

Financial Statements of

**HEALTHCARE EMPLOYEES  
PENSION PLAN - MANITOBA**

Year ended December 31, 2008



**KPMG LLP**  
**Chartered Accountants**  
Suite 2000 – One Lombard Place  
Winnipeg MB R3B 0X3  
Canada

Telephone (204) 957-1770  
Fax (204) 957-0808  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## AUDITORS' REPORT

To the Board of Trustees of the Healthcare Employees Pension Plan - Manitoba

We have audited the statement of net assets of the Healthcare Employees Pension Plan - Manitoba as at December 31, 2008 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the net assets of the Plan as at December 31, 2008 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed "**KPMG LLP**"

Chartered Accountants

Winnipeg, Canada

May 27, 2009

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

## Statement of Net Assets

December 31, 2008, with comparative figures for 2007

	2008	2007
<b>Assets</b>		
Cash	\$ 34,334,633	\$ 28,105,716
Contributions and other receivables (note 5)	13,993,228	13,864,702
Due from brokers	2,787,345	-
Investment income receivable	3,552,387	3,649,021
Investments (note 6)	3,020,393,556	3,556,815,097
Capital assets (note 7)	904,843	1,898,552
	<u>\$ 3,075,965,992</u>	<u>\$ 3,604,333,088</u>

## Liabilities and Net Assets

Accrued termination benefits	\$ 11,225,000	\$ 17,936,000
Accrued liabilities	2,888,483	3,466,835
Due to brokers	-	119,112
	<u>14,113,483</u>	<u>21,521,947</u>
<b>Net assets represented by:</b>		
Pension Fund	3,060,947,666	3,580,912,589
Capital Fund	904,843	1,898,552
	<u>3,061,852,509</u>	<u>3,582,811,141</u>
	<u>\$ 3,075,965,992</u>	<u>\$ 3,604,333,088</u>

See accompanying notes to financial statements.

Approved by the Trustees:

  
\_\_\_\_\_  
Chair

  
\_\_\_\_\_  
Vice-Chair

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

## Statement of Changes in Net Assets

Year ended December 31, 2008, with comparative figures for 2007

	Pension Fund	Capital Fund	2008 Total	2007 Total
Increase in net assets:				
Pension fund contributions:				
Employer	\$ 102,184,338	\$ —	\$ 102,184,338	\$ 91,393,799
Employee	102,184,338	—	102,184,338	91,393,799
Reciprocal transfers and buybacks:				
Employer	1,139,410	—	1,139,410	1,125,861
Employee	1,143,119	—	1,143,119	1,051,621
Investment income (note 8)	126,163,513	—	126,163,513	111,890,902
Current period change in market value of investments	—	—	—	39,697,602
<b>Total increase in net assets</b>	<b>332,814,718</b>	<b>—</b>	<b>332,814,718</b>	<b>336,553,584</b>
Decrease in net assets:				
Current period change in market value of investments	700,111,774	—	700,111,774	—
Pension payments	113,565,796	—	113,565,796	101,724,801
Termination refunds	23,176,464	—	23,176,464	32,616,124
Investment management fees	9,510,486	—	9,510,486	10,492,224
Administrative expenses	4,460,976	—	4,460,976	3,958,449
Amortization of capital assets	—	1,719,780	1,719,780	1,541,460
Professional fees	93,547	—	93,547	116,026
Special project expenses	146,300	—	146,300	312,527
Custodial fees	645,200	—	645,200	745,726
Actuarial fees	343,027	—	343,027	350,526
<b>Total decrease in net assets</b>	<b>852,053,570</b>	<b>1,719,780</b>	<b>853,773,350</b>	<b>151,857,863</b>
Increase (decrease) in net assets prior to inter-fund transfers	(519,238,852)	(1,719,780)	(520,958,632)	184,695,721
Inter-fund transfers (note 7)	(726,071)	726,071	—	—
Increase (decrease) in net assets	(519,964,923)	(993,709)	(520,958,632)	184,695,721
Net assets, beginning of year	3,580,912,589	1,898,552	3,582,811,141	3,398,115,420
<b>Net assets, end of year</b>	<b>\$ 3,060,947,666</b>	<b>\$ 904,843</b>	<b>\$ 3,061,852,509</b>	<b>\$ 3,582,811,141</b>

See accompanying notes to financial statements.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements

Year ended December 31, 2008

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## 1. General:

The Plan is governed by a Board of Trustees appointed by signatory employers and unions. The Plan has received approval from Canada Revenue Agency (CRA) for registration as a Specified Multi-Employer Plan and the Manitoba Pension Commission has registered the Plan as a Multi-unit Pension Plan.

