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ANNUAL REPORT

Report on the Public Service Pension Plan

For the Fiscal Year Ended March 31, 2012

Canada

Report on the Public Service Pension Plan

For the Fiscal Year Ended March 31, 2012

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His Excellency the Right Honourable David Johnston, C.C., C.M.M., C.O.M., C.D.,
Governor General of Canada

Excellency:

I have the honour to submit to Your Excellency the *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2012*.

Respectfully submitted,

Original signed by

The Honourable Tony Clement,
President of the Treasury Board and Minister for FedNor

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Message from the President of the Treasury Board

I am pleased to table the *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2012*. This report provides parliamentarians, public servants, and Canadian taxpayers with a regular update on how the government manages the pension plan of one of its most important resources—the individuals who serve Canadians as part of the public service of Canada.

The Honourable
Tony Clement, P.C., M.P.,
President of the Treasury Board
and Minister for FedNor

In Economic Action Plan 2012, our Government announced important cost-saving measures that will change the way we do business in order to ensure that government operations and services—including the pension plan—are managed effectively and achieve the best possible value for money.

To that end, we have introduced historic reforms that ensure that public servants contribute half the costs of their pensions and that the age at which newly hired public servants will begin collecting their pensions would increase to age 65.

These reforms are part of a number of watershed structural changes we have made to the way Government spends.

The Government recognizes that pension plans are an important part of recruiting and retaining a professional workforce and remains committed to maintaining the long-term stability and sustainability of the pension plan in a way that is fair to both public servants and taxpayers.

Original signed by

The Honourable Tony Clement,
President of the Treasury Board and Minister for FedNor

Message from the Chief Human Resources Officer

Daniel Watson,
Chief Human Resources Officer

Over the past several months, I have thoroughly enjoyed getting to know and observe the people who work so hard every day to ensure the sound management and administration of our pension plan. I believe that excellent management of human resources plays an invaluable role in making the federal public service the exceptional institution that Canadians expect it to be.

Some very important work has been going on behind the scenes over the past few years to improve plan administration and ensure that all plan members are informed about the plan and able to access their pension benefits. For instance, in February 2012, the Treasury Board of Canada Secretariat completed its scheduled internal audit of the public service pension plan to assess the adequacy and effectiveness of the plan's management control framework within the Secretariat. I am pleased to say the audit concluded that the management control framework currently in place is adequate and effective and that the legislative and policy requirements for the public service pension plan are being met. Specifically, roles and responsibilities in this area are generally well understood and communicated, and oversight, monitoring and reporting mechanisms are in place and working effectively.

My new role has been interesting and challenging, especially because my appointment comes at a time when the whole of government is experiencing some significant changes in human resources. While these changes can be difficult at times, they provide us with opportunities to find better ways to do what we do; to grow and to rise above old challenges and take on new ones.

The changes to the public service pension plan proposed in Budget 2012 are intended to do just that—to create a more balanced, fair and sustainable pension system. I'm proud to say that we've worked hard to rise to this challenge.

As we continue on this path, reports like this one help provide plan members, parliamentarians, and Canadians with the information they need to make informed decisions about the public service pension plan.

Original signed by

Daniel Watson,
Chief Human Resources Officer
Treasury Board of Canada Secretariat

Public Service Pension Plan Overview

The public service pension plan provides pension benefits for federal public service employees. It was established and is governed in all aspects by the *Public Service Superannuation Act*.[i] The plan[1] is a contributory defined benefit plan covering substantially all of the employees of the Government of Canada, which includes the federal public service, certain Crown corporations, and territorial governments. The government has a statutory obligation for the payment of benefits relating to the pension plan.

The public service pension plan is the largest pension plan in Canada, covering 313,652 active contributors in more than 145 departments and agencies, and 246,166 retired members and survivors. During the fiscal year ended March 31, 2012, pension plan member and employer pension contributions on a cash basis totalled $4.4 billion, while benefit payments to retired members and survivors reached $5.6 billion. The value of the pension obligations increased to $145.9 billion by March 31, 2012.

Year at a Glance, 2011–12

- Total plan membership increased by 0.04 percent to 565,125 members.
- Active contributors decreased by 0.8 percent to 313,652 members.
- Retired members increased by 2.7 percent to 189,743 members.
- Total employer and employee cash contributions increased by 1.5 percent to $4.4 billion.
- Total benefit payments to eligible pension plan members and survivors increased by 5.9 percent to $5.6 billion.
- The value of the pension obligations increased by 8.7 percent to $145.9 billion.
- The value of the public service pension plan net assets held by the Public Sector Pension Investment Board[2] increased over the past year to $47.1 billion. The investment return for the year was 3.0 percent.
- The net amount transferred to the Public Sector Pension Investment Board decreased by 1.0 percent to a total of $3.6 billion.
- The average annual pension for new retirees was $36,107, an increase of 0.9 percent over 2010–11.

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1. The public service pension plan is a statutory superannuation scheme and, as such, is operated and governed somewhat differently than a traditional pension plan.
2. The Public Sector Pension Investment Board operates under the commercial name of PSP Investments. Both names are used interchangeably throughout this report. (See the section Roles and Responsibilities for information on the Public Sector Pension Investment Board.)

Operational Highlights

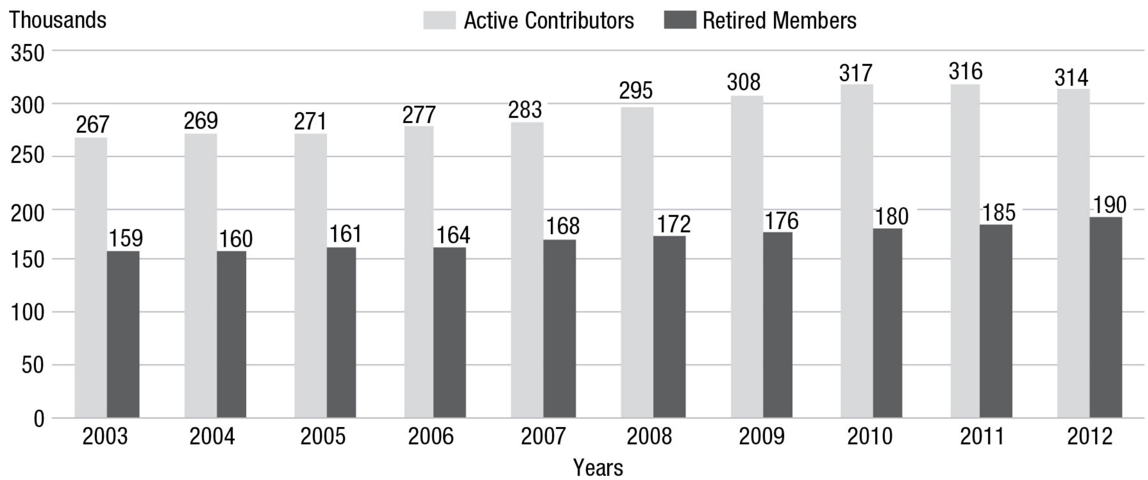
The fiscal year ended March 31, 2012, included the following operational achievements:

- The Internal Audit and Evaluation Bureau of the Treasury Board of Canada Secretariat (Secretariat) conducted an internal audit of the public service pension plan that covered the management control framework up to March 31, 2011. The audit concluded that the plan's framework currently in place is adequate and effective in most respects and that the legislative and policy requirements for the public service pension plan were being met during the audit period.
- The pension contribution rates effective January 1, 2012, were increased slightly to ensure that the objective of balanced cost sharing is met.
- As part of the Government of Canada's continued efforts to enhance communication with plan members and stakeholders, a number of communications initiatives were implemented (for further details, see the section Communications to Plan Members under Key Achievements, 2011–12).
- The Government of Canada's Pension Modernization Project completed its third and fourth technology releases, and the Centralization of Pension Services Delivery Project centralized all of its departmental pension services at the Pension Centre in Shediac, New Brunswick.
- On March 29, 2012, Budget 2012 announced the government's intention to adjust the public service pension plan so that public service employee contributions equal, over time, those of the employer (50:50). In addition, it was proposed that, for those employees who join the federal public service starting in 2013, the normal age of retirement would be raised from 60 to 65.

Demographic Highlights

Figure 1. Membership Profile From 2003 to 2012 (year ended March 31)

This figure demonstrates the number of active contributors relative to the number of retired members over the last 10 years.



The 10-year annual average growth rate[3] for active contributors was 1.8 percent (2.4 percent in 2011) compared with 2 percent (1.6 percent in 2011) for retired members.

3. The average annual growth rate throughout this report is the compounded growth rate or geometric mean, unless otherwise specified.

Figure 2. Profile of Active Contributors by Age Group in 2003 and 2012 (year ended March 31)

The number of active contributors by age group in 2003 and in 2012 is as follows:

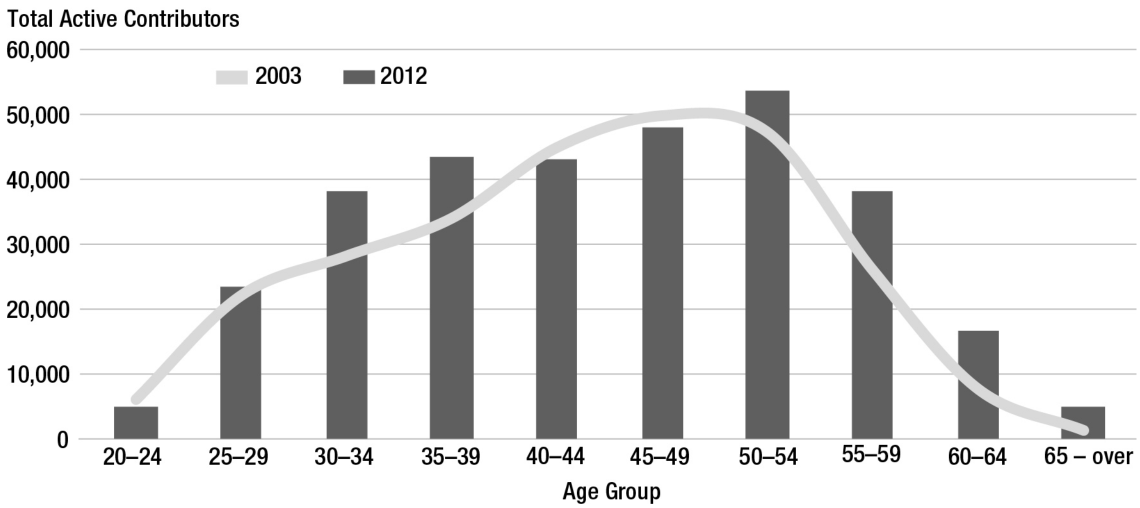


Table 1. Comparison of Membership Distribution in 2003 and 2012 (year ended March 31)

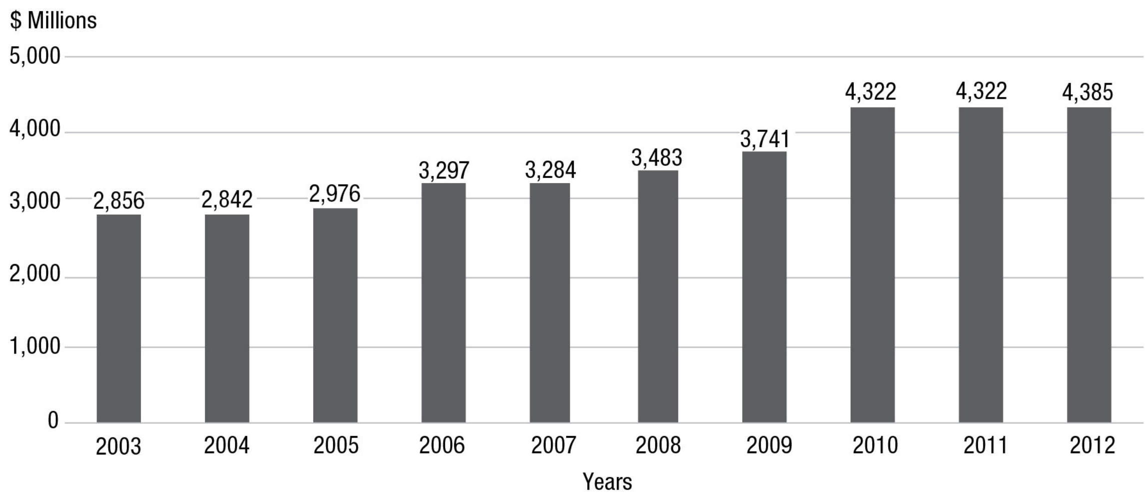
Membership Profile	Number of Members 2003	Percentage of Total 2003	Number of Members 2012	Percentage of Total 2012	Percent Change 2003–12
Active contributors	266,620	55.0	313,652	55.5	17.6
Retirees	159,279	32.9	189,743	33.6	19.1
Survivors	53,939	11.1	56,423	10.0	4.6
Deferred annuitants	4,967	1.0	5,307	0.9	6.8
Total	**484,805**	**100.0**	**565,125**	**100.0**	**16.6**

Over the period from 2003 to 2012, the number of active contributors increased by 17.6 percent, and the number of retired members increased by 19.1 percent. Over the same period, the number of survivors increased by 4.6 percent, and the number of deferred annuitants increased by 6.8 percent.

Financial Highlights

Figure 3. Total Cash Contributions From 2003 to 2012 (year ended March 31)

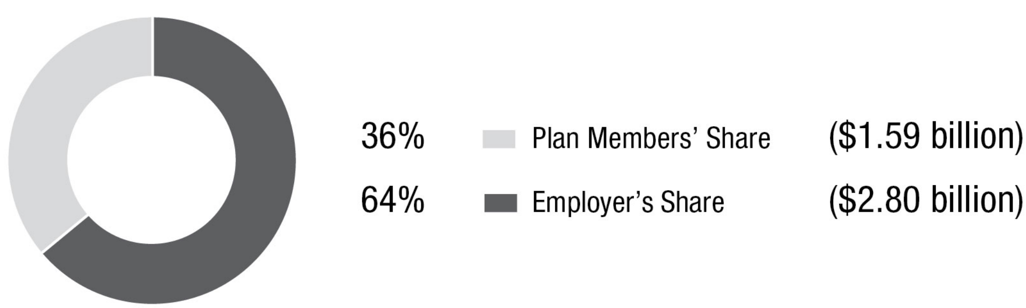
The total amount of cash contributions from both the employer and plan members over the period from 2003 to 2012 is as follows:



The annual growth rate in cash contributions from both the employer and plan members over the past 10 years averaged 6.4 percent. Contributions do not include year-end accrual adjustments, as reported in the Financial Statements section of this report.

Figure 4. Current and Prior Service Cash Contributions (year ended March 31, 2012)

The share of total cash contributions between the employer and plan members as at March 31, 2012, is as follows:



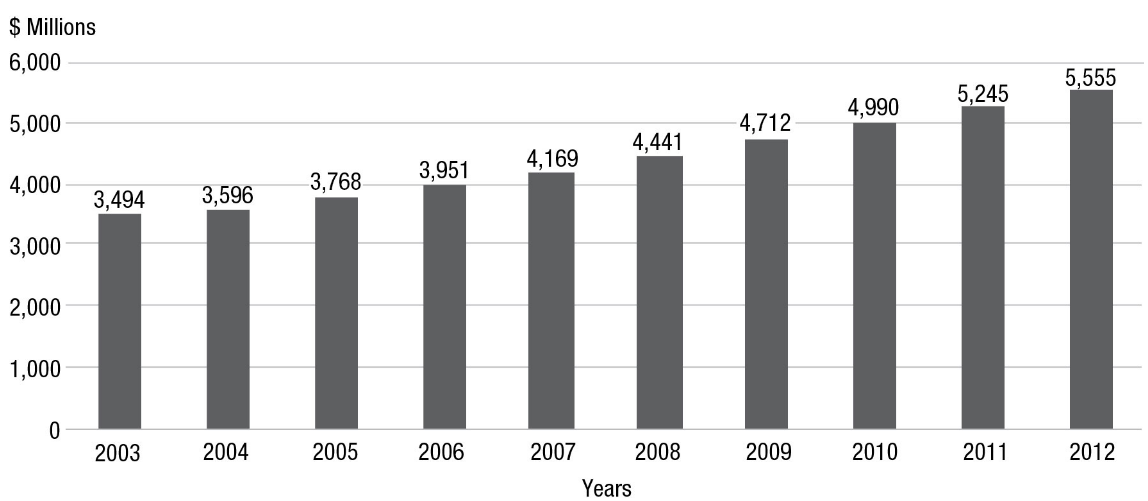
Public service pension plan benefits are funded through compulsory contributions from both the employer and plan members. Cash contributions received during 2011–12 totalled $4.4 billion ($4.3 billion in 2010–11), excluding year-end accrual adjustments; plan members contributed $1.6 billion ($1.5 billion in 2010–11), and the employer contributed $2.8 billion ($2.8 billion in 2010–11).[4] The contributions presented in the Financial Statements section of this report include year-end accrual adjustments.

In the 2011 calendar year, plan member contributions were equal to 5.8 percent (6.2 percent in 2012) of a member's annual salary up to the year's maximum pensionable earnings (which was $48,300 in 2011 and $50,100 in 2012), as defined by the Canada Pension Plan and the Québec Pension Plan, and 8.4 percent (8.6 percent in 2012) of a member's annual salary above that maximum. During the fiscal year, plan members paid approximately 36 percent (35 percent in 2010–11) of the total contributions made in respect of current and prior service, as shown in Figure 4.

Since 2006, employee contribution rates have gradually increased to reflect the Government of Canada's movement towards a more balanced cost-sharing ratio. Budget 2012 announced that contribution rates will continue to increase over time to move towards an employee-employer cost-sharing ratio of 50:50 for all active and future public service pension plan members.

Figure 5. Benefit Payments From 2003 to 2012 (year ended March 31)

This figure presents the total amount of benefits paid to plan members and survivors each year from 2003 to 2012. Benefit payments, on average, have increased by 4.9 percent annually over the past 10 years.



