Report on the
Public Service Pension Plan
for the Fiscal Year Ended March 31, 2007

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represented by the President of the Treasury Board, 2008

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Her Excellency the Right Honourable Michaëlle Jean, 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 annual *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2007*.

Respectfully submitted,

The paper version was signed by

The Honourable Vic Toews, P.C., Q.C., M.P.
President of the Treasury Board

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Introduction

Pursuant to section 46 of the *Public Service Superannuation Act* (PSSA), the *Report on the Public Service Pension Plan* provides an overview of the financial status of the Public Service pension plan for the fiscal year ending March 31, 2007, and information on plan membership, administration, and benefits.

Overview

The Plan was established in January 1954 under the *Public Service Superannuation Act*. The Plan covers substantially all full- and part-time employees of the Government of Canada, certain Crown corporations, and territorial governments. When a member dies, the Plan provides income for survivors and eligible children.

The Plan is generally referred to as a contributory defined benefit pension plan—one where both employer and employee make contributions. A defined benefit plan specifies its benefits, payable on death, disability, termination of service, and retirement, in the plan document—in this case, the PSSA and its regulations. These benefits are directly related to the employee's salary and period of pensionable service.

Financial Statement Overview

The audited financial statements provide a comprehensive presentation of the Plan's financial position. These statements were prepared according to the government's stated accounting policies for the Plan, based on Canadian generally accepted accounting principles. Presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

The Office of the Auditor General of Canada (OAG) audits the Plan financial statements. There are also a number of corporate management reports used by senior management to monitor investment performance, administration activities, liability position, and design features of the Plan.

Contributions and benefit payments in respect of pensionable service accrued before April 1, 2000, are recorded in the Public Service Superannuation Account (Account) in the Accounts of Canada. The balance in the Account is credited with notional interest as though invested in a portfolio of Government of Canada long-term bonds.

Contributions and benefit payments in respect of pensionable service accrued after March 31, 2000, are recorded in the Public Service Pension Fund (Pension Fund) Account in the Accounts of Canada. Contributions net of current benefits and Plan administration expenses are transferred regularly to the Public Sector Pension Investment Board (PSP Investments) for investment in capital markets. Deloitte & Touche LLP was responsible for auditing the 2005–06 financial statements of PSP Investments; however, after the *Financial Administration Act* (FAA) was amended to expand the mandate of the OAG, the OAG and Deloitte & Touche LLP participated jointly in the 2006–07 audit.

Governance Structure

In accordance with the PSSA, the President of the Treasury Board is responsible for the overall management of the Plan, while the Minister of Public Works and Government Services Canada is responsible for its day-to-day administration and for maintaining the books of accounts. Responsibility for the integrity and objectivity of the financial statements of the Plan rests jointly with both ministers.

Treasury Board of Canada Secretariat

The Treasury Board of Canada Secretariat (the Secretariat) is responsible for the strategic direction and policy of the Plan, financial analysis, pension legislation development, program advice, and preparation of the *Report on the Public Service Pension Plan*, and it provides general guidance to Public Works and Government Services Canada (PWGSC) on the accounting for the Plan. The Secretariat also provides PWGSC with the various actuarial calculations used to prepare the Plan's financial statements.

Public Works and Government Services Canada

PWGSC is responsible for the day-to-day administration of the Plan. This includes the development and maintenance of the public service pension systems, the books of accounts, records, and internal controls, and the preparation of Account Transaction Statements for the Public Accounts reporting. In addition, PWGSC operates the central treasury, payment, and all accounting functions. PWGSC is also, along with the Secretariat, responsible for the preparation of the Plan's Financial Statements and the annual *Report on the Public Service Pension Plan*.

Public Sector Pension Investment Board

PSP Investments is a Crown corporation established by the *Public Sector Pension Investment Board Act* (PSPIBA) in September 1999. It commenced operation on April 1, 2000, and reports to the President of the Treasury Board. PSP Investments is governed by a 12-member board of directors accountable to Parliament through the President of the Treasury Board, who is responsible for the PSPIBA and must table an annual report in Parliament.

In compliance with the PSPIBA and its regulations, post–March 2000, employees' and employers' pension contributions net of benefit payments and administration expenses are transferred to PSP Investments and are invested in a mix of Canadian and foreign equities, fixed income securities, and real return assets. The relevant financial results of PSP Investments are included in the Plan's financial statements.

Office of the Superintendent of Financial Institutions Canada

As required by the *Public Pensions Reporting Act*, the Office of the Superintendent of Financial Institutions Canada (OSFI) performs triennial actuarial valuations of the Plan. These valuations, which are tabled in Parliament by the President of the Treasury Board, are used to compare the Plan's assets and other accounts with its liabilities and to determine contribution rates required to ensure the Plan's ongoing financial sustainability. The last actuarial report on the Plan was conducted as at March 31, 2005, and was tabled on November 3, 2006. For accounting purposes, the triennial actuarial valuation is updated annually using the government's best estimate assumptions. The accounting actuarial valuation has been updated as at March 31, 2007, using the demographic assumptions and based populations of the funding actuarial valuation as at March 31, 2005.

Committees

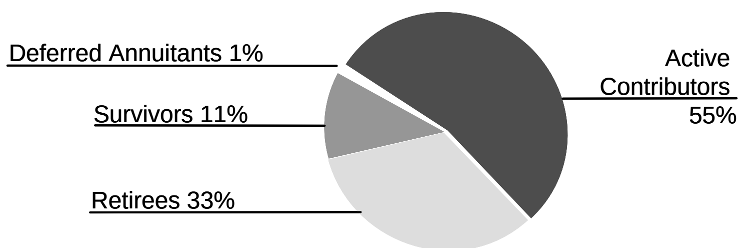
The Public Service Pension Advisory Committee (PSPAC) comprises thirteen members—one pensioner, six members representing employees, and six members chosen from the executive ranks of the public service. This committee provides advice to the President of the Treasury Board on matters relating to administration, benefit design, and funding of the Plan.

There is also a steering committee chaired by the Associate Secretary of the Treasury Board of Canada Secretariat that reviews issues concerning the management and administration of the Plan. In addition, the Pensions Steering Committee, involving Secretariat and PWGSC officials, examines Plan member issues concerning communication and information.

Plan Membership

As at March 31, 2007, the Plan has 514,879 members, including those currently or previously employed by the Government of Canada, certain public service corporations, and territorial governments. The membership consists of 282,763 active contributors, 167,693 retirees, 58,732 survivors, and 5,691 deferred annuitants. (See membership profile below.)

Membership Profile
as at March 31, 2007



Source: Public Works and Government Services Canada

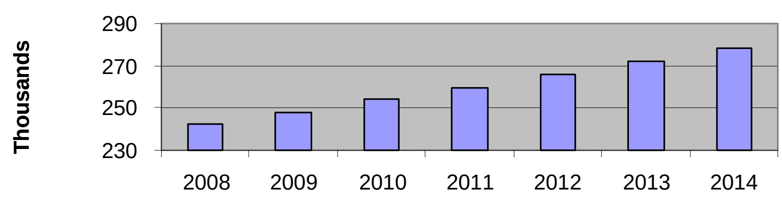
The chart below shows the membership profile over the last four years.

As at March 31

	2007	2006	2005	2004
Active contributors	282,763	277,432	270,835	268,852
Retirees	167,693	164,084	161,468	159,693
Survivors	58,732	58,998	59,060	56,413
Deferred annuitants	5,691	5,356	5,552	5,545
Total	**514,879**	**505,870**	**496,915**	**490,503**
Ratio of contributors to those receiving benefits	1.22:1	1.21:1	1.20:1	1.21:1

Despite the fact that the total number of retirees has remained relatively stable over the last several years, it is expected that the proportion of active contributors to retired employees will fall in future years as more baby boomers retire. Nonetheless, Plan members can continue to be assured they will obtain their benefits. The information provided in the triennial actuarial valuations has allowed the government to anticipate and appropriately provide for these upcoming retirements.

Total Expected Number of Retirees and Survivors
As at March 31



Source: Office of the Superintendent of Financial Institutions Canada

Total Expected Number of Retirees and Survivors

As at March 31

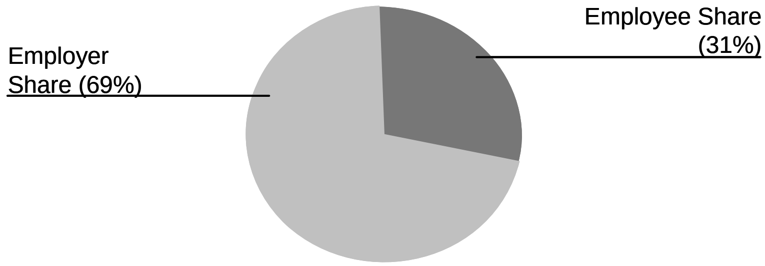
2008	2009	2010	2011	2012	2013	2014
242,822	248,116	253,807	259,671	265,736	272,053	278,479

Source: Office of the Superintendent of Financial Institutions Canada

Contributions

In 2006–07, $3,313 million was paid into the Plan, of which employees contributed $1,066 million and the employer, $2,247 million. Employee contributions are compulsory and, in calendar year 2007, are set at a rate of 4.6 per cent of annual salary up to the year's maximum pensionable earnings (YMPE) defined by the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) ($43,700 in 2007); and 8.1 per cent of annual salary above this amount. During the fiscal year, employees paid approximately 31.3 per cent of the total contributions made in respect of current service, as noted in the graph below. The blended rate of 31.3 per cent consists of 31.2 per cent from April 1 to December 31, 2006, and 31.5 per cent from January 1 to March 31, 2007.

Current Service Contributions
Year ended March 31, 2007



Source: Treasury Board of Canada Secretariat

Current Service Contributions

Year ended March 31, 2007

	per cent
Employer Share	69
Employee Share	31
	100

The historical average cost-sharing ratio for the Plan is 60:40 between employer and employees, respectively. Member contribution rates are accordingly scheduled to increase through a yearly adjustment of 0.3 per cent of salary beginning January 1, 2006, to result in final rates of 6.4 per cent of salary up to the YMPE and 8.4 per cent of salary above the YMPE by 2013, which is estimated will result in an employer-member cost-sharing ratio of approximately 60:40. The increase in member contribution rates reflects the Government of Canada's goal of ensuring that the costs of the Plan are shared in a balanced way between the Plan members and the government and, ultimately, the Canadian taxpayer.

Benefit Payments

In 2006–07, the Plan paid out $4,169 million in benefits, an increase of $218 million over the previous year. Benefits were paid to 226,425 retirees and survivors (223,082 in 2005–06). In 2006–07, there were 9,031 new retirees during the year, of whom 6,396 were entitled to immediate annuities (2,930 obtained a normal retirement benefit at age 60 and 3,466 received an unreduced early retirement benefit). The remaining members became entitled to 482 deferred annuities, 1,678 annual allowances, and 474 disability retirement benefits. New retirees received an average annual pension of $32,770 in 2006–07. The number of beneficiaries has been fairly stable over the past few years but is expected to rise in the future.