## 2. Description of the Plan:

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan Text.

### (a) General:

The Plan is a multi-employer defined benefit pension plan for all employees of participating healthcare facilities in the Province of Manitoba.

### (b) Funding policy:

Employers and employees contribute equally to fund the benefits under the Plan.

Employers and employees are required to contribute to the Plan a certain percentage of the members' earnings up to the legislated Year's Maximum Pensionable Earnings (YMPE) plus a certain percentage of the members' earnings in excess of the YMPE, as established by the settlors of the Plan.

The settlors of the Plan approved the following contribution rate percentages for 2008 and 2007:

		January 1 to June 30	July 1 to December 31
2008	Below YMPE	6.8%	6.8%
	Above YMPE	8.4%	8.4%
2007	Below YMPE	6.6%	6.8%
	Above YMPE	8.2%	8.4%

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# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

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## 2. Description of the plan (continued):

### (c) Normal retirement pension benefits:

Normal retirement pension benefits commence the first month coincident with or immediately following the attainment of age 65. The annual earned pension payable to a member on normal or postponed retirement is based on years of service and contributory earnings.

### (d) Early retirement pension benefits:

A member may elect to retire early provided that:

- the member has completed at least two years of service and attained age 55; or
- the total of the member's age plus years of service total at least 80.

If at the member's early retirement date:

- the member has attained age 60 and two years of service; or
- the member's age plus years of service total at least 80,

then the member shall receive normal pension benefits.

If at the member's early retirement date the member's age is between 55 and 60 and the member has not achieved the total of 80 based on age and years of service, pension benefits will be reduced in accordance with the Plan Text.

### (e) Postponed retirement benefits:

Retirement benefits cannot be postponed beyond the end of the year in which a member turns 71 years of age.

### (f) Death benefits:

Prior to retirement, upon the death of a member who has completed two years of service, the beneficiary is eligible to receive a death benefit.

If less than two years of service has been completed, then the beneficiary is eligible to receive the related contributions plus interest.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

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## 2. Description of the plan (continued):

### (g) Benefits on termination:

In the event of termination after two years of service, the terminating member is entitled to a return of their contributions plus the value of their earned pension.

If less than two years service has been completed then the terminating member shall receive their contributions plus credited interest.

### (h) Income taxes:

The Plan is a Pension Trust as defined in the *Income Tax Act* and is not subject to income taxes.

## 3. Significant accounting policies:

### (a) Basis of presentation:

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the participating employers and members. Only the net assets and obligations to members eligible to participate in the Plan have been included in these financial statements. These financial statements do not portray the funding requirements of the Plan or the benefit security of the individual plan members.

### (b) Fund accounting:

Assets, liabilities, revenues and expenses related to the Plan's capital assets are recorded in the Capital Fund. All other assets, liabilities, revenues and expenses are reported in the Pension Fund.

### (c) Investments:

Investments are stated at market value as follows:

#### (i) Short-term investments:

Short-term investments are valued at cost plus accrued interest, which approximates market value, with maturities up to one year.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

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## 3. Significant accounting policies (continued):

### (ii) Bonds:

Bonds are valued using published market quotations or by a yield-to-maturity calculation where published rates are not available.

Bond pooled fund units are recorded at market values established by the respective fund trustee.

### (iii) Mortgages:

Mortgage investments held in mortgage pooled funds are recorded at market values established by the respective fund trustee.

### (iv) Equities:

All listed equities are traded on major stock exchanges and are valued based on the quoted market price as at year end. If a closing trade price is unavailable, a latest bid price is reflected. If no bid price is available, the most recent trade price is used.

All private equities are valued by the general partner, who in its determination of fair market value considers any legal sale or other liquidity restrictions on the investment. Purchases and sales are recorded on the closing date of the transactions.

### (v) Real estate:

Real estate investments held in pooled funds are recorded at market values established by the respective fund asset manager. Real estate properties are recorded at market value as established by an annual appraisal conducted by qualified external real estate appraisers, reduced by any assessed impairment between the appraisal and year-end dates. Real estate acquired within the year is recorded at cost, which approximates its market value.



# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

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## 3. Significant accounting policies (continued):

### (d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Plan's ability to provide services, its carrying amount is written-down to its residual value. Capital assets, which include computer software, computer hardware, and office equipment, are amortized on a straight-line basis over three years. Amortization expense is reported in the Capital Fund.

Computer projects are amortized on a straight-line basis over three years as the projects are completed.

