Treasury Board of Canada Secretariat

Secrétariat du Conseil du Trésor du Canada

ANNUAL REPORT TO PARLIAMENT

Report on the Public Service Pension Plan

for the Fiscal Year Ended March 31, 2008

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Canada

Report on the Public Service Pension Plan

for the Fiscal Year Ended March 31, 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, 2008*.

Respectfully submitted,

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, 2008, and information on plan membership, administration, and benefits.

Overview

The Plan was established in January 1954 under the PSSA. 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's 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 and the OAG participated jointly in the 2007–08 audit of PSP Investments financial statements.

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 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, internal controls, and the preparation of Account Transaction Statements for 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, 2008, using the demographic assumptions and based populations of the funding actuarial valuation as at March 31, 2005.

Committees

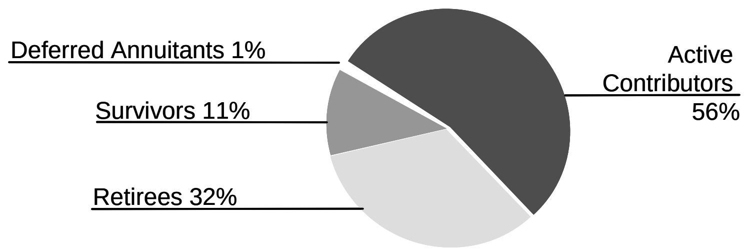
The Public Service Pension Advisory Committee (PSPAC) comprises 13 members—1 pensioner, 6 members representing employees, and 6 members chosen from the executive ranks of the public service. This committee provides advice to the President of the Treasury Board on matters relating to administration, benefit design, and funding of the Plan.

There is also a steering committee chaired by the Associate Secretary of the 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, 2008, the Plan has 531,824 members, including those currently or previously employed by the Government of Canada, certain public service corporations, and territorial governments. The membership consists of 294,979 active contributors, 171,651 retirees, 58,755 survivors, and 6,439 deferred annuitants. (See membership profile below.)

Membership Profile
as at March 31, 2008



Source: Public Works and Government Services Canada

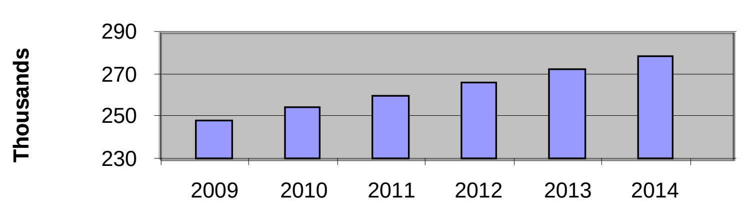
The chart below shows the membership profile over the last four years.

As at March 31

	2008	2007	2006	2005
Active contributors	294,979	282,763	277,432	270,835
Retirees	171,651	167,693	164,084	161,468
Survivors	58,755	58,732	58,998	59,060
Deferred annuitants	6,439	5,691	5,356	5,552
Total	**531,824**	**514,879**	**505,870**	**496,915**
Ratio of contributors to those receiving benefits	1.25:1	1.22:1	1.21:1	1.20:1

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

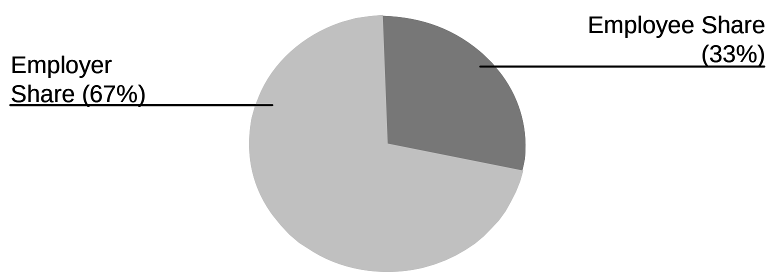
2009	2010	2011	2012	2013	2014
248,116	253,807	259,671	265,736	272,053	278,479

Source: Office of the Superintendent of Financial Institutions Canada

Contributions

In 2007–08, $3,807 million was paid into the Plan, of which employees contributed $1,250 million and the employer, $2,557 million. Employee contributions are compulsory and, in calendar year 2008, are set at a rate of 4.9 per cent of annual salary up to the year's maximum pensionable earnings (YMPE) defined by the Canada Pension Plan (CPP) and Québec Pension Plan (QPP) ($44,900 in 2008); and 8.4 per cent of annual salary above this amount. During the fiscal year, employees paid approximately 32.8 per cent of the total contributions made in respect of current service, as noted in the graph below.

Current Service Contributions
Year ended March 31, 2008



Source: Treasury Board of Canada Secretariat

Current Service Contributions

Year ended March 31, 2008

	per cent
Employer Share	67
Employee Share	33
	100

The historical average cost-sharing ratio for the Plan is 70:30 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

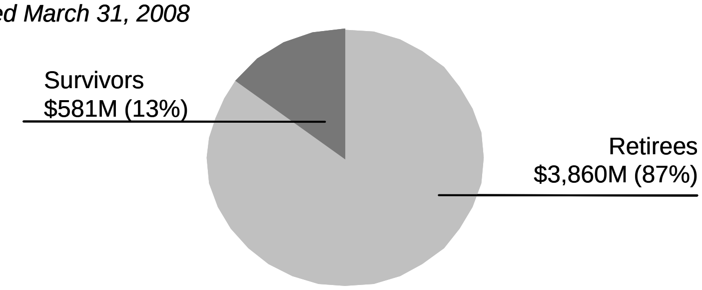
In 2007–08, the Plan paid out $4,441 million in benefits, an increase of $272 million over the previous year. Benefits were paid to 230,406 retirees and survivors (226,425 in 2006–07). In 2007–08, there were 9,423 new retirees during the year, of whom 6,774 were entitled to immediate annuities (3,246 obtained a normal retirement benefit at age 60 and 3,528 received an unreduced early retirement benefit). The remaining members became entitled to 465 deferred annuities, 1,694 annual allowances, and 490 disability retirement benefits. New retirees received an average annual pension of $33,519 in 2007–08. 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.

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, 2008, and 2.3 per cent on January 1, 2007.

Benefits paid to retirees ($3,860 million) represented 87 per cent of 2007–08 pension payments, and benefits paid to survivors ($581 million) represented 13 per cent. Included in benefits paid to retirees are those to disabled retirees.

Benefit Payments
Year ended March 31, 2008



Source: Public Works and Government Services Canada

Benefit Payments

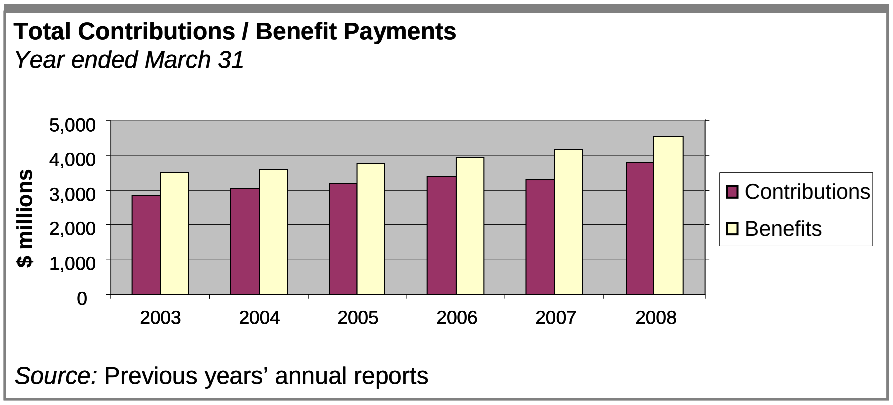
Year ended March 31, 2008

	($ millions)	Per cent (%)
Survivors	581	13
Retirees	3,860	87
	4,441	100

Source: Public Works and Government Services Canada

Further, in 2007–08, 1,507 Plan members left the public service before age 50 and withdrew about $142 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 3,764 Plan members who left the public service. Out of that total, 3,750 members were paid with less than two years of pensionable service under the Plan, while 14 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

Year	Contributions	Benefits
2008	3,807	4,441
2007	3,313	4,169
2006	3,390	3,951
2005	3,190	3,768
2004	3,045	3,596
2003	2,856	3,494

Source: Previous years' 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, 2008, payable in the future to Plan members, survivors, and beneficiaries. As at that date, $121,576 million—an increase of $5,172 million from the previous year—is available for benefits.