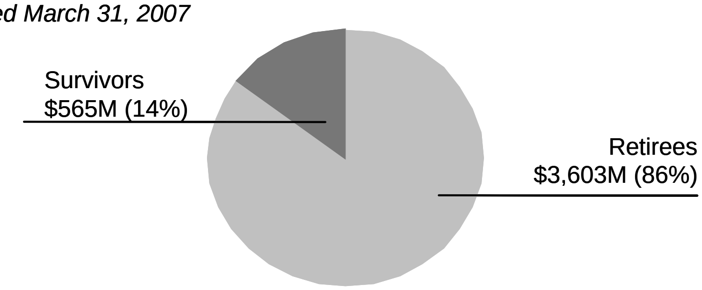
The Plan provides benefits based on the number of years of pensionable service, to a maximum of 35 years. The benefits are determined by a formula set out in the PSSA; they are not based on the financial status of the Plan. The basic benefit formula is 2 per cent per year of pensionable service times the average of the five consecutive years of highest-paid service. Using a legislated formula, benefits are coordinated with the CPP and QPP and are fully indexed to the increase in the Consumer Price Index.

In June 2006, amendments to the PSSA were made to better coordinate Plan benefits with those under the CPP and QPP for Plan members reaching age 65 in 2008 and beyond. Effective January 1, 2008, the pension reduction factor resulting from benefit coordination with CPP and QPP for Plan members reaching age 65 in 2008 and beyond will decrease from 0.7 to 0.625 per cent over a five-year period.

Pension benefits are adjusted annually according to the increase in the Consumer Price Index. This adjustment—made each January—was 2.3 per cent on January 1, 2007; 2.2 per cent on January 1, 2006.

Benefits paid to retirees ($3,603 million) represented 86 per cent of 2006–07 pension payments, and benefits paid to survivors ($565 million) represented 14 per cent. Included in benefits paid to retirees are those to disabled retirees.

Benefits Payments
Year ended March 31, 2007



Source: Public Works and Government Services Canada

Benefit Payments

Year ended March 31, 2007

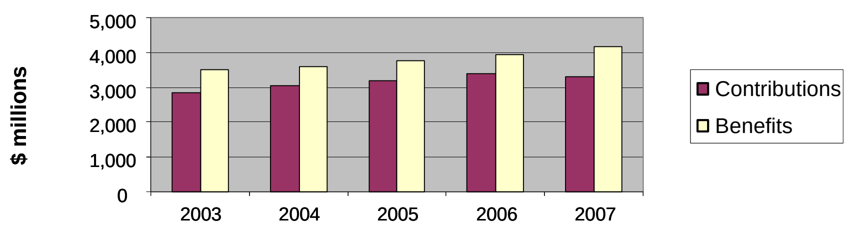
	($ million)	Per cent (%)
Survivors	565	14
Retirees	3,603	86
	4,168	100

Source: Public Works and Government Services Canada

Further, in 2006–07, 1,826 Plan members left the public service before age 50 and withdrew about $138 million (the present value of their future benefits) as lump sums that were transferred to other pension plans or to locked-in retirement vehicles of their choosing. There was also approximately $9 million returned to 4,316 Plan members who left the public service. Out of that total, 4,304 members were paid with less than two years of pensionable service under the Plan, while 12 accounts were paid to the Plan members' estate as a result of death in service.

Historically, contributions and benefit payments to the Plan rise steadily—both have increased by approximately $500 million since 2002–03, as illustrated in the table below.

Total Contributions / Benefit Payments
Year ended March 31



Source: Previous year's annual reports

Total Contributions / Benefit Payments

Year ended March 31

Year	Contributions	Benefits
2003	2,856	3,494
2004	3,045	3,596
2005	3,190	3,768
2006	3,390	3,951
2007	3,313	4,169

Source: Previous Annual Reports

Net Assets and Other Accounts Available for Benefits

The Statement of Changes in Net Assets and Other Accounts Available for Benefits shows the amount earmarked to guarantee payment of current pensions and accrued pension benefits as at March 31, 2007, payable in the future to Plan members, survivors, and beneficiaries. As at that date, $116,404 million—an increase of $7,740 million from the previous year—is available for benefits.

As reflected in the Statement, inflows come from a number of different sources, including (i) contributions made by Plan members and the Government of Canada, (ii) income from investments and interest credited, (iii) money transferred to the Plan from other pension funds by employees coming to work for the Government of Canada from other organizations, and (iv) money transferred to deal with the actuarial deficiency in the Pension Fund.

Amounts are withdrawn or debited from the Plan (i) to pay benefits, (ii) to transfer from the Plan to other pension plans or to locked-in vehicles (e.g. RRSPs), and (iii) to pay administrative expenses.

Accrued Pension Benefits

The Statement of Changes in Accrued Pension Benefits shows the present value of benefits earned with respect to service to date. As at March 31, 2007, the level of accrued pension benefits is $104,688 million, an increase of $8,273 million from the previous fiscal year.

Investment Management

Before April 2000, transactions relating to the Plan were recorded in the Public Service Superannuation Account, created by legislation in the Accounts of Canada. Pursuant to the PSSA as amended by the PSPIBA, transactions relating to service subsequent to March 2000 are recorded in the Pension Fund. The excess of contributions over benefits and administration costs recorded in the Pension Fund is regularly transferred to PSP Investments and invested in capital markets.

PSP Investments' statutory objectives are to manage funds transferred to it on behalf of the employer and maximize investment returns without undue risk of loss, with regard to Plan funding requirements.

Accordingly, PSP Investments' Board of Directors has established an investment policy, which has an expected real rate of return at least equal to the actuarial rate of return assumption for the Plan used in the previous triennial actuarial valuation, as at March 31, 2005, that is, 4.3 per cent.

As noted in the 2007 annual report of PSP Investments, the investments held during the year ended March 31, 2007, were in compliance with the PSSA and PSP Investments' Statement of Investment Policy, Standards and Procedures.

Investment Policy

The Board of Directors has adopted the asset mix (Policy Portfolio) shown below, with target weights and ranges as indicated:

Asset Class	Long-Term Target Weight	Long-Term Range
	Per cent (%)	
Large Cap Developed World Equity (Total)	**40**	
Canadian Equity	30	24–36
US Large Cap Equity	5	4–6
EAFE Large Cap Equity	5	4–6
Small Cap Developed World Equity	**7**	5–9
Emerging Markets Equity	**7**	6–8
Private Equity	**8**	6–10
Nominal Fixed Income (Total)	**15**	
Cash and Cash Equivalents	2	0–4
World Government Bonds	5	3–7
Canadian Fixed Income	8	4–12
Real Return Assets (Total)	**23**	
World Inflation-Linked Bonds	5	3–7
Real Estate	10	5–15
Infrastructure	8	5–11

Rate of Return on PSP Investments

In 2006–07, the assets invested by PSP Investments earned a rate of return of 11.3 per cent. These assets were invested in equities (62 per cent), fixed income securities (22 per cent), and real return assets (16 per cent).

Following is the annual rate of return for each of the last four years as compared to the composite benchmark for PSP Investments. PSP Investments has, for the past four years, outperformed its Policy Benchmark.

Year ended March 31

	2007	2006	2005	2004
	Per cent (%)			
Annual rate of return	11.3	19.1	7.9	26.1
Composite benchmark annual rate of return	10.1	18.0	7.2	25.4

Interest on the Public Service Superannuation Account

This Account is credited quarterly with interest at rates calculated as though amounts recorded in the Account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity. The annualized interest rate credited is as follows:

Year ended March 31

	2007	2006	2005	2004
	Per cent (%)			
Interest on Account	7.5	7.8	8.0	8.3

Key Performance Drivers

Listed below are Plan objectives for the fiscal year under review, indicating the extent to which the objectives have been achieved and stating the next fiscal year's objectives.

PSP Investment Objectives

Fiscal Year 2006–07 Objectives

- Further enhance support systems and services, with a particular focus on information technology, to reflect the increased size and complexity of the organization

Status

Completed

Fiscal Year 2006–07 Objectives

- Assemble an infrastructure team and roll out infrastructure investments while expanding investments in other private assets, such as private equities and real estate

Status

Completed

Fiscal Year 2006–07 Objectives

- Continue looking—with a longer-term view—for new sources of returns that will complement PSP Investments' liquidity and extended investment time horizon

Status

Completed / Ongoing

Fiscal Year 2006–07 Objectives

- Strengthen support staff and systems to keep pace with the rapid growth of investment activities

Status

Completed / Ongoing

Fiscal Year 2007–08 Objectives

- Continue to build and strengthen our public market team and portfolio while expanding the breadth of our activities beyond traditional markets and diversifying our public market risks
- Expand and improve our enterprise risk-management activities, including investment risk under new leadership as our organization grows and evolves
- Increase surveillance of corporate governance within our public enquiry holdings

Plan Administration Objectives

Fiscal Year 2006–07 Objectives

Progress on pension communication and web development by doing the following:

- producing and distributing a pension newsletter for active and retired Plan members;
- developing and delivering the Electronic Services Portal to target audiences;
- developing a set of processes and standards to support the ongoing quality and relevance of the portal content and its associated websites; and
- implementing changes to applications as required by policy, legislation, or the client.

Status

Complete / In progress

Continue to provide employees with greater and timely access to pension information and tools by doing the following:

- streamlining and coordinating production and distribution of the 2007 Employee Pension and Benefit Statement and Guides;
- launching the first edition of the newsletter for retired Plan members in print and Web format;
- maintaining and updating the Electronic Services Portal (ESP) and raising awareness of the Portal;
- implementing changes to Web applications as required by policy, legislation, or the client; and
- introducing a new “green” feature that lets employees stop printing their benefit statement.

Fiscal Year 2006–07 Objectives

Progress on the Government of Canada Pension Modernization Project (GCPMP) by doing the following:

- completing the architecture and design phase;
- preparing the Treasury Board submission for effective project approval, including substantive cost estimates and a detailed implementation plan; and
- getting Treasury Board approval and beginning the GCPMP implementation phase with the initial start-up phase.

Status

Complete / In progress

- The architecture and design phase that began in May 2006, was completed in September 2006.
- Substantive cost estimates, detailed implementation plans, and the Treasury Board submission for effective project approval were completed in April 2007.
- Subsequent to receipt of the effective project approval (EPA) from Treasury Board on June 13, 2007, the start-up activities for the implementation phase are in progress.

Fiscal Year 2006–07 Objectives

Progress on the Pension Service Delivery Project by doing the following:

- initiating development of the Pre-Employment Information, Spousal/Dependant Benefits Information, and Service Purchase business processes; and
- obtaining funding approval through Treasury Board submission for the nine remaining business processes expected to be fully implemented by the year 2010.

Status

Complete / In progress

- Treasury Board submission for EPA completed jointly with GCPMP and funding approval is expected early in fiscal year 2007–08.
- Continuation of the Centralization of Pension Services Delivery Project will follow EPA approval beginning with Pre-Employment, Spousal/Dependent Benefits, and Service Purchase information services.

Fiscal Year 2006–07 Objectives

Progress on the Pension Data Correction Project by doing the following:

- reviewing correction activities of the project and pay offices to identify overlaps in analysis and opportunities to reduce total time spent per account;
- participating in seeking a solution to pay office resource issues that are creating a backlog in accounts;
- flagging individual pension accounts to reflect their quality status (Pass or Fail); and
- sending the quality status to the Contributor System and continuing to identify data entry errors in the Regional Pay System or processes that create incorrect pension data on accounts.

