

2015-2016 Provincial Judges and Masters in Chambers
Registered and Unregistered Pension Plans Annual Report



**Annual Report
for the year ended March 31, 2016**

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Introduction

The Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans (referred to collectively as “the Plan” or “the Judges Pension Plan”) are contributory defined benefit plans for provincial court judges appointed under the *Provincial Court Act* and masters in chambers appointed under the *Court of Queen’s Bench Act*.

The Plan was established in 2001 with provisions retroactive to April 1, 1998, replacing the Provincial Judges and Masters in Chambers Pension Plan that was established September 1, 1988. Prior to September 1988, judges and masters in chambers were contributing members of the Public Service Management Pension Plan. The Plan incorporates the pension recommendations arising from 1998, 2000, 2006, 2009 and 2012 Judicial Compensation Commissions.

The President of Treasury Board and Minister of Finance (referred to as “the Minister”) is the legal trustee for the Plan, and the Ministry of Treasury Board and Finance (“the Ministry”) is responsible for management of the Plan. On behalf of the Minister, Alberta Pensions Services Corporation (APS) is responsible for the Plan administration, and fund investment is managed by Alberta Investment Management Corporation (AIMCo). The Plan is audited annually by the Auditor General of Alberta and actuarial valuations of the Plan are conducted at least every three years.

Established in 2002, the Judges’ Pension Plan Advisory Committee provides advice to the Minister on administration of the Plan. Additionally, the Judges’ Pension Plans Investment Committee was formed in 2007; its mandate is to oversee investment of the Plan’s funds and to approve the investment policies for the funds.

Plan rules are found in the *Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans Regulation* which is established pursuant to the *Provincial Court Act*, the *Court of Queen’s Bench Act* and the *Interpretation Act*.

Plan Profile

The Plan is financed by contributions from participants and the Government of Alberta (“the Province”) as well as investment earnings. Upon retirement, members receive a pension based on their salary and years of pensionable service.

The Provincial Judges and Masters in Chambers (Registered) Pension Plan Fund was established to fund the registered part of the Plan, and provides benefits up to the maximum allowed for registered pension plans under federal tax rules.

The Retirement Compensation Arrangement (RCA) Fund and Reserve Fund have been established to fund the unregistered part of the Plan, to provide benefits in excess of those limits.

From April 1, 2000 onward, the contribution rate to the Registered Plan for participants is seven per cent of salary below the maximum pensionable salary limit allowed for registered plans under the *Income Tax Act* (“capped salary”). The Province pays the remaining costs and the contribution rate in effect at March 31, 2016 is 17.75 per cent of capped salary. In addition, annual payments by government of \$932,500 are made in order to amortize the unfunded liability in the Plan over 15 years.

A Retirement Compensation Arrangement (RCA) Fund has been established to fund the Unregistered Plan. An RCA is, under federal tax rules, an approved means of providing a supplementary pension above the registered plan limits. It is administered separately from the Registered Plan Fund. The RCA Fund is also funded by contributions from participants and the Province. The contribution rate in effect at March 31, 2016 is 7 per cent of pensionable salary in excess of the capped salary allowed under the federal *Income Tax Act* for both participants and the Province. The contribution rate for the Province must equal or exceed the rate payable by participants.

Due to the tax treatment of the RCA Fund, contributions to and investment income from the RCA Fund are not large enough to provide for all the expected future benefit payments from the Unregistered Plan. As a result, the Province has established a Reserve Fund. The Reserve Fund is a separate, regulated fund administered by the Province, and it is reported in the President of Treasury Board and Minister of Finance consolidated financial statements and annual report. Only the Province makes contributions to the Reserve Fund, which are then invested and reserved to meet future benefit payments.

The contribution rate to the Reserve Fund portion of the Unregistered Plan is 42.86% over the salary limit. In addition, annual payments by government of \$2,235,700 are made in order to amortize the unfunded liability in the Unregistered Plan over 15 years.

This contribution rate change was approved by the President of Treasury Board and Minister of Finance per the recommendations of the March 31, 2014 Actuarial Valuation.

Together, the Registered Plan and Unregistered Plan provide a pension based on two per cent of a member's highest average salary for years of pensionable service before April 1, 1998; 2.67 per cent of a member's highest average salary for years of pensionable service between April 1, 1998 to March 31, 2000; and three per cent of a member's highest average salary for years of pensionable service after March 31, 2000. Members attain their maximum benefit accrual date when their benefit accrual percentage reaches 70 per cent. Members are able to retire with an unreduced pension as early as age 60 if their age and years of pensionable service total at least 80. Members can retire with a reduced pension at age 55 if they have at least five years of pensionable service. Judges who retired before April 1998 do not receive the supplemental benefit.

As of March 31, 2016, the Registered Plan had 127 active participants, 2 inactive participants and 152 pensioners and beneficiaries.

As of March 31, 2016, the Unregistered Plan comprised 127 active participants, 2 inactive participants and 139 pensioners and beneficiaries.

Judges' Pension Plan Committees

Established in 2002, the Judges' Pension Plan Advisory Committee consists of five representatives—one member from Alberta Treasury Board and Finance, two members from Alberta Justice and Solicitor General, and two non-voting members of the judiciary.

The Advisory Committee provides advice to the President of Treasury Board and Minister of Finance on administration of the Plan.

The Judges' Pension Plan Investment Committee was established in 2007. The Committee consists of three representatives: two members from Alberta Treasury Board and Finance and one member from the Alberta Justice and Solicitor General. The Committee's mandate is to approve the investment policies and oversee investment of the Plan's funds.

Contributions

Registered Plan

The schedule below summarizes contributions to the Registered Plan for the year ended March 31, 2016

Active Participants at March 31, 2016	Contributions Received In the Year Ended March 31, 2016			Year Ended March 31, 2015
	Province (\$ thousands)	Participants (\$ thousands)	Total (\$ thousands)	Total (\$ thousands)
127	3,936	1,198	5,134	4,396

Unregistered Plan

The schedule below summarizes contributions to the RCA Fund as well as the Reserve Fund for the year ended March 31, 2016:

	Contributions Received In the Year Ended March 31, 2016			Year Ended March 31, 2015
	Province (\$ thousands)	Participants (\$ thousands)	Total (\$ thousands)	Total (\$ thousands)
RCA Fund	1,554	1,554	3,108	2,272
Reserve Fund	11,191	N/A	11,191	6,716

Pension Benefits

During the year ended March 31, 2016, pension benefits paid from the Registered Plan totalled \$7,830,000 to 152 pensioners, pension partners and beneficiaries (2015: \$7,754,000 to 150 pensioners, pension partners and beneficiaries). Pension benefits paid from the Unregistered Plan totalled \$6,209,000 to 139 pensioners, pension partners and beneficiaries (2015: \$5,713,000 to 137 pensioners, pension partners and beneficiaries).