### (e) Foreign currency transactions and balances:

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

### (f) Income recognition:

Contributions from the members are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

Investment income has been accrued as reported by the issuer of the pooled funds and bonds. Dividend income from publicly traded securities is recorded as of the ex-dividend date. Interest income has been accrued as earned.

### (g) Benefits:

Benefit payments to members, termination refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid or payable. Any benefit payment accruals not paid are reflected in accrued benefit payments.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

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## 3. Significant accounting policies (continued):

### (h) Transaction costs:

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs incurred are expensed and included in current period change in market value of investments.

### (i) Unrealized gains (losses):

The net unrealized gains (losses) for the year are reflected in the statement of changes in net assets.

### (j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of net assets, changes in net assets and related disclosures. Actual results could differ from those estimates. The most significant use of estimates is the assumptions used in the actuarial valuation for the obligations for pension benefits (note 12).

## 4. Change in accounting policy:

On January 1, 2008, the Plan adopted two new accounting standards: Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments - Presentation*.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The revised and enhanced disclosures with respect to these standards are included in note 9 to the financial statements.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

## 5. Contributions and other receivables:

	2008	2007
Contributions receivable - employer	\$ 6,477,048	\$ 6,368,702
Contributions receivable - employee	6,477,048	6,368,702
Due from Healthcare Employees Benefits Plan - Manitoba	201,414	241,378
Other receivables	837,718	885,920
	<u>\$ 13,993,228</u>	<u>\$ 13,864,702</u>

## 6. Investments:

	2008	2007
Short-term investments	\$ 61,457,973	\$ 32,708,507
Bonds	849,795,620	800,418,725
Mortgages	375,259,428	356,537,043
Canadian equities	794,231,889	1,274,050,235
U.S. equities	320,568,317	380,103,180
Global equities	295,947,491	415,493,435
Real estate	323,132,838	297,503,972
	<u>\$ 3,020,393,556</u>	<u>\$ 3,556,815,097</u>

## 7. Capital assets:

	2008		2007	
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	\$ 2,081,027	\$ 1,857,616	\$ 223,411	\$ 285,746
Computer hardware and office equipment	3,529,609	2,932,895	596,714	414,340
Computer projects	3,247,023	3,162,305	84,718	1,198,466
	<u>\$ 8,857,659</u>	<u>\$ 7,952,816</u>	<u>\$ 904,843</u>	<u>\$ 1,898,552</u>

In fiscal 2008, \$726,071 (2007 - \$636,078) was transferred from the Pension Fund to the Capital Fund for the acquisition of capital assets.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

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## 8. Investment income:

	2008	2007
Short-term investments	\$ 1,581,922	\$ 1,889,806
Bonds	40,393,622	37,320,723
Mortgages	20,500,673	19,523,387
Canadian equities	27,960,637	24,507,104
U.S. equities	6,983,852	6,557,538
Global equities	14,342,602	11,335,056
Real estate	14,011,544	10,582,100
Security lending income	388,661	175,188
	<hr/>	<hr/>
	\$ 126,163,513	\$ 111,890,902

## 9. Risk management:

(a) Market risk:

(i) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. The Plan's fixed income investments are exposed to the risk that the value of interest-bearing investments will fluctuate due to changes in the level of market interest rates. The Plan has invested approximately 43 percent (2007 - 33 percent) of its investments in fixed income securities as at December 31, 2008. To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for bonds and other fixed income investments are set and monitored.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

## 9. Risk management (continued):

The remaining terms to contractual maturity of fixed income investments at December 31 are as follows:

	2008	2007
Less than one year	\$ 1,289,140	\$ 1,214,235
One to five years	391,036,004	368,315,078
After five years	457,470,476	430,889,412
<b>Total carrying value</b>	<b>\$ 849,795,620</b>	<b>\$ 800,418,725</b>

The Plan holds the above fixed income securities directly and in-directly through pooled funds. An increase of 100 basis points in interest rates, with all other variables held constant, will impact fixed income investments by an estimated loss of \$67.7 million. The Plan's interest rate sensitivity was determined based on portfolio weighted duration.

### (ii) Foreign currency risk:

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The Plan and its investment managers have the ability to utilize derivative instruments to mitigate foreign currency risk, subject to the approval of the Plan's Investment Committee. The Plan is exposed to fluctuations in the U.S. dollar, Japanese yen and European currencies, notably the Euro, British pound sterling and Swiss franc.