Status

Complete / In progress

- Reviewed correction activities of the project resources and pay offices to identify overlaps in analysis.
- Conducted a pay-tools pilot providing project resources with access to pay tools to determine if further pay data analysis can be performed by project instead of Pay Offices. The pilot demonstrated that the pay office effort did not diminish significantly when the project resources had access to pay tools.
- Flagged individual pension accounts in iPDR to reflect their quality status (Pass or Fail) and sent the quality status to the Contributor System.
- A total of approximately 5,000 accounts were manually corrected by the project by March 2007.

Fiscal Year 2006–07 Objectives

Integrate imaging technology into the operational processing environment to reduce paper handling, storage, and retrieval, as well as manual data capture

Status

Complete / In progress

- The strategy to implement imaging on a business-by-business process continues.
- The imaging solution was implemented to validate the process for cessation of current contributions to the Plan for those contributors who have attained 35 years of contributory service—the maximum allowed under the PSSA.

Key Objectives for Fiscal Year 2007–08

- Maintain and update the existing Web applications for active Plan members
- Maintain and enhance the Electronic Services Portal through, for example, the addition of the *prospective member* status to support government recruitment activities
- Implement an external credential-management process for pensioner applications
- Streamline PWGSC pension and benefits websites and consolidate Plan member information in a single Web repository
- Leverage online and other communication tools to support rollout of pension-administration transformation projects
- Promote the take-up of Plan Web applications and raise awareness of the Web portal
- Develop and issue the annual pensioner bulletin (January) and newsletter (July)

Continue progress on the Government of Canada Pension Modernization Project (GCPMP) by doing the following:

- completing start-up activities for the implementation phase, including procurement of hardware and software components for the new solution (needed for development and testing stages);
- beginning implementation activities related to Release 1.0 (Client Services), including completion and approval of the detailed design, set-up of the testing environment, and development of transition plans; and
- beginning the detailed design activities related to Release 2.0 (contributor functions), including detailed business specifications and requirements.

Continue progress on the Pension Service Delivery Project, following Treasury Board EPA approval, with the development and implementation of Pre-Employment and Spousal/Dependent Information services and initiation of Service Purchase

Continue progress on the Pension Data Correction Project aimed at improving accountability and reconciliation of contributions made to the Plan by doing the following:

- manually correcting an average of 600 accounts per month (7,200 accounts in fiscal year); and
- reviewing and improving data-correction clerk training program.

Continue the integration of imaging technology into the operational processing environment and implement the imaging solution for the service purchase process

Expenses

Legislation provides for administrative expenses of government organizations related to the Plan to be charged to the Plan. The following chart shows total expenses that have been charged to the Plan.

Year ended March 31

	2007	2006	2005	2004
		($ millions)		
Government department administrative expenses	70	66	61	57
PSP Investments expenses	75	57	25	15
Total expenses	**145**	**123**	**86**	**72**

Expenses charged by government departments include those of PWGSC, the Secretariat, and OSFI. Operating expenses incurred by PSP Investments and external investment manager fees are also charged to the PSP Investments account.

Plan administration costs totalled $70 million (or approximately $136 per member) in 2006–07, an increase of $4 million from the previous year. Administration costs were $.06 per $100 of amounts available for benefits.

The higher PSP Investments expenses can be attributed primarily to the growth in assets under management and to a continuing shift to actively managed assets, which entail considerably higher expenses than passive mandates. Actively managed assets, such as absolute return strategies, international investments, and private investments, experienced the highest growth in fiscal year 2007.

Transfer Agreements

The Plan has transfer agreements with approximately 100 employers, including other levels of government, universities, and private-sector employers. During 2006–07, $47 million was transferred into the Plan and $60 million was transferred out under these agreements.

Pending Litigation

The PSPIBA, which received Royal Assent in September 1999, amended the PSSA to enable the federal government to deal with excess amounts in the Public Service Superannuation Account and the Pension Fund. The legal validity of these provisions has been challenged in the Ontario Superior Court of Justice. On November 20, 2007, the court rendered its decision and dismissed all of the plaintiffs' claims. Several of the plaintiffs are currently appealing this decision to the Ontario Court of Appeal.

Other Related Benefits

Life Insurance

The Supplementary Death Benefit Plan applies to most public service employees that contribute to the Plan. It provides a form of life insurance protection designed to cover Plan members' families during the years they are building up a pension.

Upon a Plan member's death, the Plan provides a benefit equal to twice the member's annual salary, rounded to the next highest multiple of $1,000. The amount of the benefit automatically goes up as the member's salary increases.

If a Plan member leaves the public service with an entitlement to an immediate annuity or an annual allowance payable within 30 days of ceasing to be employed, the Plan member is deemed to have elected to continue his or her participation in the Supplementary Death Benefit Plan. Beginning at age 66, the Plan member's basic supplementary death benefit coverage will decline by 10 per cent of the initial amount each year until the coverage reaches $10,000 (paid-up benefit), which is provided for life at no cost.

Employee and employer contributions plus interest are credited to the Public Service Death Benefit Account in the Accounts of Canada. Benefits are paid out of the Consolidated Revenue Fund and charged against the Public Service Death Benefit Account.

Unaudited financial information on the Supplementary Death Benefit Plan is contained in the Account Transaction Statements.

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 benefits to employees. Since these arrangements are covered by separate legislation, their balance and corresponding accrued pension benefits are not consolidated in the Plan's financial statements, but a summary of these arrangements is provided in the accompanying notes.

RCA No. 1 provides for benefits in excess of those permitted under the *Income Tax Act* (ITA) for registered pension plans. In 2007, this includes primarily benefits on salaries over $126,500, plus some survivor benefits. RCA No. 2 provides 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 surplus employees to retire with an unreduced pension.

Contributions and benefit payments in excess of limits permitted under the ITA for registered pension plans are recorded in the Retirement Compensation Arrangements (RCA) Account in the Accounts of Canada. The balance in the RCA Account is credited with interest at the same rate as for the Public Service Superannuation Account.

Further Information

For additional information on the Plan, you may consult the Secretariat website at http://www.tbs-sct.gc.ca, the PWGSC website at http://www.pwgsc.gc.ca, the PSP Investments website at http://www.investpsp.ca, and the OSFI website at http://www.osfi-bsif.gc.ca.

Further information is also available in *Your Pension and Benefits Guide*, which accompanies your individual pension and benefits annual statement.

Financial Statements of the Public Service Pension Plan

Statement of Responsibility

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

The financial statements of the Public Service pension plan for the year ended March 31, 2007, have been prepared in accordance with the accounting policies set out in Note 2 of the financial statements, which are based on Canadian generally accepted accounting principles. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles. The financial statements include management's best estimates and judgements where appropriate.

To fulfill its accounting and reporting responsibilities, Public Works and Government Services Canada 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* and regulations as well as the *Financial Administration Act* and regulations.

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

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

Approved by:

The paper version was signed by

François Guimont
Deputy Minister and Deputy Receiver General for Canada
Public Works and Government Services Canada

Wayne G. Wouters
Secretary of the Treasury Board
Treasury Board of Canada Secretariat

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

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

I have audited the statement of net assets and other accounts available for benefits, of accrued pension benefits, and of excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits of the Public Service Pension Plan as at March 31, 2007 and the statements of changes in net assets and other accounts available for benefits, changes in accrued pension benefits, and changes in excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets and other accounts available for benefits, the accrued pension benefits, and the excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits of the Plan as at March 31, 2007, and the changes in net assets and other accounts available for benefits, changes in accrued pension benefits and changes in excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions of the Plan that have come to my notice during my audit 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 the by-laws of the Board.

The paper version was signed by

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
December 23, 2007

Financial Statements

Statement of Net Assets and Other Accounts Available for Benefits, of Accrued Pension Benefits, and of Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits

As at March 31, 2007

	2007	2006
	($ millions)	
Net Assets and Other Accounts Available for Benefits		
Assets		
Public Service Pension Fund Account (note 3)	140	141
Investments (note 4)	26,156	20,991
Investment-related assets (note 4)	1,185	1,169
Contributions receivable—post–March 31, 2000, service (note 5)	1,258	1,138
Other assets (note 6)	10	7
	28,749	**23,446**
Liabilities		
Accounts payable	39	25
Investment-related liabilities (note 4)	1,914	2,145
Net Assets	**26,796**	**21,276**
Other Accounts		
Public Service Superannuation Account (note 3)	89,278	86,978
Contributions receivable—pre–April 1, 2000, service (note 5)	330	410
Net Assets and Other Accounts Available for Benefits	**116,404**	**108,664**
Actuarial asset value adjustment (note 8)	(2,429)	(2,000)
Actuarial Value of Net Assets and Other Accounts Available for Benefits	**113,975**	**106,664**
Accrued Pension Benefits (note 8)	**104,688**	**96,415**
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits (note 9)	**9,287**	**10,249**

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

Contingency and subsequent event (Note 18)

Statement of Changes in Net Assets and Other Accounts Available for Benefits

Year ended March 31, 2007

	2007	2006
	($ millions)	
Net Assets and Other Accounts Available for Benefits, Beginning of Year	**108,664**	**100,081**
Increase in Net Assets and Other Accounts Available for Benefits:		
Interest income on the Public Service Superannuation Account (note 3)	6,422	6,458
Contributions (note 10)	3,313	3,390
Investment income (note 11)	2,340	2,166
Current-year change in fair value of investments and currency (note 11)	177	824
Transfers from other pension funds	47	42
Public Service Pension Fund actuarial adjustment (note 12)	—	4
Total Increase in Net Assets and Other Accounts Available for Benefits:	12,299	12,884
Decrease in Net Assets and Other Accounts Available for Benefits:		
Benefits	4,169	3,951
Refunds and transfers (note 13)	245	227
Administrative expenses (note 14)	145	123
Total Decrease in Net Assets and Other Accounts Available for Benefits	4,559	4,301
Increase in Net Assets and Other Accounts Available for Benefits	**7,740**	**8,583**
Net Assets and Other Accounts Available for Benefits, End of Year	**116,404**	**108,664**

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

Statement of Changes in Accrued Pension Benefits

Year ended March 31, 2007

	2007	2006
	($ millions)	
Accrued Pension Benefits, Beginning of Year	**96,415**	**89,009**
Increase in Accrued Pension Benefits:		
Interest on accrued pension benefits	6,965	6,644
Benefits earned	3,117	3,062
Experience losses (gains)	(240)	1,644
Transfers from other pension funds	47	42
Total Increase in Accrued Pension Benefits	9,889	11,392
Decrease in Accrued Pension Benefits:		
Benefits	4,169	3,951
Refunds and transfers (note 13)	245	227
Administrative expenses included in the service cost (note 14)	70	66
Changes in actuarial assumptions (note 8)	(1,391)	(258)
Plan amendment (note 8)	(1,477)	—
Total Decrease in Accrued Pension Benefits	1,616	3,986
Net Increase in Accrued Pension Benefits	**8,273**	**7,406**
Accrued Pension Benefits, End of Year	**104,688**	**96,415**

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

Statement of Changes in Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits Over Accrued Pension Benefits

Year ended March 31, 2007

	2007	2006
	($ millions)	
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits Over Accrued Pension Benefits, Beginning of Year	**10,249**	**10,305**
Increase in net assets and other accounts available for benefits	7,740	8,583
Change in actuarial asset value adjustment	(429)	(1,233)
Increase in actuarial value of net assets and other accounts available for benefits	7,311	7,350
Net increase in accrued pension benefits	(8,273)	(7,406)
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits, End of Year	**9,287**	**10,249**

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

Notes to Financial Statements

Year ended March 31, 2007

1. Description of Plan:

The Public Service pension plan (the "Plan"), governed by the *Public Service Superannuation Act* (the "PSSA" or the "Act"), provides pension benefits for public service employees. This Act has been in effect since January 1, 1954.