As reflected in the Statement, inflows come from a number of different sources, including contributions made by Plan members and the Government of Canada, income from investments and interest credited, and money transferred to the Plan from other pension funds by employees coming to work for the Government of Canada from other organizations. Amounts are withdrawn from the Plan to pay benefits, to transfer from the Plan to other pension plans or to locked-in vehicles (e.g. RRSPs), and 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, 2008, the level of accrued pension benefits is $111,606 million, an increase of $6,918 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 with 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: 4.3 per cent as at March 31, 2005.

As noted in the 2008 annual report of PSP Investments, the investments held during the year ended March 31, 2008, 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 (%)	
Equities	**62**	
Large Cap Developed World Equity		
Canadian Equity	30	24–36
US Large Cap Equity	5	4–6
EAFE Large Cap Equity	5	4–6
Small Cap Developed World Equity	**5**	3–9
Emerging Markets Equity	**7**	6–8
Private Equity	**10**	5–15
Nominal Fixed Income	***15***	
Cash and Cash Equivalents	2	0–4
World Government Bonds	5	3–7
Canadian Fixed Income	8	4–12
Real Return Assets	***23***	
World Inflation-Linked Bonds	5	3–7
Real Estate	10	5–15
Infrastructure	8	5–11

Rate of Return on PSP Investments

In 2007–08, the assets invested by PSP Investments earned a rate of return of –0.3 per cent. These assets were invested in equities (62 per cent), fixed income securities (15 per cent), and real return assets (23 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 except in 2008.

Year ended March 31

	2008	2007	2006	2005
	Per cent (%)			
Annual rate of return	(0.3)	11.3	19.1	7.9
Composite benchmark annual rate of return	1.2	10.1	18.0	7.2

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

	2008	2007	2006	2005
	Per cent (%)			
Interest on Account	7.3	7.5	7.8	8.0

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

2007–08 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 and ongoing

2007–08 Objectives

- Continue to build and strengthen PSP Investments' public market team and portfolio as it expands its breadth of activities beyond traditional markets and diversifies its public market risks

Status

Ongoing

2007–08 Objectives

- Expand and improve PSP Investments' enterprise risk-management activities, including investment risk under new leadership as its organization grows and evolves

Status

Completed

2007–08 Objectives

- Increase surveillance of corporate governance within PSP Investments' public enquiry holdings

Status

Completed

Key Corporate Objectives for the 2008–09

- Continue to build on the enterprise risk-management initiative begun last year by performing strategic risk reviews, monitoring and reporting on selected risks, and promoting a risk culture through education and training
- Building on new leadership in our Public Markets group, set a course for increased internal management of PSP Investments' assets in areas where it demonstrates a competitive advantage to do so and can attract the necessary talent
- Increase resources dedicated to monitoring the performance of Policy Portfolio changes and advising the Board on future improvements. Recommend changes to the asset allocation based on the economic and geopolitical outlook. Place increased emphasis on the plan's liabilities.

Plan Administration Objectives

2007–08 Objectives

Make progress on pension communication and Web development by doing the following:

- 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; and
- Develop and issue the annual pensioner bulletin (January) and newsletter (July).

Status

Complete / In progress

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

- Maintaining and updating the Electronic Services Portal, as well as raising awareness of the Portal to plan members and prospective members;
- Streamlining and coordinating production and distribution of the employee pension and benefit statement and guides;
- Distributing the newsletter for retired Plan members in print and Web format;
- Implementing changes to Web applications as required by policy, legislation, or the client; and
- Promoting a new green feature that allows employees to stop printing their benefit statement.

2007–08 Objectives

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

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

Status

Complete / In progress

- Implementation start-up activities were completed in January 2008. Procurement of some hardware components was deferred to later stages in the project to align better with project needs.
- Release 1.0 detailed design activities were completed in March 2008. System design and testing activities began in April 2008 and are expected to be completed in fall 2008.
- Release 2.0 detailed design activities began in January 2008. The definition of business and functional requirements are in progress and are expected to be completed in fall 2008.

2007–08 Objectives

Make progress on the Pension Service Delivery Project by doing the following:

- Continuing the development and implementation of Pre-Employment and Spousal/Dependent Information services and initiation of Service Purchase following Treasury Board Effective Project Approval.

Status

Complete / In progress

- An alignment issue with GCPMP was identified that required a shift in the Centralization of Pension Services Delivery Project Sections implementation schedule. An analysis of options was completed and presented to project authorities. The mapping of compensation advisor processes related to Pension Benefit Entitlements, Survivor Pension Benefit Entitlements, Plan Enrolment and Orientation services was moved to January or February 2008. Consequently the initiation of the work on Group I–Service Purchase commenced on April 1, 2008 (rather than December 1, 2007).
- **Pre-Employment and Spousal/Dependant Information Services**

  By March 31, 2008, all activities required to ensure the successful timely centralization of the two services had been completed: development of the strategic implementation plan, mapping of current and future processes, development of procedures, work instructions, and communications.
- **Service Purchase**

  The service centralization was officially initiated with a team workshop, March 10–14, 2008, to develop the strategic implementation plan.

2007–08 Objectives

Make progress on the Pension Data Correction Project (PDCP) by doing the following:

- Improving accountability and reconciliation of contributions made to the Plan by manually correcting an average of 600 accounts per month (7,200 accounts in fiscal year); and
- Reviewing and improving the data-correction clerk training program.

Status

Complete / In progress

- The PDCP team completed 6,477 cases last fiscal year, which represented 89 per cent of 2007–08 targets.

Key Objectives for 2008–09

Continue progress on pension communication and Web development by doing the following:

- Maintaining and updating existing Web applications for active Plan members;
- Implementing Correctional Services Canada changes and increasing functionality to all the pension applications, in accordance with the legislation;
- Converting all websites (Pension and Benefits website (applications), Pension and Benefits Portal and the Pension Plan Repository) to follow the Common Look and Feel Standards for the Internet;
- Maintaining and enhancing the Electronic Services Portal through the addition of a survivor profile and new-life event service buyback to support the Centralized Pension Services Delivery Project.

Continue progress on the GCPMP by doing the following:

- Completing the implementation of Release 1.0 (Client Services);
- Completing the detailed business specifications and requirements for Release 2.0 (contributor functions);
- Initiating the system design and testing activities for Release 2.0; and
- Completing the detailed business specifications and requirements for Release 1.5 (Enhanced Case Management and Imaging).

Continue progress on the Centralization of Pension Services Delivery Project with the following:

- Centralization of Pre-Employment and Spousal/Dependant Information Services;
- Planning, design, and implementation of Service Purchase Services;
- Planning and design of Plan Enrolment and Orientation Services;
- Planning of Pension Benefit Entitlements and Survivor Pension Benefit Entitlements Services.

