont.)

(c) Uniformed Services Pension Plan (cont.)

(v) Survivor pensions

A survivor pension of 60% of the member's accrued service pension is paid to the surviving principal beneficiary (and on the surviving principal beneficiary's death, to dependent children) following the death of a pensioner, a deferred pensioner or an employee with at least five years pensionable service. For grandfathered members, the survivor pension is 55% of the member's accrued service pension.

(vi) Pre-retirement death benefits

Where an employee with at least five years pensionable service dies before receiving a pension and a survivor benefit is payable, the surviving principal beneficiary may elect to receive either the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the employee's pension entitlement. Where a survivor pension is not payable, the commuted value of the pension entitlement is paid to the deceased plan member's estate.

(vii) Termination benefits

On termination of employment, an employee may elect to receive a refund of the employee's own contributions with interest or, if the employee has at least five years pensionable service, may elect to receive a deferred pension or the commuted value.

(d) Members of the House of Assembly Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan for Members of the House of Assembly. Members may elect not to participate in the Plan for their first term.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

Authority and description (cont.)

(d) Members of the House of Assembly Pension Plan (cont.)

(ii) Member contributions

Members are required to pay 9% of their pensionable salary to the Registered Plan, up to the maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan. Member contributions cease after seventeen years of service if elected before or during the 43rd General Assembly and after twenty years of service if elected since that time.

(iii) Calculation of allowances on retirement

A vested Member who is no longer an MHA or a minister may, on application and subject to eligibility criteria, receive an allowance from the Registered Plan that is the product of 2% of MHA's and minister's salary for the best three calendar years. When a Member reaches age 65, the amount of the registered allowance is reduced by 0.6% of the member's average YMPE times years of service between 1 January 1998 and 31 December 2004. The amount of the registered allowance shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada).

Where the calculated allowance does exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada), a vested Member who is no longer an MHA or a minister can receive an allowance from the Supplementary Plan. The Member's supplementary allowance is reduced by the amount of his or her registered allowance. The annual allowance is based on a percentage of the average of the Member's salary for the best three calendar years.

For Members elected for the first time before or during the 43rd General Assembly, the percentage is calculated at 5% for each of the first ten years, 4% for each of the next five years, and 2.5% for each of the next two years. Ministers receive an additional allowance calculated similarly and based on service and salary as a Minister (excluding Member's salary).

For Members elected for the first time after the 43rd General Assembly the percentage is 5% for each of the first ten years, 2.5% for each of the next ten years, and 2.0% for each year of other service. When a member reaches age 65, the amount of the supplementary allowance is reduced by 0.6% of the Member's average YMPE times years of service after 1 April 1967 (service between 1 January 1998 and 31 December 2004 excluded).

(iv) Disability allowance

A disability allowance equal to the amount of the registered allowance the Member would have been eligible to receive at 65 years of age is available if a Member becomes permanently disabled. Additional supplementary benefits are also available on disability.

Authority and description (cont.)

(d) Members of the House of Assembly Pension Plan (cont.)

(v) Survivor benefits

A survivor benefit equal to 60% of the Member's registered allowance that he or she would have received had he or she reached age 65 on the date of death is paid to the surviving principal beneficiary.

(vi) Pre-retirement death benefits

If a Member dies before receiving an allowance and a survivor benefit is payable, the surviving principal beneficiary may elect to receive the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the Member's entitlement. Where a survivor pension is not payable, the commuted value of the pension entitlement is paid to the deceased plan Member's estate.

(vii) Termination benefits

A Member who is no longer an MHA or a minister and who has been elected to only one general assembly or who has less than five years of service may elect to receive a refund of his or her contributions with interest.

A vested Member who is no longer an MHA or a minister may, subject to eligibility criteria, elect to transfer the commuted value of his or her entitlement under the Registered Plan to another approved retirement arrangement, or receive a deferred registered allowance. Also, the Member may receive a lump sum payment of his or her entitlement under the Supplementary Plan, or receive a deferred supplementary allowance.

(e) Provincial Court Judges' Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering all Provincial Court judges appointed on or after 1 April 2002, and to a judge who elected on or before 1 April 2002 to join the Plan.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

Authority and description (cont.)

