

1 **Q. Reference: Volume 11, Tab 3 - Pension Valuation, p. 21:**

2 **“For this valuation, we have used an adjusted market-value to**
3 **determine the actuarial value of assets. Under this method,**
4 **investment gains (losses) arising during a given year are spread**
5 **on a straight line basis over three years with the resulting**
6 **actuarial value of assets within a 5% corridor of the market**
7 **value of assets.”**

8
9 (a) **Please explain what is meant by “a 5% corridor”.**

10
11 (b) **Please confirm that current Provincial pension policy permits the use of a**
12 **“corridor” up to 15% and that the same corridor is also permissible under**
13 **federally regulated pension plans.**

14
15 (c) **Please confirm that the Actuarial value of assets as shown at p. 21 of the**
16 **Pension Valuation would be \$233,859,000 using a 10% corridor instead of**
17 **\$223,229,000 as presently shown therein (which uses a 5% corridor).**

18
19 (d) **At page 1 of the Pension Valuation prepared by Mercer Actuaries, the**
20 **Solvency deficiency is shown as \$6,933,000. If a 10% corridor were utilized,**
21 **what would the (deficiency) or excess be as at December 31, 2008?**

22
23 A. (a) The 5% corridor constrains the actuarial value of pension plan assets to a range
24 between 95% and 105% of the market value of pension plan assets as at the
25 actuarial valuation date.

26
27 (b) Section 11 (c) of the Pension Benefits Act Regulations under the *Pension Benefits*
28 *Act, 1997* permits the use of smoothing of investment gains and losses over a
29 period of more than 5 years to determine the value of assets for solvency funding
30 purposes. In June 2009, the Provincial Government announced that, from a
31 policy perspective, it is acceptable to smooth assets to a maximum of 15% above
32 the market value of the assets.

33
34 In January 2009, the Federal Government announced that as part of the 2009
35 Federal Budget the smoothed value of pension plan assets for federally regulated
36 pension plans is capped at 15% above the market value of the assets.

37
38 (c) If a 10% corridor were used, the actuarial value of Newfoundland Power pension
39 plan assets would be \$233,859,000 as at December 31, 2008.

40
41 (d) If a 10% corridor were used, the Newfoundland Power pension plan solvency
42 excess would be \$3,697,000 as at December 31, 2008. If a 10% corridor had been
43 used, rather than a 5% corridor, the 2008 Pension Valuation would not have
44 indicated a requirement for special funding payments in order to be fully funded
45 on a solvency basis.