The following description of the Plan is a summary only.

(a) General:

The Plan is a contributory defined benefit plan covering substantially all of the employees of the Government of Canada, Crown corporations, and territorial governments. Membership in the Plan is compulsory for all eligible employees.

The Government of Canada is the sole Plan sponsor. 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 Plan while Public Works and Government Services Canada ("PWGSC") provides the day-to-day administration of the Plan. The Office of the Superintendent of Financial Institutions makes periodic actuarial valuations of the 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 Plan were recorded in a Public Service Superannuation Account created by legislation in the Accounts of Canada. Pursuant to the PSSA as amended by the *Public Sector Pension Investment Board Act* ("PSPIBA"), transactions relating to service subsequent to March 31, 2000, are now recorded in the Public Service Pension Fund (the "Pension Fund"), where the excess of contributions over benefits and administrative costs is invested in capital markets through the Public Sector Pension Investment Board ("PSP Investments"). PSP Investments is a separate Crown corporation that started operating on April 1, 2000. Its statutory objectives are to manage the funds transferred to it on behalf of the employer and maximize investment returns without undue risk of loss having regard to the funding requirements of the Plan.

1. Description of Plan (continued):

(b) Funding policy:

The Plan is funded from employee and employer contributions. Plan members contributed 4.3 per cent (4.0 per cent in 2006) for the first nine months and 4.6 per cent (4.3 per cent in 2006) for the last three months of pensionable earnings up to the maximum covered by the Canada Pension Plan or Québec Pension Plan ("CPP"or "QPP") and 7.8 per cent (7.5 per cent in 2006) for the first nine months and 8.1 per cent (7.8 per cent in 2006) for the last three months of pensionable earnings above that maximum. The government's contribution is made monthly to provide for the cost (net of employee contributions) of the benefits that have accrued in respect of that month. The cost of the benefits is determined based on actuarial valuations, which are performed triennially.

The PSSA requires that actuarial deficiencies found in the Pension Fund be dealt with by transferring equal instalments to the Fund over a period not exceeding 15 years. It also allows excesses in the Fund to be dealt with by reducing government or Plan member contributions to or withdrawing amounts from the Pension Fund.

Until April 1, 2000, a separate market-invested fund was not maintained; however, the PSSA provides that all pension obligations arising from the Plan be met by the Government of Canada. For service that pre-dates April 1, 2000, the PSSA requires that deficiencies found between the balance of the Public Service Superannuation Account and the actuarial liability be reduced by crediting the Account in equal instalments over a period not exceeding 15 years. When the balance of the Public Service Superannuation Account exceeds the actuarial liability, it also allows the excess to be reduced by debiting the Account over a period of up to 15 years.

Notes to Financial Statements

Year ended March 31, 2007

1. Description of Plan (continued):

(c) Benefits:

The 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—not based on the financial status of the Plan. The basic benefit formula is 2 per cent per year of pensionable service times the average of the five consecutive years of highest paid service. Benefits are coordinated with the CPP and QPP and are fully indexed to the increase in the Consumer Price Index. In June 2006, amendments to the PSSA were made to better coordinate the benefits under the Plan with those of the CPP and QPP for Plan members reaching age 65 in 2008 and beyond. Effective January 1, 2008, the pension reduction factor that results from the coordination of benefits with CPP and QPP for Plan members reaching age 65 in 2008 and beyond will decrease from 0.7 per cent to 0.625 per cent over a five-year period.

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* (“ITA”) restrictions on registered pension plan benefits, separate Retirement Compensation Arrangements have been implemented to provide benefits that exceed the income tax limit. Since these arrangements are covered by separate legislation, their net assets available for benefits and accrued pension benefits are not consolidated in these financial statements; however, condensed information is presented in note 15.

(d) Income taxes:

The Plan is a registered pension plan under the *Income Tax Act* and, as such, is not subject to income taxes.

2. Significant accounting policies:

(a) Basis of presentation:

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

These financial statements are prepared using the accounting policies stated below, which are based on Canadian generally accepted accounting principles. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

Preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the year, principally those related to the valuation of investments and the estimation of accrued pension benefits that are management's and government's best estimates. Actual results could differ significantly from those estimates, although at the time of their preparation, management believes the estimates and assumptions to be reasonable.

(b) 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.

The investments of the Plan are held and managed through PSP Investments. Investments grouped by asset class holdings are presented at the respective fair value and cost of the underlying investments held in PSP Investments. Investments are recorded as of the trade date and stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act.

Notes to Financial Statements

Year ended March 31, 2007

2. Significant accounting policies (continued):

(b) Valuation of assets and other accounts (continued):

Fair values of investments are determined as follows:

(i) Cash equivalent investments are recorded at cost, which, together with accrued interest income, approximates fair value.

(ii) Market prices for equities and unit values for pooled funds are used to represent the fair value of these investments. Unit values reflect the quoted market prices of the underlying securities.

(iii) Private equity and infrastructure investments, where quoted market prices are not available, are fair valued annually. The fair value is determined by the external managers, management and/or third party appraisers using acceptable industry valuation methods. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity and infrastructure investments unless there is an indication of permanent impairment of value.

(iv) The fair value of investments in real estate is determined at least annually, using acceptable industry valuation methods, such as discounted cash flows and comparable transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate, unless there is an indication of permanent impairment of value. PSP Investments may use the services of a third party appraiser to determine the fair value of real-estate investments.

(v) Fixed income securities are valued at quoted market prices at the end of the year, where available. Where quoted market prices are not available, estimated values are calculated using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

(vi) All derivative financial instruments are recorded at fair value using market prices. Where quoted market prices are not available, appropriate valuation techniques are used to determine fair value.

2. Significant accounting policies (continued):

(b) Valuation of assets and other accounts (continued):

Contributions receivable for past service elections made after March 31, 2000, are recorded at their estimated net present value, which approximates their fair value. Contributions receivable for past service elections made prior to April 1, 2000, that will be credited to the Public Service Superannuation Account once the members' share is received are also presented at their estimated net present value.

The actuarial value of net assets is based on the market-related value of investments, whereby the fluctuations between the market and expected market value are deferred and recognized over a five-year period, within a ceiling of plus or minus 10 per cent of the market value. Market-related value of investments is used to mitigate the impact of large fluctuations in the market value of Plan investments.

(c) Income recognition:

Investment income is recorded on an accrual basis. The investment income has been allocated proportionately by PSP Investments based on the assets held by the Plan. Investment income represents realized gains and losses on the disposal of investments, interest, dividends, and net operating income from private market real estate investments. These income items include the related distributions from pooled funds and limited partnerships.

The current-year change in fair value of investments and currency is the change in unrealized appreciation (depreciation) on investments held at the end of the year.

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

(d) Contributions:

Contributions for current service are recorded on an accrual basis 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.

Notes to Financial Statements

Year ended March 31, 2007

2. Significant accounting policies (continued):

(e) Benefits, refunds, and transfers:

Benefits are accrued as pensionable service accumulates and are recognized as a reduction of accrued pension benefits and net assets and other accounts when paid. Refunds and transfers are recognized at the moment the refund or transfer occurs, until which time they are presented with the net assets and other accounts available for benefits and with related accrued pension benefits.

(f) Translation of foreign currencies:

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at year-end are translated at exchange rates in effect at the year-end date. The realized gains (losses) on disposal of investments that relate to foreign currency translation are included in investment income.

Unrealized gains and losses resulting from year-end translation of foreign-currency-denominated investments are included in the current-year change in fair value of investments and currency.

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

The Public Service Superannuation Account is established in the Accounts of Canada pursuant to the PSSA. It portrays a notional portfolio of bonds and is not funded by the Government of Canada. The PSSA requires that this Account record transactions, such as contributions, benefits paid, and transfers that pre-date April 1, 2000, service and that the Account be credited with interest. The *Public Service Superannuation Regulations* require that interest be credited quarterly at rates calculated as though the amounts recorded in the Account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity.

Transactions pertaining to post–March 31, 2000, service are recorded in the Pension Fund through the Public Service Pension Fund Account, which is also included in the Accounts of Canada. The net amount of contributions less benefits and other payments is transferred regularly to PSP Investments for investment in capital markets. The Pension Fund Account is only a flow-through account and, as such, does not earn interest. At March 31, the balance in the Pension Fund Account represents amounts of net contributions in transit awaiting imminent transfer to PSP Investments.

4. Investments:

(a) Investment portfolio:

At March 31, the portfolio of investments held through PSP Investments is as follows:

	2007		2006	
	Fair Value	**Cost**	**Fair Value**	**Cost**
	($ millions)		($ millions)	
Developed World Equity				
Canada Equity	7,583	6,589	6,893	5,956
U.S. Large Cap Equity	1,653	1,513	1,902	1,761
EAFE Large Cap Equity	1,251	1,020	2,340	1,894
Small Cap Developed World Equity	2,143	1,946	1,450	1,314
Emerging Markets Equity	1,819	1,549	1,407	1,105
Private Equity	1,213	1,207	218	222
Nominal Fixed Income				
Cash Equivalents	281	281	284	284
World Government Bonds	1,217	1,241	—	—
Canadian Fixed Income	3,945	3,964	3,799	3,849
Real Return Assets				
World Inflation-linked Bonds	1,257	1,257	305	279
Real Estate	2,979	2,618	1,413	1,345
Infrastructure	348	334	—	—
Absolute Return	467	384	980	891
Investments	**26,156**	**23,903**	**20,991**	**18,900**
Investment-Related Assets				
Amounts due from pending trades	1,185	1,166	1,169	1,168
Investments & Investment-Related Assets	**27,341**	**25,069**	**22,160**	**20,068**
Investment-Related Liabilities				
Amounts payable from pending trades	(1,020)	(1,019)	(1,538)	(1,538)
Capital debt financing	(365)	(365)	(253)	(253)
Securities sold short	(386)	(394)	(225)	(223)
Derivative-related liabilities	(143)	(43)	(129)	(42)
Total Investment-Related Liabilities	**(1,914)**	**(1,821)**	**(2,145)**	**(2,056)**
Net Investments	**25,427**	**23,248**	**20,015**	**18,012**

Comparative figures have been reclassified to conform to the current year's presentation.

Notes to Financial Statements

Year ended March 31, 2007

4. Investments (continued):

(a) Investment portfolio (continued):

Direct investments and derivative contracts are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio of PSP Investments. In addition to the different asset classes outlined in the asset mix policy, PSP Investments employs a number of absolute return strategies to enhance returns by changing the investment asset mix, enhancing equity and the fixed income portfolio returns, and managing foreign currency exposures.

(b) Derivative financial instruments:

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets, interest, or exchange rates. PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

Notional values are not recorded as assets and liabilities as they represent the face amount of the contract to which a rate or price is applied in order to calculate the exchange of cash flows. Notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions. Rather, it serves as the basis upon which the returns from and the fair value of the contracts are determined.