(e) Provincial Court Judges' Pension Plan (cont.)

(ii) Judges' contributions

Judges are required to pay 9% of their pensionable salary to the Registered Plan, up to the maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan. Judges' contributions cease when they have accrued and paid contributions for twenty years of pensionable service.

(iii) Calculation of allowances on retirement

The annual amount of the allowance paid from the Registered Plan to a vested judge on normal retirement is the product of 2% of his or her annual salary on ceasing to be a judge, multiplied by the number of years of service as a judge, to a maximum of 20 years. The amount shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada).

The annual amount of the allowance paid from the Supplementary Plan to a vested judge on normal retirement is the product of 3.33% of his or her annual salary on ceasing to be a judge, multiplied by the number of years of service as a judge, to a maximum of 20 years. A judge's supplementary allowance is reduced by the amount of the judge's registered allowance.

Normal retirement date is the first day of the month following the judge's 65th birthday.

(iv) Survivor benefits

A survivor benefit equal to 60% of the pensioner's or judge's registered allowance that he or she would have received had he or she reached age 65 on the date of death is paid to the surviving principal beneficiary.

(v) Pre-retirement death benefits

If a judge dies before receiving an allowance and a survivor benefit is payable, the surviving principal beneficiary may elect to receive the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the judge's entitlement. Where a survivor pension is not payable, the commuted value of the entitlement is paid to the deceased judge's estate.

Authority and description (cont.)

(e) Provincial Court Judges' Pension Plan (cont.)

(vi) Termination benefits

A judge who has stopped serving as a judge and who has less than two years of judge's service may elect to receive a refund of his or her contributions with interest.

A judge who has at least two years of judge's service may, subject to eligibility criteria, elect to transfer the commuted value of his or her entitlement under the Registered Plan to another approved retirement arrangement, receive a lump sum payment of his or her entitlement under the Supplementary Plan, or receive a deferred allowance.

(vii) Indexing

Effective 1 October 2002 and each 1 October thereafter, the amount of the allowance or survivor benefit paid to an individual who has reached the age of 65 shall be adjusted by 60% of the Consumer Price Index for Canada for the previous calendar year as published by Statistics Canada, to a maximum of 1.2% of the annual allowance or survivor benefit.

1. Significant accounting policies

These consolidated financial statements have been prepared by the Fund's management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements present the aggregate financial position of the Fund as a separate financial reporting entity including the operations of its subsidiary Newvest Realty Corporation. They are prepared to assist plan members and others in reviewing the activities of the Fund for the fiscal period. Outlined below are the significant accounting policies followed.

(a) Principles of consolidation

These consolidated financial statements include the assets, liabilities and the changes in net assets of the Fund and Newvest Realty Corporation, a wholly-owned subsidiary incorporated on 9 August 2001 under the *Canada Business Corporations Act* to invest monies received from the Fund in Canadian real estate property. Inter-entity transactions and balances have been eliminated in these consolidated financial statements.

(b) Gains and losses on investments

The cost of sales for all investment dispositions is calculated as the weighted average of their costs.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

1. Significant accounting policies (cont.)

(c) Investment income

Investment income is allocated to the pension plans under the Fund based on the respective equity position, calculated on a market basis, of each plan after giving effect to a time weighting of receipts and disbursements. The proportionate share of investment income is then attributed to each plan.

Investment income consists of the following:

- (i) Dividend income which is recognized as of the date of record for North American equities and as of the date of receipt for non-North American equities.
 - (ii) Bank interest and interest on bonds and debentures, and short-term notes and deposits, which is recognized as it is earned.
 - (iii) Real estate income which is recognized on consolidation of Newvest Realty Corporation.
 - (iv) Foreign exchange gains or losses.
- (d) Current period change in the market value of investments

The current period change in the market value of investments is allocated to the pension plans under the Fund based on the respective equity position, calculated on a market basis, of each plan after giving effect to a time weighting of receipts and disbursements. The proportionate share of current period change in the market value of investments is then attributed to each plan.