On January 1, 2016, a Cost-of-Living Adjustment (COLA) was granted to those pensioners and beneficiaries in receipt of a pension for one year or more. COLA is calculated at 60 per cent of the increase in the *Alberta Consumer Price Index (ACPI)* for Judges who retired before April 1, 2009 and was 0.72 per cent. If a Judge retired after March 31, 2009, their COLA is calculated at 100 per cent and was 1.2 per cent.

Actuarial Valuation

The *Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plan Regulation* requires that an actuarial valuation be completed at least every three years.

An actuarial valuation of the Plan was carried out as at March 31, 2014 by Aon Hewitt and the results were then extrapolated to March 31, 2016. The estimated accrued liability of the Registered Plan at March 31, 2016 is \$135.7 million compared to \$133.8 million a year earlier. The net assets available for benefits at March 31, 2016 are \$135.5 million (2015: \$135.8 million), producing an estimated deficit of \$0.3 million (2015: \$2.0 million surplus).

An actuarial valuation of the Unregistered Plan was carried out as at March 31, 2014 by Aon Hewitt and the results were then extrapolated to March 31, 2016. The estimated accrued liability of the Unregistered Plan at March 31, 2016 is \$193.0 million compared to \$177.4 million a year earlier. The Unregistered Plan showed net assets available for benefits of \$170.2 million at March 31, 2016 (2015: \$160.5 million) and an estimated deficit of approximately \$22.8 million (2015: deficit of \$16.9 million).

Administration

Administration of the Registered and Unregistered Plans is performed by APS. Administration expenses, for the year ended March 31, 2016 were \$82,000 (2015: \$134,000) for the Registered Plan and \$81,000 (2015: \$121,000) for the Unregistered Plan.

Investments – Registered Plan

Investment Performance

The Registered Plan’s investments gained 12.7% in 2014-15 as compared to the benchmark of 13.2%. Foreign and Canadian equities gained 19.3% and 7.9% respectively, infrastructure investments gained 15.5%, interest-bearing securities gained 10.1%, followed by real estate earning 8.3%.

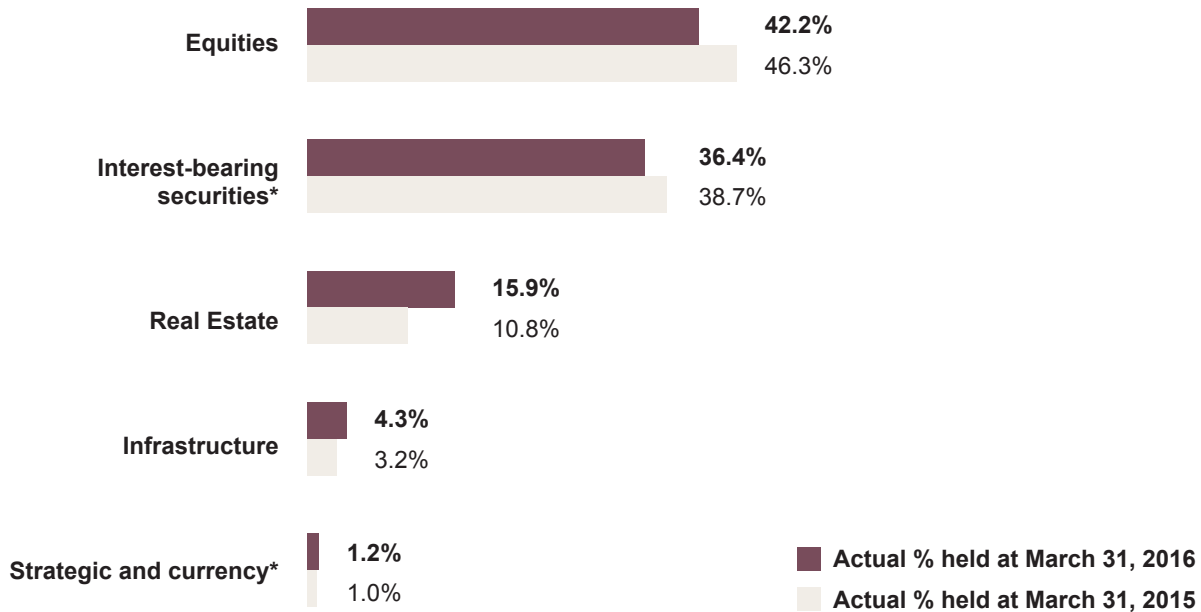
Alberta Treasury Board and Finance estimates a long-term investment rate of return of 5.6% per annum. Over the past 20 years, the Registered Plan’s investments earned an average return of 8.1% per annum and 7.9% since inception.

Investment Returns For the Years Ending March 31 (in percent)

	2015-16	2014-15	2013-14	2012-13	Average Annualized Returns			
					4 years	8 years	20 years	Lifetime
Overall Actual Return	1.9	12.7	14.5	10.7	9.8	6.7	7.4	7.6
Policy Benchmark	0.1	13.2	13.4	8.8	8.7	6.3	7.1	7.3
Value Added (Lost)	1.8	(0.5)	1.1	1.9	1.1	0.4	0.3	0.3

Asset Allocation

The Registered Plan’s assets are allocated to capture the historically higher rates of return from equities. While equities are still the largest holding, investment in inflation sensitive securities continues to increase. The chart below compares the Registered Plan’s actual asset mix at March 31, 2016 to the actual asset mix held at March 31, 2015. During the year, decreases in equities and interest-bearing securities offset increases in real estate, infrastructure and strategic and currency investments.