PSP Investments writes credit default derivatives and, hence, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of written credit default derivatives as shown in the table below. No payments related to written credit default derivatives have been made to date.

4. Investments (continued):

(b) Derivative financial instruments (continued):

The following table summarizes the derivatives portfolio as at March 31:

	2007		2006	
Investments	**Notional Value**	**Notional Fair Value**	**Notional Value**	**Notional Fair Value**
	($ millions)		($ millions)	
Equity Derivatives				
Futures	1,252	4	701	9
Swaps	3,647	35	2,106	33
Others	805	55	1,213	172
Currency Derivatives				
Forwards	8,133	—	3,352	(23)
Swaps	526	(9)	—	—
Options	732	6	347	1
Interest Rate Derivatives				
Bond forwards	1,553	6	2,490	—
Swaps	3,312	(7)	5,155	2
Others	1,163		12,219	1
Credit Default Derivatives				
Swaps	1,121	(17)	2,238	(1)
Total	**22,244**	**73**	**29,821**	**194**

The fair value of derivative contracts, as at March 31, is represented by:

($ millions)	2007	2006
Derivative-related receivables	216	323
Derivative-related payables	(143)	(129)
Total	**73**	**194**

Notes to Financial Statements

Year ended March 31, 2007

4. Investments (continued):

(b) Derivative financial instruments (continued):

The derivative-related receivables are included as part of the fair value of each respective asset class in the investment portfolio.

The term to maturity based on notional value for the derivatives is as follows:

($ millions)	2007	2006
Under 1 year	17,678	19,094
1 to 5 years	3,362	8,063
Over 5 years	1,204	2,664
Total	**22,244**	**29,821**

(c) Investment Asset Mix:

PSP Investments has established a Statement of Investment Policies, Standards and Procedures (SIP&P) that sets out the manner in which the assets shall be invested.

The investment asset mix, as set out in the SIP&P as at March 31, is as follows:

	2007		2006	
Asset Class	**Actual Asset Mix**	**Policy Portfolio**	**Actual Asset Mix**	**Policy Portfolio**
	Per cent (%)		Per cent (%)	
Equities	61.9	62.0	70.2	62.0
Fixed Income	21.6	15.0	22.4	15.0
Real Return Assets	16.5	23.0	7.4	23.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Differences between the actual asset mix and the policy portfolio targets are due principally to the target weights of certain asset classes, which have yet to be attained. For instance, real return assets include infrastructure assets with a policy portfolio target weight of 8 per cent, and an actual asset weight of only 1.4 per cent.

4. Investments (continued):

(d) Investment performance:

Portfolio and benchmark returns, of the investment portfolio held through PSP Investments for the year ended March 31, are as follows:

	2007		2006	
	Portfolio Returns	**Benchmark Returns**	**Portfolio Returns**	**Benchmark Returns**
	Per cent (%)		Per cent (%)	
Developed World Equity				
Canada Equity	14.3	14.2	28.8	28.7
U.S. Large Cap Equity	8.7	10.6	9.5	7.7
EAFE Large Cap Equity	16.6	18.9	20.8	20.0
Small Cap Developed World Equity	5.5	6.1	18.6	19.3
Emerging Markets Equity	18.8	19.3	39.6	42.6
Private Equity	(0.6)	(0.6)	0.6	0.6
Nominal Fixed Income				
Cash Equivalents	4.2	4.2	2.7	2.8
World Government Bonds	(1.5)	(1.5)	n.a.	n.a.
Canadian Fixed Income	5.4	5.5	4.7	4.9
Real Return Assets				
World Inflation-linked Bonds	(1.4)	(1.6)	10.9	11.8
Real Estate	36.5	6.7	21.6	8.3
Infrastructure	5.5	5.5	n.a.	n.a.
Total Return	**11.3**	**10.1**	**19.1**	**18.0**

Comparative figures have been reclassified to conform to the current year's presentation.

Notes to Financial Statements

Year ended March 31, 2007

4. Investments (continued):

(d) Investment performance (continued):

Returns have been calculated in accordance with the methodology recommended by the CFA Institute.

PSP Investments has identified relevant benchmarks for each asset class. The asset class benchmark returns are used in evaluating the relative performance of each asset class. The total benchmark return aggregates the asset class benchmark returns according to the weights under the actual asset mix. The return of the private equity and infrastructure asset class is not being measured against any benchmark during the ramp-up period as per the PSP Investments' SIP&P. However, for the purposes of calculating the benchmark return for the private equity portfolio, the actual return is used. Similarly, the actual infrastructure portfolio return of 5.5 per cent was used in calculating the total 2007 benchmark return.

The total portfolio return includes the performance impact of absolute return strategies. Hedging investment returns are either netted against the return of the respective hedged assets, as is the case with private asset classes, or included in total return, as in the case of public markets.

(e) Foreign currency risk:

The Plan's investments are exposed to currency risk through holdings of securities, units in pooled funds, and units in limited partnerships of non-Canadian assets where investment values will fluctuate due to changes in foreign exchange rates. To mitigate this risk, PSP Investments may take, through derivative contracts, positions in foreign currencies.

4. Investments (continued):

(e) Foreign currency risk (continued):

The underlying net foreign currency exposures, as at March 31, were as follows:

	2007		2006	
Currency	**Fair value**	**% of total**	**Fair value**	**% of total**
(In Canadian $)	($ millions)		($ millions)	
US Dollar	4,529	53.7	4,201	57.0
Euro	1,479	17.5	1,141	15.4
British Pound	585	6.9	487	6.6
Yen	512	6.1	669	9.1
Australian Dollar	314	3.7	228	3.1
Korean Won	241	2.8	128	1.7
Others	782	9.3	523	7.1
Total	**8,442**	**100.0**	**7,377**	**100.0**

Comparative figures have been reclassified to conform to the current year's presentation.

PSP Investments and its subsidiaries also have commitments, denominated in foreign currencies, in real estate, private equity, and infrastructure investments. An amount of $4,214 million ($2,391 million US, €885 million Euros, and £43 million GBP) is allocable to the Plan, which is not included in the foreign currency exposure table above.

(f) Credit risk:

PSP Investments is exposed to the risk that a debt securities issuer could be unable to meet its financial obligation or that a derivative counterparty could default or become insolvent.

As at March 31, 2007, the Plan's highest concentration of credit risk is with the Government of Canada through holdings of $1.5 billion of Government of Canada issued securities. In order to minimize derivative contract credit risk, PSP Investments deals only with counterparties that are major financial institutions with a minimum credit rating of "A," as supported by a recognized credit rating agency.

Notes to Financial Statements

Year ended March 31, 2007

4. Investments (continued):

(g) 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 or factors affecting all securities traded in the market. PSP Investments has a diversification strategy to mitigate this risk whereby it invests in a diversified portfolio of investments based on the criteria established in its SIP&P and uses derivative financial instruments to mitigate the impact of market risk.

(h) Interest rate risk:

Interest rate risk refers to the effect on the market value of PSP Investments' net asset value due to fluctuations in interest rates. Changes in interest rates will directly affect the fair value of PSP Investments' assets.

As at March 31, 2007, the fixed income asset class was managed with an average duration of 5.7 years. An increase of 1 per cent in interest rates would result in a decline in the value of the fixed income securities of 5.7 per cent, or $227 million.

The terms to maturity of the bonds held in the Canadian fixed income asset class, as at March 31, 2007, are as follows:

Terms to Maturity						
($ millions)	**Within 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**2007 Total**	**2006 Total**
Government of Canada bonds	181	751	295	372	1,599	1,306
Provincial and territorial bonds	1	418	232	462	1,113	954
Municipal bonds	9	46	9	5	69	69
Corporate bonds	33	509	392	230	1,164	1,494
Total	**224**	**1,724**	**928**	**1,069**	**3,945**	**3,823**

4. Investments (continued):

(i) Securities lending:

The Plan participates in securities lending programs whereby it lends securities in order to enhance portfolio returns. Any such securities lending requires collateral in cash, high quality debt instruments, or shares securities with a fair value equal to no less than 102 per cent of the value of the securities lent. As at March 31, 2007, securities with an estimated fair value of $3,075 million ($2,164 million in 2006) were loaned securities contractually receivable as collateral had an estimated fair value of $3,213 million ($2,281 million in 2006).

(j) Securities collateral:

The Plan deposited or pledged securities with a fair value of $71 million as collateral ($64 million in 2006) with various financial institutions. Securities with fair value of $342 million (nil in 2006) have been received from various financial institutions as collateral.

(k) Private market investments:

The Plan asset class in Real Estate is comprised of investments, which are owned by either PSP Investments or its wholly owned subsidiaries and managed by general partners or external advisors. The underlying investments comprise a diversified portfolio of income-producing properties, third party loans, and public and private funds. The real estate asset class is accounted for in the investment portfolio net of all financings. The fair market value of financings in the real estate portfolio generally will not exceed 50 per cent of the gross fair market value of the portfolio.

PSP Investments' Private Equity asset class is comprised of interests in limited partnerships and in funds, which are managed by general partners, and investments, which are owned by PSP Investments or its wholly owned subsidiaries. The underlying investments represent equity ownerships or investments with the risk and return characteristics of equity.

Notes to Financial Statements

Year ended March 31, 2007

4. Investments (continued):

(k) Private Market Investments (continued):

PSP Investments' Infrastructure asset class is comprised of investments, which are owned by either PSP Investments or its wholly owned subsidiaries and managed by general partners or external advisors. The underlying investments comprise a diversified portfolio of infrastructure assets and publicly traded securities. Investment management and performance incentive fees are generally incurred for the above private market investments and are paid through capital contributions or investment income.

Investment management fees in private market investments generally vary between 0.2 per cent and 5.5 per cent of the total invested amount. During the year ended March 31, 2007, management and performance incentive fees of $177 million ($48 million in 2006) were recorded as part of the cost of the private market investments or against investment income.

The carrying values of these investments are reviewed annually and any resulting adjustments are reflected as unrealized gains or losses in investment income.

(l) Significant real estate acquisition:

In the last quarter of the fiscal year, PSP Investments, through its wholly-owned subsidiary PSPIB Destiny Inc., acquired all the issued and outstanding units of Retirement Residences Real Estate Investment Trust ("Retirement REIT") for a total cash consideration of $795 million. Subsequently, PSP Investments advanced an amount of $445 million to refinance the debt of Retirement REIT. The estimated fair value of net investment in Retirement REIT allocated to the Plan is $893 million.

5. Contributions receivable:

	2007	2006
	($ millions)	
Pre-April 1, 2000, service		
Employee contributions for past service elections	185	213
Employers' share of contributions for past service elections	145	197
	330	**410**
Post-March 31, 2000, service		
Employee contributions for past service elections	345	312
Employers' share of contributions for past service elections	833	756
Other contributions receivable	80	70
	1,258	**1,138**
Total	**1,588**	**1,548**

6. Other assets:

The costs of operation of PSP Investments are charged to the three plans for which PSP Investments provides investment services, namely, the Public Service pension plan, the Canadian Forces 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 the operating expenses are allocated on a quarterly basis, based upon the asset value of each plan's investments under management.

