



Treasury Board of Canada
Secrétariat

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, 2009

Canada

Report on the Public Service
Pension Plan
for the Fiscal Year Ended March 31, 2009



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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, 2009*.

Respectfully submitted,

The original was signed by

The Honourable Stockwell Day, P.C., M.P.
President of the Treasury Board

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Introduction

Pursuant to section 46 of the *Public Service Superannuation Act* (the “PSSA”), the *Report on the Public Service Pension Plan* provides an overview of the financial status of the Public Service pension plan (the “Plan”) for the fiscal year ended March 31, 2009, 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 have been prepared to assist Plan members and others in reviewing the Plan’s activities for the year. These statements were prepared according to the government’s stated accounting policies for the Plan, which are based on Canadian generally accepted accounting principles. The results presented using the stated accounting policies do not exhibit 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 the Plan’s investment performance, administration activities, liability position, and design features.

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

Contributions and benefit payments for 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 2008–09 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 Plan’s financial statements rests jointly with both ministers.

Treasury Board of Canada Secretariat

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

Public Works and Government Services Canada

PWGSC is responsible for the day-to-day administration of the Plan. This includes the development and maintenance of the public service pension systems, the books of accounts, records, and internal controls as well as the preparation of Account Transaction Statements for Public Accounts reporting. In addition, PWGSC operates the central treasury, processes payment, and carries out 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 for funding purposes. 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 to determine the contribution rates that are required to ensure the Plan's ongoing financial sustainability. The last actuarial valuation of the Plan was conducted as at March 31, 2008, and was tabled in Parliament on November 19, 2009. For accounting purposes, the triennial actuarial valuation is updated annually using the government's best estimate assumptions. The accounting-related actuarial valuation has been updated as at March 31, 2009, using the demographic assumptions and membership data of the triennial, funding-related actuarial valuation as at March 31, 2008.

Committees

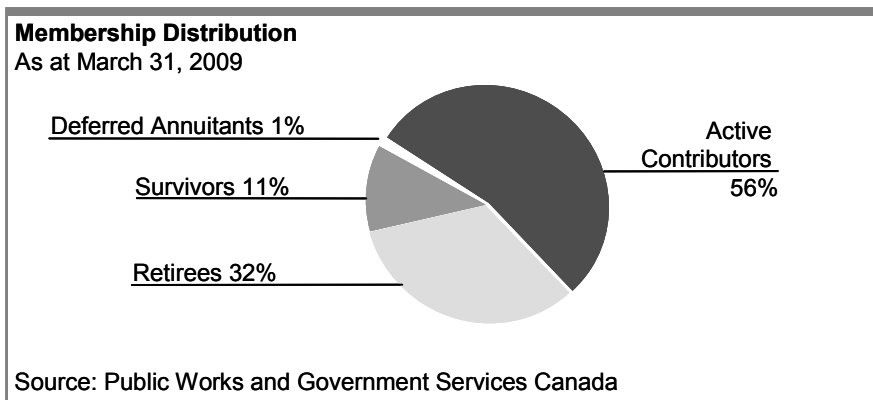
The Public Service Pension Advisory Committee (PSPAC) comprises 13 members: 1 pensioner, 6 members representing employees, and 6 members chosen from the executive ranks of the public service. This committee provides advice to the President of the Treasury Board on matters relating to the Plan's administration,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

There are various working group committees, composed of Secretariat and PWGSC officials, that meet to examine Plan members' communication and information issues.

Plan Membership

As at March 31, 2009, the Plan has 548,291 members, including those currently or previously employed by the Government of Canada, certain public service corporations, and territorial governments. The membership consists of 307,965 active contributors, 175,757 retirees, 58,584 survivors, and 5,985 deferred annuitants. The figure below depicts the membership's distribution.

Figure 1



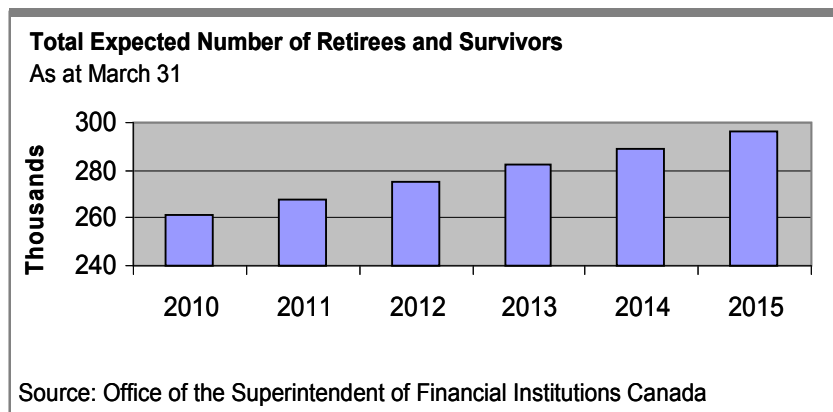
Membership Distribution Over the Last Four Years

As at March 31

	2009	2008	2007	2006
Active contributors	307,965	294,979	282,763	277,432
Retirees	175,757	171,651	167,693	164,084
Survivors	58,584	58,755	58,732	58,998
Deferred annuitants	5,985	6,439	5,691	5,356
Total	548,291	531,824	514,879	505,870
Ratio of contributors to those receiving benefits	1.28:1	1.25:1	1.22:1	1.21:1

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

Figure 2



Total Expected Number of Retirees and Survivors

As at March 31

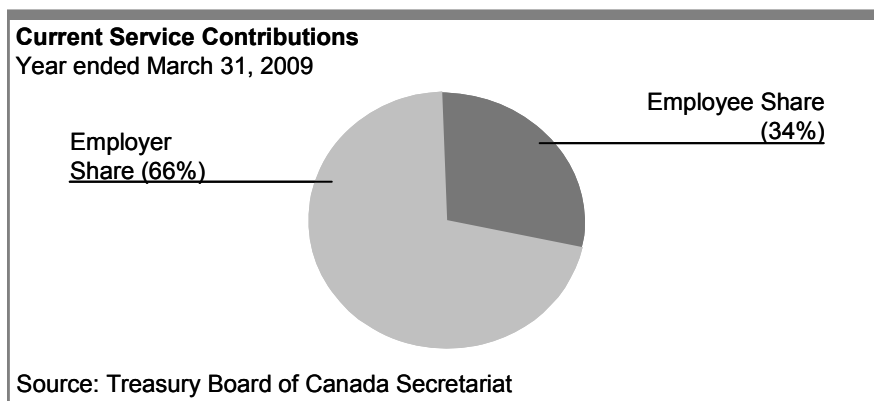
2010	2011	2012	2013	2014	2015
261,159	268,135	275,205	282,260	289,253	296,180

Source: Office of the Superintendent of Financial Institutions Canada

Contributions

The actual contributions received during 2008–09 were \$3,741 million (excluding year-end accrual adjustments); employees contributed \$1,287 million and the employer, \$2,454 million. The contributions presented in the financial statements section of this report include year-end accrual adjustments. Employee contributions are compulsory and, in calendar year 2009, were set at a rate of 5.2 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), which was \$46,300 in 2009, and 8.4 per cent of annual salary above this amount. During the fiscal year, employees paid approximately 34 per cent of the total contributions made in respect of current service, as shown in the figure below.

Figure 3



Current Service Contributions

Year ended March 31, 2009

	Per cent
Employer Share	66
Employee Share	34
	100

Historically, the Plan's average cost-sharing ratio between employer and members has been 60:40, respectively. To better align member contributions and the cost of Plan benefits, member contribution rates have been increasing through yearly adjustments of 0.3 per cent of salary since January 1, 2006, and will continue to increase to the 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. It is estimated that these contribution rates 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 Plan members and the government and, ultimately, the Canadian taxpayer.

Benefit Payments

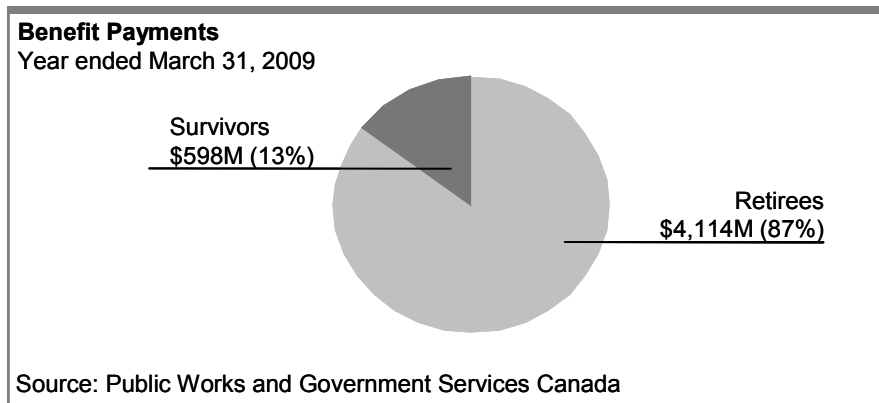
In 2008–09, the Plan paid out \$4,712 million in benefits, an increase of \$271 million over the previous year. Benefits were paid to 234,341 retirees and survivors (230,406 in 2007–08). There were 9,760 new retirees during 2008–09, of whom 7,021 were entitled to immediate annuities (3,511 obtained a normal retirement benefit at age 60 and 3,510 received an unreduced early retirement benefit). The remaining members became entitled to 492 deferred annuities, 1,690 annual allowances, and 557 disability retirement benefits. New retirees received an average annual pension of \$34,644 in 2008–09. 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 (each January) according to the increase in the Consumer Price Index. A 2.5-per-cent adjustment was made on January 1, 2009 (1.8 per cent on January 1, 2008).

