



Discussion and Analysis

FUNDING POSITION

The LTD Plan's liabilities are determined using an actuarial valuation that provides an estimate, based on assumptions and projections, of the value of the LTD Plan's commitment to its beneficiaries. The most recent actuarial valuation was completed as at December 31, 2008 by Morneau Sobeco.

Despite the extremely difficult investment markets during 2007 and 2008, the LTD Plan's financial position continued to improve as strong premium revenues and positive claims experience have more than offset investment losses relative to the 5.5% rate of return assumed in the actuarial valuation. The LTD Plan's financial position has improved from a 108% funded ratio and a \$4.9 million surplus at the end of 2006, to a 128% funded ratio and a \$16.6 million surplus as at December 31, 2008. The primary factors producing this \$11.7 million improvement in funded levels since the last valuation were as follows:

- \$19.1 million of premiums in excess of anticipated claims costs
- (\$21.1) million of net investment losses relative to the 5.5% assumed valuation rate
- \$15.6 million of other experience factors (primarily lower than anticipated claims costs)
- (\$1.9) million of costs for ad hoc indexing of claims for inflation occurring in the two years since the December 31, 2006 valuation

As shown above, the main contributors to the strength of the current financial position were premiums received in excess of anticipated claims costs and continuing positive claims experience. The additional revenues from premiums reflect the fact that the premium rates adopted in 2002 were designed to produce revenues greater than projected claims costs in order to address the unfunded liability that the LTD Plan then faced. The continued receipt of these premiums after a fully funded level was reached has enabled the LTD Plan to absorb the substantial investment market declines of the past two years and still strengthen its financial position. The investment losses resulted in earnings substantially less than the 5.5% return assumed in the actuarial valuation. The LTD Plan's continuing success in claims management (both new claims and recovery rates of existing claims) is reflected in the net "other experience factors" gain of \$15.6 million.

In recognition of the LTD Plan's improved financial security, the Trustees have completed an extensive review of benefits and premiums. While the changes under consideration are forward looking and primarily affect only future premiums and costs, a change in approach to indexing of existing claims has also been recommended. To maintain maximum financial flexibility, since 2002, claims have only been increased for inflation after the completion of a subsequent actuarial valuation confirmed the Trust's continuing financial strength. With the improved financial position of the LTD Plan, the Board has recommended claims that have been in force for 24 months or more as of December 31, 2008 be indexed for CPI since the latter of December 31, 2006 or the date they passed 24 months on claim. This change has increased plan liabilities by \$1.9 million.

The LTD Plan has adopted a biennial schedule for valuations; accordingly, the next formal actuarial valuation of the LTD Plan is scheduled for December 31, 2010.

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The following table shows the funding position of the LTD Plan for the last four years

Assets (minus accounts payable) \$ millions	52.5	68.6	77.5	74.9
Accrued Liabilities for Benefits \$ millions	76.8	63.7	59.6	58.3
Surplus/Deficit \$ millions	-24.3	4.9	18.0	16.6
Funded Ratio	68%	108%	130%	128%

Source: Morneau Sobeco