Notes to Financial Statements

Year ended March 31, 2007

6. Other assets (continued):

In 2007, 72.4 per cent of the operating expenses were allocated to the Plan (72.2 per cent in 2006). PSP Investments initially charges all expenses to the Plan—they are reimbursed quarterly by the two other plans. At year-end, the balance of the other assets is as follows:

	2007	2006
	($ millions)	
Share of expenses receivable from		
Canadian Forces pension plan	2	3
Royal Canadian Mounted Police pension plan	1	1
	3	4
Other	7	3
Total other assets	**10**	**7**

Effective March 1, 2007, the cost allocation policy has been amended to include the Reserve Force pension plan; however, there was no allocation to the Reserve Force pension plan as there was no asset value at the end of the year.

7. PSP Capital Inc.:

As of March 31, 2007, PSP Capital Inc., a wholly-owned subsidiary of PSP Investments, has $503 million of short-term promissory notes outstanding with maturity dates within 60 to 90 days of issuance of which $365 million has been allocated to the Plan and included in Note 4(a) as an investment-related liability. The capital raised was used primarily to finance real estate investments and is unconditionally and irrevocably guaranteed by PSP Investments. Interest on short-term promissory notes was $17 million for the year ended March 31, 2007 ($3 million in 2006). The operating expenses incurred by PSP Capital Inc. were allocated to the Plan and include interest expense on the short-term promissory notes of $13 million.

8. Accrued pension benefits:

(a) Present value of accrued pension benefits:

The present value of accrued pension benefits is calculated actuarially by the Chief Actuary of the Office of the Superintendent of Financial Institutions (OSFI) using the projected benefit method prorated on service. Actuarial valuations are performed triennially for funding purposes and updated annually by the Chief Actuary of the OSFI for accounting purposes, using the government's best estimate assumptions. The information in these financial statements is based on this annual valuation. The Chief Actuary of the OSFI conducted the most recent actuarial valuation of the Plan for funding purposes as of March 31, 2005, and it was tabled in Parliament on November 3, 2006. However, the accounting actuarial valuation has been updated as at March 31, 2007, using the demographic assumptions and base populations of the funding actuarial valuation as at March 31, 2005.

The assumptions used in determining the actuarial value of accrued pension benefits were developed with reference to short-term forecasts and expected long-term market conditions. Many assumptions are required in the actuarial valuation process, including estimates of future inflation, interest rates, expected return on investments, general wage increases, workforce composition, retirement rates, and mortality rates.

The assumptions for the long-term rate of inflation and long-term general wage increase used in the accounting valuation are 2.0 per cent and 2.9 per cent respectively (2.0 per cent and 2.9 per cent in 2006). The discount rates used to value the liabilities at March 31, 2007, and the corresponding assumptions used in the cost of current service and in the interest expense are as follows:

Notes to Financial Statements

Year ended March 31, 2007

8. Accrued pension benefits (continued):

(a) Present value of accrued pension benefits (continued):

	2007			2006		
	Liability valuation			Liability valuation		
	Short-term	Long-term	Expense valuation	Short-term	Long-term	Expense valuation
	Per cent (%)			Per cent (%)		
Expected rate of return on pension investments	6.0	6.3	6.2	6.2	6.3	6.2
Expected weighted average of long-term bond rates	7.3	5.0	7.6	7.6	5.0	7.8

(b) Actuarial asset value adjustment:

The actuarial value of net assets available for benefits has been determined from short-term forecasts consistent with the assumptions underlying the valuation of the accrued pension benefits. The actuarial asset value adjustment represents the difference between investments valued at fair value and investments valued at market-related values.

(c) Plan amendment:

Pursuant to the budget of May 2, 2006, and ensuing *Budget Implementation Act 2006* that received Royal Assent on June 22, 2006, amendments to the PSSA were made to better coordinate the benefits under the Plan with those under the CPP and QPP for Plan members reaching age 65 in 2008 and beyond. The increase in accrued pension benefits of $1,477 million was charged as a one-time adjustment for past service costs.

9. Excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits:

For funding purposes, the actuarial value of net assets and other accounts available for benefits and the accrued pension benefits are tracked separately for service April 1, 2000, and after March 31, 2000. Based on the accounting assumptions used in these financial statements, the breakdown as at March 31, 2007, is as follows:

	Pre-April 1, 2000	Post-March 31, 2000	Total
		($ millions)	
Net assets and other accounts available for benefits	89,608	26,796	116,404
Actuarial asset value adjustment	—	(2,429)	(2,429)
Actuarial value of net assets and other accounts available for benefits	89,608	24,367	113,975
Accrued pension benefits	(81,751)	(22,937)	(104,688)
Excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits	**7,857**	**1,430**	**9,287**

10. Contributions:

	2007	2006
	($ millions)	
From employees	1,066	1,003
From employers	2,247	2,387
	3,313	**3,390**

During the year, employees contributed approximately 32 per cent (30 per cent in 2006) of the total contributions made.

Notes to Financial Statements

Year ended March 31, 2007

11. Investment income:

Investment income, before allocating net realized and unrealized gains on investments, is as follows:

	2007	2006
	($ millions)	
Interest income	333	200
Dividend income	220	152
Other income	186	78
Security lending income	4	2
	743	**432**
Net realized gains	1,597	1,734
Investment income before net unrealized gain	**2,340**	**2,166**
Net unrealized gains	177	824
Net Investment Income	**2,517**	**2,990**

Comparative figures have been reclassified to conform to the current year's presentation.

Investment income includes a foreign currency realized loss of $95 million ($2 million in 2006) and a foreign currency unrealized gain of $322 million ($36 million in 2006).

12. Actuarial adjustments:

In accordance with the legislation governing the Plan, the President of the Treasury Board is required to direct that any actuarial deficiency found in the Pension Fund be credited to the Fund in equal instalments over a period not exceeding 15 years, commencing in the year in which the actuarial report is tabled in Parliament. Excesses in the Pension Fund may be dealt with by a reduction of government and/or Plan member contributions or by withdrawing amounts from the Fund.

The legislation also requires that deficiencies between the balance of the Public Service Superannuation Account and the actuarial liability be credited to the Account in equal instalments over a period not exceeding 15 years. When the balance of the Public Service Superannuation Account exceeds the actuarial liability, it also allows the excess to be reduced by debiting the Account over a period of up to 15 years.

The March 31, 2005, triennial actuarial valuation of the Public Service pension plan, tabled in Parliament in November 2006, resulted in no adjustment being made to the Pension Fund ($3.5 million in 2006) nor to the Public Service Superannuation Account (nil in 2006).

13. Refunds and transfers:

	2007	2006
	($ millions)	
Pension division payments	37	33
Returns of contributions and transfer value payments	148	96
Transfers to other pension funds	60	98
Total	**245**	**227**

14. Administrative expenses:

The legislation provides for administrative expenses to be charged to the Plan. These administrative services are provided by government organizations related to the Plan. Annually, the Treasury Board approves the administrative expenses for PWGSC, the Secretariat, and the Office of the Superintendent of Financial Institutions. Administrative expenses incurred by PSP Investments are also charged to the Plan.

PWGSC, as the administrator, recovers from the 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 Plan within the department.

The Secretariat, as the program manager of the 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 Plan.

The Office of the Superintendent of Financial Institutions provides actuarial valuation services and charges these costs to the Plan.

PSP Investments, as the manager of the investment funds of the Plan, charges Plan-related operating expenses, salaries, and benefits, and other operating and external investment management fees to the Plan.

Notes to Financial Statements

Year ended March 31, 2007

14. Administrative expenses (continued):

Administrative expenses consist of the following:

	2007	2006
	($ millions)	
PWGSC	67	63
Treasury Board of Canada Secretariat	2	2
Office of the Superintendent of Financial Institutions	1	1
Total administrative expenses included in the service cost	**70**	**66**
PSP Investments		
Operating expenses	38	28
External investment management fees	37	29
Total PSP Investments	**75**	**57**
Total	**145**	**123**

15. Retirement Compensation Arrangements:

Separate Retirement Compensation Arrangements—RCA No. 1 and RCA No. 2—have been established under the authority of the *Special Retirement Arrangements Act* to provide supplementary pension benefits to employees. 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 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 CRA either to remit a 50-per cent refundable tax in respect of the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments.

15. Retirement Compensation Arrangements (continued):

Since these arrangements are covered by separate legislation, the balance in this Account and related accrued pension benefits are not consolidated in the financial statements of the Plan. The following summarizes the financial position of RCA No. 1 and RCA No. 2 that relates to the Plan as at March 31, 2006:

	2007	2006
	($ millions)	
Net balance and accrued pension benefits		
Balance of Account		
RCA Account	1,421	1,374
Refundable tax receivable	1,397	1,345
Employees contribution receivable for past service	3	—
	2,821	**2,719**
Accrued pension benefits	**2,580**	**2,582**
Excess of the balance of the Account over the accrued pension benefits	**241**	**137**

The actuarial assumptions used to value the accrued pension benefits pertaining to the RCA Account are consistent with those used for the 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 Financial Statements

Year ended March 31, 2007

15. Retirement Compensation Arrangements (continued):

The following summarizes the changes in RCA No. 1 and RCA No. 2 for the year:

	2007	2006
	($ millions)	
Changes in the balance of the Account		
Increase		
Contributions—employers	66	85
Contributions—employees	10	10
Interest income	103	103
Net change in prior service contributions receivable	2	—
Actuarial adjustment	10	13
Increase in refundable tax receivable	52	67
	243	**278**
Decrease		
Benefits	87	84
Refunds and transfers	2	1
Refundable tax remittance	52	67
	141	152
Increase in the balance of the Account	**102**	**126**

Actuarial deficiencies found between the balance in the RCA Account and the actuarial liabilities are credited to the RCA Account in equal instalments over a period not exceeding 15 years. As a result of the triennial valuation of March 2005, no adjustment was made to RCA No. 1 ($2.4 million in 2006) but a credit adjustment of $9.5 million was made to RCA No. 2 ($10.3 million in 2006) during the year.

16. Guarantees and indemnity:

In 2007, as part of an investment transaction, PSP Investments guaranteed a letter of credit facility. The beneficiaries of this letter of credit facility have the ability to draw against this facility to the extent that the contractual obligations, as defined in the related agreement, are not met. As at March 31, 2007, the maximum exposure of the Plan was $9 million.

During the fiscal year, PSP Investments agreed to guarantee, as part of an investment transaction, a non-revolving term loan. In the event of a default, the Plan would assume the obligation up to $294 million plus interest and other related costs. PSP Investments also unconditionally and irrevocably guarantees all short-term promissory notes issued by its wholly-owned subsidiary, PSP Capital Inc.

17. Commitments:

PSP Investments 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 of March 31, 2007, the outstanding commitments in private equity-related, real estate-related and infrastructure-related investments allocable to the Plan amounted to $4,465 million ($3,626 million for private equity investments, $677 million for real estate–related investments, and $162 million for infrastructure investments).

During 2007, PSP Investments entered into a Purchase and Sale agreement (the “Agreement”) to acquire an investment for $585 million. The amount that will be allocated to the Plan will approximate $427 million. As at March 31, 2007, completion of the transaction was pending satisfaction of certain conditions in the Agreement, which included receiving consent from regulatory authorities. The transaction is expected to be completed in fiscal year 2008.

