



Treasury Board of Canada  
Secrétariat

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du Canada

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## ANNUAL REPORT



# Report on the Public Service Pension Plan

For the Fiscal Year Ended March 31, 2011

Canada





# **Report on the Public Service Pension Plan**

For the Fiscal Year Ended March 31, 2011

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

Excellency:

I have the honour to submit to Your Excellency the *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2011*.

Respectfully submitted,

Original signed by

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

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## Message from the President of the Treasury Board

I am pleased to table the *Report on the Public Service Pension Plan for the Fiscal Year Ending March 31, 2011*. This report is an important way to communicate with parliamentarians, public servants, and Canadians.

Over the past two years, much has been accomplished to ensure plan members have easy access to information about their pension plan. Services have been centralized, and new information and a variety of resources have been developed to connect plan members to the Pensions and Benefits community. This annual report helps us communicate these programs and activities.

Public service employees have made it clear that their pension plan is critical when it comes to attracting and retaining the best employees and fostering efficient, collaborative, and innovative workplaces. The government recognizes that the pension benefit is an important and valuable component of total compensation that enables a stable workforce. The government remains committed to maintaining the stability and sustainability of the pension plan.

Also contained in this report is the Auditor General's report on the 2011 Financial Statements and associated documentation for the public service pension plan. The Interim Auditor General issued his opinion that the financial statements present fairly, in all material respect, the financial position of the pension plan for the year ended March 31, 2011, in accordance with Canadian generally accepted accounting principles.

The Government of Canada places great importance on the financial integrity of the public service pension plan, and I would like to thank all those involved in preparing this report.

Original signed by

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



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

## Message from the Chief Human Resources Officer

This is the second year I have been asked to contribute a few opening words to the annual *Report on the Public Service Pension Plan*. I continue to be very impressed with the activities I have seen taking place over the last two years.

Part of this work has been to refresh pension plan administration and strengthen the enabling role of the Pensions and Benefits Sector of the Treasury Board of Canada Secretariat. Over the past two years, we have seen the culmination of some of these efforts in the successful centralization of pension services through the Public Service Pension Centre, the Web portal [Your Public Service Pension and Benefits](#), and the development of tools and resources to better connect employees to their pension plan. Online initiatives for pension plan members, such as applications for the Pension Calculator and the Service Buyback Estimator, are constantly evolving to be more complete and secure.



**Daphne Meredith,**  
Chief Human Resources  
Officer

Public Works and Government Services Canada (PWGSC) has also been hard at work on the Government of Canada Pension Modernization Project. This four-year initiative was undertaken with the goal of modernizing pension plan administration and business processes, taking an over forty-year-old system and bringing it in line with current industry best practices. The project is due to wrap up over the next year, and the result will be a more flexible, efficient and cost-effective pension regime. I would like to congratulate PWGSC on the progress of this important work to date.

As we continue to further improve the work we do, this report helps plan members, parliamentarians, and Canadians to obtain the information and related services they need to make informed decisions about the public service pension plan.

Original signed by

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Daphne Meredith,  
Chief Human Resources Officer  
Treasury Board of Canada Secretariat

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## Federal Public Service Pension Plan Overview

The public service pension plan provides pension benefits for federal public service employees. It was established and is governed in all aspects by the *Public Service Superannuation Act*<sup>i</sup> (PSSA). The plan is a contributory defined benefit plan covering substantially all of the employees of the Government of Canada, some Crown corporations, and territorial governments.<sup>1</sup> The government has a statutory obligation for the payment of benefits relating to the pension plan.

The public service pension plan is the largest pension plan in Canada, covering approximately 316,000 active contributors in more than 145 departments and agencies, and 243,000 retired members and survivors. During the fiscal year ending March 31, 2011, pension plan member and employer pension contributions on a cash basis totalled \$4.3 billion, while benefit payments to retired members and survivors reached \$5.2 billion. The value of accrued pension benefits increased to \$134.2 billion by March 31, 2011. Assets earmarked for the public service pension plan totalled \$42.3 billion as of March 31, 2011.