Benefits paid to retirees (\$4,114 million) represented 87 per cent of the 2008–09 pension payments, and benefits paid to survivors (\$598 million) represented 13 per cent. Benefits paid to retirees include those paid to disabled retirees.

Figure 4



Benefit Payments

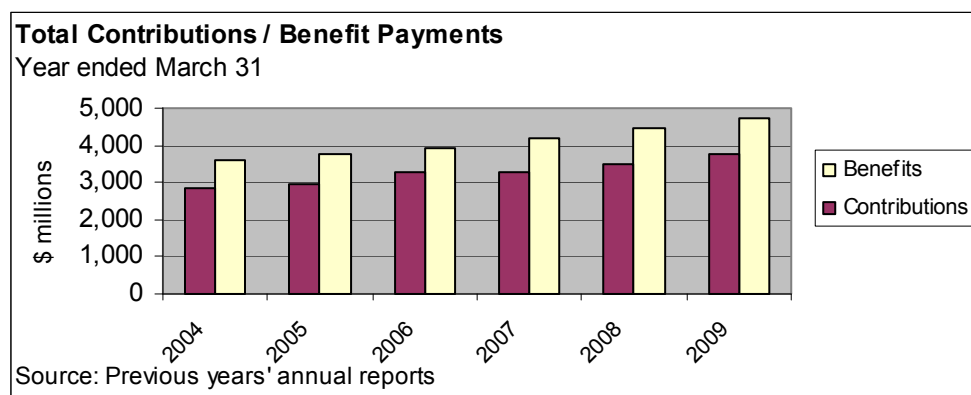
Year ended March 31, 2009

	(\$ millions)	Per cent
Survivors	598	13
Retirees	4,114	87
	4,712	100

Source: Public Works and Government Services Canada

Furthermore, in 2008–09, 1,306 Plan members left the public service before age 50 and withdrew approximately \$134 million (the present value of their future benefits) as lump sums, which were transferred to other pension plans or to locked-in retirement vehicles of their choosing. Also, approximately \$10 million was returned to 4,153 Plan members who left the public service. Of these members, 4,141 were paid with less than two years of pensionable service under the Plan, and 12 accounts were paid to the estate of Plan members as a result of death in service.

Figure 5



Total Contributions / Benefit Payments

Year ended March 31

Year	Contributions	Benefit Payments
	(\$ millions)	
2009	3,741	4,712
2008	3,483	4,441
2007	3,284	4,169
2006	3,297	3,951
2005	2,976	3,768
2004	2,842	3,596

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, as at March 31, 2009, earmarked to guarantee payment of current pensions and accrued pension benefits that are payable in the future to Plan members, survivors, and beneficiaries. As at that date, \$118,960 million is available for benefits, a decrease of \$2,616 million from the previous year.

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 and cover administrative expenses and are transferred from the Plan to other pension plans or to locked-in vehicles (e.g. RRSPs). Further details can be found in the Financial Statements section of this report.

Accrued Pension Benefits

The Statement of Changes in Accrued Pension Benefits shows the present value of benefits earned for service to date. As at March 31, 2009, the level of accrued pension benefits is \$120,053 million, an increase of \$8,447 million from the previous fiscal year.

Investment Management

Before April 1, 2000, Plan-related transactions were recorded in the Public Service Superannuation Account that was established in the Accounts of Canada through legislation. Pursuant to the PSSA, as amended by the PSPIBA, transactions relating to service subsequent to March 31, 2000, are recorded in the Public Service Pension Fund Account. Contributions recorded in the Pension Fund Account that exceed benefits and administrative costs are regularly transferred to PSP Investments and invested in capital markets.

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

Accordingly, PSP Investments' Board of Directors has established an investment policy whereby the expected real rate of return is at least equal to the actuarial rate of return assumption used in the previous triennial actuarial valuation of the Plan. That rate was 4.3 per cent as at March 31, 2008.

As noted in PSP Investments' 2009 annual report, the investments held during the year ended March 31, 2009, were in compliance with the PSSA and PSP Investments' Statement of Investment Policy, Standards and Procedures.

Investment Policy

PSP Investments' 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
Europe, Australasia and the Far East (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 Assets Invested by PSP Investments

In 2008–09, the assets invested by PSP Investments earned a rate of return of –22.7 per cent. The assets are invested with a long-term target weight of 62 per cent in equities, 15 per cent fixed income securities, and 23 per cent real return assets.

PSP Investments' annual rate of return and comparative composite benchmark returns for the last four years are as follows:

Year ended March 31

	2009	2008	2007	2006
	Per cent			
Annual rate of return	(22.7)	(0.3)	11.3	19.1
Composite benchmark annual rate of return	(17.6)	1.2	10.1	18.0

Portfolio and Benchmark Returns

Asset Class	Fiscal Year 2009		5-Year	
	Portfolio Returns %	Benchmark Returns %	Portfolio Returns %	Benchmark Returns %
Developed World Equity				
Canadian Equity	(32.3)	(32.4)	3.4	3.2
US Large Cap Equity	(27.7)	(24.1)	(7.6)	(5.6)
EAFE Large Cap Equity	(33.6)	(34.4)	(3.2)	(3.0)
Small Cap Developed World Equity (4 years)	(30.0)	(26.7)	(9.4) ¹	(7.3) ¹
Emerging Markets Equity (4 years)	(34.0)	(35.1)	3.5 ¹	3.8 ¹
Private Equity (4.75 years)	(32.3)	(31.6)	(17.9) ¹	(18.5) ¹
Nominal Fixed Income				
Cash and Cash Equivalents	2.8	2.4	3.3	3.2
World Government Bonds (2 years)	19.4	19.4	11.8 ¹	11.8 ¹
Canadian Fixed Income	4.7	4.9	5.2	5.2
Real Return Assets				
World Inflation-Linked Bonds (4.9 years)	5.9	6.0	6.1 ¹	6.4 ¹
Real Estate	(16.8)	6.6	9.3	7.1
Infrastructure (3 years)	6.0	5.8	5.5 ¹	3.3 ¹
Total Return	(22.7)	(17.6)	2.0	3.0

1. These respective asset classes have existed for less than five years. Their respective returns presented are since inception returns.

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.

PSP Investments has identified relevant benchmarking for each asset class. The asset class benchmark returns are used in evaluating the relative performance of each asset class.

The total portfolio return includes the performance impact of absolute return strategies. Hedging investment returns are either netted against the return of the respective hedged assets, as is the case with Private Asset classes, or included in total return, as in the case of Public Markets.

Source: *Public Sector Pension Investment Board Annual Report 2009*

Interest on the Public Service Superannuation Account

The Superannuation 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

	2009	2008	2007	2006
	Per cent			
Interest on Account	7.0	7.3	7.5	7.8

Expenses

Legislation provides for the Plan-related administrative expenses of government organizations to be charged to the Plan, namely those of PWGSC, the Secretariat, and OSFI. The operating expenses of PSP Investments are also charged to the Plan. The following chart shows total expenses that have been charged to the Plan.

Year ended March 31

	2009	2008	2007	2006
	(\$ millions)			
Administrative expenses of government departments	116	89	70	66
Expenses of PSP Investments	62	56	75	57
Total expenses	178	145*	145	123

* Revised; see Note 16 in the Financial Statements section of this report.

Plan administration costs totalled \$116 million (or approximately \$212 per member) in 2008–09, an increase of \$27 million from the previous year. Administration costs were \$0.10 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 2008–09, \$50 million was transferred into the Plan and \$62 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 have appealed this decision to the Ontario Court of Appeal.

Other Related Benefits

Life Insurance

The Supplementary Death Benefit Plan applies to most public service employees who contribute to the Plan. It provides a form of life insurance protection designed to cover Plan members' families during the years in which members 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

Under the authority of the *Special Retirement Arrangements Act*, separate retirement compensation arrangements (RCA No. 1 and No. 2) have been established 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 2009, this included primarily benefits on salaries over \$136,700 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 fairness of the financial statements of the Public Service pension plan (the “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 Plan for the year ended March 31, 2009, 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 Plan in accordance with the *Public Sector Pension Investment Board Act*, regulations and by-laws.