18. Contingency and subsequent events:

The PSPIBA, which received Royal Assent in September 1999, amended the PSSA to enable the federal government to deal with excess amounts in the Public Service Superannuation Account and the Pension Fund. The legal validity of these provisions has been challenged in the Ontario Superior Court of Justice. On November 20, 2007, the court rendered its decision and dismissed all the claims of the plaintiffs. Several of the plaintiffs are currently appealing this decision to the Ontario Court of Appeal.

Notes to Financial Statements

Year ended March 31, 2007

18. Contingency and subsequent events (continued):

In addition, in August 2007, due to extreme volatility in the global credit markets, the Asset-backed commercial paper (ABCP) market experienced a sudden, rapid exodus of investors, and certain banks and other lenders responsible for providing bank liquidity facilities were refusing to provide funds during this market disruption. The Plan, through the Public Sector Pension Investment Board, holds investments in ABCP.

In December 2007, an agreement in principle was reached that would convert the non-bank ABCP into longer-term notes. The final valuation of the non-bank ABCP and any notes received is uncertain but it is management's best estimate that the expected outcome of the ABCP market situation will not have a significant impact on the future financial results of the Plan.

19. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's presentation.

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 pre–April 2000 service.

The interest is credited quarterly at rates calculated as though the amounts recorded in the Account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity. In accordance with pension legislation, sufficient debits are made to reduce the estimated excess in the Superannuation Account to no more than 10 per cent of the liabilities. No adjustment was made to the Account during the year. All contributions made by Plan members, the government, and participating employers for service accrued after March 2000 are deposited in the Pension Fund. The contributions to the Pension Fund, net of benefits, and other payments are transferred to the Public Sector Pension Investment Board (PSP Investments), to be invested in financial markets.

Actuarial deficiencies in the Pension Fund are credited to the Pension Fund in equal annual instalments over a period not exceeding 15 years. As a result of the last triennial valuation, tabled in November 2006, no adjustment was made to the Pension Fund ($3.5 million in 2006) nor to the Public Service Superannuation Account (nil 2006).

Transactions in respect of post–March 2000 service are recorded in an internal government account—the Public Service Pension Fund Account. The balance in this account at year-end represents amounts of net contributions awaiting imminent transfer to PSP Investments.

Public Service Superannuation Account Statement

Year Ended March 31, 2007

	2007	2006
	(in dollars)	
Opening Balance	**86,978,373,295**	**84,501,259,414**
Receipts and Other Credits		
Contributions		
Government employees	10,711,265	11,767,103
Retired employees	31,788,902	33,367,386
Public service corporation employees	849,776	1,018,048
Employer contributions		
Government	33,455,826	35,245,815
Public service corporations	618,097	2,184,092
Transfers from other pension funds	208,412	601,094
Interest	6,421,850,492	6,457,717,517
Total	**6,499,482,770**	**6,541,901,055**
Payments and Other Charges		
Annuities	3,996,120,467	3,832,829,255
Minimum benefits	10,474,192	14,179,858
Pension division payments	32,186,395	29,540,769
Pension transfer value payments	60,819,591	46,412,923
Returns of contributions		
Government employees	192,155	175,385
Public service corporation employees	17,860	33,719
Transfers to other pension funds	43,418,342	85,934,811
Actuarial liability adjustment	—	—
Administrative expenses	56,649,821	55,680,454
Total	**4,199,878,823**	**4,064,787,174**
Receipts Less Payments	**2,299,603,947**	**2,477,113,881**
Closing Balance	**89,277,977,242**	**86,978,373,295**

The account transaction statement above is unaudited.

Public Service Pension Fund Account Statement

Year Ended March 31, 2007

	2007	2006
	(in dollars)	
Opening Balance	**141,250,581**	**149,639,730**
Receipts and Other Credits		
Contributions		
Government employees	926,614,593	854,142,287
Retired employees	14,907,593	11,533,255
Public service corporation employees	78,391,530	70,663,613
Employer contributions		
Government	2,020,276,871	2,125,202,061
Public service corporations	166,837,423	151,982,298
Actuarial liability adjustment	—	3,500,000
Transfers from other pension funds	37,986,812	34,046,613
Transfer value election	9,269,273	7,548,102
Total	**3,254,284,095**	**3,258,618,229**
Payments and Other Charges		
Annuities	158,793,473	100,323,704
Minimum benefits	3,468,773	3,341,863
Pension division payments	4,965,827	2,990,785
Pension transfer value payments	77,563,031	43,328,613
Returns of contributions		
Government employees	6,879,694	5,416,292
Public service corporation employees	1,943,365	1,138,123
Transfers to other pension funds	17,091,114	12,098,880
Administrative expenses	13,064,456	10,582,136
Total	**283,769,733**	**179,220,396**
Receipts Less Payments	**2,970,514,362**	**3,079,397,833**
Transfers to Public Sector Pension Investment Board	**(2,971,871,279)**	**(3,087,786,982)**
Closing Balance	**139,893,664**	**141,250,581**

The account transaction statement above is unaudited.

Retirement Compensation Arrangements Account

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

Transactions pertaining to 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 RCA Account earns interest quarterly at the same rates as those credited to the Public Service Superannuation Account. The RCA Account is registered with the Canada Revenue Agency (CRA) and a transfer is made annually between the RCA Account and CRA to remit a 50 percent refundable tax in respect of the net contributions and interest credits or to be credited to a reimbursement that is based on the net benefit payments.

Actuarial deficiencies found in the RCA are credited to the RCA Account in equal instalments over a period not exceeding 15 years. As a result of the last triennial valuation of March 2005, no adjustment was made to the RCA No. 1 ($2.4 million in 2006), but a credit adjustment of $9.5 million ($10.3 million in 2006) was made to RCA No. 2.

RCA No. 1

For tax purposes, financial transactions for Plan members that earned more than $126,500 in 2007 are recorded separately. As of March 31, 2007, there are approximately 4,250 public service employees and 2,096 retirees in this category receiving RCA No. 1 benefits.

RCA No. 1 Statement (Public Service Portion)

Year Ended March 31, 2007

	2007	2006
	(in dollars)	
Opening Balance	**542,955,438**	**481,166,084**
Receipts and Other Credits		
Contributions		
Government employees	7,966,507	8,614,364
Retired employees	176,240	145,161
Public service corporation employees	1,285,632	1,149,512
Employer contributions		
Government	56,524,613	74,942,546
Public service corporations	9,496,144	10,244,816
Interest	42,852,014	40,261,137
Actuarial liability adjustment	—	2,400,000
Transfer value election	70	4,119
Total	**118,301,220**	**137,761,655**
Payments and Other Charges		
Annuities	7,405,601	5,721,952
Minimum benefits	14,749	687
Pension division payments	477,249	324,424
Pension transfer value payments	492,237	428,995
Returns of contributions		
Government employees	78,821	26,003
Public service corporation employees	43,739	10,743
Transfers to other pension plans	1,391,609	2,043
Refundable tax	55,968,811	69,457,454
Total	**65,872,816**	**75,972,301**
Receipts Less Payments	**52,428,404**	**61,789,354**
Closing Balance	**595,383,842**	**542,955,438**

The account transaction statement above is unaudited.

RCA 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 normal pension reduction for employees who were declared surplus.

RCA No. 2 Statement

Year Ended March 31, 2007

	2007	2006
	(in dollars)	
Opening Balance	**831,426,264**	**834,412,350**
Receipts and Other Credits		
Government contributions and interest		
Contributions		—
Interest	60,285,511	62,659,599
Actuarial liability adjustment	9,500,000	10,300,000
Total	**69,785,511**	**72,959,599**
Payments and Other Charges		
Annuities	79,244,775	78,026,272
Refundable tax	(3,874,342)	(2,080,587)
Total	**75,370,433**	**75,945,685**
Receipts Less Payments	**(5,584,922)**	**(2,986,086)**
Closing Balance	**825,841,342**	**831,426,264**

The account transaction statement above is unaudited.

Supplementary Death Benefit

As at March 31, 2007, there are 276,647 active participants and 129,074 retired elective participants in the Supplementary Death Benefit Plan. During fiscal year 2006–07, 4,698 claims for Supplementary Death Benefits were paid.

Public Service Death Benefit Account Statement

Year ended March 31, 2007

	2007	2006
	(in dollars)	
Opening Balance	**2,322,941,560**	**2,211,866,798**
Receipts and Other Credits		
Contributions		
Employees (government and public service corporation)	72,512,081	68,449,378
Government		
General	8,043,969	8,175,834
Single premium for $10,000[1] benefit	1,550,798	1,392,467
Public service corporations	958,875	935,241
Interest	173,111,983	170,204,295
Total	**256,177,706**	**249,157,215**
Payments and Other Charges		
Benefit payments		
General[2]	96,182,163	98,020,926
$10,000 benefit[3]	39,677,968	39,998,565
Other death benefit payments	317,410	62,962
Total	**136,177,541**	**138,082,453**
Receipts Less Payments	**120,000,165**	**111,074,762**
Closing Balance	**2,442,941,725**	**2,322,941,560**

The account transaction statement above is unaudited.

Notes

1. $5,000 benefit prior to September 14, 1999.
2. Benefits paid in respect of participants who, at the time of death, were employed in the public service or in receipt of an immediate PSSA pension.
3. Benefits of $10,000 ($5,000 before September 14, 1999) 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 PSSA and on whose behalf a single premium for $10,000 ($5,000 before September 14, 1999) death benefit coverage for life has been made.

Statistical Tables

Table 1
Pensions in Pay

As at March 31, 2007

Number of Pensions and Survivor Pensions in Pay			
Year	**Pensions**[1]	**Survivor Pensions**[2]	**Total**
2007	167,693	58,732	226,425
2006	164,084	58,998	223,082
2005	161,468	59,060	220,528

Average Annual Amount—Pensions and Survivor Pensions in Pay[3]							
		Pensions[1]			**Survivor Pensions**		
Year		**Men**	**Women**	**Total**	**Spouse / Common-Law Partner**	**Children**	**Students**
2007	Average Annual Amount	$26,288	$16,018	**$22,536**	**$10,795**	**$1,889**	**$2,309**
	Average Age	70.68	69.31	**70.18**	**77.18**		
	Average Pensionable Service	25.21	21.06	**23.69**	**21.92**		
2006	Average Annual Amount	$25,190	$14,995	**$21,548**	**$10,399**	**$1,763**	**$2,238**
	Average Age	70.60	69.44	**70.19**	**76.86**		
	Average Pensionable Service	25.07	20.79	**23.54**	**21.83**		
2005	Average Annual Amount	$24,229	$14,185	**$20,703**	**$10,037**	**$1,708**	**$2,135**
	Average Age	70.46	69.44	**70.11**	**76.51**		
	Average Pensionable Service	24.94	20.58	**23.41**	**21.74**		

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

Table 2
Pensions That Became Payable

Year ended March 31, 2007

Pensions That Became Payable[1, 2]					
Year	**Men**	**Women**	**Total**	**Total Amount Paid**	**Average Pension**
2007	4,877	4,154	9,031	$295,948,307	$32,770
2006	4,506	3,403	7,909	$247,993,023	$31,355
2005	4,046	3,052	7,098	$208,051,220	$29,311

Pensions That Became Payable to Survivors[2]						
Year	**Spouse / Common-Law Partner**	**Children and Students**	**Total**	**Total Amount Paid**	**Avg. Pension Spouse / Common-Law Partner**	**Avg. Pension Children and Students**
2007	2,765	306	3,071	$35,705,939	$12,607	$2,767
2006	2,771	308	3,079	$34,393,831	$12,139	$2,430
2005	2,874	297	3,171	$34,246,778	$11,671	$2,346

1. For 2007, the pensions that became payable include immediate annuities (6,396), deferred annuities (482), annual allowances payable to former contributors only (1,678), and disability retirement benefits (474).
2. These amounts include indexation.

