

# **DEFINED BENEFIT PENSION PLAN COMMENTS FROM THE TRUSTEE CO-CHAIRS**

## **FINANCIAL STATEMENTS**

Attached are the annual audited financial statements of the Canadian Blood Services Defined Benefit Pension Plan (the "Plan"). The statements have been reviewed by our external auditor, KPMG LLP, whose report to members is included with the statements.

While members receive annual communications concerning their individual benefit entitlement through the administrator, Morneau Sobeco, the financial statements present the results of the Plan as a whole. Legislation under the Pension Benefits Act requires the employer to file these statements annually with the Financial Services Commission of Ontario. Audited financial statements are available for review on the Plan's website by year, starting with 2005.

## **GOVERNANCE**

The Plan is administered by a Board of Trustees, made up of Trustees appointed equally by Canadian Blood Services and the Participating Unions. There are two co-chairs of the Trustees - one appointed by the union Trustees and one appointed by the employer Trustees. They alternate chairing meetings, which are held at least four times a year.

The Trustees are responsible for interpreting plan rules and ensuring that the plan meets the requirements of all governing legislation.

Their responsibilities include the operation and administration of the plan itself, and custody, investment and management of the pension fund. This includes ensuring that contributions to the plan are remitted in a timely fashion and invested in accordance with the plan's investment policy. The Trustees establish, review and adjust the investment policy to achieve returns that will allow the pension fund to meet the obligations of the plan. In addition, the Trustees ensure that members receive annual statements, that termination and retirement benefits are paid, and that proper records are kept. The Trustees approve payment of plan expenses required to carry out these duties, ensure that financial statements are prepared reporting contributions, investment returns, and payments from the fund. These statements are subject to an annual audit.

In carrying out their responsibilities, the Trustees may engage the services of professional firms and consultants.

Mercer (Canada) Limited is the plan actuary. Morneau Sobeco provides Third Party Administration services. Hewitt Associates is the Trustees' investment consultant. The Trustees have selected a number of investment management firms to invest the assets of the pension plan: Aberdeen Asset Management, Barclays Global Investors, Leith Wheeler Investment Counsel Ltd. and Jarislowsky, Fraser & Co. Ltd.. RBC Dexia Investor Services Trust is the Custodian of the Plan's assets.

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### **MEMBERSHIP**

Plan membership increased in 2007, up 6.5% to 2,657 members from 2,494 members in 2006.

	<b>2007</b>	<b>2006</b>	<b>% change</b>
# members, active	2,295	2,187	4.9%
# members, terminations pending payment	87	82	6.1%
# members, vested deferred (elected to leave funds in account until retirement)	100	85	17.6%
# members, pensioners	175	140	25.0%
	<b>2,657</b>	<b>2,494</b>	<b>6.5%</b>

### **NET ASSETS AVAILABLE FOR BENEFITS**

Net Plan assets available for benefits increased by \$12,782,817, or 10.0%, during 2007, from \$126,945,276 in 2006 to \$139,728,093. This increase was due to \$11,984,180 in employee and employer contributions, \$4,934,564 in investment income, \$549,631 in derecognition of a claim from the Canadian Red Cross Society Pension Plan, and \$48,905 in transfers in from other pension plans. This was offset by \$3,466,467 in payments and recognition of obligations due to members who have left Canadian Blood Services and to pensioners, and \$1,267,996 in administration fees.

### **CONTRIBUTIONS**

Contributions to the Plan increased 9.5% from \$10,946,292 in 2006 to \$11,984,180 in 2007 due to both increased membership and increased salary levels.