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

Approved by:



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

November 30, 2009



Michelle d'Auray
Secretary of the Treasury Board
Treasury Board of Canada Secretariat

November 30, 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, 2009, 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, 2009, 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*, regulations and the by-laws of the Public Sector Pension Investment Board.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
November 30, 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, 2009 (\$ millions)

	2009	2008
Net Assets and Other Accounts Available for Benefits		
Assets		
Public Service Pension Fund Account (Note 3)	180	133
Investments (Note 4)	27,865	30,620
Investment-related assets (Note 4)	537	1,693
Contributions receivable—post—March 31, 2000, service (Note 6)	987	1,529
Other assets (Note 7)	34	29
	29,603	34,004
Liabilities		
Accounts payable	43	59
Investment-related liabilities (Note 4)	3,897	4,019
Net Assets	25,663	29,926
Other Accounts		
Public Service Superannuation Account (Note 3)	93,055	91,279
Contributions receivable—pre—April 1, 2000, service (Note 6)	242	371
Net Assets and Other Accounts Available for Benefits	118,960	121,576
Actuarial asset value adjustment (Note 10)	2,450	(172)
Actuarial Value of Net Assets and Other Accounts Available for Benefits	121,410	121,404
Accrued Pension Benefits (Note 10)	120,053	111,606
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits (Note 11)	1,357	9,798

Commitments and Contingency (Notes 19 and 20)

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

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

Year ended March 31, 2009 (\$ millions)

	2009	2008
Net Assets and Other Accounts Available for Benefits, Beginning of Year	121,576	116,404
Increase in Net Assets and Other Accounts Available for Benefits:		
Interest income on the Public Service Superannuation Account (Note 3)	6,283	6,376
Contributions (Note 12)	3,071	3,807
Transfers from other pension funds	50	47
Total Increase in Net Assets and Other Accounts Available for Benefits	9,404	10,230
Decrease in Net Assets and Other Accounts Available for Benefits:		
Investment loss (Note 13)	6,884	147
Benefits paid	4,712	4,441
Refunds and transfers (Note 15)	246	325
Administrative expenses (Note 16)	178	145
Total Decrease in Net Assets and Other Accounts Available for Benefits	12,020	5,058
Net Increase (Decrease) in Net Assets and Other Accounts Available for Benefits	(2,616)	5,172
Net Assets and Other Accounts Available for Benefits, End of Year	118,960	121,576

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

Statement of Changes in Accrued Pension Benefits

Year ended March 31, 2009 (\$ millions)

	2009	2008
Accrued Pension Benefits, Beginning of Year	111,606	104,688
Increase in Accrued Pension Benefits:		
Interest on accrued pension benefits	7,489	7,293
Benefits earned	3,893	3,309
Changes in actuarial assumptions (Note 10)	1,620	600
Experience losses	469	511
Plan amendments (Note 10)	—	13
Transfers from other pension funds	50	47
Total Increase in Accrued Pension Benefits	13,521	11,773
Decrease in Accrued Pension Benefits:		
Benefits paid	4,712	4,441
Refunds and transfers (Note 15)	246	325
Administrative expenses included in the service cost (Note 16)	116	89
Total Decrease in Accrued Pension Benefits	5,074	4,855
Net Increase in Accrued Pension Benefits	8,447	6,918
Accrued Pension Benefits, End of Year	120,053	111,606

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, 2009 (\$ millions)

	2009	2008
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits Over Accrued Pension Benefits, Beginning of Year	9,798	9,287
Increase (Decrease) in net assets and other accounts available for benefits	(2,616)	5,172
Change in actuarial asset value adjustment	2,622	2,257
Increase in actuarial value of net assets and other accounts available for benefits	6	7,429
Net increase in accrued pension benefits	(8,447)	(6,918)
Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits, End of Year	1,357	9,798

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

Notes to Financial Statements

Year ended March 31, 2009

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, certain 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 and maintains the books of accounts. The Office of the Superintendent of Financial Institutions performs 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 in regard to the funding requirements of the Plan.

Notes to Financial Statements

Year ended March 31, 2009

1. Description of Plan (continued):

(b) Funding policy:

The Plan is funded from employee and employer contributions. For the fiscal year, plan members contributed 4.9 per cent (2008 – 4.6 per cent) for the first nine months and 5.2 per cent (2008 – 4.9 per cent) 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 8.4 per cent (2008 – 8.1 per cent) for the first nine months and 8.4 per cent (2008 – 8.4 per cent) 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 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.

For the period prior to 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.

(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; 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. 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.

Notes to Financial Statements

Year ended March 31, 2009

1. Description of Plan (continued):

(c) Benefits (continued):

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 limits established in the ITA. 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 17.

(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.

(b) Changes in accounting policies:

During the year, the Plan implemented new disclosures related to the management of capital and enhanced disclosures related to financial instruments, which are consistent with *Canadian Institute of Chartered Accountants (CICA) Handbook* Section 1535, “Capital Disclosures,” Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation.”

Notes to Financial Statements

Year ended March 31, 2009

2. Significant accounting policies (continued):

(b) Changes in accounting policies (continued):

The new capital management disclosures specify (i) the objectives, policies, and processes for managing capital, (ii) quantitative data about what is regarded as capital, (iii) whether the Plan has complied with any capital requirements, and (iv) if the Plan has not complied, the consequences of non-compliance. The implementation of these disclosures has no significant impact on the Plan's financial statements other than additional note disclosure in Note 9.

The enhanced disclosures for financial instruments provide details regarding the significance of financial instruments to the Plan's financial position and performance, the nature and extent of the risks arising from financial instruments, and how PSP Investments, as the investment fund manager, manages those risks. These additional disclosures are included in Note 5.

In addition, the Emerging Issues Committee (EIC) released EIC-173, "Credit risk and the fair value of financial assets and financial liabilities," in January 2009, which requires that the fair value of financial instruments (including derivative financial instruments) take into account the counterparties' credit risk for assets and PSP Investments' credit risk for liabilities. PSP Investments adopted this requirement, which did not have a significant impact on the Plan's financial statements.

(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 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 an estimate of the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Market prices or rates are used to determine fair value where an active market exists (such as a recognized stock exchange), as it is the best evidence of the fair value of an investment. If quoted market prices or rates are not available, then fair values are estimated using present value or other valuation techniques, using inputs existing at the financial statements' date. If available, market observable inputs are applied to valuation models.

Notes to Financial Statements

Year ended March 31, 2009

2. Significant accounting policies (continued):

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

Valuation techniques are generally applied to private equity, infrastructure, and real estate investments as well as over-the-counter (OTC) derivatives. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility, and credit risk.

Cash and 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.

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.

For pooled funds, unit values obtained from each of the funds' administrators, reflecting the market prices of the underlying securities, are used to determine the fair value.

Private equity and infrastructure investments are fair-valued at least annually. The fair value for investments held directly is determined using acceptable industry valuation methods such as earnings multiples, discounted cash flows analysis, price of recent investments and publicly traded comparables. Valuation techniques involve assumptions including discount rates and the projected length of cash flows. The valuation methodologies have been developed based on the *International Private Equity and Venture Capital Valuation Guidelines*. In the case of investments in fund portfolios, fair value is generally determined based on the audited fair values reported on financial statements prepared by the fund's general partner using acceptable industry valuation methods. For each investment, the relevant methodology is applied consistently over time.

The fair value of investments in real estate held directly is determined at least annually, using acceptable industry valuation methods, such as discounted cash flows and comparable transactions. Valuation techniques involve various assumptions including capitalization rate and the projected cash flows and/or net operating income. The assumptions are supported by observable market data. PSP Investments uses the services of a third-party appraiser to determine the fair value of real estate investments.

Notes to Financial Statements

Year ended March 31, 2009

2. Significant accounting policies (continued):

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

These valuations are prepared using professional appraisal standards, such as the Canadian Uniform Standards of Professional Appraisal Practice and the Uniform Standards of Professional Appraisal Practice in the United States of America. In the case of investments in fund portfolios, fair value is generally determined based on the audited fair values reported by the fund's general partner using acceptable industry valuation methods. The fair value of real estate loans is estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings. PSP Investments may use the services of a third-party appraiser to determine the fair value of real estate loans. For each investment, the relevant methodology is applied consistently over time.

Fixed income securities are valued at quoted market prices using the bid price for long positions and the ask price for short positions, when available. When 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.

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 OTC, appropriate valuation techniques, such as discounted cash flows using current market yields, are used to determine fair value. The assumptions used include the statistical behaviour of the underlying instruments and the ability of the model to price consistently with observed market transactions. For many pricing models, there is no material subjectivity because the methodologies employed do not necessitate significant judgment and the pricing inputs are observed from actively quoted markets. Additionally, the pricing models used are widely accepted and used by other market participants. The fair value of credit derivatives, including credit default swaps and synthetic collateralized debt obligations, are also determined based on valuation techniques. Certain assumptions are made with respect to the probability of the event of default of the underlying securities, of its recovery rate and its corresponding impact on cash distributions. The instrument is then valued by discounting the expected cash flows by an appropriate discount factor.

Notes to Financial Statements

Year ended March 31, 2009

2. Significant accounting policies (continued):

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

Contributions receivable for past service elections are 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) Valuation of Capital Debt Financing:

The fair value of PSP Investments' short-term capital debt financing includes the cost amount and accrued interest, which approximates fair value. The fair value of PSP Investments' long-term capital debt financing is determined based on quoted market prices.

(e) Transaction costs:

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

(f) Investment Management Fees:

Investment management fees are costs directly attributable to the external management of funds on behalf of PSP Investments. Investment management fees incurred for the Private Equity, Real Estate and Infrastructure asset classes are paid, as determined by the fund manager, either by the investment directly, through capital contributions by PSP Investments, or offset against distributions received from the investment (Note 4 (a) (ii)). These amounts are recorded against investment income. Investment management fees are also incurred for certain public equity investments and these amounts are paid directly by PSP Investments and recorded against investment income (Note 13).

Notes to Financial Statements

Year ended March 31, 2009

2. Significant accounting policies (continued):

(g) Income recognition:

The investment income (loss) is allocated proportionately based on the asset value held by the Plan. Investment income (loss) is made up of dividends, accrued interest income, realized gains and losses on the disposal of investments and unrealized gains and losses, which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the year. Dividend income is recognized 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 direct and co-investments.

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

(h) 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.

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

(j) 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 (loss).

Notes to Financial Statements

Year ended March 31, 2009

2. Significant accounting policies (continued):

(k) Use of estimate:

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 fair value 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.