(e) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Management believes that the estimates utilized in preparing these consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

2. Investments

All investments are valued as follows:

- (a) Short-term notes and deposits are valued at book value which approximates market value.
- (b) Bonds and debentures are valued at the last bid price on the valuation date.
- (c) Publicly traded equities are valued at the last board lot trade for a given stock. In instances where the quoted stock has not been traded on valuation date, the price of the last board lot bid price is quoted.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
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2. Investments (cont.)

- (d) The Fund holds its real estate investments through its sole ownership interest in Newvest Realty Corporation. Income producing properties are presented in these financial statements at their appraised values in accordance with the Corporation's appraisal policy which requires that properties be appraised at least once every two years by professionally qualified independent appraisers. The external appraisals are completed in six month cycles on approximately one quarter of the Corporation's portfolio. The properties that are not externally appraised during each six month cycle are appraised by Bentall Investment Management Limited Partnership. Any properties acquired by the Corporation in the current year have not been appraised and are therefore recorded at cost. Any increases or decreases in value resulting from the appraisal process are reflected in the Fund's financial statements on consolidation.

3. Real estate investments

The Fund's investment in real estate as at 31 December 2007, is comprised of real estate investments held by its wholly owned subsidiary, Newvest Realty Corporation, as follows:

	2007 (000's)	2006 (000's)
Assets		
Income producing properties (Appraised Value)	\$ 178,460	\$ 171,764
Other assets	13,080	8,449
Total assets	\$ 191,540	\$ 180,213
Liabilities and Equity		
Mortgages payable (Appreciated Value)	\$ 71,951	\$ 79,534
Other liabilities	7,818	4,728
Shareholder's equity	111,771	95,951
Total liabilities and equity	\$ 191,540	\$ 180,213
Income, Expenses and Shareholder's Equity		
Income	\$ 21,855	\$ 18,132
Operating expenses	(7,132)	(6,788)
Operating income (at cost)	14,723	11,344
Other expenses	(7,689)	(10,025)
Net income for the year (at cost)	7,034	1,319

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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3. Real estate investments (cont.)

	2007 (000's)	2006 (000's)
Current period change in market value of income producing properties	13,259	11,155
Current period change in market value of mortgages	1,476	694
	<u>14,735</u>	<u>11,849</u>
Net income for the year (at appraised and appreciated values)	21,769	13,168
Shareholder's equity, beginning of year	95,951	77,898
Shares issued (cancelled) for cash	(4,349)	4,885
Dividends declared	(1,600)	-
Shareholder's equity	\$ 111,771	\$ 95,951

4. Mortgages payable

Mortgages payable represent financing obtained by the Corporation for the acquisition of income producing properties. For investment information purposes, principal values and appreciated values are shown. Appreciated value is the mortgage's market value based on the discounted future cash payments using current or similar market interest rates. Details are as follows:

	2007		2006	
	Principal Value (000's)	Appreciated Value (000's)	Principal Value (000's)	Appreciated Value (000's)
(a) Bayview Chateau and White Rock Gardens, White Rock, British Columbia. Mortgage, held by The Great-West Life Assurance Company, repayable in monthly installments of \$26,705, including interest calculated at a rate of 5.58% per annum, maturing 1 July 2012, secured by a conventional first mortgage, a general security agreement, and a general assignment of rents.	\$ 4,308	\$ 4,308	\$ 4,386	\$ 4,386
(b) 440 Eglinton Avenue East, Toronto, Ontario. Mortgage, held by TD Canada Trust, repayable in monthly installments of \$42,092, including interest calculated at a rate of 5.663% per annum, maturing 1 April 2013.	-	-	6,283	6,638

