Volume 2, Tab 4 – A Report on Employee Future Benefits

Q. (page 74) Reference is made to the fact that since May, 2004 NP's defined benefit pension plan has been closed to new entrants. At footnote 79, it states that the shift from defined benefit to defined contribution results in a shift of pension investment return risk from employers to employees. Explain the extent to which the shift from defined benefit pensions to defined contribution pensions for new entrants as of May, 2004 may serve to mitigate overall concerns over the long-term potential liability for employee future benefits.

A. Under a defined benefit pension plan retirees receive pension benefits based on their years of service and salary levels, i.e. pension benefits are defined by the terms of the plan. Employees typically contribute a certain percentage of their annual salary to the defined benefit pension plan during their working years. Employer funding is ultimately an actuarially determined amount that, when combined with employee contributions, is expected to be sufficient to satisfy future benefits payments as they become due.

Under a defined contribution pension plan, employees typically contribute a certain percentage of their annual salary to the plan. These contributions are typically matched dollar for dollar by the employer. Therefore, it is the pension contributions rather than the eventual pension benefits that are defined by the terms of the plan. The pension benefits ultimately received by retirees are dependent upon the earnings performance of the various investment vehicles into which the pension contributions have been placed.

The ultimate impact of the shift from defined benefit to defined contribution pension plans is that for all employees hired since the closure of the defined benefit pension plans and for all future hires there will be no liability for employee future benefits related to pensions. The liability of the Company is restricted to current matching contributions as employees render service. For these employees, Newfoundland Power’s liability for employee future benefits is limited to OPEBs.

Over the long term, Newfoundland Power’s liability for employee future benefits related to its defined benefit pension plans will be completely eliminated at the time of death of the last individual now entitled to receive pension benefits under those plans.