The Pension Data Correction Project team has set a new target of processing 800 cases per month (9600 accounts per year) for 2008–09, which will be the final year of the project. To achieve this goal, 19 new data-correction clerks have been hired and trained in February 2008.

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

	2008	2007	2006	2005
		($ millions)		
Government department administrative expenses	89	70	66	61
PSP Investments expenses	101	75	57	25
Total expenses	**190**	**145**	**123**	**86**

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 $89 million (or approximately $167 per member) in 2007–08, an increase of $19 million from the previous year. Administration costs were $ 0.07 per $100 of amounts available for benefits.

Transfer Agreements

The Plan has transfer agreements with approximately 100 employers, including other levels of government, universities, and private-sector employers. During 2007–08, $47 million was transferred into the Plan and $134 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 2008, this includes primarily benefits on salaries over $130,700 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,[1] the PWGSC website,[2] the PSP Investments website,[3] and the OSFI website.[4]

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

1. http://www.tbs-sct.gc.ca
2. http://www.pwgsc.gc.ca
3. http://www.investpsp.ca
4. http://www.osfi-bsif.gc.ca

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, 2008, 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 judgments 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:

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

March 6, 2009

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

March 6, 2009

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Public Works and Government Services
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, 2008 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, 2008 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 Public Sector Pension Investment Board.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
March 6, 2009

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, 2008

	2008	2007
	($ millions)	
Net Assets and Other Accounts Available for Benefits		
Assets		
Public Service Pension Fund Account (Note 3)	133	140
Investments (Note 4)	30,620	25,940
Investment-related assets (Note 4)	1,693	1,401
Contributions receivable—post-March 31, 2000, service (Note 5)	1,529	1,258
Other assets (Note 6)	29	10
	34,004	**28,749**
Liabilities		
Accounts payable	59	39
Investment-related liabilities (Note 4)	4,019	1,914
Net Assets	**29,926**	**26,796**
Other Accounts		
Public Service Superannuation Account (Note 3)	91,279	89,278
Contributions receivable—pre-April 1, 2000, service (Note 5)	371	330
Net Assets and Other Accounts Available for Benefits	**121,576**	**116,404**
Actuarial asset value adjustment (Note 8)	(172)	(2,429)
Actuarial Value of Net Assets and Other Accounts Available for Benefits	**121,404**	**113,975**
Accrued Pension Benefits (Note 8)	**111,606**	**104,688**
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits (Note 9)	**9,798**	**9,287**

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

Contingency and Subsequent events (Notes 18 and 19)

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

Year ended March 31, 2008

	2008	2007
	($ millions)	
Net Assets and Other Accounts Available for Benefits, Beginning of Year	**116,404**	**108,664**
Increase in Net Assets and Other Accounts Available for Benefits:		
Interest income on the Public Service Superannuation Account (Note 3)	6,376	6,422
Contributions (Note 10)	3,807	3,313
Investment income before net unrealized gains and losses (Note 11)	1,967	2,340
Transfers from other pension funds	47	47
Total Increase in Net Assets and Other Accounts Available for Benefits:	12,197	12,122
Decrease in Net Assets and Other Accounts Available for Benefits:		
Current-year change in fair value of investments and currency (Note 11)	2,069	(177)
Benefits paid	4,441	4,169
Refunds and transfers (Note 13)	325	245
Administrative expenses (Note 14)	190	145
Total Decrease in Net Assets and Other Accounts Available for Benefits	7,025	4,382
Increase in Net Assets and Other Accounts Available for Benefits	**5,172**	**7,740**
Net Assets and Other Accounts Available for Benefits, End of Year	**121,576**	**116,404**

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

Statement of Changes in Accrued Pension Benefits

Year ended March 31, 2008

	2008	2007
	($ millions)	
Accrued Pension Benefits, Beginning of Year	**104,688**	**96,415**
Increase in Accrued Pension Benefits:		
Interest on accrued pension benefits	7,293	6,965
Benefits earned	3,309	3,117
Changes in actuarial assumptions (Note 8)	600	1,391
Experience losses (gains)	511	(240)
Plan amendments (Note 8)	13	1,477
Transfers from other pension funds	47	47
Total Increase in Accrued Pension Benefits	11,773	12,757
Decrease in Accrued Pension Benefits:		
Benefits paid	4,441	4,169
Refunds and transfers (Note 13)	325	245
Administrative expenses included in the service cost (Note 14)	89	70
Total Decrease in Accrued Pension Benefits	4,855	4,484
Net Increase in Accrued Pension Benefits	**6,918**	**8,273**
Accrued Pension Benefits, End of Year	**111,606**	**104,688**

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, 2008

	2008	2007
	($ millions)	
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits Over Accrued Pension Benefits, Beginning of Year	**9,287**	**10,249**
Increase in net assets and other accounts available for benefits	5,172	7,740
Change in actuarial asset value adjustment	2,257	(429)
Increase in actuarial value of net assets and other accounts available for benefits	7,429	7,311
Net increase in accrued pension benefits	(6,918)	(8,273)
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits, End of Year	**9,798**	**9,287**

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

Notes to Financial Statements

Year ended March 31, 2008

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. For the fiscal year, plan members contributed 4.6 per cent (4.3 per cent in 2007) for the first nine months and 4.9 per cent (4.6 per cent in 2007) 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 8.1 per cent (7.8 per cent in 2007) for the first nine months and 8.4 per cent (8.1 per cent in 2007) 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 at a rate determined by the President of the Treasury Board. 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 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 increasing 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 decreasing the Account over a period of up to 15 years.

Notes to Financial Statements

Year ended March 31, 2008

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 the resulting pension reduction factor for Plan members reaching age 65 is decreasing from 0.7 per cent to 0.625 per cent over a five-year period, starting in 2008. Also, benefits are fully indexed to the increase in the Consumer Price Index.

Other benefits include survivor pensions, minimum benefits in the event of death, unreduced early retirement pensions, and disability pensions. To reflect the *Income Tax Act* (“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) Changes in accounting policies:

During the year, a change in accounting policy was made to measure the fair value of market quoted securities using the bid price for long positions and the ask price for short positions. As the change in fair value arising from this valuation had no material impact, the change was done without restatement of prior periods.

In addition, all transaction costs associated with investment assets or liabilities are now recognized immediately and are recorded net of investment income before net unrealized gains and losses. The impact of this change was not material and the change was done without restatement of prior periods. Prior to this change, transaction costs incurred were capitalized and added to the cost of investments purchased and deducted from the proceeds of investments sold.

Notes to Financial Statements

Year ended March 31, 2008

2. Significant accounting policies (continued):

(c) Valuation of assets and other accounts:

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

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 of the underlying investments held in PSP Investments. Investments for each asset class are recorded as of the trade date (the date upon which the substantial risks and rewards are transferred) and are 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.

Fair values of investments are determined as follows:

i) Cash equivalent investments are recorded at cost plus accrued interest, which approximates fair value, and are mostly comprised of cash, floating rate notes, term deposits and government short term securities.

ii) Quoted market prices for public equities, using the bid price for long positions and the ask price for short positions, are used to determine the fair value of these investments.

Unit values, reflecting the quoted market prices, using the bid price for long positions and the ask price for short positions of the underlying securities, are used to determine the fair value of pooled funds.

iii) Private equity and infrastructure investments, where quoted market prices, using the bid price for long positions and the ask price for short positions, are not available, are fair-valued at least annually. The fair value for investments held directly is determined using acceptable industry valuation methods such as earnings multiples, price of recent investments, discounted cash flows analysis and industry benchmark valuations. In the case of investments held through a limited partnership, fair value is generally determined based on the value reported by the fund's General Partner using acceptable industry valuation methods.