The Plan's exposure in cash and investments to foreign currencies to Canadian dollars is shown below:

As at December 31, 2008	Actual currency exposure	%
Canadian	\$ 2,459,641,547	80.5
US dollar	307,039,957	10.1
Euro	126,831,365	4.1
Japanese yen	67,169,787	2.2
British pound sterling	42,058,083	1.4
Swiss franc	24,153,772	0.8
Other currencies	27,833,678	0.9
	<b>\$ 3,054,728,189</b>	<b>100.0</b>

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

## 9. Risk management (continued):

### (ii) Foreign currency risk (continued):

A 10 percent increase or decrease in exchange rates, with all other variables held constant, would result in a change in unrealized gains (losses) of \$59.5 million.

### (iii) Other price risk:

The Plan's investments in equities are sensitive to market fluctuations. To properly manage the Plan's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set and monitored. A decline of 10 percent in equity values, with all other variables held constant, will impact the Plan's equity investments by an approximate loss of \$141.1 million.

### (b) Credit risk:

The Plan is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due or requested. The Plan's greatest concentration of credit risk is in its fixed income securities. The fair value of the fixed income securities includes consideration of the creditworthiness of the debt issuer. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as payment is made on a purchase once the securities have been received from the broker. For sales transactions, the securities are released once the broker has made payment.

The breakdown of the Plan's bond portfolio by credit rating from various rating agencies is presented below:

Credit rating	2008		2007	
	Market value		Market value	
AAA	\$ 445,377,885	52.4%	\$ 397,007,688	49.6%
AA	221,966,616	26.1%	218,914,521	27.4%
A	173,953,163	20.5%	174,811,449	21.8%
BBB	8,497,956	1.0%	9,685,067	1.2%
	\$ 849,795,620	100.0%	\$ 800,418,725	100.0%

Credit risk associated with contributions and other receivables is minimized due to their nature. The majority of the receivable balances are due from member facilities and are collected from participating members through the payroll process. No provision for doubtful contributions and other receivables has been recorded in either 2008 or 2007. The carrying amounts of fixed income investments and contributions and other receivables represent the maximum credit exposure to the Plan.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

## 9. Risk management (continued):

### (c) Liquidity risk:

Over 76% of the Plan's investments are in liquid securities traded in public markets. These include all U.S. and global equities and the majority of Canadian equities, which is over 47% percent of the Plan assets and is all exchange traded, and bonds. Although market events could lead to some investments becoming illiquid, management believes the diversity of the Plan's portfolio and current contribution levels will ensure that liquidity is available for benefit payments. The Plan's financial statement liabilities have contracted maturities of less than one year.

The Plan's fixed income securities are diversified at December 31 as follows:

	2008		2007	
	Market value	Average coupon rate	Market value	Average coupon rate
Federal	\$ 379,178,805	5.41%	\$ 335,935,739	5.08%
Provincial/ municipal	224,770,942	6.34%	238,684,864	6.09%
Corporate	245,845,873	5.83%	225,798,122	5.66%
Mortgages	375,259,428		356,537,043	
	\$ 1,225,055,048		\$ 1,156,955,768	

## 10. Role of the actuary and auditor:

The actuary has been appointed pursuant to the Plan Text and the Trust Agreement. With respect to the preparation of financial statements, the actuary has been engaged to carry out a valuation of the Plan's assets and liabilities, which consists of a provision for future obligations of the Plan to the members. The valuation is made in accordance with accepted actuarial practice, applicable legislation and any direction received from regulatory authorities, and reported thereon to the Board of Trustees. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the investment rate of return, inflation rates and salary escalation in the future, taking into consideration the circumstances of the healthcare employees and the nature of the liabilities. The actuary, in their review of the management information provided by the Plan used in the valuation, also makes use of the work of the external auditors. The Actuary's Report outlines the scope of their work and opinion.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

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## 10. Role of the actuary and auditor (continued):

The external auditors have been appointed by the Board of Trustees to conduct an independent and objective audit of the financial statements of the Plan in accordance with generally accepted auditing standards and report thereon to the Board of Trustees. In carrying out their audit, the auditors also make use of the work of the actuary and their report on the Plan's liabilities. The Auditors' Report outlines the scope of their audit and their opinion.

## 11. Related party:

The Plan and the Healthcare Employees Benefits Plan - Manitoba (HEBP) have a certain number of common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage.