### Year at a Glance, 2010–11

- ▶ Total plan membership increased by 0.6 percent to 564,901 members.
- ▶ Active contributors decreased by 0.3 percent to 316,206 members.
- ▶ Retired members increased by 2.9 percent to 184,835 members.
- ▶ Total employer<sup>2</sup> and employee cash contributions remained at \$4.3 billion.
- ▶ Total benefit payments to eligible pension plan members and survivors increased by 5.1 percent to \$5.2 billion.
- ▶ The value of accrued pension benefits increased by 5.9 percent to \$134.2 billion.
- ▶ The value of the assets held by the Public Sector Pension Investment Board (PSPIB)<sup>3</sup> increased over the past year to \$42.3 billion. The investment return for the year was 14.5 percent.
- ▶ The net amount transferred to PSPIB during 2010–11 totalled \$3.6 billion.
- ▶ The average annual pension for new retirees was \$35,799, an increase of 0.4 percent over 2009–10.

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1. The public service pension plan is a statutory superannuation scheme and, as such, is operated and governed somewhat differently than a traditional pension plan.

2. The employer is defined as the Government of Canada, some Crown corporations, and territorial governments.

3. PSPIB operates under the commercial name of PSP Investments. Both names are used interchangeably throughout the report. (See the Roles and Responsibilities section for information on PSPIB.)

## Operational Highlights

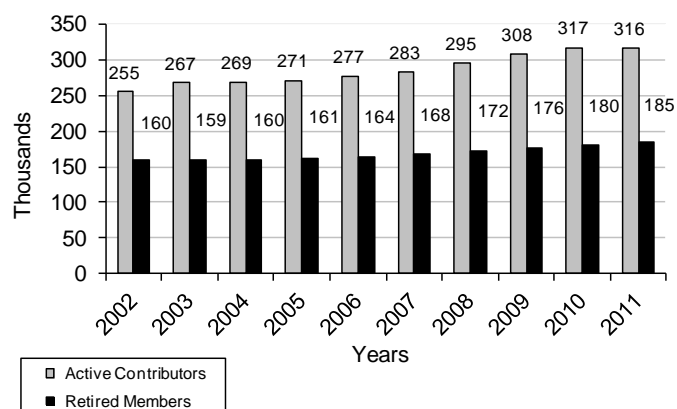
In the fiscal year ended March 31, 2011, the following operational highlights were achieved:

- ▶ Amended the *Public Service Superannuation Regulations* (PSSR) to increase the maximum age to accrue pension benefits under a registered pension plan to age 71 from age 69.
- ▶ Implemented communication initiatives to respond to the results of the first survey of active and retired pension plan members.
  - Created a new communications product entitled *Your Pension at a Glance* to provide plan members with an overview of their entitlements under the public service pension plan.
  - Expanded promotional outreach events to target and reach additional plan members in promoting the Web portal [Your Public Service Pension and Benefits](#).<sup>ii</sup>
- ▶ Continued implementation of the Government of Canada Pension Modernization Project.

## Demographic Highlights

Figure 1. Membership Profile from 2002 to 2011 (year ended March 31)

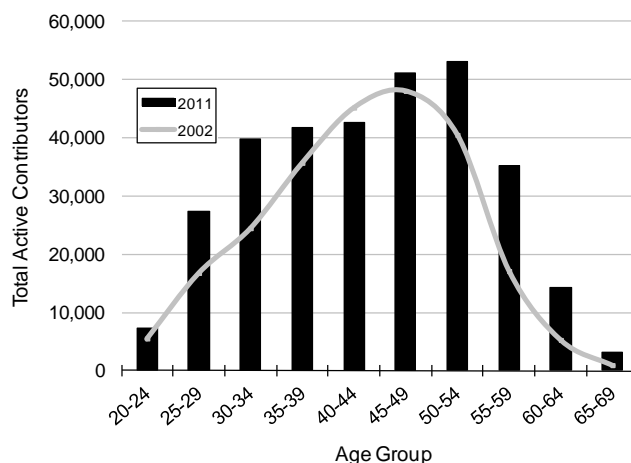
This figure demonstrates the number of active contributors relative to retired members over the last 10 years.



The 10-year annual average growth rate<sup>4</sup> for active contributors was 2.4 percent compared with 1.6 percent for retired members.

Figure 2. Profile of Active Contributors by Age Group in 2002 and 2011 (year ended March 31)

The number of active contributors has increased from 2002 to 2011 for each age group, except for the 40–44 age category.