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2007

4. Mortgages payable (cont.)

	2007		2006	
	Principal Value (000's)	Appreciated Value (000's)	Principal Value (000's)	Appreciated Value (000's)
(c) 2 Silver Maple Court, Brampton, Ontario. Mortgage, held by The Great-West Life Assurance Company, repayable in monthly installments of \$90,207, including interest calculated at a rate of 5.68% per annum, maturing 1 February 2013.	11,036	11,392	11,485	12,101
(d) Park and Tilford Shopping Centre, North Vancouver, British Columbia. Mortgage, held by The Great-West Life Assurance Company, repayable in monthly installments of \$137,927, including interest calculated at a rate of 5.88% per annum, maturing 1 September 2010.	19,931	20,165	20,413	20,957
(e) TD Creekside Corporate Centre, Mississauga Ontario. Mortgage (50% interest), held by Metropolitan Life Insurance Company, repayable in monthly installments of \$115,194, including interest calculated at a rate of 5.71% per annum, maturing 1 July 2014, secured by a freehold first mortgage and charge on the property, a general security agreement, a first general assignment of rents, and a first specific assignment of a tenant lease.	17,228	17,421	17,626	18,222
(f) 2001 Bantree, Ottawa, Ontario. Mortgage (50% interest), held by Equitable Life, repayable in monthly installments of \$38,175, including interest calculated at a rate of 5.09% per annum, maturing 1 August 2015, secured by a first mortgage and charge on the property, a first general assignment of leases and rents, a first specific assignment of leases, a first general security agreement of assets of the property, and assignment of insurance proceeds and endorsements to all policies.	6,288	6,142	6,433	6,419

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2007

4. Mortgages payable (cont.)

	2007		2006	
	Principal Value (000's)	Appreciated Value (000's)	Principal Value (000's)	Appreciated Value (000's)
(g) Thunder Centre, Thunder Bay, Ontario. Mortgage (50% interest), held by CIBC, repayable in monthly installments of \$53,718, including interest calculated at a rate of 5.743% per annum, maturing 1 September 2015, secured by a first mortgage and charge on the property, a first general assignment of leases and rents, a specific assignment of leases, assignment of the head lease with the vendor, and assignment of the letter of credit relative to the head lease.	8,226	8,226	6,409	6,355
(h) Centre 5735, Calgary, Alberta. Mortgage, held by Equitable Life, repayable in monthly installments of \$26,630, including interest calculated at a rate of 5.28% per annum, maturing 1 December 2016, secured by a first mortgage and charge on the property, and a general security agreement.	4,367	4,297	4,456	4,456
	\$ 71,384	\$ 71,951	\$ 77,491	\$ 79,534

Annual principal repayments totalling \$31.7 million (2006 - \$28.8 million) to be made during the next five years are as follows:

	(000's)
2008	\$ 1,926
2009	2,031
2010	20,454
2011	1,664
2012	5,591
	\$ 31,666

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5. Increase in net assets, investments

	Investment income (000's)	Gain on sale of investments (000's)	Current period change in market value of investments (000's)	2007 Total (000's)	2006 Total (000's)
Canadian common equities	\$ 68,882	\$ 292,676	\$ (77,542)	\$ 284,016	\$ 381,955
Foreign common equities	147,479	5,638	(371,894)	(218,777)	302,123
Bonds and debentures	58,669	(420)	(8,432)	49,817	45,682
Short-term notes and deposits	4,299	-	-	4,299	6,321
Real estate	7,034	-	14,735	21,769	13,168
	\$ 286,363	\$ 297,894	\$ (443,133)	\$ 141,124	\$ 749,249

6. Funding policy

In accordance with legislation, the Province's funding requirement is to match employee contributions for current service. Matching of contributions may also occur for certain other types of prior service, which may be purchased under contract (see Note 9).

Also, the Province is required to pay into the Fund amounts required to cover any actual plan deficiencies which may occur. A plan deficiency occurs when pension payments, refunds of contributions and administrative costs exceed a plan's fund balance.

In 2006, the Province paid \$1.953 billion to the Teachers' Pension Plan, \$60 million to the Public Service Pension Plan and \$20 million to the Uniformed Services Pension Plan to help address the unfunded liabilities of these plans.