2. Significant accounting policies (continued):

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

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. 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 using the bid price for long positions and the ask price for short positions, 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 listed derivative financial instruments are recorded at fair value using quoted market prices with the bid price for long positions and the ask price for short positions. For derivatives traded over-the-counter (OTC), appropriate valuation techniques, such as discounted cash flows using current market yields, are used to determine fair value.

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.

(d) Transaction costs:

Transaction costs are incremental costs directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and recorded as a component of investment income.

Notes to Financial Statements

Year ended March 31, 2008

2. Significant accounting policies (continued):

(e) Income recognition:

Investment income has been allocated proportionately based on asset value held by the Plan. Investment income represents realized gains and losses on the disposal of investments, accrued interest income, dividends, investment income from private market investments and the change in unrealized appreciation (depreciation) of investments held at the end of the year.

Dividend income is recognized based on the ex-dividend date. Investment income from private market investments also includes the related distributions from pooled funds, limited partnerships as well as from co-investments.

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 recognized on an accrual basis.

(f) Contributions:

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

(g) 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 that time they are presented with the net assets and other accounts available for benefits and with related accrued pension benefits.

(h) Translation of foreign currencies:

Transactions in foreign currencies are recorded at the rates of exchange prevailing 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 resulting realized and unrealized gains and losses on foreign exchange are included in investment income.

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 relate to pre 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 Public Service Pension Fund Account is only a flow-through account and, as such, does not earn interest. At March 31, the balance in the Public Service Pension Fund Account represents amounts of net contributions in transit awaiting imminent transfer to PSP Investments.

Notes to Financial Statements

Year ended March 31, 2008

4. Investments:

(a) Investment portfolio:

At March 31, the portfolio of investments held through PSP Investments, before allocating the effect of derivative contracts and investment related assets and liabilities, is as follows:

	2008		2007	
	Fair Value	**Cost**	**Fair Value**	**Cost**
	($ millions)		($ millions)	
Developed World Equity				
Canada Equity	5,427	5,053	4,732	3,771
U.S. Large Cap Equity	1,109	1,267	1,572	1,419
EAFE Large Cap Equity	1,339	1,429	1,251	1,019
Small Cap Developed World Equity	1,032	1,213	1,615	1,479
Emerging Markets Equity	1,344	1,183	1,370	1,117
Private Equity	2,967	2,873	1,207	1,207
Nominal Fixed Income				
Cash Equivalents	2,215	2,211	1,658	1,681
World Government Bonds	1,301	1,307	1,281	1,311
Canadian Fixed Income	6,005	6,309	6,178	6,194
Real Return Assets				
World Inflation-linked Bonds	105	99	217	204
Real Estate	3,846	3,056	2,959	2,618
Infrastructure	1,141	1,118	355	333
Absolute Return	2,789	2,839	1,545	1,499
INVESTMENTS	**30,620**	**29,957**	**25,940**	**23,852**
Investment-Related Assets				
Amounts due from pending trades	1,293	1,290	1,185	1,166
Derivative-related receivables	400	62	216	51
Total investment-related assets	**1,693**	**1,352**	**1,401**	**1,217**
Investment-Related Liabilities				
Amounts payable from pending trades	(1,438)	(1,440)	(1,020)	(1,019)
Securities sold short	(528)	(542)	(386)	(394)
Derivative-related payables	(926)	(38)	(143)	(43)
Capital debt financing	(1,127)	(1,127)	(365)	(365)
Total investment-related liabilities	**(4,019)**	**(3,147)**	**(1,914)**	**(1,821)**
Net Investments	**28,294**	**28,162**	**25,427**	**23,248**

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

4. Investments (continued):

(a) Investment portfolio (continued):

As at March 31, 2008, the Plan held $1,432 million of third party or non-bank sponsored Asset backed commercial paper ("ABCP"). The ABCP last traded in the market in mid-August 2007, since which time there have been no market quotations.

The investment manager, PSP Investments, has been participating in a restructuring process with other investors under the Montreal Accord. The proposed restructuring plan approved by the ABCP investors in April 2008 will extend the maturity of the ABCP to provide for a maturity similar to that of the underlying assets (maturity ranges from 5 to 8.5 years); pool certain series of ABCP; mitigate the risk of margin call obligations, and support the liquidity needs of certain ABCP investors.

A valuation technique was adopted by the investment manager to determine the fair value of ABCP holdings as at March 31, 2008. The valuation methodology attempts to value the ABCP under a number of scenarios and then applies a weighting factor to each of these based on probability of occurrence. The principal scenarios considered were one under a successful restructuring and another under which a failure to restructure occurs.

Under scenarios in which the restructuring process is incomplete or inconclusive (failure to restructure scenario), the ABCP is assessed under two separate contexts; one being an orderly resolution of the assets and the second being a complete liquidation scenario. Under the failure to restructure scenario, the two separate contexts were fair valued. The probability of this scenario occurring was believed to be unlikely and was consequently assigned a low probability of occurrence.

The best estimate of the fair value of the Plan's ABCP as at March 31, 2008, is equal to approximately $ 1,105 million, representing a write-down of approximately $327 million. The ABCP is reported as Canadian fixed income instruments under the investment portfolio.

The fair value was established as a function of the information available as at March 31, 2008, which includes certain assumptions used in the valuation model such as interest rate spreads, assumed credit rating of restructured notes, expected returns and maturity of restructured notes. Varying certain key elements of the valuation technique will have an impact on the write-down on ABCP as at March 31, 2008. For example, increasing interest rate spreads by 50 bps will increase the provision by $51 million; extending the maturity term by one year would increase the provision by $40 million. The fair value of ABCP may change in future periods as a result of fluctuations in the major elements of the valuation methodology.

Notes to Financial Statements

Year ended March 31, 2008

4. **Investments (continued)**:

(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. Derivative financial instruments are used to increase 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 or 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 cash flows and the fair value of the contracts are determined.

Credit default derivatives are written and, hence, indirectly guarantee 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.

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

	2008		2007	
INVESTMENTS	**Notional Value**	**Fair Value**	**Notional Value**	**Fair Value**
	($ millions)		($ millions)	
Equity and Commodity Derivatives				
Futures	636	6	1,252	4
Swaps	3912	(32)	3,647	35
Others	307	6	805	55
Currency Derivatives				
Forwards	10,422	(133)	8,133	—
Swaps	605	(52)	526	(9)
Options	1,922	4	732	6
Interest Rate Derivatives				
Bond forwards	2,008	2	1,553	6
Swaps	6,431	23	3,312	(7)
Others	7,799	(1)	1,163	—
Credit Derivatives				
Swaps	1,026	(349)	1,121	(17)
Total investments	**35,068**	**(526)**	**22,244**	**73**

4. Investments (continued):

(b) Derivative financial instruments (continued):

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

($ millions)	2008	2007
Derivative-related receivables	400	216
Derivative-related payables	(926)	(143)
Total	**(526)**	**73**

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

($ millions)	2008	2007
Under 1 year	25,111	17,678
1 to 5 years	8,523	3,362
Over 5 years	1,434	1,204
Total	**35,068**	**22,244**

(c) Investment Asset Mix:

PSP Investments, as the investment manager, has established investment policies, standards and procedures that determine the manner in which the assets shall be invested. Investments are classified by asset mix category based on the economic intent of the investment strategies of the underlying assets. Differences between the actual asset mix and the policy portfolio targets are due principally to target weights of certain asset classes, which have yet to be attained. For instance, the infrastructure asset class has a policy portfolio target weight of 8.0% and an actual asset weight of only 3.4%. This is offset by an overweight in the Canadian fixed income asset class.