4. The average annual growth rate is the compounded growth rate or geometric mean.

Table 1. Comparison of Membership Distribution in 2002 and 2011  
(year ended March 31)

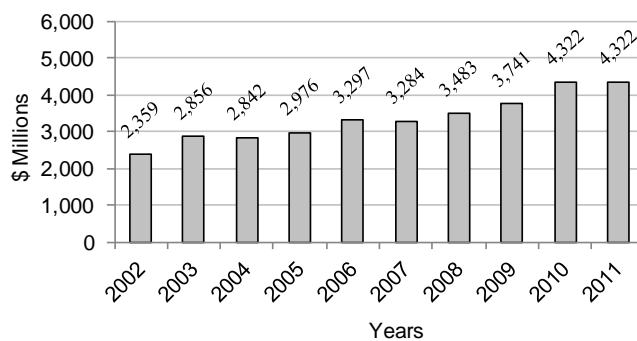
Membership Profile	Number of Member Participants 2002	Percentage of Total 2002	Number of Member Participants 2011	Percentage of Total 2011	Percent Change 2002–11
Active contributors	255,231	53.5	316,206	<b>56.0</b>	<b>23.9</b>
Retirees	159,542	33.4	184,835	<b>32.7</b>	<b>15.9</b>
Survivors	57,344	12.0	58,165	<b>10.3</b>	<b>1.4</b>
Deferred annuitants	5,429	1.1	5,695	<b>1.0</b>	<b>4.9</b>
<b>Total</b>	<b>477,546</b>	<b>100.0</b>	<b>564,901</b>	<b>100.0</b>	<b>18.3</b>

Over the period 2002–11, the number of active contributors increased by 23.9 percent, and the number of retired members increased by 15.9 percent. Over the same period, the number of survivors increased by 1.4 percent, and the number of deferred annuitants increased by 4.9 percent.

## Financial Highlights

Figure 3. Total Cash Contributions from 2002 to 2011 (year ended March 31)

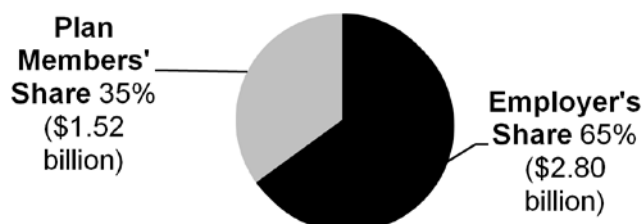
The total amount of cash contributions from both the employer and plan members over the period 2002–11 is as follows:



The annual growth rate in cash contributions from both the employer and plan members over the past nine years averaged 7.0 percent. Contributions do not include year-end accrual adjustments, as is reported in the financial statements.

Figure 4. Current and Past Cash Contributions (year ended March 31, 2011)

The share of total cash contributions between the employer and plan members as at March 31, 2011, is as follows:



The public service pension plan benefits are financed through contributions from both the employer and plan members. Cash contributions received during 2010–11 totalled \$4.3 billion, excluding year-end accrual adjustments; plan members contributed \$1.5 billion, and the employer contributed \$2.8 billion. The contributions presented in the Financial Statements section include year-end accrual adjustments. Both the employer and plan member contributions are compulsory. In the 2011 calendar year, plan member contributions were equal to 5.8 percent of annual salary up to the year's maximum pensionable earnings defined by the Canada and Québec Pension Plans (CPP/QPP), which was \$48,300 in 2011, and 8.4 percent of annual salary above this amount. During the fiscal year, plan members paid approximately 35 percent of the total contributions made in respect of current and past service, as shown in Figure 4.

Since 2006, plan member contribution rates have gradually increased to better align member contributions with the cost of plan benefits and to reflect the Government of Canada's movement toward the balanced cost-sharing ratios that were announced in 2005.

Figure 5. Benefit Payments from 2002 to 2011 (year ended March 31)

This figure presents the total amount of benefits paid to plan members and survivors each year from 2002 to 2011. Benefit payments have increased on average 4.8 percent annually.