In 2007, the Province entered into an agreement with the Newfoundland and Labrador Association of Public and Private Employees, the Canadian Union of Public Employees, the Association of Allied Health Professionals, the Newfoundland and Labrador Nurses Union, the International Brotherhood of Electrical Workers, and the Canadian Merchant Marine Services Guild to address the unfunded liability of the Public Service Pension Plan. In accordance with the agreement, the Province paid \$982 million to the Public Service Pension Plan during 2007 as follows: \$400 million in March 2007, \$350 million in May 2007 and \$232 million in June 2007 to help address the unfunded liability of the Plan.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2007

7. Administrative costs

Administrative costs are direct costs of the Department of Finance, Pensions Division, and are allocated to the various pension plans based on a combination of expenses directly attributable to a plan, the number of members participating in the various pension plans and a time weighing of receipts and disbursements. Administrative costs were comprised as follows:

	<u>2007</u>	<u>2006</u>
	(000's)	(000's)
Investment management, consulting and custodial fees	\$ 15,178	\$ 10,848
Salaries and benefits	1,820	1,979
Computer charges	359	228
Actuarial consulting fees	332	159
Medical and professional fees	213	191
Other expenses	206	214
	<u>\$ 18,108</u>	<u>\$ 13,619</u>

8. Teachers' Indexing Fund

The total fund balance relating to the Teachers' Pension Plan is comprised of the regular fund balance and the fund balance of the Teachers' Indexing Fund. In accordance with the most recent Teachers' Collective Agreement, contributions required to fund the indexing benefit introduced as of 1 September 2002 shall be deposited to a separate account. As at 31 December 2007 the increase and decrease in the net assets of the Fund related to the Teachers' Indexing Fund and the closing balance, along with the closing balance of the Fund related to the Teachers' Regular Fund, are comprised as follows:

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
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8. Teachers' Indexing Fund (cont.)

	2007	2006
	(000's)	(000's)
Teachers' Indexing Fund:		
Increases in net assets		
Contributions	\$ 6,136	\$ 5,941
Investment income	841	4,468
	<u>6,977</u>	<u>10,409</u>
Decreases in net assets		
Pensions	10	7
Administrative costs	99	71
	<u>109</u>	<u>78</u>
Increase in net assets	6,868	10,331
Teachers' Indexing Fund balance, beginning of year	35,522	25,191
Teachers' Indexing Fund balance, end of year	42,390	35,522
Teachers' Regular Fund balance	2,936,848	3,030,786
Teachers' Pension Plan combined balance	\$ 2,979,238	\$ 3,066,308

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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9. Obligations for pension benefits

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and the best estimate assumptions of the Trustee of the Province of Newfoundland and Labrador Pooled Pension Fund. Actuarial valuations were performed for each plan as of the valuation dates noted below, by a firm of consulting actuaries. The unfunded liabilities at the most recent valuation date are shown in the following table. In addition, the table shows the unfunded liabilities for each plan as extrapolated by the actuaries to 31 December 2007.

Plan	Valuation Date	Actuarial Present Value (000's)	At Valuation Date		Extrapolated Unfunded Liability at 31 December 2007 (000's)	Extrapolated Unfunded Liability at 31 December 2006 (000's)
			Asset Value (000's)	Unfunded Liability (000's)		
Public Service Pension Plan	12/31/2006	\$ 4,464,970	\$ 2,630,150	\$ 1,834,820	\$ 1,109,320	\$ 1,733,010
Teachers' Pension Plan	08/31/2006	3,344,950	2,750,940	594,010	490,000	311,990
Uniformed Services Pension Plan	12/31/2005	269,590	62,530	207,060	216,600	196,410
Members of the House of Assembly Pension Plan	12/31/2006	9,820	11,220	(1,400)	(840)	(2,350)
Provincial Court Judges' Pension Plan	12/31/2004	1,244	1,206	38	(20)	(140)
		<u>\$ 8,090,574</u>	<u>\$ 5,456,046</u>	<u>\$ 2,634,528</u>	<u>\$ 1,815,060</u>	<u>\$ 2,238,920</u>

The actuarial present values for the Public Service Pension Plan, the Teachers' Pension Plan and the Uniformed Services Pension Plan include the effects of future pension benefits accruing to members for periods of prior service that are being purchased under contract. These contracts provide for deferred payment terms, subject to interest, and have not been recognized in the Fund's assets. As at 31 December 2007, the total estimated value of payments to be received on these contracts is \$3.6 million (2006 - \$4.3 million).