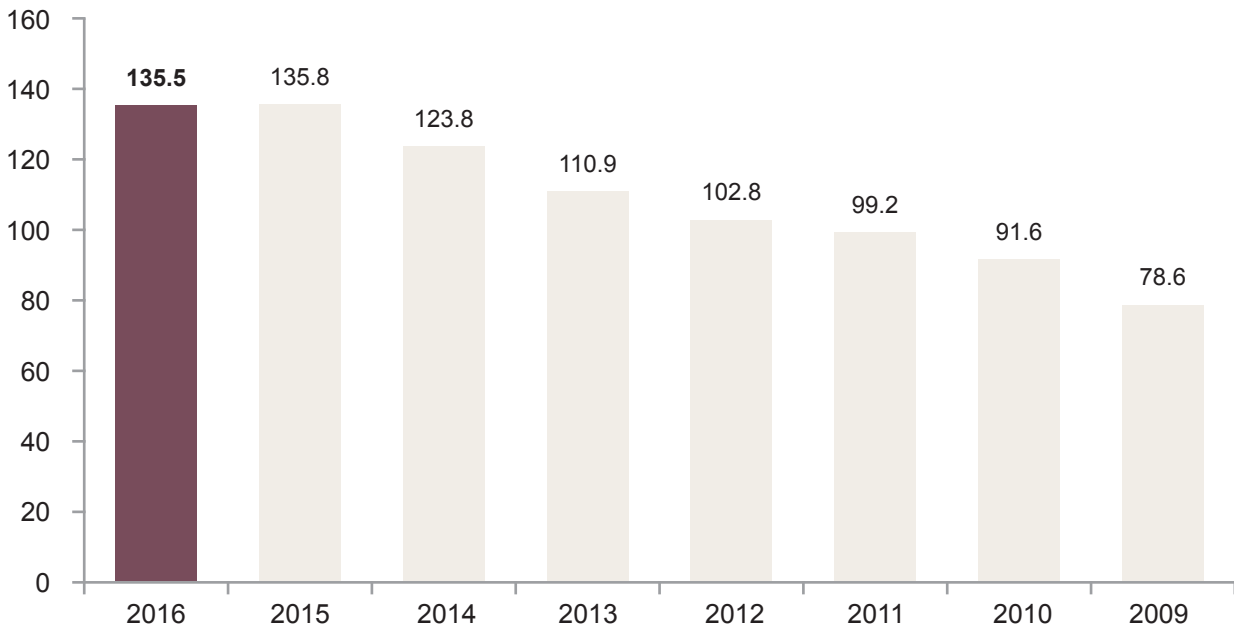


* Currency investments were reclassified from interest-bearing securities to strategic investments in 2015-16. Prior year amounts were reclassified to conform to the 2016 presentation.

Change in Net Assets

Low returns in contributed to an overall decrease in net assets. At March 31, 2016, net assets available to pay benefits in the Registered Plan totaled \$135.5 million, down \$0.3 million, or (0.2)% from \$135.8 million at March 31, 2015. The decrease includes investment income, net of fees, of \$2.5 million offset by an excess of benefits paid over contributions received of \$2.8 million.

Net Assets Available for Benefits at March 31 (in millions)



Investments

Investments – Unregistered Plan

The Unregistered Plan, which is an RCA under the federal *Income Tax Act*, consists of two accounts: the RCA Fund and a refundable tax account. Half of the contributions from judges and masters in chambers and the Province are deposited in the RCA Plan. The other half of contributions and 50% of the RCA Plan’s realized income are forwarded to the Canada Revenue Agency and held in a refundable tax account. The refundable tax account does not earn interest. Refundable income tax is returned to the Unregistered Plan at the same rate when pension benefits are paid to participants and beneficiaries.

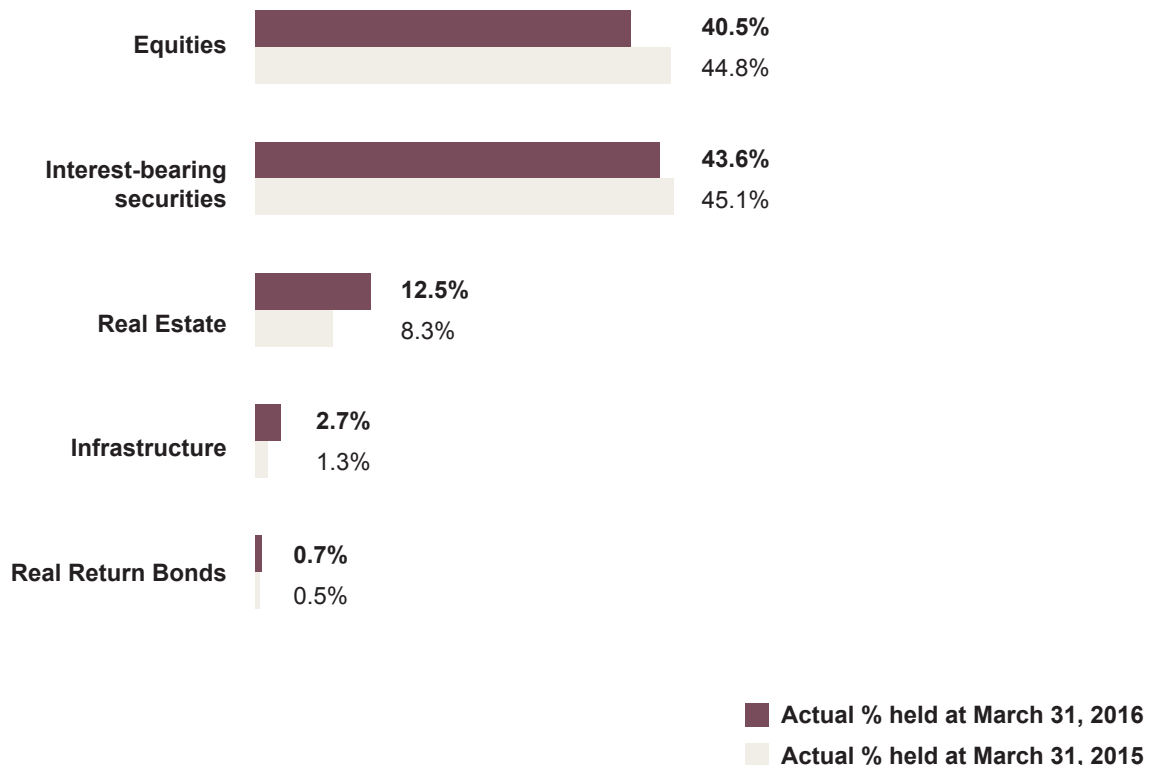
Additionally, due to the tax treatment of the Unregistered Plan, contributions to and investment income from the RCA Plan are not large enough to provide for all expected future benefit payments. As a result, the Government of Alberta established a regulated Reserve Fund, which is administered by the Alberta Treasury Board and Finance. Contributions are collected from the Government only; the funds are invested and then reserved to meet future benefits of the Unregistered Plan.