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 the Superannuation Account record transactions, such as contributions, benefits paid, and transfers, that relate to pre-April 1, 2000, service and that the Superannuation 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 Superannuation 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, 2009

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 to the asset classes to which they relate, is as follows (\$ millions):

	2009 Fair Value	2009 Cost	2008 Fair Value	2008 Cost
Developed World Equity				
Canadian Equity	4,608	5,588	5,528	5,146
US Large Cap Equity	519	715	1,341	1,516
Europe, Australasia and the Far East (EAFE) Large Cap Equity	842	1,340	1,444	1,538
Small Cap Developed World Equity	536	721	998	1,180
Emerging Markets Equity	1,059	1,333	1,333	1,172
Private Equity	3,080	3,611	2,933	2,833
Nominal Fixed Income				
Cash and Cash Equivalents	2,230	2,411	2,665	2,664
World Government Bonds	550	489	1,300	1,306
Canadian Fixed Income	5,280	5,307	6,325	6,644
Real Return Assets				
World Inflation-Linked Bonds	142	144	150	142
Real Estate	5,152	4,656	4,165	3,374
Infrastructure	1,966	1,693	999	978
Absolute Return	1,901	1,983	1,439	1,464
Investments	27,865	29,991	30,620	29,957
Investment-Related Assets				
Amounts receivable from pending trades	186	191	1,293	1,290
Derivative-related receivables	351	47	400	62
Total Investment-Related Assets	537	238	1,693	1,352

Notes to Financial Statements

Year ended March 31, 2009

	2009 Fair Value	2009 Cost	2008 Fair Value	2008 Cost
Investment-Related Liabilities				
Amounts payable from pending trades	(366)	(367)	(1,438)	(1,440)
Securities sold short	(382)	(444)	(528)	(542)
Derivative-related payables	(1,240)	(71)	(926)	(38)
Capital debt financing (Note 8)				
Short-term	(1,145)	(1,145)	(1,127)	(1,127)
Long-term	(764)	(742)	—	—
Total Investment-Related Liabilities	(3,897)	(2,769)	(4,019)	(3,147)
Net Investments	24,505	27,460	28,294	28,162

4. Investments (continued):

(a) Investment portfolio (continued):

(i) Developed World Equity, Small Cap Developed World Equity and Emerging Markets Equity:

Developed World Equity, Small Cap Developed World Equity and Emerging Markets Equity (referred to as “Public Market Equities”) include common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds, and securities convertible into common shares of publicly listed issuers.

(ii) Private Equity, Real Estate and Infrastructure:

The private equity asset class is comprised of direct investments and fund portfolios in equity ownerships or investments with the risk and return characteristics of equity. They include investments in private companies, mezzanine debt and distressed debt. As at March 31, 2009, the total amount of financing included in the private equity portfolio for direct investments controlled by PSP Investments for the Plan is nil (2008 – nil).

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(a) Investment portfolio (continued):

(ii) Private Equity, Real Estate and Infrastructure (continued):

The real estate asset class is comprised of direct ownerships in properties, third-party debts and fund investments in the real estate sector. The real estate investments are classified into two portfolios: an equity portfolio and a debt portfolio. The equity portfolio is comprised of direct ownerships in income-producing properties in office, retail, industrial, hospitality and residential sectors, as well as private funds and publicly traded securities invested in real estate assets. The debt portfolio is comprised of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, mezzanine loans and other structured investments where significant portions of the value are attributed to the underlying real estate assets. Real estate investments are made in accordance with the approved policies for leverage specifically applicable for this asset class. The real estate asset class is accounted for in the investment portfolio net of all third-party financings. As at March 31, 2009, the total amount of financing included in the real estate portfolio for direct investments controlled by PSP Investments for the Plan is approximately \$2,720 million (2008 – \$2,100 million).

Infrastructure investments are comprised of direct investments and fund portfolios in equity and debt instruments in public and private companies primarily engaged in the management, ownership or operation of assets in power, regulated businesses, transportation, telecom or social infrastructure. Infrastructure investments are made in accordance with the approved policies for leverage specifically applicable for this asset class. As at March 31, 2009, the total amount of financing included in the infrastructure portfolio for direct investments controlled by PSP Investments for the Plan is approximately \$400 million (2008 – \$250 million).

The fair value of certain direct investments in Private Equity and Infrastructure are determined using valuation techniques whereby certain assumptions cannot be fully supported by prices from observable current market transactions. Varying certain key elements of the valuation technique has an impact on the fair value of the investments as at March 31, 2009. For example, increasing the discount rate by 50 bps would result in a decrease to the fair value of these investments of \$171 million; decreasing the discount rate by 50 bps would result in an increase to the fair value of these investments of \$281 million.

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(a) Investment portfolio (continued):

(ii) Private Equity, Real Estate and Infrastructure (continued):

The Private Equity, Real Estate and Infrastructure asset classes are referred to as “Private Market Investments.” The fair values of the majority of private market investments are reviewed at least annually, and any resulting adjustments are reflected as unrealized gains or losses in investment income.

Investment management fees, as disclosed in Note 2, are incurred for private market investments and generally vary between 0.2% and 5.5% of the total invested amount. Investment management fees of \$140 million for the year ended March 31, 2009 (2008 – \$91 million) were recorded against investment income.

(iii) Nominal Fixed Income and World Inflation–Linked Bonds:

Nominal fixed income includes cash and cash equivalents and bonds. Cash on hand and cash equivalents include the following instruments having a maximum term of one year or less: demand deposits, Treasury bills, short-term notes, bankers’ acceptances, term deposits, and guaranteed investment certificates. Floating rate notes are considered cash and cash equivalents provided the coupons reset more than once per year. Bonds include Canadian government bonds, Canadian provincial and territorial bonds, Canadian municipal and corporate bonds, as well as international sovereign bonds.

The Plan held third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007.

Subsequent to the liquidity disruption event, PSP Investments, as the investment manager, participated in a restructuring process with other investors. On August 16, 2007, a standstill agreement was entered into by a number of significant investors and financial institutions that transacted with the non-bank sponsored conduits. The Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper (the “Investors’ Committee”) was subsequently formed, consisting of major ABCP investors, to oversee the restructuring process during this standstill period. As at January 21, 2009, the Investors’ Committee implemented and closed the ABCP restructuring transaction. Pursuant to the terms of the restructuring, ABCP holders exchanged their investments for long-term floating rate notes.

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(a) Investment portfolio (continued):

(iii) Nominal Fixed Income and World Inflation–Linked Bonds (continued):

As part of the Investors' Committee restructuring plan, the following asset categories were pooled together under three separate vehicles: (1) leveraged super senior (LSS) tranches of collateralized debt obligations and other assets (collectively referred to as "LSS/Hybrid Assets"); (2) Traditional Assets (TA), which include securitized assets (for example, credit card receivables and auto loans); and (3) Ineligible Assets (IA), which include assets with uncertain credit quality by reason of their exposure to US subprime mortgages or otherwise.

Under the Investors' Committee restructuring plan, the LSS/Hybrid Assets were split into two separate and distinct master asset vehicles (MAV): the first, referred to as "MAV 1," in which case investors elected to commit their pro rata share of a margin funding facility associated with their underlying assets; and the second, referred to as "MAV 2," whereby investors are able to commit less than, or none of, their pro rata share of a margin funding facility, in which case certain investors, foreign banks, and Canadian banks will fund the remaining portion. PSP Investments participated in MAV 1. Within the MAV 1, the LSS/Hybrid Assets were further restructured into different classes (Class A-1, Class A-2, Class B, Class C, TA and IA) of floating rate notes in order to permit a credit rating to be obtained on two of these notes (Class A-1 and Class A-2). A third MAV, referred to as "MAV 3," includes series secured solely by TA and IA notes. Additionally, the margin funding facilities in MAV 1 and MAV 2 are provided by third-party lenders, Canadian banks, asset providers, noteholders and the federal and provincial Governments of Canada. These facilities are designed to reduce the risk that the newly formed vehicles will not be able to meet margin calls if future circumstances warrant them.

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(a) Investment portfolio (continued):

(iii) Nominal Fixed Income and World Inflation-Linked Bonds (continued):

The Plan, as an ABCP holder through PSP Investments, received long-term floating rate notes (for each of the aforementioned investment vehicles) with maturities based upon the maturity of the underlying assets. The summary of these transactions follows (\$ millions):

Asset Class	Terms and conditions of restructured assets	Investment Committee restructuring plan	
		Final approved 21 Jan 2009	Initial proposal 25 Apr 2008
		Notional value of converted notes	
MAV 1			
Class A-1	• A-rated tracking notes	636	633
Class A-2	• Average yield: Banker's Acceptance (BA) Rate + 30 bps • Average term: 8 years	428	436
Class B	• BB-rated tracking notes	72	75
Class C	• Average yield: BA Rate + 30 bps • Average term: 8 years	35	35
TA	• AAA-rated tracking notes • Average yield: BA Rate + 40 bps • Average term: 8 years	20	—
IA	• Ratings, yield and terms as per underlying asset (see above)	65	—
MAV 3	Asset definitions are as above; however, assets in this class are not guaranteed margin funding facilities by third parties.		
TA		83	104
IA		83	149
Total restructured notes		1,422	1,432

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(a) Investment portfolio (continued):

(iii) Nominal Fixed Income and World Inflation-Linked Bonds (continued):

The long-term floating rate notes allocated to the Plan are reported as Canadian fixed income under the investment portfolio (Note 4 (a)). The write-down on the ABCP is included as part of the absolute return on investment income in Note 13 (b).