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2007

10. Related party transactions

The following related party investments were held by the Fund as at 31 December 2007:

<u>Description</u>	<u>Face Value</u> (000's)	<u>Market Value</u> (000's)
Province of Newfoundland and Labrador Debentures - Maturing from 11/03/2009 to 10/17/2033	\$ 9,600	\$ 10,417
Newfoundland and Labrador Hydro Debentures - Maturing 7/14/2017	4,191	4,093
	<u>\$ 13,791</u>	<u>\$ 14,510</u>

11. Portfolio management

In accordance with an agreement dated 1 February 1997, between the Minister of Finance as Trustee of the Province of Newfoundland and Labrador Pooled Pension Fund and RBC Dexia Investor Services, custodial and administrative services for the Fund are performed by the Corporation, as agent for the Trustee.

As at 31 December 2007, the external investment fund counselling group was comprised of the following firms:

Baillie Gifford Overseas Limited
 Bentall Investment Management Limited Partnership
 Beutel, Goodman & Company Ltd.
 Connor, Clark & Lunn Investment Management Ltd.
 Genus Capital Management Inc.
 Jacobs Levy Equity Management Inc.
 Mulvihill Capital Management Inc.
 Phillips, Hager & North Investment Management Ltd.
 Sanford C. Bernstein and Company, LLC
 Sprucegrove Investment Management Ltd.
 Systematic Financial Management Limited Partnership
 UBS Global Asset Management (Canada) Co.

Subsequent to year end, the Fund released Mulvihill Capital Management Inc.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

12. Financial instruments

The Fund's financial instruments recognized in the Consolidated Statement of Net Assets Available for Benefits consist of investments, which are carried at market value, and receivables, cash, accounts payable and accrued liabilities, refunds payable, due to Province of Newfoundland and Labrador, and mortgages payable, the carrying values of which approximate current fair value due to their nature and the terms and conditions of those instruments.

13. Subsequent event

On 4 June 2008, the Province amended the *Public Service Pensions Act, 1991*, the *Teachers' Pensions Act* and the *Uniformed Services Pensions Act, 1991*. The amendments were to address situations where plan members die before receiving a pension and without a principal beneficiary. The amendment directs that the commuted value of the plan member's entitlement be paid to the estate. In addition, the amendments provide for transitional arrangements to deal with current circumstances where a plan member dies before receiving a pension and without a principal beneficiary and a survivor benefit is being paid to eligible children. The amendment allows a child who was receiving a survivor benefit when the amendment came into force to continue to receive the survivor benefit or to elect to be paid the commuted value of the entitlement at the date of death of the deceased employee less any payments already received by the child at the date of election. The amendments are retroactive to the dates the *Acts* were amended to permit the taking of commuted value on termination or death. Fund officials estimate the additional cost to the plans relating from the amendments to be \$731,658.

14. Income taxes

The Fund is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

PARTICIPATING EMPLOYERS

Public Service Pension Plan

Aramark Canada Limited	Eastern Health Authority
Association of Registered Nurses of Newfoundland and Labrador	Eastern School District
Bay St. George Residential Support Board	Eastern Residential Support Board
Bay St. George Youth Assessment Centre	Grace Sparkes House
Bill & Paul's Community Living Home	House of Assembly
Board of Commissioners of Public Utilities	Iris Kirby House
C.A. Pippy Park Commission	Labrador-Grenfell Health Authority
Canada Newfoundland Offshore Petroleum Board	Labrador Hydro Project
Central Health Authority	Labrador School District
Central School District	Municipal Assessment Agency
Churchill Falls (Labrador) Corporation	Newfoundland & Labrador Foster Families Association
College of the North Atlantic	Newfoundland & Labrador Health Boards Association
Conseil Scolaire Francophone	Newfoundland & Labrador Hydro
Council for Licensed Practical Nurses	Newfoundland & Labrador Arts Council
Department of Business	Newfoundland & Labrador Youth Centre
Department of Education	Newfoundland & Labrador Housing Corporation
Department of Education (School for the Deaf)	Newfoundland & Labrador Nurses Union
Department of Education (Student Assistants)	Newfoundland & Labrador Association of Public and Private Employees (NAPE)
Department of Environment & Conservation	Newfoundland Legal Aid Commission
Department of Executive Council	Newfoundland Liquor Corporation
Department of Finance	Office of the Auditor General
Department of Fisheries and Aquaculture	Pine Heights Group Home
Department of Government Services	Provincial Information & Library Resources Board
Department of Health & Community Services	Provincial Advisory Council
Department of Human Resources, Labour & Employment	Public Service Commission
Department of Human Resources, Labour & Employment (Central)	Public Service Credit Union
Department of Innovation, Trade & Rural Development	St. Francis Foundation
Department of Justice	T.J. McDonald Achievement Home
Department of Labrador & Aboriginal Affairs	The Rooms Corporation
Department of Municipal & Provincial Affairs	Western Health Authority
Department of Natural Resources	Western School District
Department of Tourism, Culture & Recreation	Workplace Health, Safety & Compensation Commission
Department of Transportation & Works	Xwave Solutions