Notes to Financial Statements

Year ended March 31, 2008

4. Investments (continued):

(c) Investment Asset Mix (continued):

The net investments, as at March 31, are as follows:

($ millions)	2008			2007		
Asset Class	Fair Value		Policy Portfolio	Fair Value		Policy Portfolio
Developed World Equity						
Canada Equity	$ 8,377	29.6%	30.0%	$ 7,504	29.5%	30.0%
US Large Cap Equity	1,280	4.5	5.0	1,815	7.1	5.0
EAFE Large Cap Equity	1,329	4.7	5.0	1,250	4.9	5.0
Small Cap Developed World Equity	1,401	5.0	5.0	2,133	8.4	7.0
Emerging Markets Equity	1,979	7.0	7.0	1,817	7.1	7.0
Private Equity	2,884	10.2	10.0	1,212	4.8	8.0
Nominal Fixed Income						
Cash Equivalents	1,123	4.0	2.0	282	1.1	2.0
World Government Bonds	1,632	5.8	5.0	1,208	4.8	5.0
Canadian Fixed Income	3,521	12.4	8.0	3,942	15.5	8.0
Real Return Assets						
World Inflation-linked Bonds	1,605	5.7	5.0	1,245	4.9	5.0
Real Estate	2,925	10.3	10.0	2,613	10.3	10.0
Infrastructure	975	3.4	8.0	348	1.4	8.0
Absolute Return	(737)	(2.6)	n.a.	58	0.2	n.a.
Net investments	**$ 28,294**	**100.0%**	**100.0%**	**$ 25,427**	**100.0%**	**100.0%**

In addition to the different asset classes outlined in the asset mix policy, a number of absolute return strategies are employed, consisting of derivative financial products such as those in Note 4 (b), to enhance returns by changing the investment asset mix, enhancing equity and fixed income portfolio returns and managing foreign currency exposures.

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:

	2008		2007	
	Portfolio Returns	**Benchmark Returns**	**Portfolio Returns**	**Benchmark Returns**
	Per cent (%)		Per cent (%)	
Developed World Equity				
Canada Equity	2.6	3.2	14.3	14.2
US Large Cap Equity	(21.3)	(15.6)	8.7	10.6
EAFE Large Cap Equity	(12.9)	(13.5)	16.6	18.9
Small Cap Developed World Equity	(23.0)	(20.5)	5.5	6.1
Emerging Markets Equity	7.2	7.9	18.8	19.3
Private Equity	10.1	3.7	(0.6)	(n.a)
Nominal Fixed Income				
Cash Equivalents	3.9	4.6	4.2	4.2
World Government Bonds	6.6	6.7	(1.5)	(1.5)
Canadian Fixed Income	5.9	5.8	5.4	5.5
Real Return Assets				
World Inflation-linked Bonds	6.1	6.0	(1.4)	(1.6)
Real Estate	21.9	7.6	36.5	6.7
Infrastructure	3.8	n.a.	5.5	n.a.
Total Return	**(0.3)**	**1.2**	**11.3**	**10.1**

Notes to Financial Statements

Year ended March 31, 2008

4. Investments (continued):

(d) Investment performance (continued):

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

The internal rate of return methodology is used to calculate the returns for the real estate, private equity and infrastructure asset classes for the years ended March 31, 2008 and March 31, 2007.

Total benchmark return aggregates the asset class benchmark returns according to the weights under the actual asset mix at the beginning of every fiscal year. The actual portfolio cash flows are reflected in the benchmark to neutralize the asset allocation effect. The return of the infrastructure asset class is not being measured against any benchmark during the current ramp-up period. However, for purposes of calculating the total benchmark returns for 2008 and 2007, the actual infrastructure portfolio returns of 3.8% and 5.5%, respectively, are used. A benchmark return has been established for the private equity asset class effective April 1, 2007. In the prior fiscal year, the actual portfolio returns for the private equity class were used as the measure for total benchmark returns.

(e) Investment Risk Management:

Investment risk management is a central part of the strategic management of the investment portfolio. It is done through a continuous process whereby PSP Investments, as the investment manager, methodically addresses the risks related to its various investment activities with the goal of achieving a maximum rate of return without undue risk of loss and a sustained benefit within each activity and across the total portfolio.

Investment risk management is achieved through investment's policy, guidelines and procedures established by the investment manager, which address such matters as the establishment of a risk budget and risk controls, concentration limits and the risk of valuation models. A risk governance structure also ensures that appropriate objectives are pursued and achieved in line with the fulfillment of PSP Investments' legislated mandate.

4. Investments (continued):

(f) Foreign currency risk:

Investments are exposed to currency risk through holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, positions in foreign currencies may be taken through foreign exchange forward contracts.

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

	2008		2007	
Currency	**Fair value**	**% of total**	**Fair value**	**% of total**
(In Canadian $)	($ millions)		($ millions)	
US Dollar	4,227	52.8	4,529	53.7
Euro	1,666	20.8	1,479	17.5
British Pound	666	8.3	585	6.9
Yen	464	5.8	512	6.1
Brazilian Real	313	3.9	198	2.3
Others	676	8.4	1,139	13.5
Total foreign currency	**8,012**	**100.0**	**8,442**	**100.0**

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

PSP Investments and its subsidiaries also made commitments, denominated in foreign currencies, in real estate, private equity, and infrastructure and public market investments for an amount of $ 5,204 million ($3,852 million US, €738 million Euros and £25 million GBP), which is not included in the foreign currency exposure table above.

(g) Credit Risk:

The investments are 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.

Notes to Financial Statements

Year ended March 31, 2008

4. Investments (continued):

(g) Credit Risk (continued):

As at March 31, 2008, the Plan's highest concentration of credit risk is with the Government of Canada through holdings of $1.6 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 at the trade date, as supported by a recognized credit rating agency by utilizing an internal credit-limit monitoring process, as well as through the use of credit mitigation techniques such as master-netting arrangements (which provide for certain rights of offset) and obtaining collateral, including the use of credit-support annexes, where appropriate.

(h) Market Risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other risk variables affecting all securities traded in the market. PSP Investments uses a diversification strategy to mitigate this risk whereby it invests in a diversified portfolio of investments based on established investment policies and criteria Derivative financial instruments, traded either on exchanges or over the counter, are also used to mitigate the impact of market risk.

Market risk is measured using the method known as Value at Risk (VaR). VaR is the maximum loss not exceeded with a given probability defined as the confidence level, over a given period of time. PSP Investments has chosen a yearly 95% confidence interval to measure and report VaR. Generally, changes in VaR between reporting periods are due to changes in the level of exposure, volatilities and/or correlations among asset classes. Although VaR is a widely accepted risk measure, it must be complemented by other risk measures. PSP Investments therefore uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors.

4. Investments (continued):

(i) Interest Rate Risk:

Interest rate risk refers to the effect on the market value of investments due to fluctuations in interest rates. Changes in interest rates will directly affect the fair value of investments.

As at March 31, 2008, the fixed income asset class was managed with an average duration of 6.1 years (5.7 years in 2007). An increase of 1 per cent in interest rates would result in a decline in the value of the fixed income securities of 6.1 per cent, or $211 million.

The terms to maturity of the bonds held in the Canadian fixed income asset class, as at March 31, 2008, are as follows:

	Terms to Maturity					
($ millions)	**Within 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**2008 Total**	**2007 Total**
Government of Canada bonds	—	810	178	303	1,291	1,599
Provincial and Territorial bonds	36	236	270	431	973	1,113
Municipal bonds	—	57	26	4	87	69
Corporate bonds	78	424	326	342	1,170	1,164
Total asset class	**114**	**1,527**	**800**	**1,080**	**3,521**	**3,945**

(j) Liquidity Risk:

Liquidity risk corresponds to the ability to meet financial obligations. The cash position is monitored on a regular basis and liquidity requirements are expected to be minimal. In general, investments in cash and cash equivalents, debt and public equities are expected to be highly liquid, as they will be invested in securities that will either be publicly traded on a recognized exchange or traded over-the-counter. As at March 31, 2008, the ability to raise additional capital exists through the use of PSP Investments' capital debt program.