4. Figures have been rounded.

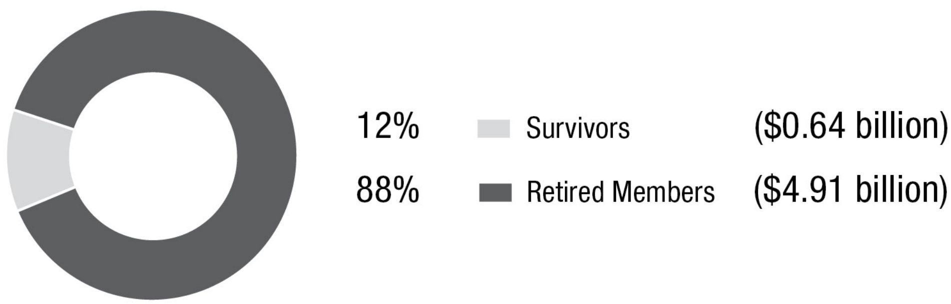
Figure 6. Benefit Payments (year ended March 31, 2012)

This figure presents the total amount of benefits paid to retired members and survivors.

In 2011–12, the pension plan paid out $5.6 billion in benefits, an increase of $310 million over the previous year. Benefits paid to retired members (i.e., $4.9 billion), including those paid to plan members who retired on grounds of disability, represented 88 percent of the 2011–12 pension payments; benefits paid to survivors (i.e., $0.6 billion) represented 12 percent.

Benefits were paid to 246,166 retired members and survivors, compared with 243,000 in 2010–11. Of the 10,646 newly retired members in 2011–12:

- 7,850 were entitled to immediate annuities;
- 1,720 received annual allowances;
- 642 were eligible to receive disability retirement benefits; and
- 434 were entitled to deferred annuities.



Newly retired members received an average annual pension of $36,107 in 2011–12, compared with $35,799 in 2010–11.

In 2011–12, 1,390 plan members left the public service before the age of 50 and withdrew approximately $160 million (i.e., the present value of their future benefits) as lump-sum amounts, excluding return of contributions for non-vested[5] members. These sums were transferred to other pension plans or to locked-in retirement vehicles.

5. A member who does not have at least two years of pensionable service is non-vested.

Figure 7. Rate of Return on Assets Held by the Public Sector Pension Investment Board From 2003 to 2012 (year ended March 31)

This figure demonstrates the rate of return on the assets held by the Public Sector Pension Investment Board against its comparative benchmark.

Additional information concerning the rate of return on assets held by the Public Sector Pension Investment Board and comparative benchmarks is available on the PSP Investments website.[ii]

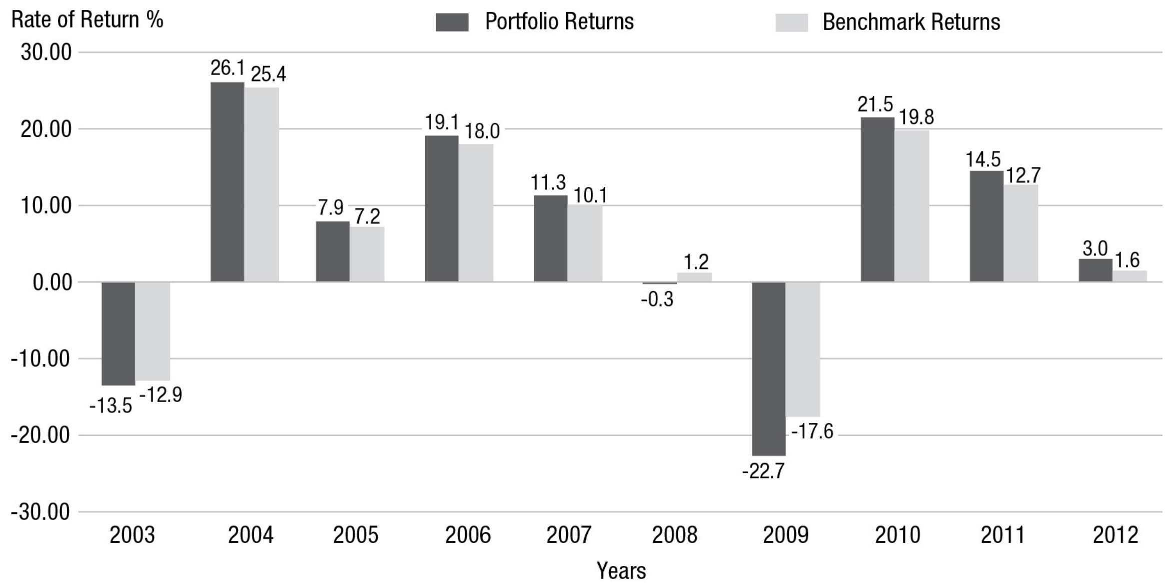


Figure 8. Net Assets Held by the Public Sector Pension Investment Board From 2003 to 2012 (year ended March 31)

This figure presents the total value of assets held by the Public Sector Pension Investment Board, including the cumulative net amounts transferred from the Government of Canada (74.6 percent or $35.2 billion of the $47.1 billion in net assets reported) and the cumulative net return on assets held at year ended March 31, 2012.

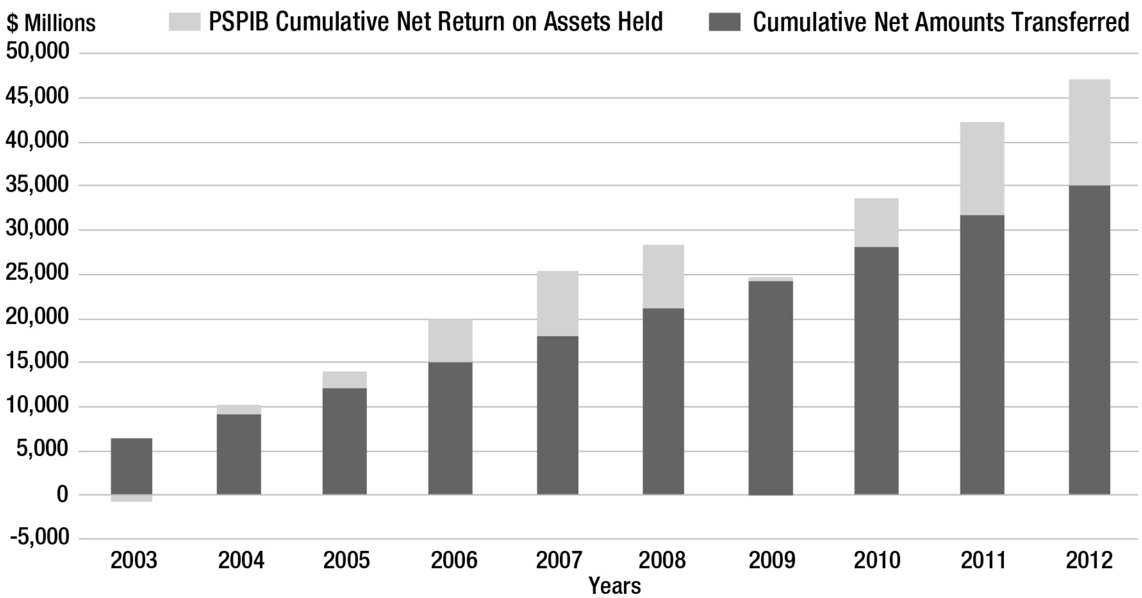
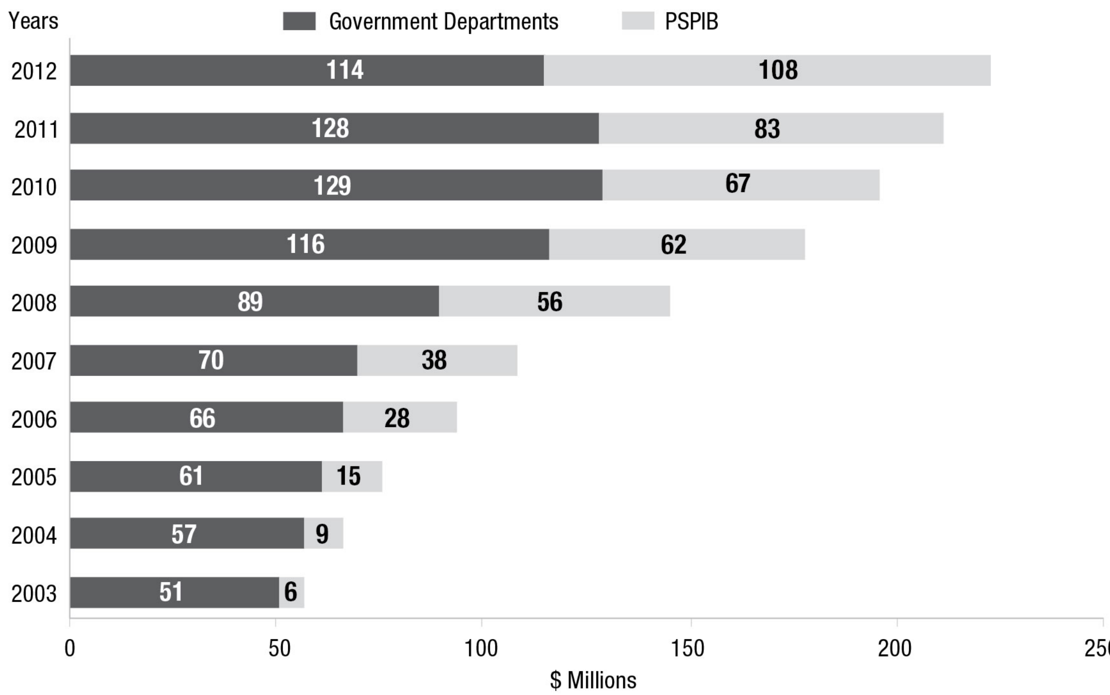


Figure 9. Administrative Expenses From 2003 to 2012 (year ended March 31)

This figure presents the administrative expenses charged to the public service pension plan each year from 2003 to 2012 as shared between government departments and the Public Sector Pension Investment Board.

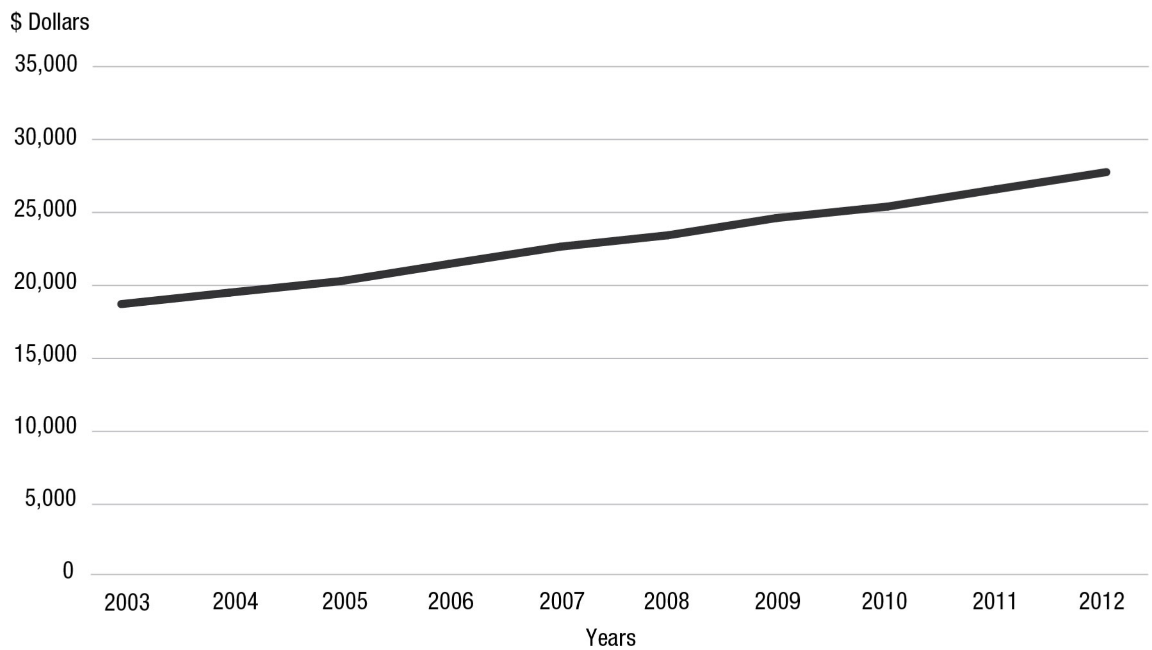


The increase in administrative expenses from 2007 to 2012 was due in large part to the capital expenditure requirement related to the pension modernization project started in 2007–08. The project is scheduled to be completed in 2012–13, and lower administration costs are anticipated in the coming years. The decrease in administration expenses by government departments in 2011–12 was due to the completion of the centralization of pension services that started in 2006–07 (for further information, see the section Transformation of Pension Administration Initiative under Key Achievements, 2011–12).

Administrative expenses have also increased over the years as a result of the growth in membership. The increase in expenses in 2011–12 that is related to the Public Sector Pension Investment Board is due in part to the growth in assets managed by this Crown corporation and in part to management's strategy to increasingly manage the investment portfolio internally. Managing assets internally increases operating expenses while reducing external asset management expenses. As a result, the Public Sector Pension Investment Board's investment costs (i.e., operating expenses plus asset management expenses) have decreased year over year to 60.6 cents per 100 dollars of average net investment assets from 67.0 cents per 100 dollars of average net investment assets at the end of the previous fiscal year.

Figure 10. Average Pension for Plan Members From 2003 to 2012 (year ended March 31)

This figure presents the average pension paid to plan members from 2003 to 2012. As at March 31, 2012, the average pension was $27,135 ($25,991 as at March 31, 2011).



Key Achievements, 2011–12

Audit of the Treasury Board of Canada Secretariat's Management Control Framework of the Public Service Pension Plan

In February 2012, the Internal Audit and Evaluation Bureau of the Secretariat completed its scheduled internal audit of the public service pension plan that covered the management control framework in place up to March 31, 2011. The objective of the audit was to assess the adequacy and effectiveness of the plan's framework within the Secretariat.

The audit concluded with a reasonable level of assurance that the management control framework currently in place is adequate and effective in most respects and that the legislative and policy requirements for the public service pension plan were being met during the audit period. Specifically, it concluded that:

- The Secretariat's roles and responsibilities in this area are generally well understood and communicated, despite the limited extent to which they are formally defined;
- Oversight, monitoring and reporting mechanisms are in place and working effectively;

- A formal and systematic approach for identifying and assessing risks and mitigation strategies is in place at the Secretariat and is working effectively; and
- Knowledge is adequately managed at the Secretariat in support of the pension plan.

In addition to the above conclusions, the audit found that attention is required to continue to formally define the Secretariat's roles and responsibilities, in particular, its oversight and financial advisory roles. Opportunities also exist to improve the Secretariat's otherwise sound risk, planning, and knowledge management practices. The Secretariat accepted the audit's findings and recommendations and is currently implementing a management action plan. The audit report is available on the Secretariat's website.[iii]

Communications to Plan Members

The Government of Canada recognizes that the public service pension plan is an integral part of the public service workforce recruitment, retention and renewal strategy and is committed to providing information about the plan. To fulfill this commitment, the government has focused on a number of initiatives, including Your Public Service Pension and Benefits Web Portal.[iv]

This Web portal provides information about both pension and group insurance benefits for active and retired plan members, survivors and dependants, as well as for prospective employees of the Government of Canada interested in finding out more about pension and insurance benefits offered by the federal public service. In 2011–12, the Web portal was enhanced with new content, a series of videos, and new online features highlighting the most recent information for plan members.

Transformation of Pension Administration Initiative

The transformation of pension administration initiative, which consists of the Government of Canada Pension Modernization Project and the Centralization of Pension Services Delivery Project, was undertaken to replace outdated pension systems and to centralize the delivery of public service pension services within Public Works and Government Services Canada. By streamlining operations through the pension transformation initiative, Public Works and Government Services Canada expects to generate approximately $29 million annually in government-wide savings by 2015–16.

The Government of Canada's Pension Modernization Project completed its third and fourth technology releases. These releases implemented the new core pension system, which includes all functions related to the administration of active member (contributor) accounts. In addition, the last three of twelve services were transferred from departments to the Pension Centre in Shediac, New Brunswick, as part of the Centralization of Pension Services Delivery Project.

Pension Objective

The objective of the *Public Service Superannuation Act* and related statutes is to provide a source of lifetime retirement income for retired and disabled public service pension plan members. Upon a plan member's death, the pension plan provides an income for eligible survivors and dependants. Pension benefits are directly related to a plan member's salary and public service pensionable service.

Historical Context

The first Act entitling certain public service employees to retirement income came into effect in 1870. Over the years, the public service pension plan took many forms until the *Public Service Superannuation Act* took effect on January 1, 1954. The *Public Service Superannuation Act* introduced an important change in 1954 whereby pension coverage was broadened to include substantially all public service employees.

In 1966 with the introduction of the Canada Pension Plan and the Québec Pension Plan, major amendments were made to the *Public Service Superannuation Act*, which included coordination of public service pension plan contribution rates and benefits with those of the Canada Pension Plan and the Québec Pension Plan.

Other amendments were made to the *Public Service Superannuation Act* over the years, including major changes in 1999 that dealt primarily with improving plan management and introducing the *Public Sector Pension Investment Board Act*. This Act provided for the creation of the Public Sector Pension Investment Board in April 2000. Prior to April 2000, employer and plan member contributions under the public service pension plan had been credited to an account that formed part of the Public Accounts of Canada (Public Accounts); these contributions were not invested in capital markets (e.g., in bonds and stocks). Starting in April 2000, the government began transferring to the Public Sector Pension Investment Board amounts equal to pension contributions net of benefit payments and departmental administrative expenses for the plan.

The *Public Service Superannuation Act* was amended in 2006 to lower the factor used in the Canada Pension Plan or Québec Pension Plan coordination formula to calculate a pension at age 65. This change increased public service pension benefits for members reaching age 65 in 2008 or later.

In 2010–11, following amendments to the *Income Tax Act* that increased the maximum age to accrue pension benefits under a registered pension plan, the *Public Service Superannuation Regulations* was amended to allow members of the public service pension plan who reached age 70 or 71 in 2007 to buy back up to two years of pensionable service and increase their annual pension upon retirement.