Investment Performance

The Unregistered Plan posted an overall gain of 1.0%, compared to the policy benchmark gain of 0.0%, resulting in a value added gain from investment management of 1.0%. The Unregistered Plan has 4-year and 8-year annualized returns of 9.2% and 6.1% respectively. Alberta Treasury Board and Finance estimates a long-term annualized investment rate of return of 4.7% per annum.

Asset Allocation

The chart below compares the actual asset mix of the Unregistered Plan, including the Reserve Fund, at March 31, 2016 against the actual asset mix at March 31, 2015. The decrease in equities and interest-bearing securities offsets increases in real estate, infrastructure and strategic opportunities.



Net Assets Available for Benefits

The table below summarizes the composition of the Unregistered Plan at March 31, 2016:

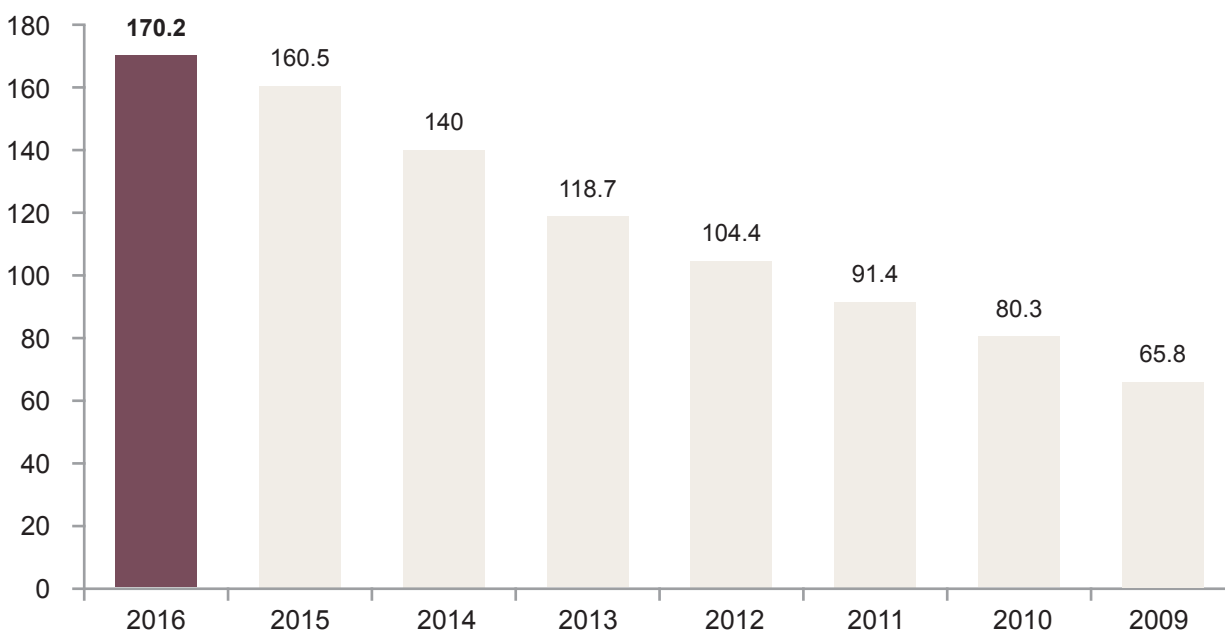
Summary of Net Assets at March 31, 2016 (in millions)

	Reserve Fund	RCA Fund	Total
Interest bearing securities	\$ 71.6	\$ 0.4	\$ 72.0
Deposits and short-term securities	3.9	0.4	4.3
Bonds and mortgages	67.7	0.0	67.7
Equities	67.0	0.0	67.0
Canadian equities	24.6	0.0	24.6
Foreign equities	42.4	0.0	42.4
Inflation sensitive	25.2	0.0	25.2
Real estate	20.7	0.0	20.7
Infrastructure	4.5	0.0	4.5
Strategic and currency	1.1	0.0	1.1
Total investments	164.9	0.4	165.3
Accounts receivable	0.0	0.0	0.0
Accounts payable, net	0.0	(0.2)	(0.2)
Income tax refundable	0.0	5.1	5.1
Net assets	\$ 164.9	\$ 5.3	\$ 170.2

Change in Net Assets

At March 31, 2016, net assets available to pay benefits in the Unregistered Plan totaled \$170.2 million, up \$9.7 million, or 6.0%, from \$160.5 million at March 31, 2015. The increase includes investment income of \$1.7 million, net of investment expenses, and contributions in excess of benefits paid of \$8.0 million.

Net Assets Available for Benefits at March 31 (in millions)



**PROVINCIAL JUDGES AND MASTERS IN CHAMBERS
REGISTERED AND UNREGISTERED PENSION PLANS**

Financial Statements

Year Ended March 31, 2016

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Independent Auditor's Report



To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan, which comprise the statements of financial position as at March 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan as at March 31, 2016, and the changes in the plans' net assets available for benefits and changes in the plans' pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Original signed by Merwan N. Saher FCPA, FCA

Auditor General

June 8, 2016

Edmonton, Alberta

Statements of Financial Position

As at March 31, 2016

	Registered Plan Note 1a (\$ thousands)		Unregistered Plan Note 1a (\$ thousands)	
	2016	2015	2016	2015
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	\$ -	\$ -	\$ 370	\$ 640
Investments (Note 4)	135,434	135,779	-	-
GST receivable	27	27	-	-
Other receivable	25	3	13	1
Income tax refundable	-	-	5,089	5,870
Due from Reserve Fund (Note 6)	-	-	164,859	154,499
Total assets	135,486	135,809	170,331	161,010
Liabilities				
Accounts payable	19	34	167	470
Total Liabilities	19	34	167	470
Net assets available for benefits	\$ 135,467	\$ 135,775	\$ 170,164	\$ 160,540
Pension obligation and (deficit)				
Pension Obligation (Note 7)	135,738	133,769	192,975	177,422
(Deficit) Surplus (Note 8)	(271)	2,006	(22,811)	(16,882)
Pension obligation and (deficit)	\$ 135,467	\$ 135,775	\$ 170,164	\$ 160,540