Notes to Financial Statements

Year ended March 31, 2008

4. Investments (continued):

(k) Securities Lending:

Investments are used to participate in securities lending programs whereby securities are lent 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, 2008, securities with an estimated fair value of $3,701 million ($3,075 million in 2007) were loaned out, while securities contractually receivable as collateral had an estimated fair value of $3,842 million ($3,213 million in 2007).

(l) Securities Collateral:

Securities with a fair value of $298 million have been deposited or pledged as collateral ($71 million in 2007) with various financial institutions. Securities with fair value of $23 million ($342 million in 2007) have been received from various financial institutions as collateral.

(m) Private Market Investments:

The real estate asset class is comprised of investments, which are held through 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. As at March 31, 2008, the total amount of financing included in the real estate portfolio for direct investments controlled by PSP Investments is approximately $2,100 million.

The private equity asset class is comprised of interests in limited partnerships and in funds, which are managed by general partners and investments which are held through PSP Investments or its wholly owned subsidiaries. The underlying investments represent equity ownerships or investments with the risk and return characteristics of equity. As at March 31, 2008, the total amount of financing included in the private equity portfolio for direct investments controlled by PSP Investments is nil.

4. Investments (continued):

(m) Private Market Investments (continued):

The infrastructure asset class is comprised of investments, which are held through 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. As at March 31, 2008, the total amount of financing included in the infrastructure portfolio for direct investments controlled by PSP Investments is approximately $250 million.

Investment management and performance incentive fees are generally incurred for the above private market investments and are paid either by the investment directly, through capital contributions from PSP Investments or offset against distributions received from the investment. Investment management fees in private market investments generally vary between 0.2 per cent and 5.5 per cent of the total invested amount. For the year ended March 31, 2008, investment management fees of $91 million ($44 million in 2007) were recorded as part of the cost of the private market investments or against investment income.

The carrying values of the majority of private market investments, as disclosed in Note 2 c) iii) are reviewed annually and any resulting adjustments are reflected as unrealized gains or losses in investment income.

5. Contributions receivable:

	2008	2007
	($ millions)	
Pre-April 1, 2000, service		
Employee contributions for past service elections	207	185
Employers' share of contributions for past service elections	164	145
	371	**330**
Post-March 31, 2000, service		
Employee contributions for past service elections	421	345
Employers' share of contributions for past service elections	1,015	833
Other contributions receivable	93	80
	1,529	**1,258**
Total contributions receivable	**1,900**	**1,588**

Notes to Financial Statements

Year ended March 31, 2008

6. Other assets:

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

In 2008, 72.6 per cent of the operating expenses were allocated to the Plan (72.4 per cent in 2007). PSP Investments initially charges all expenses to the Plan—they are reimbursed quarterly by the three other plans. At year-end, the balance of the other assets is as follows:

	2008	2007
	($ millions)	
Share of expenses receivable from		
Canadian Forces pension plan	12	2
Royal Canadian Mounted Police pension plan	4	1
Reserve Force Pension Plan	—	—
	16	3
Other	13	7
Total other assets	**29**	**10**

7. PSP Capital Inc.:

As at March 31, 2008, PSP Capital Inc., a wholly-owned subsidiary of PSP Investments, has $1,551 million ($503 million in 2007) of short term promissory notes outstanding with maturity dates within 32 to 364 days of issuance, of which $1,127 million ($365 million in 2007) has been allocated to the Plan and included in Note 4(a) as investment-related liability. The maximum authorized by the Board of the Directors of PSP Investments for the short term and medium term notes is $3 billion and $1 billion, respectively. As at March 31, 2008, there are no medium term notes issued and outstanding. The capital raised was used primarily to finance real estate and infrastructure investments and is unconditionally and irrevocably guaranteed by PSP Investments. The operating expenses incurred by PSP Capital Inc. were allocated to the Plan and include interest expense on the short-term promissory notes of $37 million ($13 million in 2007).

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, 2008 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 2007). The discount rates used to value the liabilities at March 31, 2008 and the corresponding assumptions used in the cost of current service and in the interest expense are as follows:

	2008			2007		
	Liability valuation		**Expense valuation**	**Liability valuation**		**Expense valuation**
	Short-term	Long-term		Short-term	Long-term	
	Per cent (%)			Per cent (%)		
Expected rate of return on pension investments	5.9	6.3	6.0	6.0	6.3	6.2
Expected weighted average of long-term bond rates	7.1	5.0	7.3	7.3	5.0	7.6

Notes to Financial Statements

Year ended March 31, 2008

8. Accrued pension benefits (continued):

(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 amendments:

During the year, amendments were made to the *Public Service Superannuation Regulations* to allow members attaining the age of 69 to accrue additional pensionable service and to align certain benefits available to operational service employees at Correctional Service Canada with similar benefits of the Royal Canadian Mounted Police pension plan. The increase in accrued pension benefits of $13 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 prior to April 1, 2000 and after March 31, 2000. Based on the accounting assumptions used in these financial statements, the breakdown as at March 31, 2008 is as follows:

	Pre-April 1, 2000	Post-March 31, 2000	Total
		($ millions)	
Net assets and other accounts available for benefits	91,650	29,926	121,576
Actuarial asset value adjustment	—	(172)	(172)
Actuarial value of net assets and other accounts available for benefits	91,650	29,754	121,404
Accrued pension benefits	(83,797)	(27,809)	(111,606)
Excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits	**7,853**	**1,945**	**9,798**

10. Contributions:

	2008	2007
	($ millions)	
From employees	1,250	1,066
From employers	2,557	2,247
Total contributions	**3,807**	**3,313**

During the year, employees contributed approximately 33 per cent (32 per cent in 2007) of the total contributions made.

11. Investment income:

(a) Investment income:

Investment income, for the year ended March 31, before allocating net realized and unrealized gains and losses on investments, is as follows:

	2008	2007
	($ millions)	
Interest income	490	333
Dividend income	269	220
Other income	79	186
Security lending income	7	4
Transaction costs	(16)	—
	829	**743**
Net realized gains	1,138	1,597
Investment income before net unrealized gains and losses	**1,967**	**2,340**
Current-year change in fair value of investments and currency	(2,069)	177
Investment Income (loss)	**(102)**	**2,517**

Notes to Financial Statements

Year ended March 31, 2008

11. Investment income (continued):

(b) Investment Income by Asset Mix:

Investment income by asset mix, for the year ended March 31, after allocating net realized and unrealized gains and losses on investments, is as follows:

	2008	2007
	($ millions)	
Developed World Equity		
Canada Equity	176	943
US Large Cap Equity	(337)	166
EAFE Large Cap Equity	(172)	343
Small Cap Developed World Equity	(454)	95
Emerging Markets Equity	132	283
Private Equity	190	(3)
Nominal Fixed Income		
Cash Equivalents	41	16
World Government Bonds	121	(32)
Canadian Fixed Income	214	206
Real Return Assets		
World Inflation-linked Bonds	57	(20)
Real Estate	548	473
Infrastructure	20	13
Absolute return	(638)	34
Investment Income (loss)	**(102)**	**2,517**

Investment income includes foreign currency realized losses of $424 million ($95 million in 2007) and foreign currency unrealized losses of $271 million (foreign currency unrealized gains of $322 million in 2007).