In Budget 2012, the federal government announced its intention to propose changes to plan member contribution rates and the age at which future public service pension plan members would be eligible to receive pension benefits.

Roles and Responsibilities

The overall responsibility of the public service pension plan rests with the President of the Treasury Board, supported by the Secretariat as the administrative arm of the Treasury Board and Public Works and Government Services Canada as the day-to-day administrator.

The President of the Treasury Board is also responsible for ensuring that the public service pension plan is adequately funded to fully meet plan member benefits. To determine the plan's funding requirements, the President enlists the help of the Office of the Chief Actuary to provide advice and a range of actuarial services and the Public Sector Pension Investment Board to manage the pension assets for the public sector pension plans. The Public Service Pension Advisory Committee advises the President on the administration, design and funding of the benefits and on other pension-related matters referred to it by the President.

The roles and responsibilities of each organization are described as follows:

Treasury Board of Canada Secretariat

The President of the Treasury Board is responsible for the overall management of the public service pension plan as the plan sponsor. In support of the Treasury Board's role as employer for the public service, the Secretariat is responsible for policy development in respect of the funding, design and governance of the public service pension plan and other retirement programs and arrangements. In addition, the Secretariat is responsible for communicating to plan members and liaising with stakeholders.

Public Works and Government Services Canada

Public Works and Government Services Canada is responsible for the day-to-day administration of the public service pension plan. This includes developing and maintaining the public service pension systems, books of accounts, records, and internal controls, as well as preparing Account Transaction Statements for reporting in the Public Accounts.

In addition, Public Works and Government Services Canada processes payments and carries out all accounting and financial administrative functions. Through its pay and pension services, Public Works and Government Services Canada's Accounting, Banking and Compensation Branch,[v] ensures that federal government employees and retired pension plan members receive their pay and benefit payments accurately and on time. In total, this involves payments of approximately $27 billion annually.

Public Sector Pension Investment Board

The Public Sector Pension Investment Board is a Canadian Crown corporation established by the *Public Sector Pension Investment Board Act* and governed by an 11-member board of directors accountable to Parliament through the President of the Treasury Board. Its legislative mandate is to maximize returns without undue risk of loss, having regard to the funding, policies and requirements of the four major public sector pension plans (i.e., the public service, the Royal Canadian Mounted Police, and the Canadian Forces Regular Force and Reserve Force pension plans). The Public Sector Pension Investment Board invests the amounts transferred by the Government of Canada since April 1, 2000, which are invested on behalf of the pension plans. The relevant financial results of the Public Sector Pension Investment Board are included in the pension plan's financial statements.

Office of the Chief Actuary

The Office of the Chief Actuary,[vi] an independent unit within the Office of the Superintendent of Financial Institutions Canada, provides a range of actuarial services and advice to the Government of Canada that includes the public service pension plan. The Office of the Chief Actuary is responsible for conducting an annual actuarial valuation of the pension plan for accounting purposes as well as a triennial (i.e., once every three years) funding valuation. Further details can be found in the section Financial Statements Content Overview.

Public Service Pension Advisory Committee

The Public Service Pension Advisory Committee, established under the *Public Service Superannuation Act*, is composed of 13 representatives: 1 pensioner, 6 members representing employees, and 6 members nominated by the President of the Treasury Board and traditionally chosen from the executive ranks of the public service. This committee provides advice to the President of the Treasury Board on matters relating to the public service pension plan's administration, benefit design, and funding.

Summary of Plan Benefits

The following presents an overview of the main benefits offered under the public service pension plan as of March 31, 2012. If there is a discrepancy between this information and information contained in the *Public Service Superannuation Act*, the *Public Service Superannuation Regulations* or other applicable laws, the legislation prevails at all times.

Types of Pension Benefits

The benefits that pension plan members are entitled to when they leave the public service depend on their age and the number of years of pensionable service to their credit.

Table 2. Types of Benefits Based on Age and Pensionable Service

If a member is…	And leaves the public service with pensionable service of…	The member would be entitled to…
Age 60 or over	At least 2 years	An immediate annuity
Age 55 or over	At least 30 years	An immediate annuity
Age 50 to 59	At least 2 years	A deferred annuity payable at age 60; or An annual allowance payable as early as age 50
Under age 50	At least 2 years	A deferred annuity payable at age 60; or An annual allowance payable as early as age 50; or A transfer value
Any age	Less than 2 years	A return of contributions with interest

Protection From Inflation

Pensions under the public service pension plan are indexed (adjusted) annually to take into account the cost of living, which is based on increases in the Consumer Price Index.

Survivor Benefits

If a member is vested upon death (i.e., has at least two years of pensionable service), then the eligible survivor and children are entitled to the following:

- **Survivor benefit**—A monthly allowance equal to half of the pension the member would have received before age 65 (calculated before any applicable reduction), payable immediately to the eligible survivor.
- **Child allowance**—An allowance equal to one fifth of the survivor benefit (two fifths if the member has no eligible survivor), payable until age 18, or age 25 if the child is a full-time student; the maximum allowance for all children combined is the equivalent of four children's benefits.
- **Supplementary death benefit**—A lump-sum benefit equal to twice the member's annual salary, payable to the designated beneficiary or to the estate. Coverage decreases by 10 percent each year starting at age 66 to a minimum of $10,000 by age 75. If the member is still employed in the public service after age 65, minimum coverage is the greater of $10,000 or one third of his or her annual salary.

If the member has no eligible survivor or children, the designated beneficiary to receive the supplementary death benefit or the estate will receive an amount equal to the greater of the return of contributions with interest or five years of pension payments, less any payments already received.

If death occurs before a member becomes vested (i.e., before a member has completed two years of pensionable service), contributions with interest are refunded to any eligible survivor or children, or to the designated beneficiary or the estate if the member has no eligible survivors.

Financial Statements Content Overview

Financial Audit

The Office of the Auditor General audits federal government operations and provides Parliament with independent information, advice and assurance to help hold the government to account for its stewardship of public funds. The Office of the Auditor General is responsible for performance audits and studies of federal departments and agencies. It conducts financial audits of the government's financial statements (i.e., the Public Accounts) and performs special examinations and annual financial audits of Crown corporations including the Public Sector Pension Investment Board. With respect to the public service pension plan, the Office of the Auditor General acts as the independent auditor.

New Accounting Standards for Pension Plans

The Accounting Standards Board of the Canadian Institute of Chartered Accountants developed and issued Section 4600, a new section on pension plans in the Canadian Institute of Chartered Accountants Handbook that replaced Section 4100. The most significant amendment for the public service pension plan is the elimination of the actuarial asset value adjustment (see Note 2 (B) of the Financial Statements of this report for more detail). Management was required to adopt for the first time Section 4600 for the financial statements of its public sector pension plans for the fiscal year ended March 31, 2012; however, there was no change in the approach used to measure the fair value of pension investment assets and pension obligations compared with the previous fiscal year ended March 31, 2011.

Management has elected to be an early adopter of the International Accounting Standard 1 (effective January 1, 2013) regarding the presentation of financial statements. As a result, the normal three-year requirement of comparative data resulting from a change in accounting policy (noted above) is not required in the associated notes.

Actuarial Valuation

Pursuant to the *Public Pensions Reporting Act*, the President of Treasury Board directs the Chief Actuary of Canada to conduct an actuarial valuation for funding purposes at least every three years. The last funding valuation was conducted as at March 31, 2011, and the actuarial report was tabled in Parliament by the President of the Treasury Board on June 21, 2012. The purpose of the actuarial review is to determine the state of the pension account and pension fund as well as to assist the President of the Treasury Board in making informed decisions regarding the financing of the government's pension obligations.

In addition, the Office of the Chief Actuary performs an annual actuarial valuation for accounting purposes, which serves as the basis for determining the government's pension obligations and expenses included in the Public Accounts and in the public service pension plan's financial statements that are included in this annual report. The economic assumptions used in this annual actuarial valuation represent management's best estimate.

Net Assets and Other Accounts Available for Benefits

As at March 31, 2012, the Statement of Financial Position shows the amount available for benefits and pension obligations, which are payable in the future to eligible pension plan members, survivors and dependants. As at that date, $144.9 billion is available for benefits, an increase of $5.5 billion from March 31, 2011.

This Statement shows that credits come from a number of different sources, including contributions from pension plan members and the employer, income from investments and interest credited, and transfers to the public service pension plan from other pension plans when employees leave an outside organization and join an employer covered under the *Public Service Superannuation Act*. Amounts are debited from the public service pension plan to cover benefits, administrative expenses, and transfers or refunds from the public service pension plan to other registered pension plans. Detailed information can be found in the section Financial Statements of the Public Service Pension Plan for the Fiscal Year Ended March 31, 2012.

Investment Management

Contributions relating to service since April 1, 2000, are recorded in the Public Service Pension Fund. An amount equal to contributions net of benefit payments and government departments' administration expenses is transferred regularly to the Public Sector Pension Investment Board and invested in capital markets.

The Public Sector Pension Investment Board's statutory objectives are to manage the funds transferred to it in the best interests of the contributors and beneficiaries, and to invest its assets with a view to achieving a maximum rate of return without undue risk of loss, having regard to the funding, policies and requirements of the pension plan. Accordingly, the Public Sector Pension Investment Board's board of directors has established an investment policy whereby the expected real rate of return is at least equal to the long-term valuation discount rate assumption. This rate is the same as that used in the most recently tabled actuarial valuation for funding purposes of the public service pension plan. That rate was set at 4.2 percent in the *Actuarial Report on the Pension Plan for the Public Service of Canada* as at March 31, 2008.

As noted in the Public Sector Pension Investment Board's 2012 Annual Report, the investments allocated to the public service pension plan during the year ended March 31, 2012, were in compliance with the *Public Sector Pension Investment Board Act* and the statement of investment policies, standards and procedures approved by its board of directors.

Pension Obligations

The Statement of Changes in Pension Obligations shows the present value of benefits earned for service to date and payable in the future. For the year ended March 31, 2012, the value of pension obligations is $145.9 billion, an increase of $11.7 billion from the previous fiscal year. The increase is due primarily to an increase in accrued pension benefits of $6.8 billion ($6.7 billion in 2011) and changes in actuarial assumptions totalling $5.4 billion ($1.2 billion in 2011). The pension plan experienced an actuarial gain of $518 million ($457 million in 2011), which reduces the resulting pension obligations as at March 31, 2012, by the same amount.

Rate of Return on Assets Held by the Public Sector Pension Investment Board

In 2011–12, the assets held by the Public Sector Pension Investment Board earned a rate of return of 3.0 percent. In accordance with the current investment policy, the assets are invested with a long-term target weight of 66.0 percent in equities, 16.0 percent in fixed income securities, and 18.0 percent in real return assets. Refer to Note 4 and Note 5 of the financial statements for additional detail.

Interest Credited on the Public Service Superannuation Account

The Public Service Superannuation Account is credited quarterly with interest at rates calculated as though amounts recorded in this account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity. No formal debt instrument is issued to this account by the government in recognition of the amounts therein. The annualized interest rate credited is as follows:

Table 3. Annualized Interest Rate Credited to the Superannuation Account (year ended March 31)

Years	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Percentage Interest Rate on Account	8.5	8.3	8.0	7.8	7.5	7.3	7.0	6.7	6.5	**6.0**

Administrative Expenses

The legislation provides for the pension-related administrative expenses of government organizations to be charged to the public service pension plan, namely, those of the Secretariat, Public Works and Government Services Canada and the Office of the Chief Actuary. Administrative expenses also include Public Sector Pension Investment Board operating expenses. Investment management fees are paid either directly by the Public Sector Pension Investment Board or offset against distributions received from the investments. In 2011–12, total expenses recorded by the pension plan were $114 million ($128 million in 2010–11) for government departments and $108 million ($83 million in 2010–11) for the Public Sector Pension Investment Board.

Transfer Agreements

The pension plan has transfer agreements with approximately 100 employers, including other levels of government, university and private sector employers. During 2011–12, $76 million ($72 million in 2010–11) was transferred into the public service pension plan, and $42 million ($71 million in 2010–11) was transferred out of the public service pension plan under these agreements.

Retirement Compensation Arrangements

Under the authority of the *Special Retirement Arrangements Act*, separate Retirement Compensation Arrangements No. 1 and No. 2 have been established to provide supplementary benefits to some employees. Since these arrangements are covered by separate legislation, their balance and corresponding value of accrued pension benefits are not consolidated in the public service pension plan's financial statements, but a summary of these arrangements is provided in the accompanying notes.

Retirement Compensation Arrangement No. 1 provides for benefits in excess of those permitted under the *Income Tax Act* for registered pension plans. In 2012, this primarily included benefits on salaries over $148,000 ($142,800 in 2010–11) plus some survivor benefits.

Retirement Compensation Arrangement No. 2 provides for pension benefits to public service employees declared surplus as a result of the three-year Early Retirement Incentive Program that ended on March 31, 1998, which allowed eligible employees to retire with an unreduced pension.

Contributions and benefit payments in excess of limits permitted under the *Income Tax Act* for registered pension plans are recorded in the Retirement Compensation Arrangements Account in the Public Accounts. The balance in the Retirement Compensation Arrangements Account is credited with interest at the same rate as that of the Public Service Superannuation Account.

Further Information

Additional information concerning the public service pension plan is available at the following sites:

- Treasury Board of Canada Secretariat website[vii]
- Office of the Chief Actuary[viii]
- Public Sector Pension Investment Board[ix]
- *Public Service Superannuation Act*[x]
- Public Works and Government Services Canada, Accounting, Banking and Compensation Branch[xi]
- Your Public Service Pension and Benefits Web Portal[xii]

Account Transaction Statements

Public Service Superannuation Account and Public Service Pension Fund Account

The Public Service Superannuation Account is used to record transactions, such as contributions, benefits paid, and transfers, that pertain to service before April 1, 2000. The interest is credited quarterly at rates calculated as though the amounts recorded in the Superannuation Account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity.

All contributions made by plan members and the government for service accrued since April 1, 2000, are credited in an internal government account, the Public Service Pension Fund Account. An amount equal to contributions in excess of benefits payments and government organizations' administrative costs is transferred regularly to the Public Sector Pension Investment Board and invested in capital markets. The balance in the Public Service Pension Fund Account at year-end represents amounts awaiting imminent transfer to the Public Sector Pension Investment Board.

The treatment of actuarial excesses and shortfalls for both the Superannuation Account and the Pension Fund Account is outlined in Note 1 (B) of the public service pension plan financial statements. As a result of the actuarial valuation for funding purposes tabled in November 2009, no adjustment was made to the Public Service Superannuation Account (nil in 2011) or to the Pension Fund (nil in 2011). The new triennial actuarial valuation as at March 31, 2011, which was tabled in Parliament on June 21, 2012, will only take effect in the 2012–13 fiscal year.

Public Service Superannuation Account Statement

Year ended March 31 (in dollars)

	2012	2011
Opening Balance (A)	**$95,782,026,737**	$94,568,793,168
Receipts and Other Credits		
Employee contributions		
Government employees	**5,102,398**	5,741,576
Retired employees	**20,698,768**	23,057,162
Public service corporation employees	**391,134**	331,040
Employer contributions		
Government	**20,945,400**	23,197,946
Public service corporations	**319,353**	361,879
Transfers from other pension funds	**96,554**	50,394
Interest	**5,583,956,818**	6,004,517,929
Total—Receipts and Other Credits (B)	**$5,631,510,425**	$6,057,257,926
Payments and Other Charges		
Annuities	**$4,813,181,405**	$4,654,275,769
Minimum benefits	**11,958,823**	12,607,868
Pension division payments	**24,986,304**	23,959,826
Pension transfer value payments	**31,656,672**	32,279,928
Returns of contributions		
Government employees	**29,393**	86,319
Public service corporation employees	**5,281**	35,352
Transfers to other pension funds	**12,725,067**	30,752,009
Administrative expenses	**77,174,037**	90,027,286
Total—Payments and Other Charges (C)	**$4,971,716,982**	$4,844,024,357
Receipts Less Payments (B - C) = (D)	**$659,793,443**	$1,213,233,569
Closing Balance (A + D)	**$96,441,820,180**	$95,782,026,737

The account transaction statement above is unaudited.

Public Service Pension Fund Account Statement

Year ended March 31 (in dollars)

	2012	2011
Opening Balance (A)	**$231,056,338**	$259,560,587
Receipts and Other Credits		
Employee contributions		
Government employees	**1,407,787,250**	1,348,019,576
Retired employees	**32,244,091**	29,409,311
Public service corporation employees	**123,768,301**	119,656,803
Employer contributions		
Government	**2,554,955,776**	2,543,396,141
Public service corporations	**219,271,420**	228,623,470
Transfers from other pension funds	**67,846,855**	62,722,994
Transfer value election	**8,688,334**	9,212,757
Total—Receipts and Other Credits (B)	**$4,414,562,027**	$4,341,041,052
Payments and Other Charges		
Annuities	**$722,808,726**	$568,916,315
Minimum benefits	**7,233,175**	8,928,269
Pension division payments	**14,291,852**	10,096,061
Pension transfer value payments	**128,000,632**	97,684,827
Returns of contributions		
Government employees	**6,228,404**	12,298,589
Public service corporation employees	**1,713,501**	2,520,594
Transfers to other pension funds	**29,691,642**	40,395,688
Administrative expenses	**36,786,443**	37,725,355
Total—Payments and Other Charges (C)	**$946,754,375**	$778,565,698
Receipts Less Payments (B - C)	**$3,467,807,652**	$3,562,475,354
Transfers to Public Sector Pension Investment Board (D)	**$(3,556,274,300)**	$(3,590,979,603)
Closing Balance (A + B - C + D)	**$142,589,690**	$231,056,338

The account transaction statement above is unaudited.

Retirement Compensation Arrangements Account

Supplementary benefits for certain federal public service employees are provided under the *Retirement Compensation Arrangements Regulations, No. 1*, Parts I and II (public service portion), and the *Retirement Compensation Arrangements Regulations*, *No. 2* (Early Retirement Incentive Program). The *Special Retirement Arrangements Act* authorized these regulations and established the Retirement Compensation Arrangements Account.