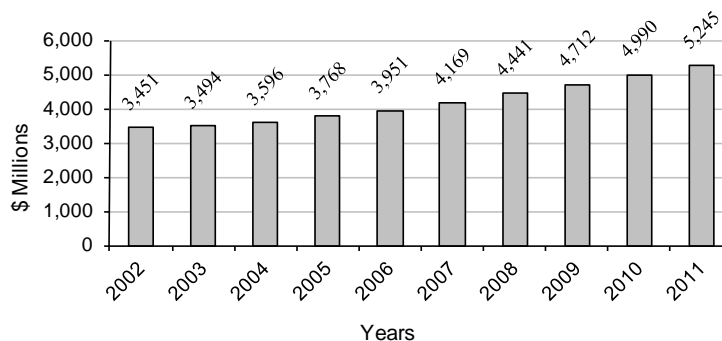
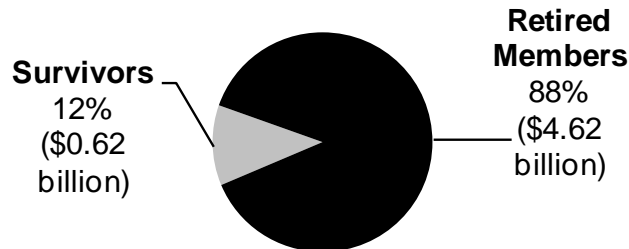


Figure 6. Benefit Payments (year ended March 31, 2011)

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

In 2010–11, the pension plan paid out \$5.2 billion in benefits, an increase of \$255 million over the previous year.



Benefits were paid to 243,000 retired members and survivors, compared with 238,245 in 2009–10. Of the 10,632 newly retired members in 2010–11:

- ▶ 7,874 were entitled to immediate annuities;
- ▶ 1,709 received annual allowances;
- ▶ 616 were eligible to receive disability retirement benefits; and
- ▶ 433 were entitled to deferred annuities.

Newly retired members received an average annual pension of \$35,799 in 2010–11, compared with \$35,644 in 2009–10.

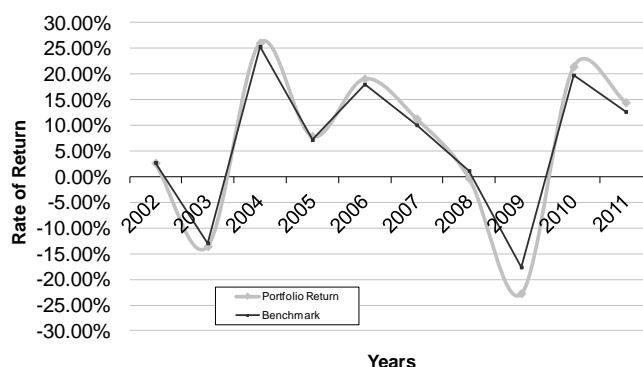
Benefits paid to retired members (i.e., \$4.6 billion), including those paid to plan members who retired on grounds of disability, represented 88 percent of the 2010–11 pension payment; benefits paid to survivors (i.e., \$623 million) represented 12 percent.

In 2010–11, 1,279 plan members left the public service before age 50 and withdrew approximately \$130 million (i.e., the present value of their future benefits) as lump-sum amounts. These sums were transferred to other pension plans or to locked-in retirement vehicles.



Figure 7. Rate of Return on the Assets Held by PSPIB from 2002 to 2011 (year ended March 31)

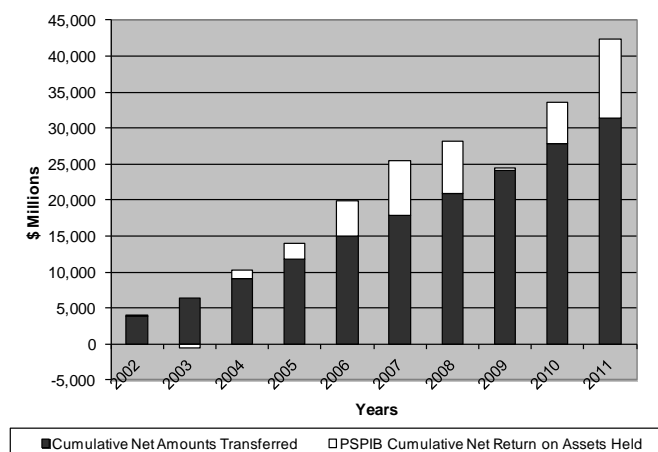
This figure demonstrates the rate of return on the assets held by PSPIB against its comparative benchmark.