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 are eliminated by an increase in 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 decreasing 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 (nil in 2007) nor to the Public Service Superannuation Account (nil in 2007).

13. Refunds and transfers:

	2008	2007
	($ millions)	
Pension division payments	40	37
Returns of contributions and transfer value payments	151	148
Transfers to other pension funds	134	60
Total refunds and transfers	**325**	**245**

Notes to Financial Statements

Year ended March 31, 2008

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 investments of the Plan, charges Plan-related operating expenses, salaries, and benefits, and other operating and external investment management fees to the Plan.

Administrative expenses consist of the following:

	2008	2007
	($ millions)	
PWGSC	86	67
Treasury Board of Canada Secretariat	2	2
Office of the Superintendent of Financial Institutions	1	1
Total administrative expenses included in the service cost	**89**	**70**
PSP Investments		
Operating expenses	56	38
External investment management fees	45	37
Total PSP Investments	**101**	**75**
Total administrative expenses	**190**	**145**

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.

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:

	2008	2007
	($ millions)	
Net balance and accrued pension benefits		
Balance of Account		
RCA Account	1,463	1,421
Refundable tax receivable	1,444	1,397
Employees contribution receivable for past service	1	3
Employers contributions receivable for past service	5	—
	2,913	**2,821**
Accrued pension benefits	**2,643**	**2,580**
Excess of the balance of the Account over the accrued pension benefits	**270**	**241**

Notes to Financial Statements

Year ended March 31, 2008

15. Retirement Compensation Arrangements (continued):

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.

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

	2008	2007
	($ millions)	
Changes in the balance of the Account		
Increase		
Contributions—employers	63	66
Contributions—employees	9	10
Interest income	103	103
Net change in prior service contributions receivable	4	2
Actuarial adjustment	10	10
Increase in refundable tax receivable	47	52
	236	**243**
Decrease		
Benefits paid	90	87
Refunds and transfers	7	2
Refundable tax remittance	47	52
	144	141
Increase in the balance of the Account	**92**	**102**

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 (nil in 2007) but a credit adjustment of $9.5 million was made to RCA No. 2 ($9.5 million in 2007) during the year.

16. Guarantees:

PSP Investments has agreed to guarantee, as part of an investment transaction, a non-revolving term loan. As at March 31, 2008, in the event of a default, the Plan would assume the obligation up to $292 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 at March 31, 2008, the outstanding commitments in private equity-related, real estate–related, infrastructure-related and public market-related investments amounted to $5,635 million ($3,157 million for private equity investments, $1,477 million for real estate related investments, $621 million for public market investments and $380 million for infrastructure investments).

18. Contingency:

The Public Service Pension Investment Board Act, 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. The outcome of these appeals is not determinable at this time.

19. Subsequent events:

Following the approval of the ABCP restructuring plan in January 2009 by the Ontario Superior Court of Justice, the restructuring process of ABCP, as disclosed in Note 4(a), has been successfully completed and ratified. As a result of the completed restructuring, the ABCP will be converted into long-term fixed income instruments.

Notes to Financial Statements

Year ended March 31, 2008

19. Subsequent events (continued):

Subsequent to March 31, 2008, global financial markets have experienced turmoil and significant volatility. The impact of these recent market fluctuations on the portion of the Plan assets composed of market quoted securities has resulted in a negative return approximating minus 16% for the period up to December 31, 2008. However, the effect of the economic downturn is mitigated by the diversification of the portfolio of investments managed by PSP Investments, as disclosed in Note 4(c). Given that the Plan's investment horizon is long-term in nature, this decrease in value is not expected to affect the long-term objective of the portfolio of investments held through PSP Investments.

In accordance with the significant accounting policies described in Note 2, the changes in the fair value of investments that have occurred subsequent to year-end will be recorded in the financial statements of 2008-2009. The Government continues to hold a statutory obligation for the payment of pension benefits, independent of the financial performance of the investment portfolio.

20. 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 (nil in 2007) nor to the Public Service Superannuation Account (nil in 2007).

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, 2008

	2008	2007
	(in dollars)	
Opening Balance	**89,277,977,242**	**86,978,373,295**
Receipts and Other Credits		
Contributions		
Government employees	8,954,994	10,711,265
Retired employees	29,375,459	31,788,902
Public service corporation employees	672,733	849,776
Employer contributions		
Government	30,290,329	33,455,826
Public service corporations	474,820	618,097
Transfers from other pension funds	1,736,497	208,412
Interest	6,376,281,714	6,421,850,492
Total	**6,447,786,546**	**6,499,482,770**
Payments and Other Charges		
Annuities	4,184,464,826	3,996,120,467
Minimum benefits	13,039,650	10,474,192
Pension division payments	32,786,630	32,186,395
Pension transfer value payments	56,836,072	60,819,591
Returns of contributions		
Government employees	184,245	192,155
Public service corporation employees	45,161	17,860
Transfers to other pension funds	89,574,514	43,418,342
Administrative expenses	69,893,740	56,649,821
Total	**4,446,824,838**	**4,199,878,823**
Receipts Less Payments	**2,000,961,708**	**2,299,603,947**
Closing Balance	**91,278,938,950**	**89,277,977,242**

The account transaction statement above is unaudited.

Public Service Pension Fund Account Statement

Year Ended March 31, 2008

	2008	2007
	(in dollars)	
Opening Balance	**139,893,664**	**141,250,581**
Receipts and Other Credits		
Contributions		
Government employees	991,172,231	926,614,593
Retired employees	91,962,742	14,907,593
Public service corporation employees	18,895,096	78,391,530
Employer contributions		
Government	2,123,699,672	2,020,276,871
Public service corporations	187,998,219	166,837,423
Transfers from other pension funds	39,306,040	37,986,812
Transfer value election	6,134,631	9,269,273
Total	**3,459,168,631**	**3,254,284,095**
Payments and Other Charges		
Annuities	238,069,481	158,793,473
Minimum benefits	5,038,314	3,468,773
Pension division payments	6,982,751	4,965,827
Pension transfer value payments	85,456,182	77,563,031
Returns of contributions		
Government employees	6,606,191	6,879,694
Public service corporation employees	2,024,351	1,943,365
Transfers to other pension funds	44,822,166	17,091,114
Administrative expenses	19,143,222	13,064,456
Total	**408,142,658**	**283,769,733**
Receipts Less Payments	**3,051,025,973**	**2,970,514,362**
Transfers to Public Sector Pension Investment Board	**(3,057,534,368)**	**(2,971,871,279)**
Closing Balance	**133,385,269**	**139,893,664**

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-per cent 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 (nil in 2007), but a credit adjustment of $9.5 million ($9.5 million in 2007) was made to RCA No. 2.

RCA No. 1

For tax purposes, financial transactions for Plan members who earned more than $130,700 in 2008 are recorded separately. As at March 31, 2008, there are approximately 4,242 public service employees and 2,284 retirees in this category receiving RCA No. 1 benefits.