Transactions pertaining to Retirement Compensation Arrangement No. 1 and Retirement Compensation Arrangement No. 2, such as contributions, benefits, and interest credits, are recorded in the Retirement Compensation Arrangements Account, which is maintained in the accounts of Canada. The Retirement Compensation Arrangements Account earns interest quarterly at the same rate as that credited to the Public Service Superannuation Account. The Retirement Compensation Arrangements Account is registered with the Canada Revenue Agency, and a transfer debit or credit is made annually between the Retirement Compensation Arrangements Account and the Canada Revenue Agency either to remit a 50 percent refundable tax for the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments.

Actuarial shortfalls found between the balance in the Retirement Compensation Arrangements Account and the actuarial liabilities are credited to the Retirement Compensation Arrangements Account in equal instalments over a period of up to 15 years. As a result of the triennial valuation of March 31, 2008, no adjustment was made to Retirement Compensation Arrangement No. 1 (nil in 2011), but a credit adjustment of $6.2 million was made to cover an actuarial deficiency in Retirement Compensation Arrangement No. 2 during the year ($6.2 million in 2011). The new triennial actuarial valuation as at March 31, 2011, which was tabled in Parliament on June 21, 2012, will only take effect in the 2012–13 fiscal year.

Retirement Compensation Arrangement No. 1

For tax purposes, financial transactions related to pension plan members' pensionable earnings over $148,000 in 2012 are recorded separately. As at March 31, 2012, there are 3,994 (3,954 in 2011) public service employees and 3,243 (2,917 in 2011) retired members in this category.

Year ended March 31 (in dollars)

	2012	2011
Opening Balance (A)	**$837,356,492**	$767,691,100
Receipts and Other Credits		
Employee contributions		
Government employees	**9,257,839**	9,162,488
Retired employees	**291,943**	352,284
Public service corporation employees	**1,854,675**	1,578,249
Employer contributions		
Government	**83,088,699**	81,975,311
Public service corporations	**16,497,736**	14,375,676
Interest	**51,901,715**	52,072,718
Transfer value election	**2,624**	24,564
Total—Receipts and Other Credits (B)	**$162,895,231**	$159,541,290
Payments and Other Charges		
Annuities	**$17,879,635**	$15,705,840
Minimum benefits	**119,759**	77,165
Pension division payments	**146,586**	391,575
Pension transfer value payments	**401,341**	426,839
Returns of contributions		
Government employees	**52**	26,276
Public service corporation employees	**161**	16,841
Transfers to other pension plans	**1,004,622**	2,266,316
Refundable tax	**70,535,336**	70,965,046
Total—Payments and Other Charges (C)	**$90,087,492**	$89,875,898
Receipts Less Payments (B - C) = (D)	**72,807,739**	69,665,392
Closing Balance (A + D)	**$910,164,231**	$837,356,492

The account transaction statement above is unaudited.

Retirement Compensation Arrangement No. 2

During the three-year period starting April 1, 1995, a number of employees between the ages of 50 and 54 left the public service under the Early Retirement Incentive Program, which waived the pension reduction under the *Public Service Superannuation Act* for employees who were declared surplus.

Year ended March 31 (in dollars)

	2012	2011
Opening Balance (A)	**$783,004,879**	$796,582,812
Receipts and Other Credits		
Government contributions and interest		
Contributions	**0**	0
Interest	**44,719,974**	49,588,508
Actuarial liability adjustment	**6,200,000**	6,200,000
Total—Receipts and Other Credits (B)	**$50,919,974**	$55,788,508
Payments and Other Charges		
Annuities	**$82,837,855**	$82,037,465
Refundable tax	**(15,138,996)**	(12,671,024)
Total—Payments and Other Charges (C)	**67,698,859**	69,366,441
Receipts Less Payments (B - C) = (D)	**$(16,778,885)**	$(13,577,933)
Closing Balance (A + D)	**$766,225,994**	$783,004,879

The account transaction statement above is unaudited.

Supplementary Death Benefit

As at March 31, 2012, there were 305,919 (309,004 in 2011) active participants and 151,705 (146,771 in 2011) retired elective participants entitled to a Supplementary Death Benefit under Part II of the *Public Service Superannuation Act*. During 2011–12, 4,914 (4,906 in 2011) claims for Supplementary Death Benefits were paid.

Year ended March 31 (in dollars)

	2012	2011
Opening Balance (A)	**$2,960,956,312**	$2,828,860,022
Receipts and Other Credits		
Contributions		
Employees (government and public service corporation)	**95,086,508**	92,653,997
Government		
General	**10,304,111**	9,951,785
Single premium for $10,000 benefit	**2,288,074**	1,954,998
Public service corporations	**1,215,734**	1,153,071
Interest	**175,023,297**	181,929,477
Total—Receipts and Other Credits (B)	**$283,917,724**	$287,643,328
Payments and Other Charges		
Benefit payments		
General[1]	**$123,575,276**	$119,283,549
$10,000 Benefit[2]	**40,433,206**	36,154,611
Other death benefit payments	**74,055**	108,878
Total—Payments and Other Charges (C)	**$164,082,537**	$155,547,038
Receipts Less Payments (B - C) = (D)	**$119,835,187**	$132,096,290
Closing Balance (A + D)	**$3,080,791,499**	$2,960,956,312

The account transaction statement above is unaudited.

1. Benefits paid in respect of participants who, at the time of death, were employed in the public service or in receipt of an immediate *Public Service Superannuation Act* pension.
2. Benefits of $10,000 in respect of participants who, at the time of death, were employed in the public service or in receipt of an immediate annuity under the *Public Service Superannuation Act* and on whose behalf a single premium for $10,000 of death-benefit coverage for life has been made.

Statistical Tables

Statistical Table 1. Pensions in Pay

Statistical Table 1.1. Number of Pensions and Survivor Pensions in Pay (year ended March 31)

Year	Pensions[1]	Survivor Pensions[2]	Total
2012	**189,743**	**56,423**	**246,166**
2011	184,835	58,165	243,000
2010	179,670	58,575	238,245

Statistical Table 1.2. Average Annual Amount—Pensions and Survivor Pensions in Pay[3] (year ended March 31)

		Pensions[1]			Survivor Pensions		
Year		Men	Women	Total	Spouse / Common-Law Partner	Children	Students
2012	**Average annual amount**	**$31,063**	**$21,498**	**$27,135**	**$12,555**	**$1,991**	**$2,794**
	Average age	**71.1**	**68.7**	**70.1**	**78.5**	**N/A**	**N/A**
	Average pensionable service (years)	**25.7**	**22.5**	**24.4**	**22.2**	**N/A**	**N/A**
2011	Average annual amount	$29,845	$20,229	$25,991	$12,071	$1,932	$2,589
	Average age	71.0	68.8	70.1	78.4	N/A	N/A
	Average pensionable service (years)	25.7	22.2	24.3	22.2	N/A	N/A
2010	Average annual amount	$28,985	$19,111	$25,127	$11,758	$1,924	$2,524
	Average age	70.9	68.9	70.2	78.1	N/A	N/A
	Average pensionable service (years)	25.6	21.9	24.1	22.1	N/A	N/A

1. Includes immediate annuities, disability retirement benefits, and annual allowances payable to former contributors only.
2. Includes spouse or common-law partner, children, and students.
3. Amounts include indexation.

Statistical Table 2. Pensions That Became Payable

Statistical Table 2.1. Pensions That Became Payable[1, 2] (year ended March 31)

Year	Men	Women	Total	Total Amount Paid	Average Pension
2012	**5,066**	**5,580**	**10,646**	**$384,398,234**	**$36,107**
2011	5,121	5,511	10,632	$380,609,902	$35,799
2010	4,716	4,693	9,409	$335,373,722	$35,644

Statistical Table 2.2. Pensions That Became Payable to Survivors[2] (year ended March 31)

Year	Spouse / Common-Law Partner	Children and Students	Total	Total Amount Paid	Average Pension Spouse / Common-Law Partner	Average Pension Children and Students
2012	**2,640**	**249**	**2,889**	**$38,935,387**	**$14,488**	**$2,757**
2011	2,575	211	2,786	$37,491,990	$14,330	$2,807
2010	2,579	240	2,819	$35,885,360	$13,638	$2,976

1. For 2012, the pensions that became payable include immediate annuities (7,850), deferred annuities (434), annual allowances payable to former contributors only (1,720), and disability retirement benefits (642).
2. These amounts include indexation.

Statistical Table 3. Unreduced Pensions, Immediate Annuities[1] (year ended March 31)

	Number of Pensions at Age at Retirement															
Year	50–54[2]	55	56	57	58	59	60[3]	61	62	63	64	65	66 and over	Total	Average Age[4]	Average Unreduced Pension[5]
2012	**62**	**1,508**	**556**	**499**	**484**	**403**	**1,300**	**603**	**481**	**386**	**399**	**480**	**689**	**7,850**	**60**	**$40,079**
2011	75	1,585	603	592	478	476	1,326	566	476	400	299	395	603	7,874	60	$39,826
2010	81	1,462	559	515	400	355	1,170	497	384	301	254	334	489	6,801	59	$40,085

1. Includes unreduced pensions (immediate annuities); excludes immediate annuities resulting from disability retirement benefits (642 in 2012).
2. Includes only eligible Correctional Service Canada operational employees who qualify for an unreduced pension.
3. Excludes deferred annuities that became payable at age 60. For 2012, there were 434 deferred annuities (211 men, 223 women) that became payable at age 60.
4. For 2012, the average retirement age for men was 60.2 and for women, 59.7.
5. For 2012, the average unreduced pension for men was $39,829 and for women, $40,336.

Statistical Table 4. Reduced Pension (Annual Allowances) and Lump-Sum Payments That Became Payable (year ended March 31)

Reduced Pensions[1]					Lump-Sum Payments[2]	
Year	Number for Men	Number for Women	Total Number	Average Allowance	Number	Amount
2012	**654**	**1,066**	**1,720**	**$29,648**	**4,811**	**$249,328,748**
2011	622	1,087	1,709	$28,659	6,414	$250,109,193
2010	578	942	1,520	$29,203	5,194	$171,910,503

1. Includes deferred annual allowances. A deferred annual allowance is a deferred annuity that is reduced because of early payment.
2. Includes transfer values, returns of contributions, amounts transferred to other pension plans under pension transfer agreements, and amounts transferred under the *Pension Benefits Division Act*.

Statistical Table 5. Changes in Number of Active Contributors, Retired Members, and Survivors on Pension

Statistical Table 5.1. Changes in Number of Active Contributors (year ended March 31, 2012)

	Men	Women	Total
Number of Active Contributors, April 1, 2011	140,041	176,165	316,206
Additions	7,876	9,673	17,549
Deletions:			
Employees leaving the public service[1]	8,367	10,776	19,143
Reversions to non-contributory status[2]	391	413	804
Deaths	187	167	354
Total Deletions	8,945	11,356	20,301
Adjustments[3]	(54)	252	198
Number of Active Contributors, March 31, 2012	**138,918**	**174,734**	**313,652**

1. Includes full return of contributions, immediate annuities, annual allowances paid, options not yet made, transfer values, deferred annuities chosen, deferred annuities locked in (if applicable), and transfers out.
2. Describes contributors that ceased making contributions temporarily (e.g., part-time employees, employees on leave without pay).
3. Adjustments for transactions completed after year-end with an effective date before March 31.

Statistical Table 5.2. Changes in Number of Retired Members[1] (year ended March 31, 2012)

	Total
Number of Retired Members, April 1, 2011	184,835
Additions	10,646
Deletions	5,274
Adjustments[2]	(464)
Number of Retired Members, March 31, 2012	**189,743**

1. Does not include 5,307 deferred annuitants as at March 31, 2012.
2. Adjustments for transactions completed after year-end with an effective date before March 31.

Statistical Table 5.3. Changes in Number of Survivors on Pensions (year ended March 31, 2012)

	Total
Number of Survivors on Pension, April 1, 2011	56,342
Additions	2,640
Deletions	2,404
Adjustments[1]	(1,964)
Number of Survivors on Pension, March 31, 2012	**54,614**

1. Adjustments for transactions completed after year-end with an effective date before March 31.

Statistical Table 5.4. Changes in Number of Children and Students on Pensions (year ended March 31, 2012)

	Total
Number of Children and Students on Pension, April 1, 2011	1,823
Additions	249
Deletions	27
Adjustments[1]	(236)
Number of Children and Students on Pension, March 31, 2012	**1,809**

1. Adjustments for transactions completed after year-end with an effective date before March 31.

Statistical Table 6. Number and Amount of Transfer Value Payments by Years of Pensionable Service and Age at Termination (year ended March 31, 2012)

Years of Pensionable Service[2]	Age at Termination[1]						
	Under 30	30–34	35–39	40–44	45–49	Total	Total ($)
Under 5	**177**	**129**	**110**	**78**	**76**	**570**	
5–9	**25**	**100**	**99**	**73**	**72**	**369**	
10–14	**0**	**14**	**40**	**52**	**54**	**160**	
15–19	**0**	**1**	**15**	**30**	**52**	**98**	
20–24	**0**	**0**	**1**	**11**	**46**	**58**	
25–29	**0**	**0**	**0**	**1**	**22**	**23**	
30–35	**0**	**0**	**0**	**0**	**1**	**1**	
Total Men	**82**	**92**	**121**	**96**	**128**	**519**	
Total Women	**120**	**152**	**144**	**149**	**195**	**760**	
Overall Total	**202**	**244**	**265**	**245**	**323**	**1,279**	**$159,657,304**

1. The average age for contributors receiving transfer value payments was 38.5 for men, 38.6 for women, and 38.5 for men and women combined.
2. The average pensionable service for contributors receiving transfer value payments was 7.4 years for men, 8.1 years for women, and 7.8 years for men and women combined.

Statistical Table 7. Supplementary Death Benefit—Number of Participants and Number of Benefits Paid (year ended March 31)

	Active Participants[1]			Retired Participants[2]			Death Benefits Paid			
Year	Men	Women	Total	Men	Women	Total	Men	Women	Total	Amount Paid
2012	**133,878**	**172,041**	**305,919**	**90,057**	**61,648**	**151,705**	**3,421**	**1,493**	**4,914**	**$164,082,537**
2011	135,276	173,728	309,004	88,900	57,871	146,771	3,445	1,461	4,906	$155,547,038
2010	135,788	173,752	309,540	87,403	54,016	141,419	3,521	1,471	4,992	$154,383,630

1. Certain Crown corporations do not offer the Supplementary Death Benefit.
2. The Supplementary Death Benefit is optional for retirees.

Financial Statements of the Public Service Pension Plan for the Fiscal Year Ended March 31, 2012

Statement of Responsibility

Responsibility for the integrity and fairness of the financial statements of the public service pension plan (the pension plan) rests with Public Works and Government Services Canada (PWGSC) and the Treasury Board of Canada Secretariat (the Secretariat). The Secretariat carries out responsibilities in respect of the overall management of the pension plan, while PWGSC is responsible for the day-to-day administration of the pension plan and for maintaining the books of accounts.

The financial statements of the pension plan have been prepared in accordance with the accounting policies set out in Note 2 of the financial statements, which are based on Canadian accounting standards for pension plans. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian accounting standards for pension plans. The financial statements include management's best estimates and judgments where appropriate.

To fulfill its accounting and reporting responsibilities, PWGSC has developed and maintains books, records, internal controls, and management practices designed to provide reasonable assurance as to the reliability of the financial information and to ensure that transactions are in accordance with the *Public Service Superannuation Act* (PSSA) and regulations, as well as the *Financial Administration Act* (FAA) and regulations.

Additional information, as required, is obtained from the Public Sector Pension Investment Board (PSPIB). PSPIB maintains its own records and systems of internal control to account for the funds managed on behalf of the pension plan in accordance with the *Public Sector Pension Investment Board Act*, regulations and by-laws.

These statements have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Approved by:

Original signed by

Michelle d'Auray
Deputy Minister and Deputy Receiver General for Canada
Public Works and Government Services Canada
February 11, 2013

Original signed by

Yaprak Baltacıoğlu
Secretary of the Treasury Board
Treasury Board of Canada Secretariat
February 11, 2013

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the President of the Treasury Board and the Minister of Public Works and Government Services

Report on the Financial Statements

I have audited the accompanying financial statements of the public service pension plan, which comprise the statements of financial position as at 31 March 2012, 31 March 2011 and 1 April 2010, and the statements of changes in net assets available for benefits and statements of changes in pension obligations for the years ended 31 March 2012 and 31 March 2011, 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 the stated accounting policies set out in Note 2 of the financial statements, which conform 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 public service pension plan as at 31 March 2012, 31 March 2011 and 1 April 2010, and the changes in its net assets available for benefits and changes in its pension obligations for the years ended 31 March 2012 and 31 March 2011 in accordance with Canadian accounting standards for pension plans.

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Auditor General of Canada
Vérificateur général du Canada

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the public service pension plan that have come to my notice during my audits of the financial statements have, in all significant respects, been in accordance with the *Public Service Superannuation Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board.

Original signed by

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

11 February 2013
Ottawa, Canada

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Financial Statements

Statement of Financial Position

(Canadian $ millions)

	As at March 31 2012	As at March 31 2011	As at April 1 2010
Net Assets and Other Accounts Available for Benefits			
Assets			
Public Service Pension Fund Account (Note 3)	**$142**	$231	$260
Investments (Note 4)	**51,345**	44,375	35,045
Investment-related assets (Note 4)	**919**	1,075	584
Contributions receivable—post–March 31, 2000 service (Note 6)	**1,011**	926	870
Other assets (Note 7)	**66**	48	40
Total Assets	**53,483**	46,655	36,799
Liabilities			
Investment-related liabilities (Note 4)	**5,120**	3,140	1,970
Other liabilities	**82**	59	38
Net Assets	**48,281**	43,456	34,791
Other Accounts			
Public Service Superannuation Account (Note 3)	**96,442**	95,782	94,569
Contributions receivable—pre–April 1, 2000 service (Note 6)	**150**	181	215
Net Assets and Other Accounts Available for Benefits	**$144,873**	$139,419	$129,575
Pension Obligations and Excess (Shortfall)			
Pension obligations (Note 10)	**$145,925**	$134,217	$126,694
Excess (Shortfall) (Note 11)	**(1,052)**	5,202	2,881
Pension Obligations and Excess (Shortfall)	**$144,873**	$139,419	$129,575

Commitments and Contingency (Notes 19 and 20)

The accompanying notes are an integral part of these financial statements.