## 12. Obligations for pension benefits:

As at December 31, 2008, the date of the most recent actuarial Accounting Valuation, the actuarial present value of the accrued pension benefits was \$3,755,410,000 (2007 - \$3,361,456,000) and the actuarial value of the Plan assets was \$3,367,043,000 (2007 - \$3,445,449,000). Since there is no intention of extinguishing the pension obligations in the near term, the obligations are calculated by using the going concern actuarial basis. The projected unit credit actuarial cost method was used by Towers Perrin, the actuary, to determine the actuarial liability and the required current service contributions.

Four significant long-term actuarial assumptions used in the valuation were:

- (a) the liability discount rate was assumed to be 6.5 percent (2007 - 6.5 percent);
- (b) the asset rate of return was assumed to be 6.5 percent (2007 - 6.5 percent);
- (c) inflation rate was assumed to be 3.0 percent (2007 - 3.0 percent); and
- (d) the salary escalation rate was assumed to be 4.5 percent for 2009 and 4.0 percent thereafter (2007 - 4.5 percent for 2008 and 2009 and 4.0 percent thereafter) plus merit and promotion.

The assumptions used in determining the actuarial present value of accrued pension benefits are going concern assumptions adopted by the Trustees and were developed by reference to expected long-term market conditions. As underlying conditions change over time, going concern assumptions adopted by the Trustees may also change, which could cause a material change in the actuarial value of accrued pension benefits.



# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

## 12. Obligations for pension benefits (continued):

Actuarial value of net assets has been determined using the five year moving average market method. Under this method all experience gains and losses are averaged over a five year period. The change in actuarial adjustment of asset carrying value is reflected as deferred investment (gains) losses in the table below.

The Accounting Valuation is prepared for financial statement purposes in accordance with the recommendations of the Canadian Institute of Chartered Accountants using a discount rate equivalent to the current yield on high-quality long term corporate bond and other assumptions that represent management's best estimate of future events. Changes in this valuation are disclosed in the table below.

The actuarial present value of benefits as at December 31, 2008 and December 31, 2007 and the principal components of changes in actuarial present values during the year on an accounting basis were as follows:

	December 31, 2008	December 31, 2007
Market value of net assets	\$ 3,060,948,000	\$ 3,580,913,000
Deferred investment (gains) losses	306,095,000	(135,464,000)
Actuarial value of net assets	3,367,043,000	3,445,449,000
Actuarial present value of accrued pension benefits - beginning of period	3,361,456,000	3,063,934,000
Benefits accrued	191,338,000	184,965,000
Benefits paid	(136,742,000)	(134,341,000)
Interest accrued on benefits	220,241,000	200,775,000
Increase in benefits accrued due to data corrections	11,466,000	13,444,000
Effect of actual experience, change in administrative expenses and change in actuarial basis	107,651,000	32,679,000
Actuarial present value of accrued pension benefits, end of period	3,755,410,000	3,361,456,000
Excess (deficiency) of actuarial value of net assets over actuarial present value of accrued pension benefits	\$ (388,367,000)	\$ 83,993,000

The Accounting Valuation as at December 31, 2008 indicates a deficiency of actuarial value of net assets over actuarial present value of accrued pension benefits of \$388,367,000, as well as a solvency deficiency of \$869,695,000.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2008

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## 12. Obligations for pension benefits (continued):

The Statutory Valuation is prepared for regulatory purposes using assumptions that may be more conservative than those used for the Accounting Valuation. This valuation is filed with the Office of the Superintendent of Pensions for assessment as to whether the Plan is appropriately funded over time. A Statutory Valuation must be performed at least once every three years in accordance with the requirements of The Pension Benefits Act.

The most recent Statutory Valuation for funding purposes was prepared by Towers Perrin as at December 31, 2007. This valuation disclosed a solvency deficiency of \$61,050,000. As is required by legislation, this solvency deficiency will be funded by special payments out of current contributions from participating members, aggregating \$13,647,000 annually, over five years commencing in fiscal 2008.

The primary risk the Plan faces is that the Plan's asset growth and contribution rates will be insufficient to cover the Plan's liabilities (funding risk) resulting in an unfunded liability (funding deficiency). If a funding deficiency reaches a certain level, or persists, it may need to be eliminated through contribution rate increases, pension benefit reductions or a combination of the two.

The Plan's net funded position can change relatively quickly if there are changes in the value of the investments or liabilities. Either can result in a mismatch between the Plan's assets and its liabilities. The most significant contributors to funding risk are:

- declining interest rates
- declining long-term investment rates of return
- unexpected increases in inflation and salary escalation

The Plan's liabilities are affected by non-economic factors like changes in member demographics. The Plan's assets are subject to financial instrument risks which are explained in more detail in note 9 to these financial statements.

## 13. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.