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended March 31, 2016

	Registered Plan (\$ thousands)		Unregistered Plan (\$ thousands)	
	2016	2015	2016	2015
Increase in assets				
Contributions (Note 9)	\$ 5,134	\$ 4,396	\$ 3,108	\$ 2,272
Investment income (Note 10)	3,175	16,207	22	32
Transfers from the Reserve Fund	-	-	2,450	3,300
Increase in due from Reserve Fund	-	-	10,360	20,800
	<u>8,309</u>	<u>20,603</u>	<u>15,940</u>	<u>26,404</u>
Decrease in assets				
Benefit payments (Note 12)	7,830	7,754	6,209	5,713
Investment expenses (Note 13)	705	745	26	26
Administrative expenses (Note 14)	82	134	81	121
	<u>8,617</u>	<u>8,633</u>	<u>6,316</u>	<u>5,860</u>
Increase in net assets	(308)	11,970	9,624	20,544
Net assets available for benefits at beginning of year	135,775	123,805	160,540	139,996
Net assets available for benefits at end of year	<u>\$ 135,467</u>	<u>\$ 135,775</u>	<u>\$ 170,164</u>	<u>\$ 160,540</u>

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended March 31, 2016

	Registered Plan (\$ thousands)		Unregistered Plan (\$ thousands)	
	2016	2015	2016	2015
Increase in pension obligation				
Interest accrued on benefits	\$ 7,504	\$ 7,524	\$ 9,188	\$ 8,751
Benefits earned	4,141	3,842	13,194	8,525
Increase due to actuarial assumption changes	-	5,670	-	13,700
Impact of Judicial Compensation Commission	7	-	1,431	-
	<u>11,652</u>	<u>17,036</u>	<u>23,813</u>	<u>30,976</u>
Decrease in pension obligation				
Benefits, transfers and interest	7,830	7,754	6,209	5,713
Decrease due to actuarial assumption changes	700	-	1,823	-
Net experience gains	1,153	949	228	1,282
	<u>9,683</u>	<u>8,703</u>	<u>8,260</u>	<u>6,995</u>
Net increase in pension obligation	1,969	8,333	15,553	23,981
Pension obligation at beginning of year	133,769	125,436	177,422	153,441
Pension obligation at end of year (Note 7)	<u>\$ 135,738</u>	<u>\$ 133,769</u>	<u>\$ 192,975</u>	<u>\$ 177,422</u>

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2016

(all dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Provincial Judges and Masters in Chambers Registered Pension Plan (Registered Plan) and the Provincial Judges and Masters in Chambers Unregistered Pension plan (Unregistered Plan) is a summary only. The Registered Plan and the Unregistered Plan, collectively, are contributory defined benefit plans for provincial court judges appointed under the *Provincial Court Act* and masters in chambers appointed under the *Court of Queen's Bench Act*. For a complete description of the plans, reference should be made to the Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans *Alberta Regulation 196/2001*, as amended, which is established pursuant to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, and the *Court of Queens Bench Act*, Revised statutes of Alberta 2000, Chapter F-12. The plans are administered and accounted for by the Province of Alberta (Province) separately; however, the regulation allows for the financial report of both plans to be combined within the same report.

a) GENERAL

The plans were established with effect from April 1, 1998. The Registered Plan provides, to members, benefits up to the maximum allowed for registered pension plans under federal tax rules. It is a registered pension plan as defined in the *Income Tax Act* and the registered number is 0927764. The Unregistered Plan which provides benefits, to members, in excess of those limits is a Retirement Compensation Arrangement (RCA) under the *Income Tax Act*. The Registered Plan is financed by contributions from members and the Province as well as investment earnings. The Unregistered Plan is also funded by contributions from members and the Province. Due to the tax treatment of the RCA, contributions and investment income from the RCA are not large enough to provide for all of the expected future benefit payments from the Unregistered Plan. As a result, the Province has established the Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) (see note 6) to collect contributions from the Province. These contributions are provided by the Department of Justice and Solicitor General. The President of Alberta Treasury Board, Minister of Finance is the legal trustee of both plans and Alberta Treasury Board and Finance is management of both plans.

b) FUNDING POLICY

The Registered Plan current service costs are funded by the Province and members at rates which are expected to provide for all benefits payable under the Registered Plan. The rates in effect at March 31, 2016 are 7.00% of *capped salary* for members and 17.75% (2015:13.12%) of *capped salary* for the Province. In addition, annual payments by the Province of \$932 (2015: \$1,006) are made towards the unfunded liability of the Registered Plan. The rates are reviewed at least once every three years by the Province based on recommendations of the plan's actuary.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

CONTINUED

The Unregistered Plan contribution rates in effect at March 31, 2016 are unchanged at 7.0% of pensionable salary in excess of capped salary for members and 7.0% of the excess for the Province. The contribution rate for the Province must equal or exceed the rate payable by members and is set by the President of Treasury Board, Minister of Finance, taking into account recommendations of the plan's actuary. If assets held in the Unregistered Plan are insufficient to pay for benefits as they become due, the amount due is payable by the Province.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 42.86% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of \$2,235 (2015: 1,784) are made towards the unfunded liability of the Unregistered Plan.

c) RETIREMENT BENEFITS

The Registered Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years for retirements prior to April 1, 2006 and three consecutive years for retirements subsequent to March 31, 2006. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable *salary limit* under the *Income Tax Act*. The maximum benefit accrual percentage allowable under the Registered Plan is 70%. The normal pensionable age is 70 years of age.

Together the Registered Plan and Unregistered Plan provide a pension based on 2 percent of a member's highest average salary for years of pensionable service before April 1, 1998; 2.67 percent of a member's highest average for years of pensionable service between April 1, 1998 to March 21, 2000 and 3 percent of a member's highest average salary for years of pensionable service after March 31, 2000.