Table 3
Unreduced Pensions (Immediate Annuities)[1]

Year ended March 31, 2007

Year	Age at Retirement															
	50–54[2]	**55**	**56**	**57**	**58**	**59**	**60[3]**	**61**	**62**	**63**	**64**	**65**	**66 and over**	**Total**	**Avg. Age[4]**	**Average Unreduced Pension[5, 6]**
2007	123	1,494	577	491	386	395	1,048	371	322	257	250	293	389	**6,396**	**59.05**	**$37,392**
2006	93	1,363	498	419	353	258	858	341	299	212	188	301	335	**5,518**	**59.04**	**$36,124**
2005	95	1,278	446	331	296	163	777	302	242	176	168	252	248	**4,774**	**58.85**	**$34,478**

1. Includes unreduced pensions (immediate annuities); excludes immediate annuities resulting from disability retirement benefits (474 in 2007).
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 2007, there were 482 deferred annuities (271 men, 211 women) that became payable at age 60.
4. For 2007, the average retirement age for men was 59.08 and for women, 59.02.
5. These amounts include indexation.
6. For 2007, the average unreduced pension for men was $37,749 and for women, $36,864.

Table 4
Annual Allowances and Lump Sum Payments That Became Payable

Year ended March 31, 2007

Year	Annual Allowances[1]				Lump Sum Payments[2]	
	Number		Total	Average Allowance[3]	Number	Amount
	Men	Women				
2007	639	1,039	1,678	$24,867	6,470	$245,077,374
2006	630	910	1,540	$23,100	5,030	$227,070,300
2005	615	860	1,475	$20,978	5,681	$210,006,969

1. Includes deferred annual allowances. A deferred annual allowance is a deferred annuity 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.
3. These amounts include indexation.

Table 5

Changes in Number of Active Contributors, Retirees, and Survivors on Pension

Year ended March 31, 2007

Changes in Number of Active Contributors	Men	Women	Total
Number of Active Contributors, April 1, 2006	**125,595**	**150,421**	**276,016**
Additions	**11,078**	**14,449**	**25,527**
Deletions			
Employees leaving the public service[1]	8,145	9,445	17,590
Reversions to non-contributory status[2]	397	454	851
Deaths	202	137	339
Total Deletions	**8,744**	**10,036**	**18,780**
Number of Active Contributors, March 31, 2007	**127,929**	**154,834**	**282,763**

Changes in Number of Retirees[3]	Total
Number of Retirees, April 1, 2006	**163,890**
Additions	9,031
Deletions	5,228
Number of Retirees, March 31, 2007	**167,693**

Changes in Number of Survivors on Pensions

Survivors

	Total
Number of Survivors on Pension, April 1, 2006	**56,331**
Additions	2,765
Deletions	2,556
Number of Survivors on Pension, March 31, 2007	**56,540**

Children and Students

	Total
Number of Children and Students on Pension, April 1, 2006	**1,931**
Additions	306
Deletions	45
Number of Children and Students on Pension, March 31, 2007	**2,192**

1. Includes full return of contributions, immediate annuities, and 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, leave without pay, etc.).
3. Does not include 5,691 deferred annuitants as at March 31, 2007.

Table 6
Number and Amount of Transfer Value Payments by Years of Pensionable Service and Age at Termination

Year ended March 31, 2007

Years of Pensionable Service[2]	Age at Termination[1] Under 30	30–34	35–39	40–44	45–49	Total	Total ($)
Under 5	267	207	151	122	106	**853**	
5–9	58	131	118	107	68	**482**	
10–14	0	11	75	65	67	**218**	
15–19		0	26	69	70	**165**	
20–24			1	21	52	**74**	
25–29				1	30	**31**	
30–35					2	**2**	
Men, Total	**134**	**154**	**148**	**166**	**143**	**745**	
Women, Total	**191**	**195**	**223**	**219**	**253**	**1,081**	
Overall Total	**325**	**349**	**371**	**385**	**396**	**1,826**	**138,382,622**

1. Average age for contributors receiving transfer-value payments was 37.87 years for men, 38.25 years for women, and 38.09 for men and women combined.
2. Average pensionable service for contributors receiving transfer value payments was 7.57 years for men, 7.89 years for women, and 7.76 for men and women combined.

Table 7
Supplementary Death Benefit: Number of Participants and Number of Benefits Paid

Year ended March 31, 2007

	Active Participants			Retired Participants[1]			Death Benefits Paid			
Year	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Amount Paid**
2007	123,821	152,826	276,647	84,107	44,967	129,074	3,495	1,203	4,698	$136,177,541
2006	122,529	149,452	271,981	83,049	42,316	125,365	3,513	1,234	4,747	$138,082,453
2005	121,266	144,824	266,090	82,235	40,351	122,586	3,491	1,209	4,700	$129,287,371

1. Includes 51 men and 22 women paying at a commercial rate.

Glossary of Terms

A

Accrued pension benefits—The present value of benefits earned by members under the Plan for pensionable service to date.

Actuarial assumptions—Estimates of rates of return, retirement age, mortality rates, future salary levels, and other factors used by actuaries when carrying out an actuarial valuation.

Actuarial valuation—An actuarial report that provides information on the financial condition of a pension plan such that the future contribution of the pension scheme and its funding level can be clearly understood.

Annuities:

- **Immediate annuity—**Benefit payable to Plan members who retire at any time after reaching age 60 with at least two years of pensionable service **or** after reaching age 55 with at least 30 years of pensionable service **or** at any age in case of permanent disability. It is calculated according to the following basic pension formula:

    2 per cent (%) **X** number of years of pensionable service (maximum 35 years) **X** average salary for the 5 consecutive years of highest-paid service

- **Deferred annuity—**Benefit available to 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 entitled to a deferred annuity may request an annual allowance at any time after he or she reaches age 50.

Annual allowance—Benefit available to Plan members who retire before age 60 and have at least two years of pensionable service. This benefit is a deferred annuity reduced to take into account the early payment of the retirement pension and becomes payable at age 50 at the earliest.

B

Benefits earned—The cost of benefits for service provided by members during the fiscal year.

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.

C

Canada Pension Plan (CPP)—A mandatory earnings-related pension plan implemented January 1, 1966, to provide basic retirement income to Canadians between the ages of 18 and 70 who work in all the provinces and territories, except in the province of Quebec, which operates its own pension plan similar to the CPP for persons who work in that province.

Cash equivalents—Short-term, highly liquid securities (e.g. commercial papers, treasury bills, demand notes) with a term to maturity of less than one year from the date of issue. These investments are relatively easy to convert into cash.

Children of a Plan member—Dependent children who are under age 18. Children between 18 and 25 may receive allowances if they are enrolled in a school or other educational institution full-time and have attended continuously since their 18th birthday; the allowance is equal to one- tenth of the Plan member's pension for each eligible dependent child (maximum of four-tenths).

Consumer Price Index (CPI)—A measure of price changes produced by Statistics Canada on a monthly basis. The CPI 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 CPI are also referred to as increases in the cost of living.

Contributions—A sum paid by the employer (Government of Canada) and public service employees to fund future retirement benefits. Each year, the government, as 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.

Contributions receivable—Amount owing to the Plan in respect of service provided by members up to the date of the financial statements.

Currency risk—The risk that the value of investments purchased in foreign currency will fluctuate due to changes in exchange rates.

D

Defined benefit pension plan—A type of registered pension plan that promises a certain level of pension, 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.

E

Elective service—Any period of qualifying employment, either in the public service or with another employer, that occurred before the employee became a contributor to the Public Service pension plan. The Plan member may choose to count these periods of prior service as pensionable service.

Excess of actuarial value of net assets and other accounts over accrued pension benefits—The financial status of the Plan. A positive amount indicates that Plan net assets and other accounts exceed accrued pension benefits, while a negative amount means that accrued pension benefits exceed net assets and other accounts.

Experience gains and losses—The difference between what has occurred and what was anticipated in the actuarial valuations.

F

Foreign currency exposure—The amount by which Plan investments are exposed to currency risk.

I

Indexation—Automatic adjustment of pensions in pay or accrued pension benefits (deferred annuities) in accordance with changes in the Consumer Price Index. Public service pensions are indexed in January of each year to maintain their purchasing power.

M

Market-related value—The value of an investment based on average market values over a number of years. It is used to reduce the impact of large fluctuations in the market value of Plan investments.

Minimum benefit—A benefit equal to the payment of the Plan member's pension for a period of five years. If the Plan member or his or her eligible survivors 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 becomes payable to his or her designated beneficiary or, if none, to his or her estate.

N

Net assets and other accounts available for benefits—The cash, receivables, investments, and other accounts net of liabilities available for pension benefits expected to be paid in the future. For the purposes of this definition, a plan's liabilities do not include accrued pension benefits.

P

Past service—Service provided by members prior to the start of the current fiscal year.

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 another.

Pensionable service—Periods for which lifetime retirement benefits are provided to a Plan member, including any periods of elective service, regardless of whether he or she has paid fully for that service.

Public Sector Pension Investment Board—Board established on April 1, 2000, under the *Public Sector Pension Investment Board Act* (PSPIBA), whose mandate is to invest the employer's and employees' pension contributions in the financial markets.

Public Service Pension Plan—Pension plan implemented on January 1, 1954, under the *Public Service Superannuation Act*, which provides benefits for public service employees payable on retirement, termination of service, or disability, and for their survivors after death.

Public Service Pension Fund Account—An account established to record transactions relating to service provided by members after March 2000.

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

***Public Service Superannuation Act*—**The act that provides pensions for employees of the public service of Canada.

Q

Quebec Pension Plan (QPP)—A pension plan similar to the Canada Pension Plan (CPP) that covers persons working in the province of Quebec and is administered by the *Régie des rentes du Québec*

R

Return of contributions—Benefit 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.

S

S&P/TSX Composite Index—The most diversified Canadian market index, representing almost 90 per cent of the capitalization of Canadian-based companies listed on the TSX. A committee of the Toronto Stock Exchange and the Standard and Poor's company selects companies for inclusion in the S&P/TSX Composite Index.

Standard and Poor's 500 Composite Index (S&P 500 Index)—U.S. index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value. The Standard and Poor's company selects stocks for inclusion in the index.

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

Survivor—The person who, at the time of the contributor's death and before his or her retirement:

- was married to the contributor (Plan member); or
- was cohabitating in a relationship of a conjugal nature with the contributor for at least one year.

Survivor benefit—Pension benefit paid to the survivor of a Plan member who dies.

T

Transfer value—Benefit available to contributors who leave the public service before age 50 with at least two years of pensionable service. This benefit is a lump sum representing the value of the Plan member's accrued pension benefits payable in the future. It must be transferred to another registered pension plan, to a retirement savings vehicle, or to a financial institution to purchase an annuity.

Y

Year's maximum pensionable earnings (YMPE)—The maximum earnings for which contributions can be made to CPP and QPP (earnings ceiling) during the year.