Additional information concerning the rate of return on assets held by PSPIB and comparative benchmarks is available on the [PSP Investments website](#).<sup>iii</sup>

Figure 8. Net Assets Held by PSPIB from 2002 to 2011 (year ended March 31)

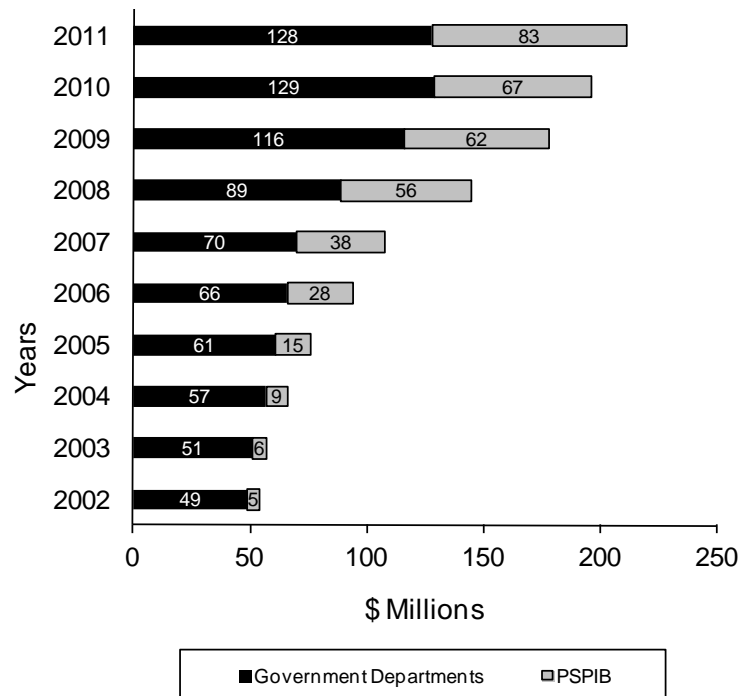
The total value of assets held by PSPIB, including the cumulative net amounts transferred and the cumulative net return on assets held at year ended March 31, are as follows:



As at March 31, 2011, the cumulative amount of funds transferred to PSPIB over the last 10 years represented 74.3 percent or \$31.6 billion of the \$42.3 billion reported in Figure 8.

Figure 9. Administrative Expenses from 2002 to 2011 (year ended March 31)

This figure presents the administrative expenses charged to the public service pension plan each year from 2002 to 2011 as shared between government departments and PSPIB.

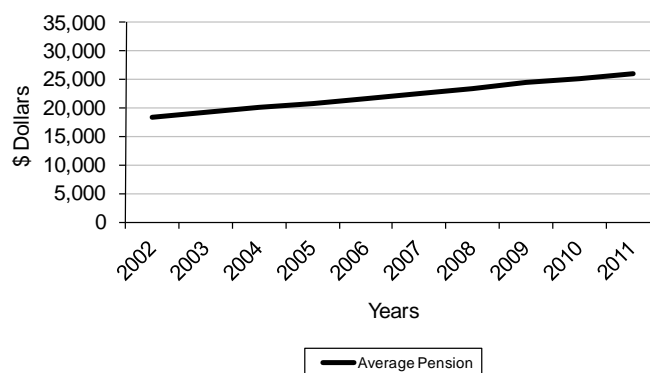


The increase in administrative expenses over the past few years is due in large part to the capital expenditure requirement related to the pension modernization project started in 2007–08 (see the Pension Modernization Project section for information). It is scheduled to be completed in 2012–13, and lower administration costs are anticipated.

Total expenses have also increased as a result of the growth in membership and in investments under PSPIB’s management.

Figure 10. Average Pension for Plan Members from 2002 to 2011  
(year ended March 31)

This figure presents the average pension paid to plan members from 2002 to 2011. As at March 31, 2011, the average pension was \$25,991.



## Pension Objective

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

## Historical Context

The first Act entitling certain public service employees to retirement income came into effect in 1870. The public service pension plan took many forms between 1870 and 1954 until the PSSA became effective January 1, 1954. The PSSA introduced an important change in 1954 whereby pension coverage was broadened to include substantially all employees of the public service.

In 1966 with the introduction of the CPP/QPP, major amendments were made to the PSSA that included coordination of public service pension plan contribution rates and benefits with those of the CPP/QPP.

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

contributions (i.e., total employer and plan member contributions minus benefit payments and administrative expenses of the plan) to PSPIB.

Amendments to the PSSA were made in 2006 when the reduction factor used to calculate a pension at age 65 was lowered. This change increased public service pension benefits for members reaching age 65 in 2008 or later.