The following table summarizes the impact of the ABCP liquidity disruption and the subsequent restructuring as at March 31 (\$ millions):

	2009	2008
Notional value of held investments	1,422	1,432
Fair value at valuation date	755	1,105
Cumulative write-down	667	327

In addition, PSP Capital Inc., a wholly owned subsidiary of PSP Investments, has provided funding facilities of a maximum amount of \$969 million to support potential margin calls on the long-term floating rate notes. The fair value of the long-term floating rate notes was established as a function of the information available as at March 31, 2009, which includes certain assumptions used in the valuation model such as interest rate spreads, assumed credit rating of restructured notes, expected returns of the restructured notes, as well as the maturity and liquidity of the restructured notes. Varying certain key elements of the valuation technique has an impact on the fair value of the long-term floating rate notes allocated to the Plan as at March 31, 2009. For example, increasing interest rate spreads by 50 bps would result in a decrease to the fair value of the long-term floating rate notes allocated to the Plan by \$44 million. The fair value of the long-term floating rate notes allocated to the Plan may change in future periods as a result of fluctuations in the major elements of the valuation methodology.

(iv) Absolute Return:

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 described in Note 4 (b), whose objective is to generate positive returns regardless of market conditions.

Notes to Financial Statements

Year ended March 31, 2009

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.

The following types of derivative financial instruments are used as described below:

(i) Swaps:

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

(ii) Futures:

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a specific time in the future for a specific price that has been agreed upon today. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

(iii) Forwards:

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument at a predefined price and a predefined date in the future. Forwards are used for yield enhancement purposes or to manage exposures to currencies and interest rates.

(iv) Options:

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

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(b) Derivative financial instruments (continued):

(v) Warrants and Rights:

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

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

(vi) Collateralized Debt Obligations:

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

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

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(b) Derivative financial instruments (continued):

The following table summarizes the derivatives portfolio as at March 31 (\$ millions):

Investments	2009 Notional Value	2009 Fair Value	2008 Notional Value	2008 Fair Value
Equity and Commodity Derivatives				
Futures	455	—	636	6
Total Return Swaps	2,109	77	3,746	(30)
Variance Swaps	78	5	166	(2)
Warrants	1	1	27	7
Options: Listed-purchased	—	—	137	4
Listed-written	—	—	143	(5)
Currency Derivatives				
Forwards	14,951	(126)	10,422	(133)
Swaps	—	—	605	(52)
Options: OTC-purchased	449	5	1,256	24
OTC-written	113	(1)	666	(20)
Interest Rate Derivatives				
Bond forwards	253	—	2,008	2
Futures	—	—	1,035	—
Interest Rate Swaps	2,852	(3)	3,987	12
Total Return Swaps	2,556	40	2,444	11
Swaptions	1,817	—	5,241	—
Options: Listed-purchased	—	—	631	1
Listed-written	1,807	—	892	(2)
OTC-written	1,088	—	—	—
Credit Derivatives¹				
Purchased	46	38	46	21
Sold	1,183	(925)	980	(370)
Total investments	29,758	(889)	35,068	(526)

1. Credit derivatives include collateralized debt obligations and a credit default swap. PSP Investments, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(b) Derivative financial instruments (continued):

The fair value of derivative contracts, as at March 31 (\$ millions), is represented by:

	2009	2008
Derivative-related receivables	351	400
Derivative-related payables	(1,240)	(926)
Total	(889)	(526)

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

	2009	2008
Under 1 year	26,294	25,111
1 to 5 years	3,024	8,523
Over 5 years	440	1,434
Total	29,758	35,068

(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.

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(c) Investment Asset Mix (continued):

The net investments, as at March 31 (\$ millions), are as follows:

Asset Class	2009 Fair Value		2009 Policy Portfolio	2008 Fair Value		2008 Policy Portfolio
Developed World Equity						
Canadian Equity	\$ 6,391	26.1%	30.0%	\$ 8,377	29.6%	30.0%
US Large Cap Equity	672	2.7	5.0	1,280	4.5	5.0
EAFE Large Cap Equity	756	3.1	5.0	1,329	4.7	5.0
Small Cap Developed World Equity	566	2.3	5.0	1,401	5.0	5.0
Emerging Markets Equity	1,539	6.3	7.0	1,979	7.0	7.0
Private Equity	3,039	12.4	10.0	2,884	10.2	10.0
Nominal Fixed Income						
Cash and Cash Equivalents ¹	53	0.2	2.0	386	1.4	2.0
World Government Bonds	1,526	6.2	5.0	1,632	5.8	5.0
Canadian Fixed Income	3,084	12.6	8.0	3,521	12.4	8.0
Real Return Assets						
World Inflation-Linked Bonds	1,732	7.1	5.0	1,605	5.7	5.0
Real Estate	3,374	13.8	10.0	2,925	10.3	10.0
Infrastructure	1,773	7.2	8.0	975	3.4	8.0
Net investments	\$ 24,505	100.0%	100.0%	\$ 28,294	100.0%	100.0%

1. Includes amounts related to absolute return and real estate debt strategies.

(d) Securities Lending:

The Plan participates in securities lending programs whereby it lends securities in order to enhance portfolio returns. Any such securities lending requires collateral in cash, high-quality debt instruments or shares securities with a fair value equal to no less than 102% of the value of the securities lent. As at March 31, 2009, securities with an estimated fair value of \$1,958 million (2008 – \$3,701 million) were loaned out, while securities contractually receivable as collateral had an estimated fair value of \$2,050 million (2008 – \$3,842 million).

Notes to Financial Statements

Year ended March 31, 2009

4. Investments (continued):

(e) Securities Collateral:

The Plan deposited or pledged securities with a fair value of \$755 million as collateral with various financial institutions as at March 31, 2009 (2008 – \$298 million). Securities with a fair value of \$77 million (2008 – \$23 million) have been received from other counterparties as collateral. PSP Investments does not re-pledge any collateral held. All collateral deposited, pledged and received were held with counterparties who had a minimum credit rating of “A-” as at March 31, 2009. The terms and conditions are outlined in Note 5 (b) (i).

5. Investment Risk Management:

Investment risk management is a central part of the strategic management of the investment portfolio. It is 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.

The Board of Directors of PSP Investments and its committees oversee various risk-related issues affecting the investments through a risk governance structure that includes required reporting on risk to all levels within the organization and also ensures that appropriate objectives are pursued and achieved in line with the fulfillment of PSP Investments’ legislated mandate.

The use of financial instruments exposes the Plan to credit and liquidity risks as well as market risks, including foreign exchange and interest rate risks. These risks are managed by PSP Investments in accordance with the Investment Risk Handbook, which is an integral part of its risk control system. The Investment Risk Handbook contains an Investment Risk Management Policy that supplements the established investment policy, guidelines and procedures (Policy Portfolio). The Policy Portfolio determines a diversification strategy to mitigate risk whereby investments are made in a diversified portfolio of investments based on established criteria. Additionally, the objective of these policies is to provide a framework for the management of credit, liquidity and market risks. Derivative financial instruments, traded either on exchanges or OTC are one of the vehicles used to mitigate the impact of market risk.

PSP Investments is responsible for overseeing the various risk management functions on behalf of the Plan and monitors these risks on a continuous basis.

Notes to Financial Statements

Year ended March 31, 2009

5. Investment Risk Management (continued):

(a) Market Risk:

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

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 level to measure and report VaR. A Historical VaR model is used, incorporating three years of monthly market returns that are scaled to a twelve-month holding period. PSP Investments is responsible for implementing and maintaining a VaR measurement methodology for all asset classes and all financial risk factors.

Historical VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. The Historical VaR model also assumes that the future will behave in a similar pattern to the past. If future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated. The VaR is an estimate of a single value in a distribution of potential losses that can be experienced. As a result, it is not an estimate of the maximum potential loss.

The goal of actively managing the portfolio is to outperform the Policy Portfolio benchmarks while maintaining the active risk under 400 basis points. Relative VaR, as a result, is the maximum amount of loss of total investments, with 95% certainty relative to the Policy Portfolio benchmark, over a twelve-month period.

Notes to Financial Statements

Year ended March 31, 2009

5. Investment Risk Management (continued):

(a) Market Risk (continued):

The following table shows the total Relative VaR and the diversification effect as at March 31. The diversification effect captures the effect of holding different types of assets that may react differently in various types of situations and thus having the effect of reducing overall Relative VaR.

Active Risk Taken (Relative VaR – \$ millions)

	2009	2008
Public Market Equities	571	300
Nominal Fixed Income	—	7
Real Return Assets	772	613
Absolute Return	841	148
Total Relative VaR (Undiversified)	2,184	1,068
Diversification Effect	(1,203)	(429)
Total Relative VaR	981	639

PSP Investments monitors the absolute risk of the Policy Portfolio on a quarterly basis to ensure no undue loss may be experienced by the Plan.

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. Therefore, stress testing and scenario analysis are used to examine the impact on financial results of abnormally large movements in risk factors. Stress testing and scenario analysis test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio would fare under such circumstances. Stress testing is also deployed to assess new product behaviour. Stress testing and scenario analysis are utilized as a complement to the Historical VaR measure in order to provide greater insight on the size of potential losses that may be experienced. PSP Investments uses the expected shortfall and tail analysis measures to determine this.

Notes to Financial Statements

Year ended March 31, 2009

5. Investment Risk Management (continued):**(a) Market Risk (continued):**

Expected shortfall is defined as the conditional expectation beyond the VaR level. It is measured by averaging all data points showing a loss greater than VaR measured at a given confidence level. By increasing the confidence level of the VaR measure from 95% to 99%, the size of the potential loss that would be exceeded one year out of 100 (instead of one year out of 20) can be assessed. Therefore, there is a greater probability for larger losses, at the 99% confidence level, in extreme market conditions. PSP Investments reviews stress testing and scenario analysis reports on a quarterly basis.

(i) Interest Rate Risk:

Interest rate risk refers to the effect on the fair value of net asset value due to fluctuations in interest rates. Changes in interest rates will directly affect the fair value of Plan Assets. The most significant exposure to interest rate risk is the investment in bonds and real estate loans.