Financial Statements (cont'd)

Statement of Changes in Net Assets Available for Benefits

Year ended March 31 (Canadian $ millions)

	2012	2011
Net Assets and Other Accounts Available for Benefits, Beginning of Year	**$139,419**	$129,575
Increase in Net Assets and Other Accounts Available for Benefits		
Interest income on the Public Service Superannuation Account (Note 3)	**5,584**	6,005
Investment income, excluding changes in fair values of investment assets and investment liabilities (Note 13)	**1,046**	816
Changes in fair values of investment assets and investment liabilities – realized and unrealized gains and losses (Note 13)	**335**	4,314
Contributions (Note 12)		
From Plan Members	**1,606**	1,531
From the Employer	**2,833**	2,812
Transfers from other pension funds	**76**	72
Total Increase in Net Assets and Other Accounts Available for Benefits	**11,480**	15,550
Decrease in Net Assets and Other Accounts Available for Benefits		
Benefits paid (Note 15)	**5,555**	5,245
Refunds and transfers (Note 15)	**249**	250
Administrative expenses (Note 16)	**222**	211
Total Decrease in Net Assets and Other Accounts Available for Benefits	**6,026**	5,706
Net Increase in Net Assets and Other Accounts Available for Benefits	**5,454**	9,844
Net Assets and Other Accounts Available for Benefits, End of Year	**$144,873**	$139,419

The accompanying notes are an integral part of these financial statements.

Financial Statements (cont'd)

Statement of Changes in Pension Obligations

Year ended March 31 (Canadian $ millions)

	2012	2011
Pension Obligations, Beginning of Year	**$134,217**	$126,694
Increase in Pension Obligations		
Interest on pension obligations	**8,125**	7,936
Benefits earned	**4,502**	4,357
Changes in actuarial assumptions (Note 10)	**5,441**	1,238
Transfers from other pension funds	**76**	72
Total Increase in Pension Obligations	**18,144**	13,603
Decrease in Pension Obligations		
Benefits paid (Note 15)	**5,555**	5,245
Experience gains	**518**	457
Refunds and transfers (Note 15)	**249**	250
Administrative expenses included in the service cost (Note 16)	**114**	128
Total Decrease in Pension Obligations	**6,436**	6,080
Net Increase in Pension Obligations	**11,708**	7,523
Pension Obligations, End of Year	**$145,925**	$134,217

The accompanying notes are an integral part of these financial statements.

1. Description of the Public Service Pension Plan

The public service pension plan (the pension plan), governed by the *Public Service Superannuation Act* (PSSA), provides pension benefits for federal public service employees. While the PSSA has been in effect since January 1, 1954, federal legislation has been providing pensions for public servants since 1870.

The main provisions of the public service pension plan are summarized below.

(A) General

The pension plan is a contributory defined benefit plan covering substantially all of the full-time and part-time employees of the Government of Canada, certain Crown corporations, and territorial governments. Membership in the pension plan is compulsory for all eligible employees.

The Government of Canada is the sole sponsor of the pension plan. The President of the Treasury Board is the Minister responsible for the PSSA. The Treasury Board of Canada Secretariat (the Secretariat) is responsible for the management of the public service pension plan while Public Works and Government Services Canada (PWGSC) provides the day-to-day administration of the pension plan and maintains the books of accounts. The Office of the Chief Actuary (OCA), an independent unit within the Office of the Superintendent of Financial Institutions (OSFI) performs periodic actuarial valuations of the public service pension plan.

Until April 1, 2000, separate market-invested funds were not set aside to provide for payment of pension benefits. Instead, transactions relating to the pension plan were recorded in a Public Service Superannuation Account (Superannuation Account) created by legislation in the accounts of Canada. Pursuant to the PSSA, as amended by the *Public Sector Pension Investment Board Act*, contributions relating to service since April 1, 2000, are now recorded in the Public Service Pension Fund (Pension Fund). An amount equal to contributions in excess of benefit payments and administrative costs is transferred regularly to the Public Sector Pension Investment Board (PSPIB) and invested in capital markets. PSPIB is a Crown corporation whose statutory objectives are to manage the funds transferred to it for investment and to maximize investment returns without undue risk of loss, having regard to the funding, policies and requirements of the four major public sector pension plans.

(B) Funding Policy

The public service pension plan is funded from plan member and employer contributions. For the fiscal year, plan members contributed 5.8 percent (2011 – 5.5 percent) for the first nine months and 6.2 percent (2011 – 5.8 percent) for the last three months of pensionable earnings up to the maximum covered by the Canada Pension Plan (CPP) or Québec Pension Plan (QPP) and 8.4 percent (2011 – 8.4 percent) for the first nine months and 8.6 percent for the last three months (2011 – 8.4 percent) of pensionable earnings above that maximum. The Government's contribution is made monthly to provide for the cost (net of plan member contributions) of the benefits that have accrued in respect of that month at a rate determined

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

by the President of the Treasury Board. The cost of the benefits is determined based on actuarial valuations, which are performed triennially.

The PSSA provides that all pension obligations arising from the public service pension plan be met by the Government. In the case of the Pension Fund, the PSSA requires that any actuarial deficit be dealt with by transferring equal instalments to the Pension Fund over a period of up to 15 years, commencing in the year in which the actuarial report is tabled in Parliament. It also allows any excess to be lowered by reducing Government and pension plan member contributions. In addition, if there is an amount considered to be non-permitted surplus (refer to PSSA section 44.4(5) for definition of non-permitted surplus) related to the Pension Fund, no further Government pension contributions are permitted while pension plan member contributions under the Pension Fund may be reduced and amounts from PSPIB may be transferred to the Consolidated Revenue Fund.

For service that pre-dates April 1, 2000, the PSSA further requires that any actuarial shortfall resulting from a lower balance in the Superannuation Account than the actuarial liability be addressed by increasing the Superannuation Account in equal instalments over a period of up to 15 years. It also allows the excess to be reduced by decreasing the Superannuation Account over a period of up to 15 years; however, if the balance of the Superannuation Account exceeds one hundred and ten percent (110 percent) of the amount required to meet the cost of the benefits payable, the excess amount must be reduced by decreasing the Superannuation Account annually over a period of up to 15 years.

(C) Benefits

The public service pension plan provides benefits based on the number of years of pensionable service to a maximum of 35 years. Benefits are determined by a formula set out in the legislation; they are not based on the financial status of the pension plan. The basic benefit formula is 2 percent per year of pensionable service multiplied by the average of the five consecutive years of highest paid service. Benefits are coordinated with the CPP and QPP, and the resulting pension reduction factor for pension plan members reaching age 65, or earlier if totally and permanently disabled, has been lowered from a level of 0.7 percent for those turning age 65 in calendar year 2007 or earlier to 0.640 percent for those turning age 65 in calendar year 2011. This reduction factor was further reduced annually to 0.625 percent for those turning 65 in calendar year 2012 and later. Also, benefits are fully indexed to the increase in the Consumer Price Index.

Other benefits include survivor pensions, minimum benefits in the event of death, unreduced early retirement pensions, and disability pensions. To reflect the *Income Tax Act* restrictions on registered pension plan benefits, separate Retirement Compensation Arrangements (RCAs) have been implemented to provide benefits that exceed the limits established in the *Income Tax Act.* Since the RCAs are covered by separate legislation, their account balances in the accounts of Canada are not consolidated in these financial statements; however, condensed information is presented in Note 17.

2. Significant Accounting Policies

(A) Basis of Presentation

These financial statements present information on the public service pension plan on a going-concern basis. They are prepared to assist plan members and others in reviewing the activities of the pension plan for the year, not to portray the funding requirements of the pension plan.

These financial statements are prepared in Canadian dollars, the plan's functional currency, in accordance with the accounting policies stated below, which are based on Canadian accounting standards for pension plans in Part IV of the Canadian Institute of Chartered Accountants (CICA) Handbook (Section 4600). Section 4600 provides specific accounting guidance on investments and pension obligations. For accounting policies that do not relate to either investments or pension obligations, the plan complies with International Financial Reporting Standards (IFRS) in Part I of the CICA Handbook commencing April 1, 2011. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian accounting standards for pension plans.

The financial statements for the year ended March 31, 2012 were authorized for issue by the signatories on February 11, 2013.

(B) Changes in Accounting Policies

These financial statements are based on Section 4600 – Pension Plans of the CICA Handbook. Prior to April 1, 2011, the financial statements were prepared on the basis of CICA Handbook Section 4100 – Pension Plans. As a result, the comparatives as at April 1, 2010 and March 31, 2011 have been restated. Management has elected to early adopt International Accounting Standard (IAS) 1, effective January 1, 2013, related to the Presentation of Financial Statements, on a prospective basis, commencing April 1, 2011. As a result, the pension plan does not need to present the related notes to the opening statement of financial position as at April 1, 2010.

Investment assets and investment-related liabilities
The measurement requirements under Section 4600 were applied consistently to the fair value of all investment assets and investment liabilities. The application of Section 4600 requirements has no impact on the values of either investment assets or investment-related liabilities.

Investment assets and investment-related liabilities are presented on a non-consolidated basis. As an investment company, PSPIB has been exempted from the IFRS requirements to consolidate its controlled investments. As a result, the pension plan financial statements of prior years are unchanged as investments continue to be stated at fair value and on a non-consolidated basis.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

The following accounting policy has been revised based on Section 4600:

Elimination of actuarial asset value adjustment

As at March 31, 2011, on the basis of Section 4100, the actuarial asset value adjustment was included in the determination of the pension plan financial statement excess or shortfall. As per Section 4600, the actuarial asset value adjustment is no longer permitted. As a result, the tables below show the impact of the revised accounting policies on prior years' Statement of Financial Position.

Statement of Financial Position

As at March 31, 2011 ($ million)

	As Previously Reported	Effect of Transition to CICA Section 4600	Revised Based on CICA Section 4600
Net Assets and Other Accounts Available for Benefits			
Assets			
Public Service Pension Fund Account (Note 3)	$231	$0	$231
Investments (Note 4)	44,375	0	44,375
Investment-related assets (Note 4)	1,075	0	1,075
Contributions receivable—post–March 31, 2000 service (Note 6)	926	0	926
Other assets (Note 7)	48	0	48
Total Assets	46,655	0	46,655
Liabilities			
Investment-related liabilities (Note 4)	3,140	0	3,140
Other liabilities	59	0	59
Net Assets	3,199	0	3,199
Other Accounts			
Public Service Superannuation Account (Note 3)	95,782	0	95,782
Contributions receivable—pre–April 1, 2000 service (Note 6)	181	0	181
Net Assets and Other Accounts Available for Benefits	139,419	0	139,419
Actuarial asset value adjustment	(3,308)	3,308	0
Actuarial Value of Net Assets and Other Accounts Available for Benefits	$136,111	$3,308	$139,419
Pension Obligations and Excess			
Pension Obligations (Note 10)	$134,217	$0	$134,217
Excess (Note 11)	1,894	3,308	5,202
Pension Obligations and Excess	$136,111	$3,308	$139,419

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

Opening Statement of Financial Position

As at April 1, 2010 ($ million)

	As Previously Reported	Effect of Transition to CICA Section 4600	Revised Based on CICA Section 4600
Net Assets and Other Accounts Available for Benefits			
Assets			
Public Service Pension Fund Account (Note 3)	$260	$0	$260
Investments (Note 4)	35,045	0	35,045
Investment-related assets (Note 4)	584	0	584
Contributions receivable—post–March 31, 2000 service (Note 6)	870	0	870
Other assets (Note 7)	40	0	40
Total Assets	36,799	0	36,799
Liabilities			
Investment-related liabilities (Note 4)	1,970	0	1,970
Other liabilities	38	0	38
Net Assets	34,791	0	34,791
Other Accounts			
Public Service Superannuation Account (Note 3)	94,569	0	94,569
Contributions receivable—pre–April 1, 2000 service (Note 6)	215	0	215
Net Assets and Other Accounts Available for Benefits	129,575	0	129,575
Actuarial asset value adjustment	(1,002)	1,002	0
Actuarial Value of Net Assets and Other Accounts Available for Benefits	$128,573	$1,002	$129,575
Pension Obligations and Excess			
Pension Obligations (Note 10)	$126,694	$0	$126,694
Excess (Note 11)	1,879	1,002	2,881
Pension Obligations and Excess	$128,573	$1,002	$129,575

(C) Valuation of Assets and Other Accounts

The Public Service Superannuation Account portrays a notional portfolio of bonds and is presented at the amount at which it is carried in the accounts of Canada.

In the case of the Pension Fund, the investments are held by PSPIB and allocated to the public service pension plan. Investments, investment-related assets and investment-related liabilities are recorded at the date upon which PSPIB becomes a party to the associated contractual provisions, and are carried at fair value. Purchases and sales are recorded as of the trade date. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

At trade date, the best evidence of fair value is the transaction price. At each subsequent reporting year-end, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair values are estimated using present value or other valuation techniques, using inputs existing at the end of the reporting year that are derived from observable market data.

Valuation techniques are generally applied to investments in real estate, private equity, infrastructure and renewable resources, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The valuation methods of the investments are described in Notes 4 (A) and (B).

(D) Transaction Costs

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability. Transaction costs are expensed as incurred and are recorded as a component of investment income (loss).

(E) Investment Management Fees

Investment management fees are directly attributable to the external management of assets on behalf of PSPIB. Management fees incurred for investments in private markets and certain private debt portfolios are paid by the investment directly, through capital contributions by PSPIB or offset against distributions received from the investment (Note 4 (A) (II)). Management fees are also incurred for certain public markets and alternative investments and are paid either directly by PSPIB or offset against distributions received from pooled fund investments. In both cases, they are recorded against investment income (loss) (see Note 13).

(F) Income Recognition

The investment income (loss) has been allocated proportionately based on the asset value held by the pension plan account.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

Investment income (loss) is made up of interest income, dividends, realized gains (losses) on the disposal of investments and unrealized gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the year to adjust investments to fair value. Interest income is recognized as earned. Dividends are recognized on the ex-dividend date and are reflected as dividend income. Dividends paid or payable on securities sold short are reflected as dividend expense. Other income includes securities lending income (net of fees on securities borrowed), as well as private markets distributions from pooled funds, limited partnerships or from direct investments and co-investments. Co-investments are investments in private entities where the investment is made in conjunction with an external manager with whom PSPIB already has committed and delegated funds.

Interest on the Public Service Superannuation Account is recognized on an accrual basis.

(G) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service that are receivable over a period in excess of one year are recorded at the estimated net present value of the contributions to be received.

(H) Benefits Earned, Benefits Paid, and Refunds and Transfers

Benefits are accrued as pensionable service accumulates. Benefits paid are recognized as a reduction of pension obligations, and net assets and other accounts available for benefits when paid.

Refunds and transfers are recognized at the moment the refund or transfer occurs; until that time, they are presented with the net assets and other accounts available for benefits and with related pension obligations.

(I) Translation of Foreign Currencies

Investment transactions in foreign currencies are recorded at exchange rates prevailing on the transaction date. Investments denominated in foreign currencies and held at the end of the period are translated at exchange rates in effect at the period-end date. The resulting realized and unrealized gains (losses) on foreign exchange are included in investment income (loss).

(J) Use of Estimates

The preparation of these financial statements based on Canadian accounting standards for pension plans requires management to make use of estimates and assumptions that affect the reported values of investment assets and investment liabilities, pension obligations, income and expenses, and related disclosures at the date of the financial statements.

In making estimates and using assumptions, management relies on external information and observable conditions where possible. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ significantly from the estimates and assumptions. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(K) Pension Obligations

The present value of pension obligations is calculated by using the projected benefit method prorated on services, based on management's best estimate assumptions.

3. Public Service Superannuation Account and Public Service Pension Fund Account

The Government of Canada has a statutory obligation to pay benefits relating to the pension plan. This pension obligation is to plan members and their beneficiaries. In order for the Government to track the transactions related to contributions, benefit payments, interest and transfers, the Government established the Public Service Superannuation Account (the Superannuation Account) and the Public Service Pension Fund Account (Pension Fund Account) in the accounts of Canada. The accounts have no capacity to pay pensions. All cash receipts are deposited to and payments come from the Consolidated Revenue Fund (CRF).

Superannuation Account

The Superannuation Account records transactions that relate to service prior to April 1, 2000. The Superannuation Account portrays a notional portfolio of bonds, and as such, does not hold any invested assets. The amount of interest credited on the account is as though net cash flows were invested quarterly in 20-year Government of Canada bonds issued at prescribed rates and held to maturity.