Teachers' Pension Plan

Central School District	Labrador School District
Conseil Scholaire Francophone	Western School District
Eastern School District	Newfoundland & Labrador Teachers Association

Uniformed Services Pension Plan

Department of Justice (Correctional Officers)	Royal Newfoundland Constabulary (Management)
Royal Newfoundland Constabulary (Non-management)	St. John's Regional Fire Department

Members of the House of Assembly Pension Plan

House of Assembly

Provincial Court Judges' Pension Plan

Department of Justice

RECIPROCAL TRANSFER AGREEMENTS

Public Service Pension Plan

Province of British Columbia Pension Plan	Government of Canada (Federal Superannuation)
Province of Manitoba Pension Plan	Halifax Regional Municipality Pension Plan
Province of New Brunswick Pension Plan	Prince Edward Island Health & Community Services
Province of Nova Scotia Pension Plan	Lakehead University
Province of Ontario Pension Plan	Newfoundland & Labrador Municipal Employee Benefits Inc.
Province of Prince Edward Island Pension Plan	NewTel Pension Plan
Province of Quebec Pension Plans (RREGOP, RRE, RRF, RROE and RRPE)	Ontario Municipal Employees Retirement Board (OMERS)
Canadian Pacific Hotels Pension Plan	Ontario Public Service Employees Union (OPSEU)
City of St. John's Pension Plan	British Columbia Municipal Pension Plan
Colleges of Applied Arts and Technology	British Columbia College Pension Plan
Council of Atlantic Premiers Pension Plan	University of Prince Edward Island
Town of Gander Pension Plan	Nova Scotia Association of Health Organizations
Government Money Purchase Pension Plan	

Teachers' Pension Plan

Multilateral Reciprocal Transfer Agreement Between Provincial Teacher Pension Plans	Government Money Purchase Pension Plan United Church of Canada
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Uniformed Services Pension Plan

Government Money Purchase Pension Plan

Members of the House of Assembly Pension Plan

Government Money Purchase Pension Plan

GLOSSARY

Act - Each pension plan is established by an Act. The Acts establishing the Government of Newfoundland and Labrador's pension plans are:

- Public Service Pensions Act, 1991
- Teachers' Pensions Act, 1991
- Uniformed Services Pensions Act, 1991
- Members of the House of Assembly Retiring Allowances Act
- Provincial Court Judges' Pension Plan Act

Actuarial Valuation - Assessment of the financial health of a pension plan by an independent actuarial consulting firm.

Actuary - A person who is a Fellow of the Canadian Institute of Actuaries. Actuaries are business professionals who apply their knowledge of mathematics, probability, statistics, and risk theory, to real-life financial problems involving future uncertainty. These uncertainties are usually associated with life insurance, property and casualty insurance, annuities, pension or other employee benefit plans, or providing evidence, in courts of law, on the value of lost future earnings.

Annual Benefit Statement - Once a year, plan members receive a benefit statement through their employer that describes their status in the plan. The statement gives many details including:

- normal retirement date
- early retirement date
- an estimate of the amount of a plan member's pension benefit at the statement date, assuming they are already eligible
- survivor pension entitlement
- credited pensionable service
- accumulated contributions in the plan (including interest), and
- balance owing on purchase of service contracts.

Benefit - A commuted value, pension, refund or any other entitlement payable to the plan member (or a survivor of the plan member) by the pension plan.