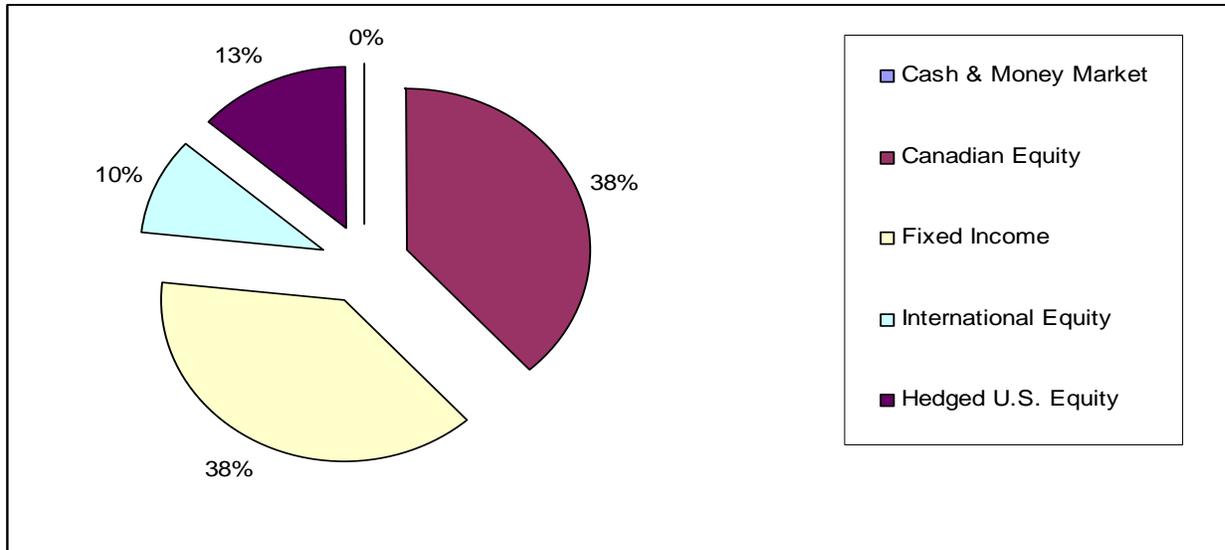
### **INVESTMENT INCOME**

Investment income of the Plan decreased to \$4,934,565 in 2007 from \$14,996,951 in 2006. This represents an overall 3.8% return in 2007 (versus an overall 12.7% return in 2006). The annualized return since inception is 8.7%.

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## ASSET ALLOCATION

The asset allocation at December 31, 2007 was as follows:



## INVESTMENT MANAGEMENT STRUCTURE

Over recent years, Aberdeen's International equity fund had grown significantly. However, the proportion of Aberdeen assets held by the Plan had also grown, and the Plan represented one of only a few unit holders. The Trustees thought it prudent to switch to a larger international equity manager, and therefore in late 2007 moved the international assets from Aberdeen to Grantham, Mayo, Van Otterloo.

## CLAIM FROM CANADIAN RED CROSS SOCIETY PENSION PLAN

In the previous year, the Plan accrued a liability to the Canadian Red Cross Society Pension Plan ("CRCS Plan") in the amount of \$549,631 including interest, related to an overpayment in the transfer of assets to the Plan in 2003. A claim in respect of the overpayment has not been pursued against the Plan. During the year, the Plan derecognized the liability as any claim would now be barred by the Limitations Act.

## TERMINATION BENEFITS

The total amount due to members who have left and are waiting to transfer funds out of the Plan decreased to \$1,484,378 in 2007 from \$1,667,222 in 2006.

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### **ADMINISTRATION FEES**

As specified in the Plan Text, administration fees are paid by the Plan. Total administration fees increased 18.9% to \$1,267,996 in 2007 from \$1,066,362 in 2006. The increase in administration fees includes the following:

**a) Investment management fees.** These fees increased 35.7% to \$506,960 in 2007 from \$373,612 in 2006 due to the increase in assets managed and a change in the fee structure for foreign investments.

**b) Third party administration fees.** These fees are provided by Morneau Sobeco and totalled \$351,328 in 2007, up 5.2% from \$333,983 in 2006.

**c) Other plan expenses.** These expenses are incurred for:

- investment monitoring, legal and actuarial services
- project management and accounting services
- Trustee meeting and travel costs
- annual plan registration fees
- member communication
- audit services

Other plan expenses increased 14.2% to \$409,708 in 2007 primarily due to the international manager search, contract negotiations and transition of investments managed by Aberdeen to those managed by Grantham, Mayo, Van Otterloo. Other plan expenses fluctuate from year to year, depending on the initiatives underway. Other plan expenses are expected to be lower in 2008 since there is no anticipated requirement to make changes to the investment management structure.

### **ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS**

The Trustees are responsible for ensuring that an actuarial valuation is done at least once every three years. An actuarial valuation is a forecast of the plan's obligations. It is used to determine the level of required contributions for the period covered by the report - normally three years - and to determine if there is a surplus (more assets than liabilities) or a deficit (more obligations than assets). A surplus may be held as a reserve against future performance or experience losses, used to improve benefits or used to reduce the cost of the plan (the level of required contributions). The Plan Text specifies how any deficit must be reversed and may result in an increase in contributions. The Trustees also approve the assumptions and methodology used in the valuation. Actuarial valuations are provided to the plan's sponsors (Canadian Blood Services and the Participating Unions) for information.

The actuarial valuation results shown in the financial statements for 2007 reflect a full actuarial valuation of the Plan completed as of December 31, 2007 in accordance with

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the minimum requirements of the Ontario Pension Benefits Act. The next valuation must be completed no later than as of December 31, 2010.

The difference between the actuarial value of net assets available for benefits and the actuarial present value of accrued pension benefits at December 31, 2007 was a surplus of \$7,443,465, down from a surplus of \$11,104,965 at December 31, 2006. This decrease is mainly due to a lower asset return in 2007 versus the assumed actuarial asset return.

Based on the latest valuation results, a change in contribution rates is required. The current service cost of the DB Plan has increased since the last valuation. This is attributable to volatility of current financial markets, as well as to improved mortality rates. People are living longer, therefore their pensions need to last longer, and this translates to higher costs and higher contributions. Effective January 1, 2009 the contribution rate will increase by 0.15% for both members and Canadian Blood Services.

	<u>From</u>	<u>To</u>
Members:	5.0%	5.15%
CBS:	7.0%	7.15%

After reviewing the current financial position of the Plan and the available surplus at December 31, 2007, the Trustees decided to update indexing of pensions to full CPI effective January 1, 2008 and directed that the balance of the surplus be held as a reserve for future adverse contingencies.