Pension Fund Account

In 1999, legislation was amended to allow the Government of Canada to invest funds in capital markets in order to provide for the pension obligation. This legislation created the PSPIB to manage and invest amounts that are transferred regularly to it from the CRF related to service on or after April 1, 2000. The transactions are recorded in the Pension Fund Account. Unlike the Superannuation Account, the Pension Fund Account does not earn interest. The Pension Fund Account is merely a flow through account. At year-end, the balance in the Pension Fund Account represents net contributions awaiting imminent transfer to PSPIB. PSPIB investment assets and investment-related liabilities are reflected directly in the pension plan financial statements.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

4. Investments

(A) Investment Portfolio

At March 31, the portfolio of investments is organized according to the nature and common characteristics associated with the investments held and is as follows ($ millions):

	2012 Fair Value	**2012 Cost**	2011 Fair Value	2011 Cost
Public Markets				
Canadian Equity	**$6,679**	**$6,488**	$10,304	$8,466
Foreign Equity	**11,854**	**10,961**	9,460	8,638
Private Markets				
Real Estate	**5,445**	**4,714**	3,974	3,639
Private Equity	**4,515**	**3,848**	3,783	3,279
Infrastructure	**3,119**	**3,270**	1,973	2,139
Renewable Resources	**275**	**275**	0	0
Fixed Income				
Cash and Money Market Securities	**1,746**	**1,746**	1,868	1,868
Government and Corporate Bonds	**9,314**	**9,118**	5,887	5,924
Inflation-Linked Bonds	**2,886**	**2,637**	2,173	2,236
Other Fixed Income Securities	**4,654**	**4,193**	4,141	3,986
Alternative Investments	**858**	**678**	812	657
Investments	**$51,345**	**$47,928**	$44,375	$40,832
Investment-Related Assets				
Amounts Receivable from Pending Trades	**$460**	**$460**	$ 508	$508
Interest Receivable	**117**	**117**	102	102
Dividends Receivable	**43**	**43**	36	36
Derivative-Related Receivables	**299**	**59**	429	21
Total Investment-Related Assets	**$919**	**$679**	$1,075	$667

	2012 Fair Value	2012 Cost	2011 Fair Value	2011 Cost
Investment-Related Liabilities				
Amounts Payable from Pending Trades	**$(722)**	**$(722)**	$(790)	$(790)
Interest Payable	**(18)**	**(18)**	(16)	(16)
Securities Sold Short	**(314)**	**(304)**	(32)	(27)
Securities Sold Under Repurchase Agreements	**(929)**	**(926)**	(372)	(372)
Derivative-Related Payables	**(270)**	**(60)**	(144)	(17)
Capital Market Debt Financing				
Short-Term	**(658)**	**(658)**	(512)	(512)
Long-Term	**(2,209)**	**(2,162)**	(1,274)	(1,246)
Total Investment-Related Liabilities	**$(5,120)**	**$(4,850)**	$(3,140)	$(2,980)
Net Investments	**$47,144**	**$43,757**	$42,310	$38,519

(I) Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Valuation Techniques

Direct investments in Canadian and Foreign Equities are measured at fair value using quoted market prices, namely, the bid price. In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

(II) Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and renewable resources.

Real estate investments are comprised of direct equity positions in various private entities, properties, as well as fund investments in the real estate sector. Real estate investments focus on properties, partnerships and companies operating in the office, retail, industrial, hospitality and residential sectors, as well as private funds invested in real estate assets. Real estate investments are accounted for net of all third-party financings. As at March 31, 2012, the total amount of third-party financing included as part of real estate contracted by direct investments controlled by PSPIB for the pension plan was $1,945 million (2011 – $1,540 million).

Private equity investments are comprised of direct equity positions and co-investments in private entities as well as fund investments with similar objectives.

Infrastructure investments are comprised of direct equity positions and co-investments in various private entities and fund investments. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are accounted for net of all third-party financings. As at March 31, 2012, the total amount of third-party financing included as part of infrastructure contracted by direct investments controlled by PSPIB for the pension plan was $208 million (2011 – $37 million).

Renewable resources investments are comprised of properties involving the production and harvesting of replenishable resources. As at March 31, 2012, renewable resources included one investment in timberlands.

Valuation Techniques

The fair value of private markets investments is determined at least annually, using acceptable industry valuation methods. During the year, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant methodology is applied consistently over time as appropriate in the prevailing circumstances.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards. Such standards include the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

For direct investments in real estate, valuation methods used include discounted cash flows, prices of recent comparable transactions and the direct capitalization approach. Assumptions used in such valuations include discount rates, capitalization rates, projected cash flows and/or net operating income, which are not fully supported by prices from market observable transactions.

For direct investments in private equity, direct investments and co-investments in infrastructure and in renewable resources, valuation methods used include discounted cash flows, earnings multiples, prices of recent comparable transactions and publicly traded comparables. Assumptions used in such valuations include discount rates and projected cash flows, which are not fully supported by prices from market observable transactions.

In the case of private equity, real estate and infrastructure fund investments as well as private equity co-investments, the annual fair value is generally determined based on the audited fair values reported by the fund's general partner using acceptable industry valuation methods.

(III) Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and other fixed income securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds. Inflation-linked bonds are fixed income securities that earn inflation adjusted returns.

Other fixed income securities consist of asset-backed securities, floating rate notes as well as private debt portfolios.

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 18.

Private debt portfolios consist mainly of investments in the real estate sector in the form of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products. They also include real estate debt funds where significant portions of the value are attributed to the underlying real estate assets.

Private debt portfolios also include debt securities of private companies or other entities such as venture capital organizations, held mainly through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt.

Valuation Techniques

Cash and money market securities include short-term instruments that are recorded at cost plus accrued interest, which approximates fair value.

Fair values of government and corporate bonds, inflation-linked bonds, floating rate notes and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

ABTNs are measured at fair value whereby PSPIB relies on the valuation work performed by a recognized third-party expert. PSPIB ensures that the valuation conducted by such expert uses acceptable industry methods. Financial information used in the valuation of ABTNs includes interest rates, credit spreads and the underlying investments' terms to maturity. In addition to the values determined by the expert, PSPIB integrated certain assumptions in the fair value of ABTNs that are not fully supported by market observable data, such as liquidity estimates and the impact of the funding facilities described in Note 18.

The fair value of private debt portfolios in the real estate sector is determined using either a yield-based or collateral-based valuation technique. The yield-based valuation technique involves discounting expected future cash flows that incorporate assumptions with respect to interest rates offered for similar loans to borrowers with similar credit ratings. The collateral-based valuation technique involves assessing the recoverable value of the collateral in question, net of disposal fees.

The fair value of fund investments included as part of private debt portfolios is determined based on the audited fair values reported by the fund's general partner using acceptable industry valuation methods.

(IV) Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds.

Valuation Techniques

The fair value of these investments is obtained from the investment's external manager and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable.

(V) Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Valuation Techniques

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

(VI) Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received as at the reporting date, which approximates fair value.

(VII) Interest Payable

Interest is accrued at the amount expected to be paid as at the reporting date, which approximates fair value.

(VIII) Securities Sold Short

Securities sold short reflect PSPIB's obligation to purchase securities pursuant to short selling transactions. In such transactions, PSPIB sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Valuation Techniques

Using ask prices as inputs, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

(IX) Securities Sold Under Repurchase Agreements

PSPIB is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and specified future date.

Securities sold under the repurchase agreements are not derecognized as PSPIB retains all related risks and rewards of ownership. As such, all related income (loss) continues to be reported in investment income (loss).

Obligations to repurchase the securities sold are accounted for as investment-related liabilities. Interest expense related to such obligations is reported in investment income.

Valuation Techniques

Obligations to repurchase the securities sold under repurchase agreements are recorded at cost plus accrued interest, which approximates fair value.

(X) Derivative-Related Receivables and Payables

The description and valuation of derivative-related receivables and payables are described in Note 4 (B).

(XI) Capital Market Debt Financing

PSPIB's capital market debt program is described in Note 8. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSPIB's medium-term notes is based on prices that are obtained from third-party pricing sources. Such

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

prices are determined using an interest rate curve with a spread consistent with PSPIB's credit quality.

(B) Derivative Financial Instruments

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. PSPIB uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSPIB uses the following types of derivative financial instruments:

(I) Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

(II) Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

(III) Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

(IV) Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

(V) Warrants and Rights

Warrants are options to purchase an underlying asset, which is in the form of a transferable security and which can be listed on an exchange.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

(VI) Collateralized Debt Obligations

Collateralized debt obligations are a type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

Valuation Techniques

All listed derivative financial instruments are recorded at fair value using quoted market prices with the bid price for long positions and the ask price for short positions. OTC derivatives are valued using appropriate valuation techniques, such as discounted cash flows using current market yields. The assumptions used include the statistical behaviour of the underlying instruments and the ability of the model to correlate with observed market transactions. Although pricing models used are widely accepted and used by other market participants, in the case of collaterized debt obligations, the nature of such instruments requires more significant assumptions about the behaviour of the default correlation. Such assumptions are not observable in the market.

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

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Year Ended March 31, 2012 (Canadian $)

(B) Derivative Financial Instruments (cont'd)

The derivatives portfolio as at March 31 is as follows ($ millions):

	2012				2011			
	Notional Value	Fair Value Assets	Fair Value Liabilities	Fair Value Net	Notional Value	Fair Value Assets	Fair Value Liabilities	Fair Value Net
Equity and Commodity Derivatives								
Futures	**$739**	**$0**	**$0**	**$0**	$314	$0	$0	$0
Total Return Swaps	**5,960**	**96**	**(32)**	**64**	4,039	139	0	139
Warrants and Rights	**1**	**0**	**0**	**0**	2	2	0	2
Options: Listed-purchased	**824**	**11**	**0**	**11**	322	9	0	9
Listed-written	**706**	**0**	**(8)**	**(8)**	288	0	(14)	(14)
OTC-purchased	**393**	**4**	**0**	**4**	0	0	0	0
OTC-written	**362**	**0**	**(6)**	**(6)**	0	0	0	0
Currency Derivatives								
Forwards	**16,869**	**114**	**(135)**	**(21)**	12,466	230	(88)	142
Futures	**111**	**0**	**0**	**0**	0	0	0	0
Swaps	**687**	**2**	**(13)**	**(11)**	1,219	18	(8)	10
Options: OTC-purchased	**358**	**4**	**0**	**4**	736	4	0	4
OTC-written	**598**	**0**	**(5)**	**(5)**	133	0	(2)	(2)
Interest Rate Derivatives								
Bond Forwards	**1,315**	**3**	**(2)**	**1**	724	4	(2)	2
Futures	**1,143**	**0**	**0**	**0**	1,290	0	0	0
Interest Rate Swaps	**5,536**	**19**	**(22)**	**(3)**	12,791	10	(12)	(2)
Total Return Swaps	**0**	**0**	**0**	**0**	471	0	0	0
Swaptions	**590**	**11**	**(4)**	**7**	2,568	5	(2)	3
Options: Listed-purchased	**6,030**	**2**	**0**	**2**	3,898	5	0	5
Listed-written	**6,087**	**0**	**(4)**	**(4)**	5,476	0	(5)	(5)
OTC-purchased	**584**	**11**	**0**	**11**	0	0	0	0
OTC-written	**2,815**	**0**	**(17)**	**(17)**	0	0	0	0
Credit Derivatives[1]								
Purchased	**881**	**20**	**(6)**	**14**	305	2	(3)	(1)
Sold	**427**	**2**	**(16)**	**(14)**	298	1	(8)	(7)
Total	**$53,016**	**$299**	**$(270)**	**$29**	$47,340	$429	$(144)	$285

1. Credit derivatives include credit default swaps and collateralized debt obligations. PSPIB, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown above.

(B) Derivative Financial Instruments (cont'd)

The term to maturity based on the notional value for the derivatives as at March 31, is as follows ($ millions):

	2012
Less than 3 Months	**$30,378**
3 to 12 Months	**12,969**
Over 1 Year	**9,669**
Total	**$53,016**

(C) Fair Value Measurement

Investments, investment-related assets and investment-related liabilities are classified according to the following hierarchy based on the significant inputs used in measuring their fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities.

Level 2: Valuation is based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active. Level 2 also includes model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is based on model-based techniques for which significant assumptions are not observable in the market. They reflect PSPIB management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

The fair value of financial instruments as at March 31, based on the methods described above is as follows ($ millions):

(C) Fair Value Measurement (cont'd)

	2012				
	Level 1	Level 2	Level 3	No Level	Total Fair Value
Public Markets					
Canadian Equity	$6,679	$0	$0	$0	$6,679
Foreign Equity	11,137	593	124	0	11,854
Private Markets					
Real Estate	0	0	5,445	0	5,445
Private Equity	0	0	4,515	0	4,515
Infrastructure	0	0	3,119	0	3,119
Renewable Resources	0	0	275	0	275
Fixed Income					
Cash and Money Market Securities	557	1,189	0	0	1,746
Government and Corporate Bonds	0	9,314	0	0	9,314
Inflation-Linked Bonds	0	2,886	0	0	2,886
Other Fixed Income Securities	0	1,742	2,912	0	4,654
Alternative Investments	0	636	222	0	858
Investments	$18,373	$16,360	$16,612	$0	$51,345
Investment-Related Assets					
Amounts Receivable from Pending Trades[1]	0	0	0	460	460
Interest Receivable[1]	0	0	0	117	117
Dividends Receivable[1]	0	0	0	43	43
Derivative-Related Receivables	13	286	0	0	299
Total Investment-Related Assets	$13	$286	$0	$620	$919
Investment-Related Liabilities					
Amounts Payable from Pending Trades[1]	$0	$0	$0	$(722)	$(722)
Interest Payable[1]	0	0	0	(18)	(18)
Securities Sold Short	(314)	0	0	0	(314)
Securities Sold Under Repurchase Agreements	0	(929)	0	0	(929)
Derivative-Related Payables	(11)	(252)	(7)	0	(270)
Capital Market Debt Financing					
Short-Term	0	(658)	0	0	(658)
Long-Term	0	(2,209)	0	0	(2,209)
Total Investment-Related Liabilities	$(325)	$(4,048)	$(7)	$(740)	$(5,120)
Net Investments	$18,061	$12,598	$16,605	$(120)	$47,144

1. No fair value hierarchy classification is required for these items.

	2011				
	Level 1	Level 2	Level 3	No Level	Total Fair Value
Public Markets					
Canadian Equity	$10,262	$42	$0	$0	$10,304
Foreign Equity	7,943	1,517	0	0	9,460
Private Markets					
Real Estate	0	0	3,974	0	3,974
Private Equity	0	0	3,783	0	3,783
Infrastructure	0	0	1,973	0	1,973
Fixed Income					
Cash and Money Market Securities	425	1,443	0	0	1,868
Government and Corporate Bonds	0	5,887	0	0	5,887
Inflation-Linked Bonds	0	2,173	0	0	2,173
Other Fixed Income Securities	0	1,461	2,680	0	4,141
Alternative Investments	0	812	0	0	812
Investments	$18,630	$13,335	$12,410	$0	$44,375
Investment-Related Assets					
Amounts Receivable from Pending Trades[1]	0	0	0	508	508
Interest Receivable[1]	0	0	0	102	102
Dividends Receivable[1]	0	0	0	36	36
Derivative-Related Receivables	15	412	2	0	429
Total Investment-Related Assets	$15	$412	$2	$646	$1,075
Investment-Related Liabilities					
Amounts Payable from Pending Trades[1]	$0	$0	$0	$(790)	$(790)
Interest Payable[1]	0	0	0	(16)	(16)
Securities Sold Short	(32)	0	0	0	(32)
Securities Sold Under Repurchase Agreements	0	(372)	0	0	(372)
Derivative-Related Payables	(19)	(118)	(7)	0	(144)
Capital Debt Financing					
Short-Term	0	(512)	0	0	(512)
Long-Term	0	(1,274)	0	0	(1,274)
Total Investment-Related Liabilities	$(51)	$(2,276)	$(7)	$(806)	$(3,140)
Net Investments	$18,594	$11,471	$12,405	$(160)	$42,310

1. No fair value hierarchy classification is required for these items.

The classification within the levels of the hierarchy is established at the time of the initial valuation of the asset or liability and reviewed on each subsequent reporting year-end.

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2012 (no significant transfers during the year ended March 31, 2011).

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

Level 3 Reconciliation

The reconciliation of all movements related to investments, investment-related assets and investment-related liabilities categorized within Level 3, is as follows ($ millions):

For the year ended March 31, 2012

	Opening Balance	Purchases	Sales	Settlements[1]	Realized Gains	Unrealized Gains (Losses)	Transfer Out of Level 3	Closing Balance
Public Markets	**$0**	**$110**	**$(12)**	**$0**	**$2**	**$24**	**$0**	**$124**
Private Markets	**9,730**	**4,571**	**(1,648)**	**0**	**149**	**568**	**(16)**	**13,354**
Fixed Income	**2,680**	**770**	**(713)**	**(161)**	**30**	**306**	**0**	**2,912**
Alternative Investments	**0**	**216**	**0**	**0**	**0**	**6**	**0**	**222**
Derivative-Related Receivables/ Payables (net)	**(5)**	**0**	**0**	**(2)**	**2**	**(2)**	**0**	**(7)**
Total	**$12,405**	**$5,667**	**$(2,373)**	**$(163)**	**$183**	**$902**	**$(16)**	**$16,605**

For the year ended March 31, 2011

	Opening Balance	Purchases	Sales	Settlements[1]	Realized Gains	Unrealized Gains	Transfer Out of Level 3	Closing Balance
Private Markets	$8,870	$1,932	$(1,744)	$0	$(49)	$733	$(12)	$9,730
Fixed Income	2,883	411	(642)	(161)	(55)	244	0	2,680
Derivative-Related Receivables/ Payables (net)	(237)	193	(3)	0	(180)	222	0	(5)
Total	$11,516	$2,536	$(2,389)	$(161)	$(284)	$1,199	$(12)	$12,405

1. Includes Plan Account allocation adjustments.

Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Notes 4 (A) and (B). Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 2 percent increase/decrease (2011 – 2 percent increase/decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt portfolios in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given that the underlying assumptions used are not available to PSPIB. In the case of fund investments, the fair value is determined based on the audited financial statements of the fund's general partner as indicated in Note 4 (A). With respect to private debt portfolios in the real estate sector, the fair value is obtained from third-party appraisers as described in Note 4 (A).

(D) Securities Lending and Borrowing Programs

PSPIB participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSPIB does not derecognize securities lent or recognize securities borrowed.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSPIB and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs. As at March 31, 2012, PSPIB, on behalf of the pension plan, has re-invested $1,268 million of collateral held (2011 − $1,092 million).

The fair values of the allocated securities and collateral associated with the lending and borrowing programs as at March 31, are as follows ($ millions):

	2012	2011
Securities Lending		
Securities Lent	**$5,108**	$4,210
Collateral Contractually Receivable[1]	**5,384**	4,404
Securities Borrowing		
Securities Borrowed	**314**	32
Collateral Contractually Payable[2]	**349**	34

1. The minimum fair value of collateral required is equal to 102 percent of the fair value of the securities lent.
2. The minimum fair value of collateral required is equal to 100 percent of the fair value of the securities borrowed.

(E) Securities Sold and Collateral Pledged Under Repurchase Agreements

Securities sold under repurchase agreements are described in Note 4 (A) (IX) and involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs. PSPIB does not sell, repledge or otherwise use collateral held.