Members who terminated after March 31, 1998 are entitled to an unreduced pension on service after 1991 and before April 1, 1998 if they have 5 years of service and have attained the age of 55 years with the sum of his or her age and judicial service amounting to at least 80 years, or has attained the age of 60 years.

Members are entitled to an unreduced pension on service after March 31, 1998 if they retire with at least 5 years of service and have attained the age 60 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members who have attained age 70.

d) DISABILITY BENEFITS

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

g) PROVINCE OF ALBERTA'S LIABILITY FOR BENEFITS

Benefits are payable by the Province if assets are insufficient to pay for all benefits under the plans.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index for persons who terminated before April 1, 2009. For persons who terminated after March 31, 2009, pensions payable are increased each year on January 1st by an amount equal to 100% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES**a) BASIS OF PRESENTATION**

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. Both plans have elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to the investment portfolio or pension obligations. The statements provide information about the net assets available in both plans to meet future benefit payments and are prepared to assist members and others in reviewing the activities for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 4, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Registered Plan does not report the financial instruments of the pools on its statement of financial position.

The Registered Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Registered Plan reports its share of the financial risks in Note 5.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...

CONTINUED

The fair value of pool units held directly by the Registered Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 4b). Investments in pool units are recorded in the Registered Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

- (a) Investment income is recorded on an accrual basis.
- (b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Plan's accounts:
 - i. Income distributions from the pools.
 - ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Registered Plan to earn investment income (see Note 13). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUE OF PENSION OBLIGATION

The value of the pension obligations and changes therein during the year are based on actuarial valuations prepared by an independent firm of actuaries. The valuations are made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuations use the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation dates, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the pension obligations, private investments, hedge funds and private real estate investments. Uncertainty arises because:

- i) actual experience may differ, perhaps significantly, from assumptions used in the calculation of the pension obligations, and
- ii) the estimated fair values of the private investments, hedge funds and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the pension obligations, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the pension obligations are disclosed as net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Registered Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

The Unregistered Plan is a RCA as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Unregistered Plan at the same rate when pension benefit payments are made to members and beneficiaries.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF is a pool comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2016, securities held by the CCITF have a time weighted rate of return of 0.8% per annum (2015: 1.2% per annum).

NOTE 4 INVESTMENTS

The Registered Plan's investments are managed at the asset class level for purposes of evaluating the plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Registered Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Judges' Pension Plans Investment Committee (the Investment Committee). The fair value of the pool units is based on the Registered Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Registered Plan, and units of the pools, within the ranges approved for each asset class (see Note 5).

Asset class	(\$ thousands)				
	Fair Value Hierarchy ^(a)			2016	2015
	Level 1	Level 2	Level 3	Fair Value	Fair Value
Fixed income securities					
Deposits and short-term securities	\$ -	\$ 1,264	\$ -	\$ 1,264	\$ 879
Bonds, mortgages and private debt	-	42,701	5,314	48,015	51,647
	-	43,965	5,314	49,279	52,526
Equities					
Canadian	16,959	4,652	-	21,611	20,368
Global	17,258	5,543	12,731	35,532	42,488
	34,217	10,195	12,731	57,143	62,856
Inflation sensitive					
Real estate	-	-	21,515	21,515	14,649
Infrastructure	-	-	5,809	5,809	4,352
	-	-	27,324	27,324	19,001
Strategic and currency investments*	-	(46)	1,734	1,688	1,396
Total investments	\$ 34,217	\$ 54,114	\$ 47,103	\$ 135,434	\$ 135,779

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 5).

a) Fair Value Hierarchy: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- **Level 1** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling \$34,217 (2015: \$41,982).
- **Level 2** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling \$54,114 (2015: \$55,864). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- **Level 3** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, and certain alternative investments totalling \$47,103 (2015: \$37,933).

Reconciliation of Level 3 Fair Value Measurement

	(\$ thousands)	
	2016	2015
Balance, beginning of year	\$ 37,933	\$ 24,340
Investment income*	2,874	3,655
Purchases of Level 3 pooled fund units	12,557	13,689
Sale of Level 3 pooled fund units	(6,261)	(3,751)
Balance, end of year	\$ 47,103	\$ 37,933

* Investment income includes unrealized gains of \$763 (2015: \$949).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- **Fixed income securities:** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- **Equities:** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- **Inflation sensitive:** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure is estimated by managers or general partners of infrastructure funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. More established investments are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- **Strategic and currency investments:** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. Currency investments consists of directly held forward and spot contracts.
- **Foreign currency:** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- **Derivative contracts:** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pools (see Note 5f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating

NOTE 4 INVESTMENTS

CONTINUED

rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 5 INVESTMENT RISK MANAGEMENT

The Registered Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Registered Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Registered Plan are clearly outlined in the SIP&G. The purpose of the SIP&G is to ensure the Registered Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Registered Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5b).

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Investment Committee has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix			
		2016		2015	
		(\$ thousands)	%	(\$ thousands)	%
Fixed income securities	30 - 45%	\$ 49,279	36.4	\$ 52,526	38.7
Equities	30 - 50%	57,143	42.2	62,856	46.3
Inflation sensitive	15 - 35%	27,324	20.2	19,001	14.0
Strategic and currency investments	(a)	1,688	1.2	1,396	1.0
		\$ 135,434	100.0	\$ 135,779	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Registered Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Plan.

a) Credit Risk**i) Debt securities**

The Registered Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade. The following table summarizes the Registered Plan's investment in debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	91.9%	92.0%
Speculative Grade (BB+ or lower)	0.0%	0.6%
Unrated	8.1%	7.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Registered Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 5f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Registered Plan's share of securities loaned under this program is \$4,960 (March 31, 2015: \$3,059) and collateral held totals \$5,228 (March 31, 2015: \$3,212). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Registered Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial

NOTE 5 INVESTMENT RISK MANAGEMENT

CONTINUED

instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 27% (2015: 31%) of the Registered Plan's investments, or \$36 million (2015: \$41 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 14% (2015: 16%) and the euro, 3% (2015: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Registered Plan would be approximately 2.7% (2015: 3.1%).