Canada Pension Plan (CPP) - The federal pension plan administered by Human Resources Development Canada. It applies in all provinces and territories of Canada except Quebec.

Consumer Price Index (CPI) - The consumer price index measures monthly and yearly changes in the cost of 300 goods and services commonly bought by Canadians. If the combined cost of this "basket" of items goes up, then there has been inflation. The greater the increase, the higher the inflation rate has become. Pensions paid under the Public Service Pension Plan and the Teachers' Pension Plan are

indexed to the cost of living, and the consumer price index is one of the factors used to calculate annual cost of living increases for pension benefits.

Contribution - The amount of money the plan member and the employer are required to pay into the pension plan.

Contribution Rate - The percentage of the plan member's salary that the plan member and the employer contribute to the plan.

Deferred Pension - A pension payable at a later date, either because the plan member terminates employment before the earliest date at which the pension may begin, or because the plan member chooses to have the pension commence at a later date. For example, a plan member may choose to defer a pension in order to later receive an unreduced pension.

Disability Pension - A pension benefit payable to disabled plan members who meet the eligibility criteria established by the relevant pension plan.

Indexing - Increases to monthly pension amounts based on the annual increase in the cost of living. If the cost of living decreases, the pension amount remains the same - it does not decrease.

Liabilities - The cost of a pension plan's current and future benefit commitments (the amount required to pay for benefits that are currently being paid by the plan plus the amount required to pay for benefits that are expected to be paid in the future).

PBA - See Pension Benefits Act

Pension - A lifetime semi-monthly income paid by your pension plan.

Pension Benefits Act (PBA) - The provincial statute designed to protect the interests of pension plan members of Newfoundland and Labrador. The PBA sets minimum standards for pension plans in areas such as eligibility, vesting, portability and disclosure to members and sets out rules for the solvency and investment of pension plans.

Pension Fund - Trust fund in which your contributions and your employer's contributions accumulate and are invested to pay for current and future pension benefits.

Policy Benchmark - The rate of return which would have been earned had the fund passively invested in the various capital markets that percentage allocation of total fund assets as is adopted in its overall asset mix strategy.

Reciprocal Transfer Agreement - Means an agreement between two or more plans under which service with any party to the agreement will be recognized for purposes such as:

- satisfying minimum service requirements for plan participation;
- fulfilling minimum service requirements for benefit entitlement;
- preventing a break in continuous service; or
- accruing pension service credits

The agreement provides for the transfer of an appropriate sum of money from the pension fund of one employer directly to the pension fund of another, to fund benefits of an employee who leaves the first employer to enter employment with the second.

Refund of Contributions - Cash refund of your past contributions to the plan, plus a legislated amount of interest.

Survivor Benefit - A benefit payable to the principal beneficiary or child of an active plan member, inactive plan member or retired plan member.

Trustee - Person or persons who have been entrusted with managing a trust's assets in the best financial interest of the trust's beneficiaries. Where pensions are concerned, an individual plan member's "trust" is their pension plan benefits. A pension plan's "trust" is the pension plan and the pension fund. Trustees are fiduciaries. They must abide by all laws, rules and regulations governing trustees. They have a duty:

- to adhere to the terms of the trust and to the law
- to act personally and not to delegate
- to act as a prudent person would act, that is, with care
- to act with loyalty to the trust, that is, to avoid any conflict of interest
- of impartiality, that is, to act in an even-handed manner
- to safeguard and invest the assets
- to inform the beneficiaries, and
- to pay the proper amounts to the proper beneficiaries.

Unfunded Liability - Occurs when there are fewer assets in the fund than liabilities.

Valuation - An actuarial examination of a pension plan to determine whether contributions are being accumulated at a rate sufficient to provide the funds out of which the promised pensions can be paid when due. The valuation shows the actuarial liabilities of the plan and the applicable assets.

Year's Basic Exemption (YBE) - A portion of earnings upon which no CPP contributions are being required. The YBE is \$3,500 and is included in salary for the purpose of calculating CPP benefits.

Year's Maximum Pensionable Earnings (YMPE) - Maximum salary limit for contributions to the Canada Pension Plan. The YMPE for 2007 is \$43,700.