The terms to maturity of the investments, before allocating the effect of derivative contracts and investment-related assets and liabilities, as at March 31, 2009 (\$ millions), are as follows:

	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	2009 Total	2008 Total
Government of Canada bonds	927	890	173	328	2,318	1,295
Provincial and Territorial bonds	219	299	195	359	1,072	940
Municipal bonds	9	16	36	3	64	86
Corporate bonds	91	430	296	1,009	1,826	4,004
Total Canadian Fixed Income	1,246	1,635	700	1,699	5,280	6,325
Total World Government Bonds	7	221	178	144	550	1,300
Total World Inflation- Linked Bonds	—	13	18	111	142	150
Real Estate Loans¹	260	264	—	21	545	366
Grand Total	1,513	2,133	896	1,975	6,517	8,141

1. Real Estate Loans are a component of the Real Estate asset class disclosed in Note 4 (a).

Notes to Financial Statements

Year ended March 31, 2009

5. Investment Risk Management (continued):

(a) Market Risk (continued):

(i) Interest Rate Risk (continued):

The terms to maturity of capital debt financing employed by PSP Investments are disclosed in Note 8. Absolute return strategies, as described in Note 4, and derivative contracts are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 5 (a). Accounts receivable from pending trades and cash and cash equivalents are considered short-term in nature, and, as a result, their exposure to interest rate risk would not be significant.

(ii) Foreign Currency Risk:

The Plan is 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. PSP Investments' policy is to hedge 50% of foreign currency investments excluding emerging markets equity.

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

Currency (in Canadian \$)	2009 Fair value	2009 % of total	2008 Fair value	2008 % of total
US Dollar (USD)	3,353	52.9	4,227	52.8
Euro (EUR)	1,498	23.6	1,666	20.8
British Pound (GBP)	376	5.9	666	8.3
Yen (JPY)	282	4.5	464	5.8
Hong Kong Dollar (HKD)	217	3.4	179	2.2
New Taiwan Dollar (TWD)	126	2.0	167	2.1
Korean Won (KRW)	120	1.9	178	2.2
Australian Dollar (AUD)	120	1.9	136	1.7
Brazilian Real (BRL)	47	0.7	313	3.9
Others	202	3.2	16	0.2
Total foreign currency	6,341	100.0	8,012	100.0

Notes to Financial Statements

Year ended March 31, 2009

5. Investment Risk Management (continued):**(a) Market Risk (continued):****(ii) Foreign Currency Risk (continued):**

PSP Investments and its subsidiaries have also made commitments, denominated in foreign currencies of \$5,154 million (3,435 million USD, 472 million EUR, 2 million GBP and 314 million South African Rands (ZAR)), which are not included in the foreign currency exposure table.

(b) Credit Risk:

The Plan is exposed to the credit risk that the issuer of a debt security or a counterparty to a derivative contract could be unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the respective concentration risk. To monitor credit risk, PSP Investments relies on four recognized credit rating agencies to evaluate the credit quality of each issuer to which the investments are exposed. Risk is minimized by requiring a minimum of two ratings and applying the lowest rating. If a security fails to meet the minimum number of ratings, it is classified as “not rated.” If the agencies disagree as to a security’s credit quality, the lowest of the available ratings is used.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating of all credit-sensitive financial securities, excepting those held in pooled funds or private market investments. Concentration tables are listed by issuer, geographic area, and industry for each security.

As at March 31, the Plan’s concentration of credit risk by credit ratings is as follows:

	2009	2008
Investment grade (AAA to BBB-)	88.7%	86.5%
Below investment grade (BB+ and below)	—	0.3
Not rated:		
Rated by a single credit rating agency ¹	8.5	0.4
Not rated by credit rating agencies ²	2.8	12.8
Total	100.0%	100.0%

1. As at March 31, 2009, includes Class A-1 and Class A-2 ABCP holdings that were restructured and converted to floating rate long-term notes on January 21, 2009. These notes are A-rated by Dominion Bond Rating Service (DBRS) (Note 4 (a) (iii)).

2. Includes Class A-1 and Class A-2 ABCP holdings that were not rated by DBRS as at March 31, 2008.

Notes to Financial Statements

Year ended March 31, 2009

5. Investment Risk Management (continued):

(b) Credit Risk (continued):

The breakdown of credit concentration risk does not include investments in distressed debt included in pooled funds in the amount of approximately \$2 billion as at March 31, 2009 (2008 – \$507 million). Such investments are excluded as they typically include debt securities of issuers close to default, and the investment in such securities are quasi-equity in nature.

As at March 31, 2009, PSP Investments also has a net notional exposure of \$1.4 billion to collateralized debt obligations, of which 71% of the dollar exposure is rated “Investment grade,” as well as funding facilities of a maximum amount of \$969 million to support potential margin calls on the long-term floating rate notes (Note 4 (a) (iii)).

As at March 31, 2009, PSP Investments’ maximum exposure to credit risk, not taking into consideration the excluded elements described above, amounts to approximately \$11.0 billion (2008 – \$13.6 billion).

(i) Counterparty Risk:

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts. In order to minimize derivative contract counterparty risk to the Plan, PSP Investments deals only with counterparties with a minimum credit rating of “A-” as at the trade date, as provided by a recognized credit rating agency. PSP Investments monitors the credit ratings of counterparties on a daily basis and has the ability to terminate all trades with counterparties who have their credit rating downgraded below “A-” subsequent to the trade date. PSP Investments also uses credit mitigation techniques such as master-netting arrangements and collateral transfers through the use of Credit Support Annexes (CSA).

Investment policy for the Plan also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-determined events occur.

Notes to Financial Statements

Year ended March 31, 2009

5. Investment Risk Management (continued):

(b) Credit Risk (continued):

(i) Counterparty Risk (continued):

Additionally, the CSA to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the event of the failure of the counterparty and requires PSP Investments, on behalf of the Plan, to contribute further collateral when requested. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Note 4 (e) provides information on the collateral deposited and received.

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

(c) Liquidity Risk:

Liquidity risk corresponds to the ability to meet financial obligations. The cash position is monitored on a daily basis. 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 are actively traded. PSP Investments utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. PSP Investments prepares a liquidity report taking into consideration future forecasted cash flows, which is presented to its senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, a contingency plan, involving backup sources of liquidity, is maintained and can be deployed in case of market disruption.

The ability to raise additional capital exists through the use of PSP Investments' capital debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes to a maximum amount of \$3 billion and \$1 billion, respectively. Note 8 provides additional information on the usage of the capital debt program.

The terms to maturity of the notional amount of derivatives, including related payable amounts, are disclosed in Note 4 (b). All other significant financial liabilities have a term to maturity of one year or less.

Notes to Financial Statements

Year ended March 31, 2009

6. Contributions receivable:

Contributions receivable (\$ millions)

	2009	2008
Pre–April 1, 2000, service		
Employee contributions for past service elections	135	207
Employers' share of contributions for past service elections	107	164
	242	371
Post–March 31, 2000, service		
Employee contributions for past service elections	299	421
Employers' share of contributions for past service elections	463	1,015
Other contributions receivable	225	93
	987	1,529
Total contributions receivable	1,229	1,900

Notes to Financial Statements

Year ended March 31, 2009

7. 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 2009, 72.6 per cent of the operating expenses were allocated to the Plan (2008 – 72.6 per cent). 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:

Balance of the other assets (\$ millions) at year-end

	2009	2008
Share of expenses receivable from		
Canadian Forces pension plan	6	12
Royal Canadian Mounted Police pension plan	2	4
Reserve Force pension plan	—	—
	8	16
Other	26	13
Total other assets	34	29

Notes to Financial Statements

Year ended March 31, 2009

8. Capital Debt Financing:

As at March 31, 2009, PSP Capital Inc., a wholly owned subsidiary of PSP Investments, has \$1,579 million (2008 – \$1,551 million) of short-term promissory notes outstanding with maturity dates within 28 to 364 days of issuance, of which \$1,145 million (2008 – \$1,127 million) has been allocated to the Plan and included in Note 4 (a) as a short-term 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, 2009, PSP Capital Inc. has \$1 billion (2008 – nil) of medium-term notes issued and outstanding, of which \$725 million (2008 – nil) has been allocated to the Plan. 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 \$41 million (2008 – \$37 million) and on medium-term notes of \$7 million (2008 – nil).

9. Capital Management:

Plan capital consists of the funding surplus or deficit determined regularly by the funding valuation prepared by the Office of the Chief Actuary. The purpose of this valuation is to determine the long-term health of the Plan by testing its ability to meet obligations to current Plan members and their survivors. Using various assumptions, the actuary projects the Plan's benefits to estimate the current value of the pension liability, which is compared with the sum of the Plan Assets and other Accounts and the present value of future employee contributions related to past service elections. The result of this comparison is either a surplus or a deficit.

The objective of managing the capital of the Plan is to ensure that the sum of the balance of the Public Service Superannuation Account, which is maintained in the Accounts of Canada, and the Plan Assets invested externally through PSP Investments is sufficient to meet benefit obligations.

Management establishes policies, guidelines and procedures to ensure that transactions are recorded in the Public Service Superannuation Account and the Public Service Pension Fund Account in accordance with the *Public Service Superannuation Act*.

Notes to Financial Statements

Year ended March 31, 2009

9. Capital Management (continued):

As the investment manager for the Plan Assets invested in capital markets related to post-April 1, 2000, service, PSP Investments establishes investment policies, guidelines and procedures to maximize investment returns without undue risk of loss, in accordance with its legislated mandate. Investment performance is monitored and compared to benchmark portfolio returns on a regular basis.