The following table summarizes the Registered Plan's exposure to foreign currency investments held in the pools at March 31, 2016:

<u>Currency</u>	(\$ millions)			
	2016		2015	
	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	\$ 19	\$ (1.9)	\$ 22	\$ (2.2)
Euro	4	(0.4)	4	(0.4)
Japanese yen	3	(0.3)	3	(0.3)
British pound	2	(0.2)	3	(0.3)
Other foreign currencies (below 1%)	8	(0.8)	9	(0.9)
Total foreign currency investments	\$ 36	\$ (3.6)	\$ 41	\$ (4.1)

c) Interest Rate Risk

The Registered Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Registered Plan would be approximately 2.5% (2015: 2.7%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Registered Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Registered Plan would be approximately 4.9% (2015: 5.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Registered Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Registered Plan are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Registered Plan's future liabilities include the accrued pension benefits obligation and payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Registered Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Plan's Indirect Share (\$ thousands)	
		2016	2015
Contracts in favourable position (current credit exposure)	36	\$ 1,451	\$ 270
Contracts in unfavourable position	12	(658)	(892)
Net fair value of derivative contracts	48	\$ 793	\$ (622)

- (i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling \$1,451 (2015: \$270) were to default at once.
- (ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
- (iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 5. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Plan's Indirect Share (\$ thousands)	
	2016	2015
Structured equity replication derivatives	\$ 629	\$ (9)
Interest rate derivatives	(207)	(456)
Foreign currency derivatives	324	(275)
Credit risk derivatives	47	118
Net fair value of derivative contracts	\$ 793	\$ (622)

- (i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

NOTE 5 INVESTMENT RISK MANAGEMENT

CONTINUED

- (ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.
- (iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.
- (iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.
- (v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled \$435 (2015: \$385) and deposits as collateral for derivative contracts totalled \$25 (2015: \$11).

NOTE 6 DUE FROM RESERVE FUND

The Provincial Judges and Masters in Chambers Reserve Fund is established to collect contributions from the Province and to invest the funds, which are set aside to meet future benefit payments of the Unregistered Plan. Separate financial statements are prepared for the Reserve Fund and can be found in the Ministry of Alberta Treasury Board and Finance Annual Report. The table below summarizes the net assets of the Reserve Fund at March 31.

	(\$ thousands)	
	2016	2015
Interest-bearing securities	\$ 71,609	\$ 69,280
Public equities	66,950	69,577
Alternatives	25,196	14,921
Strategic currency investments	1,104	721
	<u>\$ 164,859</u>	<u>\$ 154,499</u>

During the year, net assets of the Reserve Fund increased by \$10,360 (2015: \$20,800), comprised of employer contributions of \$11,191 (2015: \$6,716), investment income of \$2,289 (2015: \$18,051) less investment expenses of \$670 (2015: \$667) and transfers of \$2,450 (2015: \$3,300).

NOTE 7 PENSION OBLIGATION**a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS**

Actuarial valuations of both plans were carried out as at March 31, 2014 by Aon Hewitt and the results were then extrapolated to March 31, 2016. The next valuations of the plans will be carried out as at March 31, 2017. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the plans and will be accounted for as gains or losses in 2018.

The Registered Plan

The actuarial assumptions used in determining the value of the pension obligation of \$135,738 (2015: \$133,769) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment rate of return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2016	2015
	%	%
Discount rate	5.40	5.60
Inflation rate	2.00	2.25
Salary escalation rate	3.00	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

The Unregistered Plan

The major assumptions used in the actuarial extrapolation to March 31, 2016 to determine the pension obligation of \$192,975 (2015: 177,422) were the same as those used in the extrapolation of the Registered Plan except for the investment rate of return which was assumed to be 4.7% per annum (2015: 4.9%).

NET EXPERIENCE GAINS (LOSSES)

The Registered Plan net experience gain of \$1,153 (2015: gain of \$949) reflect the results of the valuation as at March 31, 2014 extrapolated to March 31, 2016.

The Unregistered Plan net experience gain of \$228 (2015: gain of \$1,282) reflect the results of the valuation as at March 31, 2014 extrapolated to March 31, 2016.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

The Registered Plan's future experience will differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

NOTE 7 PENSION OBLIGATION

CONTINUED

The following is a summary of the sensitivities of the Registered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2016:

	Sensitivities		
	Changes in Assumptions	Decrease in Plan Surplus	Increase in Current Service Cost*
	%	(\$ millions)	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	\$12.60	2.7%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	\$0.0	0.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	\$16.30	5.1%

* As a % of capped pensionable earnings

The following is a summary of the sensitivities of the Unregistered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2016:

	Sensitivities		
	Changes in Assumptions	Decrease in Plan Surplus	Increase in Current Service Cost*
	%	(\$ millions)	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	\$21.9	6.7%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	\$6.7	4.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	\$29.1	12.5%

* As a % of excess pensionable earnings

NOTE 8 (DEFICIT) SURPLUS

	Registered Plan (\$ thousands)		Unregistered Plan (\$ thousands)	
	2016	2015	2016	2015
Surplus (deficit) at beginning of year	\$ 2,006	\$ (1,631)	\$ (16,882)	\$ (13,445)
Increase in net assets available for benefits	(308)	11,970	9,624	20,544
Net increase in pension obligation	(1,969)	(8,333)	(15,553)	(23,981)
(Deficit) surplus at end of year	\$ (271)	\$ 2,006	\$ (22,811)	\$ (16,882)

NOTE 9 CONTRIBUTIONS

	Registered Plan (\$ thousands)		Unregistered Plan (\$ thousands)	
	2016	2015	2016	2015
Current service				
Employer	\$ 3,004	\$ 2,211	\$ 1,554	\$ 1,136
Employees	1,198	1,179	1,554	1,136
Province of Alberta	932	1,006	-	-
	<u>\$ 5,134</u>	<u>\$ 4,396</u>	<u>\$ 3,108</u>	<u>\$ 2,272</u>

NOTE 10 INVESTMENT INCOME

The following is a summary of the Registered Plan's investment income (loss) by asset class:

	(\$ thousands)			
	Income	Change in Fair Value	2016 Total	2015 Total
Fixed income securities	\$ 2,759	\$ (1,687)	1,072	\$ 5,099
Equities				
Canadian	(27)	(843)	(870)	1,501
Foreign	3,359	(3,068)	291	8,052
	3,332	(3,911)	(579)	9,553
Inflation sensitive				
Real estate	794	659	1,453	892
Infrastructure	787	180	967	605
Absolute return strategies	1,581	839	2,420	1,497
Strategic and currency investments	290	(28)	262	58
	<u>\$ 7,962</u>	<u>\$ (4,787)</u>	<u>\$ 3,175</u>	<u>\$ 16,207</u>

The change in fair value of pool units includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total \$514 and \$(5,224) respectively (2015: \$2,284 and \$2,914 respectively). Realized and unrealized gains and losses on currency hedges total \$(203) and \$126 respectively (2015: \$(87) and \$(172) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

The Unregistered Plan had interest income of \$22 (2015: \$32).