RCA No. 1 Statement (Public Service Portion)

Year Ended March 31, 2008

	2008	2007
	(in dollars)	
Opening Balance	**595,383,842**	**542,955,438**
Receipts and Other Credits		
Contributions		
Government employees	7,616,306	7,966,507
Retired employees	239,725	176,240
Public service corporation employees	1,272,032	1,285,632
Employer contributions		
Government	54,274,959	56,524,613
Public service corporations	9,111,188	9,496,144
Interest	45,147,372	42,852,014
Transfers from other pension funds	1,532	—
Transfer value election	455	70
Total	**117,663,569**	**118,301,220**
Payments and Other Charges		
Annuities	9,147,587	7,405,601
Minimum benefits	—	14,749
Pension division payments	771,428	477,249
Pension transfer value payments	514,772	492,237
Returns of contributions		
Government employees	6,172	78,821
Public service corporation employees	6,453	43,739
Transfers to other pension plans	5,382,797	1,391,609
Refundable tax	53,454,981	55,968,811
Total	**69,284,190**	**65,872,816**
Receipts Less Payments	**48,379,379**	**52,428,404**
Closing Balance	**643,763,221**	**595,383,842**

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, 2008

	2008	2007
	(in dollars)	
Opening Balance	**825,841,342**	**831,426,264**
Receipts and Other Credits		
Government contributions and interest		
Contributions	—	—
Interest	57,902,763	60,285,511
Actuarial liability adjustment	9,500,000	9,500,000
Total	**67,402,763**	**69,785,511**
Payments and Other Charges		
Annuities	80,392,826	79,244,775
Refundable tax	(6,081,532)	(3,874,342)
Total	**74,311,294**	**75,370,433**
Receipts Less Payments	**(6,908,531)**	**(5,584,922)**
Closing Balance	**818,932,811**	**825,841,342**

The account transaction statement above is unaudited.

Supplementary Death Benefit

As at March 31, 2008, there are 288,187 active participants and 129,074 retired elective participants in the Supplementary Death Benefit Plan. During 2007–08, 4,939 claims for Supplementary Death Benefits were paid.

Public Service Death Benefit Account Statement

Year ended March 31, 2008

	2008	2007
	(in dollars)	
Opening Balance	**2,442,941,725**	**2,322,941,560**
Receipts and Other Credits		
Contributions		
Employees (government and public service corporation)	76,769,559	72,512,081
Government		
General	8,190,526	8,043,969
Single premium for $10,000[1] benefit	1,662,946	1,550,798
Public service corporations	1,022,750	958,875
Interest	176,473,318	173,111,983
Total	**264,119,099**	**256,177,706**
Payments and Other Charges		
Benefit payments		
General[2]	97,786,749	96,182,163
$10,000 benefit[3]	38,764,647	39,677,968
Other death benefit payments	469,685	317,410
Total	**137,021,081**	**136,177,541**
Receipts Less Payments	**127,098,018**	**120,000,165**
Closing Balance	**2,570,039,743**	**2,442,941,725**

The account transaction statement above is unaudited.

Notes:

1. $5,000 benefit before 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

Number of Pensions and Survivor Pensions in Pay			
Year	**Pensions**[1]	**Survivor Pensions**[2]	**Total**
2008	171,651	58,755	230,406
2007	167,693	58,732	226,425
2006	164,084	58,998	223,082

Average Annual Amount—Pensions and Survivor Pensions in Pay[3]								
		Pensions[1]			**Survivor Pensions**		
Year		**Men**	**Women**	**Total**	**Spouse / Common-Law Partner**	**Children**	**Students**
2008	Average Annual Amount	$27,208	$17,061	**$23,422**	**$11,152**	**$1,922**	**$2,424**
	Average Age	70.74	69.19	**70.16**	**77.51**		
	Average Pensionable Service	25.32	21.34	**23.84**	**22.02**		
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**		

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

Table 2
Pensions That Became Payable

Year ended March 31

Pensions That Became Payable[1, 2]					
Year	**Men**	**Women**	**Total**	**Total Amount Paid**	**Average Pension**
2008	5,020	4,403	9,423	$315,850,872	$33,519
2007	4,877	4,154	9,031	$295,948,307	$32,770
2006	4,506	3,403	7,909	$247,993,023	$31,355

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**
2008	2,685	244	2,929	$35,567,847	$12,989	$2,836
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

1. For 2008, the pensions that became payable include immediate annuities (6,774), deferred annuities (465), annual allowances payable to former contributors only (1,694), and disability retirement benefits (490).
2. These amounts include indexation.

Table 3
Unreduced Pensions (Immediate Annuities)[1]

Year ended March 31

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]
2008	97	1,534	572	498	452	375	1,229	463	332	240	245	347	390	**6,774**	**59.13**	**$37,858**
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**

1. Includes unreduced pensions (immediate annuities); excludes immediate annuities resulting from disability retirement benefits (490 in 2008).
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 2008, there were 465 deferred annuities (260 men, 205 women) that became payable at age 60.
4. For 2008, the average retirement age for men was 59.15 and for women, 59.11.
5. These amounts include indexation.
6. For 2008, the average unreduced pension for men was $38,222 and for women, $37,359.

Table 4
Annual Allowances and Lump Sum Payments That Became Payable

Year ended March 31

Year	Annual Allowances[1]				Lump Sum Payments[2]	
	Number		Total	Average Allowance[3]	Number	Amount
	Men	Women				
2008	671	1,023	1,694	$25,999	5,564	$325,318,263
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

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, 2008

Changes in Number of Active Contributors	Men	Women	Total
Number of Active Contributors, April 1, 2007	**127,929**	**154,834**	**282,763**
Additions	**12,908**	**17,594**	**30,502**
Deletions			
Employees leaving the public service[1]	7,813	8,723	16,536
Reversions to non-contributory status[2]	379	364	743
Deaths	200	145	345
Total Deletions	**8,392**	**9,232**	**17,624**
Adjustments[4]	**(371)**	**(291)**	**(662)**
Number of Active Contributors, March 31, 2008	**132,074**	**162,905**	**294,979**

Changes in Number of Retirees[3]	Total
Number of Retirees, April 1, 2007	**167,693**
Additions	9,423
Deletions	5,256
Adjustments[4]	**(209)**
Number of Retirees, March 31, 2008	**171,651**

Changes in Number of Survivors on Pensions

Survivors

	Total
Number of Survivors on Pension, April 1, 2007	**56,540**
Additions	2,685
Deletions	2,445
Adjustments[4]	**(76)**
Number of Survivors on Pension, March 31, 2008	**56,704**

Children and Students

	Total
Number of Children and Students on Pension, April 1, 2007	**2,192**
Additions	244
Deletions	45
Adjustments[4]	**(340)**
Number of Children and Students on Pension, March 31, 2008	**2,051**

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).
3. Does not include 6,439 deferred annuitants as at March 31, 2008.
4. Adjustments for transactions completed after year end with an effective date before March 31.

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

Year ended March 31, 2008

	Age at Termination[1]						
Years of Pensionable Service[2]	**Under 30**	**30–34**	**35–39**	**40–44**	**45–49**	**Total**	**Total ($)**
Under 5	198	147	116	85	71	**617**	
5–9	53	114	123	107	89	**486**	
10–14	0	16	54	50	50	**170**	
15–19		2	18	50	73	**143**	
20–24			2	16	33	**51**	
25–29				0	35	**35**	
30–35					5	**5**	
Men, Total	**109**	**119**	**118**	**124**	**133**	**603**	
Women, Total	**142**	**160**	**195**	**184**	**223**	**904**	
Overall Total	**251**	**279**	**313**	**308**	**356**	**1,507**	**$142,292,254**

1. Average age for contributors receiving transfer-value payments was 38.15 years for men, 38.63 years for women, and 38.44 for men and women combined.
2. Average pensionable service for contributors receiving transfer value payments was 7.79 years for men, 8.25 years for women, and 8.07 for men and women combined.

Table 7

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

Year ended March 31

	Active Participants			Retired Participants[1]			Death Benefits Paid			
Year	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Amount Paid**
2008	127,548	160,639	288,187	85,374	47,804	133,178	3,545	1,394	4,939	$137,021,081
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

1. Includes 47 men and 21 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's 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 effect 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

Québec 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.