The Government of Canada has a statutory obligation to pay benefits to current Plan members and their survivors. The Plan is also subject to the *Public Pension Reporting Act*, which requires that an actuarial valuation for funding purposes be conducted at dates no more than three years apart and tabled in Parliament. The date of the latest actuarial valuation performed was March 31, 2008.

10. 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 pro-rated 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, 2008, and it was tabled in Parliament on November 19, 2009. However, the accounting actuarial valuation has been updated as at March 31, 2009, using the demographic assumptions and base populations of the funding actuarial valuation as at March 31, 2008.

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.

Notes to Financial Statements

Year ended March 31, 2009

10. Accrued pension benefits (continued):

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

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 (2008 – 2.0 per cent and 2.9 per cent). The discount rates used to value the liabilities at March 31, 2009, and the corresponding assumptions used in the cost of current service and in the interest expense are as follows:

Present value of accrued pension benefits (per cent %)

	2009			2008		
	Liability valuation		Expense valuation	Liability valuation		Expense valuation
	Short-term	Long-term		Short-term	Long-term	
Expected rate of return on pension investments	5.3	6.3	5.9	5.9	6.3	6.0
Expected weighted average of long-term bond rates	6.8	5.0	7.1	7.1	5.0	7.3

(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, no amendments were made to the Plan (2008 – \$13 million).

Notes to Financial Statements

Year ended March 31, 2009

11. 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, 2009, is as follows:

Excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits (\$ millions)

	Pre- April 1, 2000	Post- March 31, 2000	Total
Net assets and other accounts available for benefits	93,297	25,663	118,960
Actuarial asset value adjustment	—	2,450	2,450
Actuarial value of net assets and other accounts available for benefits	93,297	28,113	121,410
Accrued pension benefits	(86,736)	(33,317)	(120,053)
Excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits	6,561	(5,204)	1,357

12. Contributions:

Contributions (\$ millions)

	2009	2008
From employees	1,140	1,250
From employers	1,931	2,557
Total contributions	3,071	3,807

During the year, employees contributed approximately 37 per cent (2008 – 33 per cent) of the total contributions made.

Notes to Financial Statements

Year ended March 31, 2009

13. Investment income (loss):

(a) Investment income (loss):

Investment income (loss) for the year ended March 31 is as follows:

Investment income (loss) (\$ millions)

	2009	2008
Interest income	339	527
Dividend income	297	269
Other income	173	79
Security lending income	5	7
Interest expense (Note 8)	(48)	(37)
Transaction costs	(26)	(16)
External investment management fees ¹	(38)	(45)
	702	784
Net realized gains (losses) ²	(4,499)	1,138
Net unrealized losses ³	(3,087)	(2,069)
Investment Loss	(6,884)	(147)

1. These are amounts incurred for public market investments and paid directly by PSP Investments (Note 2). Amounts incurred for Private Market Investments are disclosed in Note 4 (a) (ii).

2. Includes foreign currency losses of \$439 million for the year ended March 31, 2009 (2008 – \$425 million).

3. Includes unrealized gains of \$133 million for the year ended March 31, 2009, for certain direct investments in Private Equity and Infrastructure, determined using valuation techniques for which certain assumptions cannot be fully supported by prices from observable current market transactions.

Notes to Financial Statements

Year ended March 31, 2009

13. Investment income (loss) (continued):

(b) Investment income (loss) by asset mix:

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

Investment income (loss) by asset mix (\$ millions)

	2009	2008
Developed World Equity		
Canadian Equity	(2,610)	172
US Large Cap Equity	(326)	(341)
EAFE Large Cap Equity	(430)	(174)
Small Cap Developed World Equity	(357)	(461)
Emerging Markets Equity	(715)	124
Private Equity	(1,153)	190
Nominal Fixed Income		
Cash and Cash Equivalents	25	41
World Government Bonds	347	121
Canadian Fixed Income	142	214
Real Return Assets		
World Inflation-Linked Bonds	119	57
Real Estate	(566)	547
Infrastructure	81	19
Absolute Return¹	(1,441)	(656)
Investment Loss	(6,884)	(147)

1. Includes amounts related to real estate debt strategies.

Notes to Financial Statements

Year ended March 31, 2009

14. 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 reducing 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, 2008, triennial actuarial valuation of the Public Service pension plan, tabled in Parliament on November 19, 2009, resulted in no adjustment being made to the Pension Fund (2008 – nil) nor to the Public Service Superannuation Account (2008 – nil).

15. Refunds and transfers:

Refunds and transfers (\$ millions)

	2009	2008
Pension division payments	40	40
Returns of contributions and transfer value payments	144	151
Transfers to other pension funds	62	134
Total refunds and transfers	246	325

Notes to Financial Statements

Year ended March 31, 2009

16. 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 Treasury Board of Canada Secretariat, and OSFI. 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 Treasury Board of Canada 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.

OSFI provides actuarial valuation services and charges these costs to the Plan.

PSP Investments 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:

Administrative expenses (\$ millions)

	2009	2008
PWGSC	112	86
Treasury Board of Canada Secretariat	3	2
Office of the Superintendent of Financial Institutions	1	1
Total administrative expenses included in the service cost	116	89
PSP Investments		
Total PSP Investment operating expenses	62	56
Total administrative expenses	178	145

Notes to Financial Statements

Year ended March 31, 2009

17. 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 (\$ millions):

	2009	2008
Net balance and accrued pension benefits		
Balance of Account		
RCA Account	1,512	1,463
Refundable tax receivable	1,489	1,444
Employees contribution receivable for past service	1	1
Employers contributions receivable for past service	1	5
	3,003	2,913
Accrued pension benefits	2,850	2,643
Excess of the balance of the Account over the accrued pension benefits	153	270

Notes to Financial Statements

Year ended March 31, 2009

17. 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 (\$ millions):

	2009	2008
Changes in the balance of the Account		
Increase		
Contributions—employers	68	63
Contributions—employees	10	9
Interest income	102	103
Net change in prior service contributions receivable	(4)	4
Actuarial adjustment	10	10
Increase in refundable tax receivable	45	47
	231	236
Decrease		
Benefits paid	93	90
Refunds and transfers	3	7
Refundable tax remittance	45	47
	141	144
Increase in the balance of the Account	90	92

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 2008, no adjustment was made to RCA No. 1 (2008 – nil), but a credit adjustment of \$9.5 million was made to cover an actuarial deficiency to RCA No. 2 (2008 – \$9.5 million) during the year.

Notes to Financial Statements

Year ended March 31, 2009

18. Guarantees and Indemnity:

PSP Investments provides indemnification to its Directors, its Officers and to certain PSP Investments representatives who are asked to serve the boards or like bodies of entities in which substantial investments have been made. As a result, but subject to the *Public Sector Pension Investment Board Act*, PSP Investments may be required to indemnify these parties for costs incurred, such as claims, actions or litigations, in connection with the exercise of their duties. The Plan would assume a proportionate share of any indemnification costs incurred. To date, PSP Investments has not received any claims or made any payment for such indemnity.

As part of investment transactions, PSP Investments and its subsidiaries guaranteed letter of credit facilities. The beneficiaries of these letter of credit facilities have the ability to draw against these facilities to the extent that the contractual obligations, as defined in the related agreements, are not met. As at March 31, 2009, the maximum exposure of the Plan was \$11 million (2008 – \$9 million).

As at March 31, 2009, PSP Investments agreed to guarantee, as part of an investment transaction, a non-revolving term loan. In the event of 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 credit facilities, short-term promissory notes and medium-term notes issued by its wholly owned subsidiary, PSP Capital Inc.

19. 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, 2009, the outstanding commitments for the Plan amounted to \$5,494 million (\$3,356 million for private equity investments, \$1,301 million for real estate investments, \$419 million for public market investments and \$418 million for infrastructure investments).

Notes to Financial Statements

Year ended March 31, 2009

20. Contingency:

The PSPIBA 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 claims of the plaintiffs. Several of the plaintiffs have appealed this decision to the Ontario Court of Appeal. The outcome of these appeals is not determinable at this time.

21. 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 service before April 1, 2000. The interest is credited quarterly at rates calculated as though the amounts recorded in the Superannuation Account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity. 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 Superannuation Account during the year.

All contributions made by Plan members, the government, and participating employers for service accrued after March 31, 2000, are deposited in an internal government account, the Public Service Pension Fund Account. 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. The balance in the Pension Fund Account at year-end therefore represents amounts of net contributions awaiting imminent transfer to PSP Investments.

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 2009, no adjustment was made to the Pension Fund (nil in 2008) or to the Public Service Superannuation Account (nil in 2008).

Public Service Superannuation Account Statement

Year Ended March 31, 2009

	2009	2008
	(in dollars)	
Opening Balance	91,278,938,950	89,277,977,242
Receipts and Other Credits		
Contributions		
Government employees	7,988,761	8,954,994
Retired employees	27,729,494	29,375,459
Public service corporation employees	447,930	672,733
Employer contributions		
Government	28,519,554	30,290,329
Public service corporations	336,904	474,820
Transfers from other pension funds	(102)	1,736,497
Interest	6,283,094,996	6,376,281,714
Total	6,348,117,537	6,447,786,546
Payments and Other Charges		
Annuities	4,360,981,692	4,184,464,826
Minimum benefits	12,949,137	13,039,650
Pension division payments	30,758,759	32,786,630
Pension transfer value payments	44,154,692	56,836,072
Returns of contributions		
Government employees	114,972	184,245
Public service corporation employees	(3,346)	45,161
Transfers to other pension funds	35,705,788	89,574,514
Administrative expenses	87,598,342	69,893,740
Total	4,572,260,036	4,446,824,838
Receipts Less Payments	1,775,857,501	2,000,961,708
Closing Balance	93,054,796,451	91,278,938,950

The account transaction statement above is unaudited.