On behalf of the pension plan, PSPIB pledged collateral under the repurchase agreements with a fair value of $929 million at March 31, 2012 (2011 – $372 million).

5. Investment Risk Management

Risk management is a central part of PSPIB's operations. Included in the overall risk management framework is a continuous process whereby PSPIB systematically addresses the investment risks related to its various investment activities with the goal of achieving a maximum rate of return without undue risk of loss.

A risk governance framework that includes required reporting on risk to all levels of the organization ensures that appropriate investment objectives are pursued and achieved in line with the fulfillment of PSPIB's legislated mandate. The Board of Directors and its committees oversee all risk matters and receive assurances from senior management, including the Chief Risk Officer, as well as PSPIB's internal auditor reporting directly to the Audit Committee.

PSPIB has adopted an Investment Risk Management Policy which is an integral part of its risk control system and supplements the Statement of Investment Policies, Standards and Procedures (SIP&P). The objective of this policy is to provide a framework to manage the risks that PSPIB is exposed to, namely market, credit and liquidity risks.

(A) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

Market risk management focuses on the following two key components:

Policy Portfolio
The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSPIB invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR) defined as

the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation report of the pension plan. In the absence of other factors affecting the funding of the pension plan or changes to pension benefits under the pension plan, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.

Active Management

Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSPIB also takes into consideration the impact of the Policy Portfolio market risk on the funding risk. The funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liability of the pension plan. The Policy Portfolio is reviewed by PSPIB at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSPIB's long-term expectations of market conditions and other factors that may affect the funding levels of the pension plan.

Active risk refers to all market risk arising from active management activities. It is managed in accordance with the Investment Risk Management Policy.

Measurement of Market Risk

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSPIB uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95 percent confidence level. For investments that are not actively traded, the calculation of VaR uses securities with similar risk attributes as proxy.

In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR), whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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The following table shows the Total VaR consisting of the Policy Portfolio VaR, the Active VaR and the diversification effect, calculated as a percentage of net investments, as at March 31. The diversification effect captures the impact of holding different types of assets that may react differently in various types of situations and thus reduces the Total VaR. Total VaR at March 31 :

	2012	2011
Policy Portfolio VaR	21.7%	22.4%
Active VaR	2.6	2.2
Total VaR (Undiversified)	24.3	24.6
Diversification Effect	(1.6)	(2.9)
Total VaR	22.7%	21.7%

Stress Testing

Although VaR is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSPIB uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Stress testing and scenario analysis are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

(I) Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the investment portfolio's net asset values.

The terms to maturity of the investments with the most significant exposure to interest rate risk as at March 31, 2012 are as follows ($ millions):

	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government Bonds	**$983**	**$3,471**	**$1,249**	**$1,325**	**$0**	**$7,028**
Corporate Bonds	**456**	**971**	**636**	**223**	**0**	**2,286**
Inflation-Linked Bonds	**0**	**761**	**716**	**1,409**	**0**	**2,886**
Asset-Backed Securities	**0**	**1,314**	**23**	**2**	**0**	**1,339**
Private Debt Portfolios						
Directly Held	**38**	**296**	**4**	**0**	**0**	**338**
Held Through Funds[1]	**0**	**0**	**0**	**0**	**1,342**	**1,342**
Total Investments With Significant Exposure to Interest Rate Risk	**1,477**	**6,813**	**2,628**	**2,959**	**1,342**	**15,219**
Other Investments[2]	**0**	**0**	**0**	**0**	**3,381**	**3,381**
Total Fixed Income	**$1,477**	**$6,813**	**$2,628**	**$2,959**	**$4,723**	**$18,600**

[1] Due to their nature, information in connection with the terms to maturity of fund investments included in the private debt portfolios is not available.
[2] Consists of $1,746 million in cash and money market securities and $1,635 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSPIB's capital debt market financing are disclosed in Note 8.

Alternative investments as well as derivative contracts described in Notes 4 (A) (iv) and (B), respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 5 (A).

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

(II) Foreign Currency Risk

PSPIB and its subsidiaries are exposed to currency risk through holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSPIB may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. PSPIB's policy is to hedge a target of 50 percent of its foreign currency investments in non-emerging countries. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying net foreign currency exposures, after allocating the effect of derivative contracts and investment-related assets and liabilities for both monetary and non-monetary items as at March 31, are as follows (in millions of Canadian $):

Currency	2012 Fair Value	2012 % of Total	2011 Fair Value	2011 % of Total
US Dollar (USD)	**$9,482**	**57.9%**	$6,920	54.0%
Euro (EUR)	**1,943**	**11.9**	1,739	13.6
British Pound (GBP)	**1,283**	**7.8**	971	7.6
Japanese Yen (JPY)	**740**	**4.5**	516	4.0
Brazilian Real (BRL)	**664**	**4.0**	642	5.0
Hong Kong Dollar (HKD)	**493**	**3.0**	484	3.8
Korean Won (KRW)	**358**	**2.2**	342	2.7
Australian Dollar (AUD)	**295**	**1.8**	223	1.7
Norwegian Krone (NOK)	**252**	**1.5**	76	0.6
Indian Rupee (INR)	**140**	**0.9**	103	0.8
Others	**739**	**4.5**	786	6.2
Total Net Foreign Currency	**$16,389**	**100.0%**	$12,802	100.0%

PSPIB and its subsidiaries also have commitments, denominated in foreign currencies of $4,728 million ($4,140 million USD, 379 million EUR, 88 million ZAR and 136 million BRL), which are not included in the foreign currency exposure above.

(B) Credit Risk

PSPIB is exposed to credit risk, that is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities sold under repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSPIB. To perform this evaluation, PSPIB relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated." If the agencies disagree as to a security's credit quality, PSPIB uses the lowest of the available ratings.

As at March 31, 2012, the investment portfolio's maximum exposure to credit risk amounted to approximately $16 billion (2011 − approximately $12 billion). This amount excludes investments in distressed debt in the amount of approximately $1 billion as at March 31, 2012 (2011 − approximately $1.1 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 4 (D), 4 (E) and 5 (B) and the impact of guarantees and indemnities disclosed in Note 18.

As at March 31, 2012, the investment portfolio had a net notional exposure of $123 million (2011 − $190 million) to various tranches of collateralized debt obligations, of which approximately 61 percent (2011 − approximately 44 percent) of the underlying dollar exposure was rated "Investment Grade", as well as funding facilities, as described in Note 18, to support potential margin calls on the ABTNs.

To monitor the evolution of credit risk, PSPIB periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for Private Market Investments.

PSPIB's concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the pension plan as at March 31, is as follows:

Credit Rating	2012	2011
Investment grade (AAA to BBB-)	**98.2%**	97.9%
Below investment grade (BB+ and below)	**0.7**	0.4
Not rated		
Rated by a single credit rating agency	**0.1**	0.1
Not rated by credit rating agencies	**1.0**	1.6
Total	**100.0%**	100.0%

(I) Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities sold under repurchase agreements. In order to minimize counterparty risk, PSPIB requires that counterparties provide adequate collateral and meet its credit rating requirements. PSPIB frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSPIB has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

PSPIB's policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted.

As a credit mitigation technique, the ISDA Master Agreement contractually binds both parties to use master-netting arrangements and, in the case of default of the counterparty, close-out netting. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSPIB to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSPIB to contribute further collateral when requested. All collateral transactions are in high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. On behalf of the pension plan, PSPIB pledged securities with a fair value of $2 million as collateral with respect to derivative contracts at March 31, 2012 (2011 – nil). Securities with a fair value of $76 million were received from counterparties as collateral at March 31, 2012 (2011 – $100 million). PSPIB does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing as well as securities sold under repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 4 (D) and 4 (E) describe collateral requirements in securities lending and borrowing programs as well as securities sold under repurchase agreements, respectively.

In the case of the securities lending program, PSPIB's exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

PSPIB is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, PSPIB measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

(C) Liquidity Risk

Liquidity risk corresponds to PSPIB's ability to meet its financial obligations when they come due with sufficient and readily available cash resources. PSPIB's cash position is monitored on a daily basis. In general, investments in cash, cash equivalents, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. PSPIB utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSPIB has the ability to raise additional capital through the use of PSPIB's capital market debt program. This program allows PSPIB to issue short-term promissory notes and medium-term notes. Note 8 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4 (B).

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

Financial Liabilities

The fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2012 are as follows ($ millions):

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[1]				
Amounts payable from pending trades	**$(722)**	**$0**	**$0**	**$(722)**
Interest payable	**(16)**	**(2)**	**0**	**(18)**
Securities sold short	**(314)**	**0**	**0**	**(314)**
Securities sold under repurchase agreements	**(929)**	**0**	**0**	**(929)**
Capital market debt financing	**(607)**	**(51)**	**(2,209)**	**(2,867)**
Accounts payable and other liabilities	**(59)**	**0**	**(23)**	**(82)**
Total	**$(2,647)**	**$(53)**	**$(2,232)**	**$(4,932)**

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related receivables	**$110**	**$124**	**$65**	**$299**
Derivative-related payables[1]	**(116)**	**(75)**	**(79)**	**(270)**
Total	**$(6)**	**$49**	**$(14)**	**$29**

1. Liabilities are presented in the earliest period in which the counterparty can request payment.

6. Contributions Receivable

The contributions receivable as at March 31, are as follows ($ millions):

	2012	2011
Pre–April 1, 2000 Service		
Plan Member Contributions for Past Service Elections	**$77**	$93
Employers' Share of Contributions for Past Service Elections	**73**	88
Total – Pre–April 1, 2000 Service	**150**	181
Post–March 31, 2000 Service		
Plan Member Contributions for Past Service Elections	**374**	352
Employers' Share of Contributions for Past Service Elections	**576**	542
Other Contributions Receivable	**61**	32
Total – Post–March 31, 2000 Service	**1,011**	926
Total Contributions Receivable	**$1,161**	$1,107

7. Other Assets

The costs of operation of PSPIB are charged to the four plans for which PSPIB provides investment services, namely, the public service pension plan, the Canadian Forces pension plan, the Reserve Force pension plan and the Royal Canadian Mounted Police pension plan. The direct costs of investment activities such as external investment management fees and custodial fees are allocated to each plan, and their operating expenses are allocated on a quarterly basis based upon the asset value of each plan's investments under management.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

In 2012, 72.9 percent of the operating expenses were allocated to the public service pension plan (2011 – 72.7 percent). PSPIB initially charges all expenses to the public service pension plan; they are reimbursed quarterly by the three other plans. At year end the balance of the other assets is as follows ($ millions):

	2012	2011
Share of Expenses Receivable From		
Canadian Forces Pension Plan	**$8**	$9
Royal Canadian Mounted Police Pension Plan	**3**	3
Reserve Force Pension Plan	**0**	0
Subtotal	**11**	12
Other	**55**	36
Total Other Assets	**$66**	$48

8. Capital Market Debt Financing

PSPIB's capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly owned subsidiary of PSPIB. The capital raised is primarily used to finance investments in real estate, infrastructure and renewable resources. It is unconditionally and irrevocably guaranteed by PSPIB in accordance with its corporate leverage policy.

The maximum amount authorized by the Board of Directors for the capital market debt program is 7.5 percent of the net investments plus all recourse debt outstanding of PSPIB. Under this limit, the short-term promissory note component cannot exceed $3 billion.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program allocated to the pension plan as at March 31 ($ millions):

	2012 Capital Amounts to be Paid at Maturity	2012 Fair Value	2011 Fair Value
Short-term promissory notes, bearing interest between 1 percent and 1.42 percent and maturing within 31 and 364 days of issuance (March 31, 2011 – 29 and 363 days)	**$659**	**$658**	$512
Medium-term notes Series 1, bearing interest of 4.57 percent per annum and maturing on December 9, 2013	**730**	**769**	770
Medium-term notes Series 2, bearing interest of 2.94 percent per annum and maturing on December 3, 2015	**512**	**528**	504
Medium-term notes Series 3, bearing variable interest of 3-month CDOR + 39 basis points and maturing on February 16, 2015	**256**	**255**	0
Medium-term notes Series 4, bearing interest of 2.26 percent per annum and maturing on February 16, 2017	**658**	**657**	0
Total	**$2,815**	**$2,867**	$1,786

The operating expenses incurred by PSP Capital Inc. were allocated to the pension plan.

Interest expense for the years ended March 31, was as follows ($ thousands):

	2012	2011
Short-term promissory notes	**$9,252**	$6,508
Medium-term notes	**50,816**	38,133
Total	**$60,068**	$44,641

9. Capital Management

The public service pension plan capital consists of the actuarial funding excess or shortfall determined regularly by the actuarial valuation on a funding basis prepared by the OCA. The purpose of this valuation is to determine the financial position of the pension plan by testing its ability to meet obligations to current plan members and their survivors. Using various assumptions, the actuary projects the pension benefits to estimate the current value of the pension obligations, which is compared with the sum of the investment assets held by PSPIB, the other accounts and the discounted value of future plan member contributions and Government of Canada credits related to past service elections. The result of this comparison is either an actuarial excess or an actuarial shortfall.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

The objective of managing the capital position of the pension plan is to ensure that the sum of the balance of the Superannuation Account, which is maintained in the accounts of Canada, and the investments held by PSPIB is sufficient to meet pension obligations.

10. Pension Obligations

(A) Present Value of Pension Obligations

The present value of pension obligations is calculated by the OCA using the projected benefit method prorated on services and management's best estimate assumptions. Actuarial valuations for funding purposes are performed triennially. The most recent funding actuarial valuation of the public service pension plan was conducted as of March 31, 2011, and tabled in Parliament on June 21, 2012. The date of the next periodic review is scheduled to occur no later than March 31, 2014.

An actuarial valuation for accounting purposes is conducted annually using management's best estimate economic assumptions, demographic assumptions and base populations of the most recent funding actuarial valuation. The information in these financial statements is based on this annual valuation conducted as at March 31, 2012.

The assumptions used in determining the present value of pension obligations were developed with reference to short- and long-term forecasts of economic and demographic conditions, including estimates of future inflation, interest rates, expected return on investments, general wage increases, workforce composition, retirement rates, and mortality rates.

The discount rates used to measure the present value of the accrued benefit obligations, benefits earned and interest expense are:

- The expected rates of returns on invested funds for post-March 2000 service; and
- The expected weighted average of long-term bond rates for pre-April 2000 service.

The assumptions used in measuring the accrued benefit obligations and future benefit expense were as follows:

	2012		2011	
	Accrued benefit obligations	**Future benefit expense**	Accrued benefit obligations	Future benefit expense
Discount rates:[1]				
Post-March 2000 service	**6.0%**	**6.2%**	6.2%	5.8%
Pre-April 2000 service	**4.8%**	**6.0%**	5.2%	6.5%
Long-term rate of inflation	**2.0%**		2.0%	
Long-term general wage increase	**2.7%**		2.9%	

1 The presentation of comparative discount rates for the accrued benefit obligations was changed to disclose flat weighted average discount rates; prior years disclosed the initial and ultimate discount rates.

(B) Pension Plan Amendments

During the year, no amendments were made to the public service pension plan (2011 – nil).

11. Excess (Shortfall)

The funding valuation differs from that of the valuation performed for the purpose of these financial statements. Based on the CICA Handbook Section 4600, all investment assets and investment liabilities are to be measured at fair value, and the actuarial asset value adjustment previously allowed under Section 4100 in the determination of the pension plan financial statement excess or shortfall is no longer permitted. Therefore, for financial statement reporting, the excess/shortfall of the pension plan is based on the difference between the fair value of the plan net assets and other accounts available for benefits and the plan pension obligations.

For financial statement purposes, the value of net assets and other accounts available for benefits and the pension obligations are tracked separately for service prior to April 1, 2000, and after March 31, 2000.

Based on the accounting assumptions used in these financial statements, the breakdown is as follows ($ millions):

As at March 31, 2012

	Pre– April 1, 2000	**Post– March 31, 2000**	**Total**
Net Assets and Other Accounts Available for Benefits	**$96,592**	**$48,281**	**$144,873**
Pension Obligations	**(93,018)**	**(52,907)**	**(145,925)**
Excess (Shortfall)	**$3,574**	**$(4,626)**	**$(1,052)**

As at March 31, 2011

	Pre– April 1, 2000	Post– March 31, 2000	Total
Net Assets and Other Accounts Available for Benefits	$95,963	$43,456	$139,419
Pension Obligations	(88,534)	(45,683)	(134,217)
Excess (Shortfall)	$7,429	$(2,227)	$5,202

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

12. Contributions

The contributions, as at March 31, are as follows ($ millions):

	2012	2011
From Plan Members		
Current Service Required Contributions	**$1,377**	$1,297
Past Service Contributions	**229**	234
Total Plan Member Contributions	**1,606**	1,531
From the Employer		
Current Service Required Contributions	**2,519**	2,491
Past Service Contributions	**314**	321
Special Contributions	**0**	0
Total Employer Contributions	**2,833**	2,812
Total Plan Member and Employer Contributions	**$4,439**	$4,343

13. Investment Income

Investment income, for the year ended March 31, is as follows ($ millions):

	2012	2011
Interest Income	**$485**	$374
Dividend Income	**565**	438
Other Income	**145**	132
Dividend Expense	**(18)**	(14)
Interest Expense (Note 8)	**(60)**	(45)
Transaction Costs	**(47)**	(41)
External Investment Management Fees[1]	**(24)**	(28)
Subtotal	**1,046**	816
Net Realized Gains[2]	**740**	1,328
Net Unrealized (Losses) Gains	**(405)**	2,986
Investment Income	**$1,381**	$5,130

1. Consists of amounts incurred for investments in public markets that are paid directly by PSPIB. This excludes investment fees related to certain pooled fund investments classified under alternative investments primarily related to performance, in the amount of $41 million for the year ended March 31, 2012 (2011 – $62 million). This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSPIB.

Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $87 million for the year ended March 31, 2012 (2011 – $102 million).

2. Includes foreign currency losses of $34 million for the year ended March 31, 2012 (2011 – gains of $83 million).

14. Actuarial Adjustments

No actuarial adjustment was made to the Pension Fund (2011 – nil) and Superannuation Account (2011 – nil) during the year ended March 31, 2012.