NOTE 11 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of the Registered Plan's investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2016	2015	2014	2013	2012
	<i>in per cent</i>				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	0.1	13.1	13.4	8.8	5.2
Value added (lost) return by investment manager	1.8	(0.4)	1.1	1.9	0.9
Total return on investments ^(a)	1.9	12.7	14.5	10.7	6.1
Other sources ^(b)	(2.1)	(3.0)	(2.9)	(2.8)	(2.5)
Per cent change in net assets ^(c)	(0.2)	9.7	11.6	7.9	3.6
Per cent change in pension obligation ^(c)	1.5	6.6	11.0	9.1	10.2
Per cent of pension obligation supported by net assets	100	101	99	98	99

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 9.0% (PBR: 8.0%), ten years is 6.2% (PBR: 6.0%) and 20 years is 7.4% (PBR: 7.2%).

(b) Other sources includes employee and employer contributions, net of benefit payments, and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

The following is a summary of the Unregistered Plan annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2016	2015	2014	2013	2012
	<i>in per cent</i>				
Per cent change in net assets ^(a)	6.0	14.7	17.9	13.7	14.2
Per cent change in pension obligation ^(a)	8.8	15.6	15.8	21.1	31.5
Per cent of pension obligation supported by net assets	88	90	91	90	95

(a) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 12 BENEFIT PAYMENTS

	Registered Plan (\$ thousands)		Unregistered Plan (\$ thousands)	
	2016	2015	2016	2015
Retirement benefits	\$ 7,406	\$ 7,354	\$ 5,911	\$ 5,466
Death benefits	424	400	298	247
	\$ 7,830	\$ 7,754	\$ 6,209	\$ 5,713

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	(\$ thousands)	
	2016	2015
Amount charged by AIMCo for:		
Investment costs ^(a)	\$ 570	\$ 491
Performance based fees ^(a)	84	170
GST ^(b)	20	53
	674	714
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	31	31
Total investment expenses	\$ 705	\$ 745
(Decrease) increase in expenses	-5.4%	25.0%
Increase in average investments under management	4.5%	11.1%
Increase (decrease) in value of investments attributed to AIMCo	1.8%	-0.4%
Investment expense as a percent of:		
Dollar earned	22.2%	4.6%
Dollar invested	0.5%	0.6%
Investment expenses per member	\$ 2,509	\$ 2,642

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent (decrease) in investment costs and performance based fees is (1.1)% (2015: 17.0%).

(b) Two-thirds of GST paid in 2015 and two-thirds of GST recorded as a receivable in prior years (2011-2014) has been determined to be unrecoverable and was expensed in 2015.

The Unregistered Plan investment expenses amounted to \$26 (2015: \$26) or \$97 (2015: \$99) per member.

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan (\$ thousands)		Unregistered Plan (\$ thousands)	
	2016	2015	2016	2015
General administration costs	\$ 74	\$ 114	\$ 74	\$ 102
Actuarial fees	5	17	7	19
Other fees	3	3	-	-
	82	134	81	121
Member service expenses per member	\$ 291	\$ 479	\$ 303	\$ 458

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 15 TOTAL EXPENSES

Total Registered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are \$787 (2015: \$880) or \$2,800 (2015: \$3,121) per member and 0.58% (2015: 0.65%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are \$107 (2015: \$146) or \$400 (2015: \$557) per member and 0.06% (2015: 0.09%) of net assets under administration.

NOTE 16 CAPITAL

The Registered Plan defines its capital as the funded status. In accordance with the *Employment Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, including the use of derivatives and leverage are based on the plan's SIP&G. The asset mix and risk policies and procedures are designed to enable the plan to meet or exceed its long-term funding requirement within an acceptable level of risk.

If there is an actuarial funding surplus that exceeds the amount that is actuarially determined to be necessary to pay benefits and the costs of administering the plan, the Lieutenant Governor in Council may, with respect to any portion or all of the excess, transfer it to the Province's General Revenue Fund, or apply it towards reduction of the contributions for which the Province is liable.

If the Registered Plan is terminated and the assets are not sufficient to pay all the benefits accrued under the terms of the Registered Plan, additional contributions are payable by the Province in amounts sufficient to ensure that all accrued benefits are paid. If, after all benefits are provided on the complete wind-up of the Registered Plan, assets remain in the plan, those assets shall be transferred to the General Revenue Fund of the Province.

The Unregistered Plan defines its capital as the funded status as described in Notes 1a, 1b, 1g and Note 6.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo, and the Plan's actuary, and after consultation with the Judges' Pension Plan Advisory Committee.

SCHEDULE A

**SCHEDULE OF THE PROVINCIAL JUDGES AND MASTER IN CHAMBERS
(REGISTERED) PENSION PLAN AND THE PROVINCIAL JUDGES AND MASTERS IN
CHAMBERS (UNREGISTERED) PENSION PLAN**

The following Schedule is provided for illustrative purposes only. The Provincial Judges and Masters in Chambers (Registered) Pension Plan and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan are independent entities and, as such, there is no right of offset of these individual liabilities and assets. Data is provided using fair value of assets (not actuarial or "smoothed" values), as presented in the respective financial statements.

	<i>(\$ thousands)</i>	
	March 31, 2016	March 31, 2015
Net assets available for benefits - Registered Plan	\$ 135,467	\$ 135,775
Net assets available for benefits - Unregistered Plan *	170,164	160,540
	<u>305,631</u>	<u>296,315</u>
Pension Obligation - Registered Plan	135,738	133,769
Pension Obligation - Unregistered Plan	192,975	177,422
	<u>328,713</u>	<u>311,191</u>
Deficiency of aggregate assets over aggregate accrued benefits	<u>\$ (23,082)</u>	<u>\$ (14,876)</u>

* Includes due from Reserve Fund for 2016 \$164,859 (2015: \$154,499)

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