Public Service Pension Fund Account Statement

Year Ended March 31, 2009

	2009	2008
	(in dollars)	
Opening Balance	133,385,269	139,893,664
Receipts and Other Credits		
Contributions		
Government employees	1,121,980,999	991,172,231
Retired employees	21,699,670	18,895,096
Public service corporation employees	107,011,659	91,962,742
Employer contributions		
Government	2,222,087,153	2,123,699,672
Public service corporations	202,916,158	187,998,219
Transfers from other pension funds	42,309,994	39,306,040
Transfer value election	8,064,217	6,134,631
Total	3,726,069,850	3,459,168,631
Payments and Other Charges		
Annuities	333,397,692	238,069,481
Minimum benefits	5,195,074	5,038,314
Pension division payments	8,763,669	6,982,751
Pension transfer value payments	89,767,656	85,456,182
Returns of contributions		
Government employees	7,171,135	6,606,191
Public service corporation employees	2,580,753	2,024,351
Transfers to other pension funds	26,863,211	44,822,166
Administrative expenses	27,921,033	19,143,222
Total	501,660,223	408,142,658
Receipts Less Payments	3,224,409,627	3,051,025,973
Transfers to Public Sector Pension Investment Board	(3,178,176,230)	(3,057,534,368)
Closing Balance	179,618,666	133,385,269

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 (RCA) Account.

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 either to remit a 50-per-cent refundable tax for the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments.

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 2008, no adjustment was made to RCA No. 1 (nil in 2008), but a credit adjustment of \$9.5 million was made to cover an actuarial deficiency in RCA No. 2 during the year (\$9.5 million in 2008).

RCA No. 1

For tax purposes, financial transactions for Plan members who earned more than \$136,700 in 2009 are recorded separately. As at March 31, 2009, there are approximately 3,872 public service employees and 2,595 retirees in this category who receive RCA No. 1 benefits.

RCA No. 1 Statement (Public Service Portion)

Year Ended March 31, 2009

	2009	2008
	(in dollars)	
Opening Balance	643,763,221	595,383,842
Receipts and Other Credits		
Contributions		
Government employees	7,853,922	7,616,306
Retired employees	215,688	239,725
Public service corporation employees	1,521,120	1,272,032
Employer contributions		
Government	57,847,179	54,274,959
Public service corporations	10,573,680	9,111,188
Interest	47,060,117	45,147,438
Transfers from other pension funds	4,392	1,532
Transfer value election	850	455
Total	125,076,948	117,663,635
Payments and Other Charges		
Annuities	11,311,168	9,147,587
Minimum benefits	149,858	—
Pension division payments	800,968	771,428
Pension transfer value payments	489,657	514,772
Returns of contributions		
Government employees	27,674	6,172
Public service corporation employees	1,318	6,519
Transfers to other pension plans	1,772,445	5,382,797
Refundable tax	52,993,610	53,454,981
Total	67,546,698	69,284,256
Receipts Less Payments	57,530,250	48,379,379
Closing Balance	701,293,471	643,763,221

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, 2009

	2009	2008
	(in dollars)	
Opening Balance	818,932,811	825,841,342
Receipts and Other Credits		
Government contributions and interest		
Contributions	—	—
Interest	55,324,922	57,902,763
Actuarial liability adjustment	9,500,000	9,500,000
Total	64,824,922	67,402,763
Payments and Other Charges		
Annuities	81,228,801	80,392,826
Refundable tax	(7,714,836)	(6,081,532)
Total	73,513,965	74,311,294
Receipts Less Payments	(8,689,043)	(6,908,531)
Closing Balance	810,243,768	818,932,811

The account transaction statement above is unaudited.

Supplementary Death Benefit

As at March 31, 2009, there are 300,647 active participants and 137,374 retired elective participants in the Supplementary Death Benefit Plan. During 2008–09, 5,073 claims for Supplementary Death Benefits were paid.

Public Service Death Benefit Account Statement

Year ended March 31, 2009

	2009	2008
	(in dollars)	
Opening Balance	2,570,039,743	2,442,941,725
Receipts and Other Credits		
Contributions		
Employees (government and public service corporation)	81,448,228	76,769,559
Government		
General	8,483,041	8,190,526
Single premium for \$10,000 ¹ benefit	1,842,593	1,662,946
Public service corporations	1,072,326	1,022,750
Interest	178,766,500	176,473,318
Total	271,612,688	264,119,099
Payments and Other Charges		
Benefit payments		
General ²	101,256,684	97,786,749
\$10,000 benefit ³	37,663,129	38,764,647
Other death benefit payments	510,773	469,685
Total	139,430,586	137,021,081
Receipts Less Payments	132,182,102	127,098,018
Closing Balance	2,702,221,845	2,570,039,743

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 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 of 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	
2009		175,757		58,584		234,341	
2008		171,651		58,755		230,406	
2007		167,693		58,732		226,425	

Average Annual Amount—Pensions and Survivor Pensions in Pay ³							
Year		Pensions ¹			Survivor Pensions		
		Men	Women	Total	Spouse / Common- Law Partner	Children	Students
2009	Average annual amount	\$28,372	\$18,252	\$24,506	\$11,551	\$1,948	\$2,449
	Average age	70.82	69.02	70.13	77.79		
	Average pensionable service	25.45	21.63	23.99	22.05		
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		

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
2009	4,996	4,764	9,760	\$338,128,203	\$34,644
2008	5,020	4,403	9,423	\$315,850,872	\$33,519
2007	4,877	4,154	9,031	\$295,948,307	\$32,770

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
2009	2,783	252	3,035	\$37,392,248	\$13,198	\$2,628
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

1. For 2009, the pensions that became payable include immediate annuities (7,021), deferred annuities (492), annual allowances payable to former contributors only (1,690), and disability retirement benefits (557).
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}
2009	68	1,522	590	509	415	406	1,289	530	392	254	248	347	451	7,021	59.31	\$39,312
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

1. Includes unreduced pensions (immediate annuities); excludes immediate annuities resulting from disability retirement benefits (557 in 2009).
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 2009, there were 492 deferred annuities (250 men, 242 women) that became payable at age 60.
4. For 2009, the average retirement age for men was 59.45 and for women, 59.14.
5. These amounts include indexation.
6. For 2009, the average unreduced pension for men was \$39,437 and for women, \$39,150.

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				
2009	616	1,074	1,690	\$26,801	5,762	\$245,877,289
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

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, 2009

Changes in Number of Active Contributors			
	Men	Women	Total
Number of Active Contributors, April 1, 2008	132,074	162,905	294,979
Additions	14,297	18,531	32,828
Deletions			
Employees leaving the public service ¹	8,268	9,414	17,682
Reversions to non-contributory status ²	441	400	841
Deaths	200	176	376
Total Deletions	8,909	9,990	18,899
Adjustments⁴	(375)	(568)	(943)
Number of Active Contributors, March 31, 2009	137,087	170,878	307,965

Changes in Number of Retirees ³	
	Total
Number of Retirees, April 1, 2008	171,651
Additions	9,760
Deletions	5,383
Adjustments⁴	(271)
Number of Retirees, March 31, 2009	175,757

Changes in Number of Survivors on Pensions

Survivors	
	Total
Number of Survivors on Pension, April 1, 2008	56,704
Additions	2,783
Deletions	2,515
Adjustments⁴	(377)
Number of Survivors on Pension, March 31, 2009	56,595

Children and Students	
	Total
Number of Children and Students on Pension, April 1, 2008	2,051
Additions	252
Deletions	38
Adjustments⁴	(276)
Number of Children and Students on Pension, March 31, 2009	1,989

1. Includes full return of contributions, immediate annuities, annual allowances paid, options not yet made, transfer values, deferred annuities chosen, deferred annuities locked in (if applicable), and transfers out.
2. Describes contributors that ceased making contributions temporarily (e.g., part-time, leave without pay).
3. Does not include 5,985 deferred annuitants as at March 31, 2009.
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, 2009

Years of Pensionable Service ²	Age at Termination ¹						Total (\$)
	Under 30	30–34	35–39	40–44	45–49	Total	
Under 5	176	134	114	63	69	556	
5–9	41	114	94	97	80	426	
10–14		9	46	55	42	152	
15–19			15	36	55	106	
20–24				11	26	37	
25–29				2	25	27	
30–35					2	2	
Men, Total	83	115	119	132	129	578	
Women, Total	134	142	150	132	170	728	
Overall Total	217	257	269	264	299	1,306	\$133,922,348

1. Average age for contributors receiving transfer-value payments was 38.61 years for men, 37.98 years for women, and 38.26 for men and women combined.
2. Average pensionable service for contributors receiving transfer-value payments was 8.08 years for men, 7.45 years for women, and 7.73 for men and women combined.

Table 7

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

Year ended March 31

Year	Active Participants			Retired Participants ¹			Death Benefits Paid			
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Amount Paid
2009	132,206	168,441	300,647	86,482	50,892	137,374	3,609	1,464	5,073	\$139,430,586
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

1. Includes 49 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 Public Service pension plan (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 the 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 for 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 the 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 & Poor's company selects companies for inclusion in the S&P/TSX Composite Index.

Standard & Poor's 500 Composite Index (S&P 500 Index)—US 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 & 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 CPP and QPP contributions can be made (earnings ceiling) during the year.