Starting with the plan year 2012-13, and based on the March 31, 2011 triennial actuarial valuation of the public service pension plan tabled in Parliament on June 21, 2012, an annual adjustment of $435 million will be made to the Pension Fund for a period of 13 years ending in 2025. The PSSA requires that any actuarial deficit be dealt with by transferring equal instalments to the Pension Fund over a period of up to 15 years, commencing in the year in which the actuarial report is tabled in Parliament.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

15. Benefit Payments and Refunds and Transfers

(A) Benefit Payments

The value of benefit payments, as at March 31, is as follows ($ millions):

	2012	2011
Retirement Benefit Payments	**$5,334**	$5,032
Disability Benefit Pension Payments	**202**	191
Death Benefit Payments [1]	**19**	22
Total Benefit Payments	**$5,555**	$5,245

1 Consist of Minimum Benefit payments and Return of Contribution payments at death.

(B) Refunds and Transfers

The value of refunds and transfers, as at March 31, is as follows ($ millions):

	2012	2011
Pension Division Payments	**$39**	$34
Returns of Contributions and Transfer Value Payments	**168**	145
Transfers to Other Pension Funds	**42**	71
Total Refunds and Transfers	**$249**	$250

16. Administrative Expenses

The legislation provides for administrative expenses to be charged to the public service pension plan. Annually, the Treasury Board approves the administrative expenses for PWGSC, the Secretariat and the OCA. Administrative expenses incurred by PSPIB are also charged to the public service pension plan.

PWGSC, as the day-to-day administrator, recovers from the pension plan administrative expenses for the activities directly attributable to its administration. These costs include salaries and benefits, systems maintenance and development, accommodation, and other operating costs of administering the pension plan within the department.

The Secretariat, as the program manager of the public service pension plan, provides policy interpretation support, information to plan members, financing and funding services and support to the Pension Advisory Committee and charges its administrative costs to the pension plan. Starting in 2010, a three-year agreement with Health Canada was reached to reimburse the costs for medical examinations to elect for the purchase of prior service and certify retirement on medical grounds under the pension plan.

The OCA provides actuarial valuation services. The costs related to these services are charged to the pension plan.

PSPIB charges plan-related operating expenses, salaries and benefits and other operating fees to the pension plan.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

Administrative expenses, for the year ended March 31, consist of the following ($ millions):

	2012	2011
PWGSC		
Salaries and Benefits[1]	**$56**	$63
Operation and Maintenance[1]	**10**	9
Professional and Consulting Fees[1]	**37**	46
Other	**6**	4
Total	**109**	122
The Secretariat		
Salaries and Benefits	**3**	3
Operation and Maintenance	**1**	2
Professional and Consulting Fees	**0**	0
Total	**4**	5
OCA – Actuarial Fees	**1**	1
Subtotal – Government Departments (included in the Service Cost)	**114**	128
PSPIB		
Salaries and Benefits	**70**	51
Operation and Maintenance	**23**	20
Professional and Consulting Fees	**8**	6
Other	**7**	6
Total	**108**	83
Total Administrative Expenses	**$222**	$211

1. Includes portions of project costs related to the Centralization of Services $0.6 million (2011 - $17.6 million) and Pension Modernization $23.8 million (2011 - $35.1 million).

17. Retirement Compensation Arrangements

Separate Retirement Compensation Arrangements (RCA), No. 1 and No. 2, have been established under the authority of the *Special Retirement Arrangements Act* to provide supplementary pension benefits to certain plan members. RCA No. 1 provides for benefits in excess of those permitted under the *Income Tax Act* restrictions for registered pension plans. RCA No. 2 provides pension benefits to federal public service employees who were declared surplus as a result of a three-year Early Retirement Incentive program that ended on March 31, 1998. The cost of RCA No. 2 is entirely assumed by the Government of Canada.

Pursuant to the legislation, transactions pertaining to both RCA No. 1 and RCA No. 2, such as contributions, benefits, and interest credits, are recorded in the RCA Account, which is maintained in the accounts of Canada. The legislation also requires that the RCA Account be credited with interest quarterly at the same rates as those credited to the Public Service Superannuation Account. The RCA is registered with the Canada Revenue Agency (CRA), and a transfer is made annually between the RCA Account and the CRA either to remit a 50-percent refundable tax in respect of the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments. Since these arrangements are covered by separate legislation, the balance in this Account and related pension obligations are not consolidated in the financial statements of the public service pension plan.

The following summarizes the financial position of RCA No. 1 and RCA No. 2 that relates to the public service pension plan as at March 31 ($ millions):

	2012	2011
Balance of Account		
RCA Account	**$1,677**	$1,620
Refundable Tax Receivable	**1,652**	1,597
Plan Member Contribution Receivable for Past Service	**6**	5
Employers Contributions Receivable for Past Service	**3**	2
Subtotal	**3,338**	3,224
Pension Obligations	**3,298**	3,086
Excess of the Balance of the Account Over the Pension Obligations	**$40**	$138

The actuarial assumptions used to value the pension obligations pertaining to the RCA Account are consistent with those used for the public service pension plan in all respects, except that they take into consideration the impact of the refundable tax on the notional rate of return expected for the Account.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

The following summarizes the changes in RCA No. 1 and RCA No. 2 for the year ended March 31 ($ millions):

	2012	2011
Increase		
Contributions—Employers	**$100**	$96
Contributions—Plan Members	**11**	11
Interest Income	**97**	102
Net Change in Prior Service Contributions Receivable	**2**	3
Actuarial Adjustment	**6**	6
Increase in Refundable Tax Receivable	**56**	58
Total Increase	**272**	276
Decrease		
Benefits Paid	**101**	98
Refunds and Transfers	**2**	3
Refundable Tax Remittance	**55**	58
Total Decrease	**158**	159
Increase in the Balance of the Account	**$114**	$117

Actuarial shortfalls found between the balance in the RCA Account and the actuarial liabilities are credited to the RCA Account in equal instalments over a period of up to 15 years. As a result of the triennial valuation of March 2008, no adjustment was made to RCA No. 1 (2011 – nil), but a credit adjustment of $6.2 million was made to cover an actuarial deficiency to RCA No. 2 (2011 – $6.2 million) during the year.

18. Guarantees and Indemnities

PSPIB provides indemnification to its directors, its officers, its vice-presidents and to certain PSPIB representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSPIB or its wholly-owned subsidiaries have made an investment or have a financial interest. As a result, but subject to the *Public Service Pension Investment Board Act*, PSPIB may be required to indemnify these representatives for costs incurred, such as claims, actions or litigations in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSPIB has not received any claims or made any payment for such indemnity.

In certain cases, PSPIB also provides indemnification to third parties in the normal course of business. As a result, PSPIB may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSPIB has not received any claims nor made any payments for such indemnities.

PSPIB unconditionally and irrevocably guarantees all credit facilities, short-term promissory notes and medium-term notes issued by PSP Capital Inc.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $705 million has been allocated to the pension plan. As at March 31, 2012, the margin funding facilities have not been drawn upon since inception.

In certain investment transactions, PSPIB provided guarantees or indemnifications to third parties, the most significant of which are as follows:

As at March 31, 2012, PSPIB agreed to guarantee, as part of an investment transaction, a non revolving term loan. In the event of a default, the pension plan could assume the obligation up to $292 million (2011 – $292 million) plus interest and other related costs. The loan matures in March 2015.

As at March 31, 2012, a wholly-owned subsidiary of PSPIB has agreed to provide indemnification with respect to the contractual obligations and commitments of a third-party. In the event of a default by such third-party, the subsidiary may be required to assume an obligation of up to $195 million (2011 – $195 million), of which $142 million (2011 – $142 million) may be allocated to the pension plan, as estimated at the time of the completion of the investment transaction. The subsidiary would also have direct recourse against the defaulting third party in all circumstances. The guarantee expires in April 2012.

Notes to the Financial Statements
Year Ended March 31, 2012 (Canadian $)

19. Commitments

PSPIB and its subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. As at March 31, the portion of PSPIB's commitments that would be assumed by the public service pension plan is as follows ($ millions):

	2012
Private Equity	**$2,980**
Real Estate	**1,101**
Infrastructure	**636**
Other Fixed Income Securities	**422**
Total	**$5,139**

20. Contingency

In September 1999, the Public Sector Pension Investment Board Act (Bill C-78) was passed by Parliament, providing for improvements in the financial management of federal public service pension plans, including the Public Service, RCMP and Canadian Forces superannuation plans. The new Act authorized the President of the Treasury Board to debit the accounts in order to reduce the amount of certain excess balances in the superannuation accounts. In late 1999, the major public service unions and pensioner associations launched three lawsuits against the Crown challenging the validity of the legislation. On November 20, 2007, the plaintiffs' actions were dismissed. In February 2008, all three plaintiffs appealed the decisions to the Ontario Court of Appeal. The appeal was heard in April 2010. On October 8, 2010, the Ontario Court of Appeal dismissed the plaintiffs' appeal. The plaintiffs applied for leave to appeal to the Supreme Court of Canada which granted leave to appeal on May 5, 2011. The appeal was heard on February 9, 2012. On December 19, 2012, the Supreme Court of Canada dismissed the appeal.

21. Comparative Figures

Certain comparative figures have been reclassified to comply with the implementation of the CICA Handbook Section 4600 – Pension Plans.

Glossary of Terms

Accrued pension benefits—Benefits earned by members under the public service pension plan for pensionable service to date.

Actuarial assumptions—Economic and demographic assumptions, such as future expected rates of return, inflation, salary levels, retirement ages, and mortality rates, that are used by actuaries when carrying out an actuarial valuation or calculation.

Actuarial valuation—An actuarial analysis that provides information on the financial condition of a pension plan.

Administration expenses—Expenses by government departments for the administration of the public service pension plan and for operating expenses incurred by the Public Sector Pension Investment Board to invest pension assets. Investment management fees directly attributable to the external management of assets on behalf of the Public Sector Pension Investment Board are not included.

Annual allowance—A benefit available to plan members who have more than two years of pensionable service, who retire before age 60, and who are not entitled to an immediate annuity. This benefit is a reduced pension that takes into account the early payment of a retirement pension. The earliest it becomes payable is at age 50.

Basic pension—Pension plan benefits based on the number of years of pensionable service to a maximum of 35 years. The benefits are determined by a formula set out in the *Public Service Superannuation Act*; they are not based on the financial status of the pension plan. The basic benefit formula is 2 percent per year of pensionable service times the average of the five consecutive years of highest paid service. Using a legislated formula, benefits are coordinated with the Canada Pension Plan and the Québec Pension Plan and are fully indexed to the increase in the Consumer Price Index.

Benchmark—A standard against which rates of return can be measured, such as stock and bond market indexes developed by stock exchanges and investment managers.

Benefits earned—Benefits to members for service provided during the fiscal year.

Canada Pension Plan—A mandatory earnings-related pension plan, implemented on January 1, 1966, to provide basic retirement income to Canadians who work in all the provinces and territories except the province of Quebec. Quebec operates the Québec Pension Plan for persons who work in that province, which is similar to the Canada Pension Plan.

Child—A dependant who may be entitled to a children’s allowance under the public service pension plan in the event of a plan member’s death. To be eligible for an allowance, a child must be under 18 years of age. Children between 18 and 25 may receive allowances if they are enrolled in school or another educational institution full-time and have attended continuously since the age of 18 or the date of the member’s death, whichever occurs later.

Consumer Price Index—A measure of price changes published by Statistics Canada on a monthly basis. The Consumer Price Index measures the retail prices of a "shopping basket" of about 300 goods and services, including food, housing, transportation, clothing, and recreation. The index is weighted, meaning that it gives greater importance to price changes for some products than others—more to housing, for example, than to entertainment—in an effort to reflect typical spending patterns. Increases in the Consumer Price Index are also referred to as increases in the cost of living.

Contributions—Sums credited or paid by the employer (Government of Canada, some Crown corporations and territorial governments) and plan members to finance future pension benefits. Each year, the employer contributes amounts sufficient to fund the future benefits earned by employees in respect of that year, as determined by the President of the Treasury Board.

Deferred annuity—A benefit that is available to most plan members who leave the public service before age 60 and have at least two years of pensionable service. This benefit is calculated using the same formula as an immediate annuity, but payment is deferred until age 60. A plan member who is entitled to a deferred annuity may request an annual allowance at any time after he or she reaches age 50.

Defined benefit pension plan—A type of pension plan that promises a certain level of pension, which is usually based on the plan member's salary and years of service. The public service pension plan is a defined benefit pension plan.

Disability—A physical or mental impairment that prevents an individual from engaging in any employment for which the individual is reasonably suited by virtue of his or her education, training, or experience and that can reasonably be expected to last for the rest of the individual's life.

Immediate annuity—A benefit payable to plan members who retire at any time after reaching age 60 with at least 2 years of pensionable service, or after reaching age 55 with at least 30 years of pensionable service, or at any age in the case of disability.

Indexation—The automatic adjustment of pensions in pay or accrued pension benefits (deferred annuities) in accordance with changes in the Consumer Price Index. Under the public service pension plan, pensions are indexed in January of each year in order to maintain their purchasing power.

Minimum benefit—A benefit that is equal to the payment of the plan member's basic pension for a period of five years. If the plan member or his or her eligible surviving spouse or children have not received, in total, pension payments equal to five times the amount of the plan member's annual basic pension, the balance in the form of a lump-sum amount becomes payable to his or her designated beneficiary for the Supplementary Death Benefit or, if there is no beneficiary, to his or her estate.

Net assets and other accounts available for benefits—Include, for net assets, cash, receivables, and the fair value of Public Sector Pension Investment Board assets, net of Public Sector Pension Investment Board liabilities. Other accounts available for benefits comprise the net sum of historical credits and debits to the Public Service Superannuation Account, including adjustments for actuarial excesses and shortfalls.

Pension Transfer Agreement—An agreement negotiated between the Government of Canada and an eligible employer to provide portability of accrued pension credits from one pension plan to the other.

Pensionable service—Periods of service to the credit of a public service pension plan member. This service includes any complete or partial periods of purchased service (e.g., service buyback or elective service).

Public Sector Pension Investment Board—A Crown corporation established on April 1, 2000, under the *Public Sector Pension Investment Board Act*. The corporation's mandate is to invest in capital markets the amounts transferred to it since April 1, 2000, by the Government of Canada with respect to the public service pension plan. The Public Sector Pension Investment Board operates under the commercial name of PSP Investments. Both names are used interchangeably throughout this report.

Public Service Pension Fund Account—An account established to record transactions relating to service provided by members since April 1, 2000.

Public service pension plan—A pension plan implemented on January 1, 1954, that provides benefits to public service employees payable on retirement, termination of service, or disability, and to their survivors payable after death. This plan is defined by the *Public Service Superannuation Act*, the *Pension Benefits Division Act* and the public service–related benefits provided under the *Special Retirement Arrangements Act*.

Public Service Superannuation Account—An account established by the *Public Service Superannuation Act* to record transactions relating to service provided by members before April 1, 2000.

Public Service Superannuation Act—An Act to provide pension benefits to eligible federal public servants and their dependants.

Québec Pension Plan—A pension plan similar to the Canada Pension Plan that covers individuals working in the province of Quebec. It is administered by the Régie des rentes du Québec.

Return of contributions—A benefit that is available to contributors who leave the public service with less than two years of pensionable service under the public service pension plan. It includes employee contributions plus interest, if applicable.

Supplementary death benefit—A decreasing life insurance benefit equal to twice the annual salary of the plan member; coverage decreases by 10 percent per year starting at age 66. A minimum amount of coverage (i.e., $10,000) is provided at no cost to the plan member at age 65 for plan members entitled to an immediate annuity or an annual allowance payable within 30 days after termination of employment in the public service. This minimum coverage is maintained for life.

Survivor—The person who, at the time of the plan member's death:

- Was married to the plan member before his or her retirement; or
- Was cohabiting in a relationship of a conjugal nature with the plan member prior to retirement and for at least one year prior to the date of death.

Survivor benefit—A pension benefit paid to the survivor of a plan member who dies.

Transfer value—A benefit option available to plan members who leave the public service before age 50 with at least two years of pensionable service. This benefit is the actuarial value of the plan member's accrued pension benefits. It must be transferred to another registered pension plan, to a retirement savings vehicle, or to a financial institution to purchase an annuity.

Vesting—The entitlement to receive the value of the employee's own contributions plus those of the employer, along with the investment returns earned on both contributions. Vesting occurs after the employee has been a member of the pension plan (i.e., has pensionable service) for an uninterrupted period of two years.

Year's maximum pensionable earnings—The maximum earnings on which contributions are made to the Canada Pension Plan and the Québec Pension Plan during the year.

Endnotes

i. *Public Service Superannuation Act*, http://laws.justice.gc.ca/eng/acts/P-36/
ii. PSP Investments, http://www.investpsp.ca/en/index.html
iii. Treasury Board of Canada Secretariat, Reports, http://www.tbs-sct.gc.ca/reports-rapports/index-eng.asp
iv. Your Public Service Pension and Benefits, http://www.pensionetavantages-pensionandbenefits.gc.ca/accueil home-eng.html
v. Public Works and Government Services Canada, Compensation Sector, http://www.tpsgc-pwgsc.gc.ca/remuneration-compensation/txt/index-eng.html
vi. Office of the Chief Actuary, http://www.osfi-bsif.gc.ca/app/docrepository/1/ra/0506/eng/chief-actuary_e.html
vii. Treasury Board of Canada Secretariat website, http://www.tbs-sct.gc.ca/pensions/index-eng.asp
viii. Office of the Chief Actuary, Mission and Mandate of the Office of the Chief Actuary, http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=16
ix. PSP Investments, http://www.investpsp.ca/en/index.html
x. *Public Service Superannuation Act*, http://laws-lois.justice.gc.ca/eng/acts/P-36/
xi. Public Works and Government Services Canada, Compensation Sector, http://www.tpsgc-pwgsc.gc.ca/remuneration-compensation/txt/index-eng.html
xii. Your Public Service Pension and Benefits, http://www.pensionetavantages-pensionandbenefits.gc.ca/accueil-home-eng.html