In 2010–11, following amendments to the *Income Tax Act* (ITA) that increased the maximum age to accrue pension benefits under a registered pension plan, the PSSR was amended to allow members of the public service pension plan who reached age 70 or 71 in 2007 to buy back up to two years of pensionable service and increase their annual pension upon retirement. These new regulatory provisions provide an opportunity to individuals in this age category to elect to add that missing period to their pensionable service and have this period used in determining the amount of their pension benefits.

## Roles and Responsibilities

The responsibility for managing and administering the public service pension plan is shared primarily between two organizations: the Treasury Board of Canada Secretariat (the Secretariat) and Public Works and Government Services Canada (PWGSC), with overall responsibility for the plan resting with the President of the Treasury Board. The Secretariat, as the administrative arm of the Treasury Board, supports the President of the Treasury Board with the overall management of the pension plan. In addition, the Office of the Chief Actuary (OCA) provides advice and a range of actuarial services, and the Public Service Pension Advisory Committee advises the President on the administration, design and funding of the benefits and on other pension-related matters referred to it by the President. PSPIB manages the assets earmarked for the public sector pension plan.

The respective roles and responsibilities of each of the five organizations are described as follows.

### Treasury Board of Canada Secretariat

The President of the Treasury Board is responsible for the overall management of the public service pension plan; the Secretariat is responsible for strategic direction, program and policy advice, financial analysis, and the development of legislation related to the public service pension plan. As well, the Secretariat is responsible for communications to pension plan members, including the preparation of the annual *Report on the Public Service Pension Plan*.

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The Secretariat, through the Office of the Comptroller General (OCG), also provides PWGSC with general accounting guidance in the preparation of the public service pension plan's financial statements. The OCG chairs the Interdepartmental Committee on Pension Accounting, which meets once a year to evaluate and decide on actuarial assumptions to be used for the purposes of the Public Accounts.

## Public Works and Government Services Canada

PWGSC is responsible for the day-to-day administration of the public service pension plan. This includes the development and maintenance of the public service pension systems and books of accounts, records, and internal controls, as well as the preparation of Account Transaction Statements for reporting in the Public Accounts.

In addition, PWGSC processes payments and carries out all accounting and financial administrative functions. PWGSC, along with the Secretariat, is also responsible for the preparation of the public service pension plan's financial statements and the annual *Report on the Public Service Pension Plan*.

## Public Sector Pension Investment Board

**PSPIB** is a Canadian Crown corporation established by the PSPIBA to invest the amounts transferred by the Government of Canada since April 1, 2000, that have been earmarked for the pension plans of the federal public service, the Royal Canadian Mounted Police and the Canadian Forces. PSPIB is governed by an 11-member board of directors accountable to Parliament through the President of the Treasury Board, who is responsible for the Act and for the tabling in Parliament of PSPIB's annual report. The relevant financial results of PSPIB are included in the pension plan's financial statements. Amounts equal to contributions in excess of benefit payments and administrative expenses are regularly transferred to PSPIB and invested in capital markets. The legislative mandate of PSPIB is to maximize returns without undue risk of loss, having regard to the funding, policies and requirements of the four major public sector pension plans (the Public Service, the Royal Canadian Mounted Police, the Canadian Forces – Regular Force and the Canadian Forces – Reserve Force pension plans).

## Office of the Chief Actuary

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

## Public Service Pension Advisory Committee

The Public Service Pension Advisory Committee, established under the PSSA, is composed of 13 representatives: 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 public service pension plan's administration, benefit design, and funding.

## Public Works and Government Services Canada as Day-to-Day Administrator

Through its pay and pension services, the [PWGSC Compensation Sector](#),<sup>v</sup> ensures that federal government employees and retired pension plan members receive their pay and benefit payments accurately and on time. PWGSC administers payroll services for separate employers and other federal organizations, as well as the pension benefit accounts for 243,000 retired public service pension plan members and survivors. In total, this involves payments of approximately \$27 billion annually.

## Key Achievements, 2010–11

### Implemented a Number of Communication Initiatives to Respond to the Results of the First Baseline Survey of Active and Retired Public Service Plan Members

In early 2010, the Government of Canada obtained the results of the first survey of active and retired pension plan members, which was conducted in 2009. The survey results indicated that plan members would like to receive more information about their pension plan and would like this information provided in both print and electronic formats. In response to the survey results, a number of initiatives aimed at improving communications with plan members have been implemented, including the following:

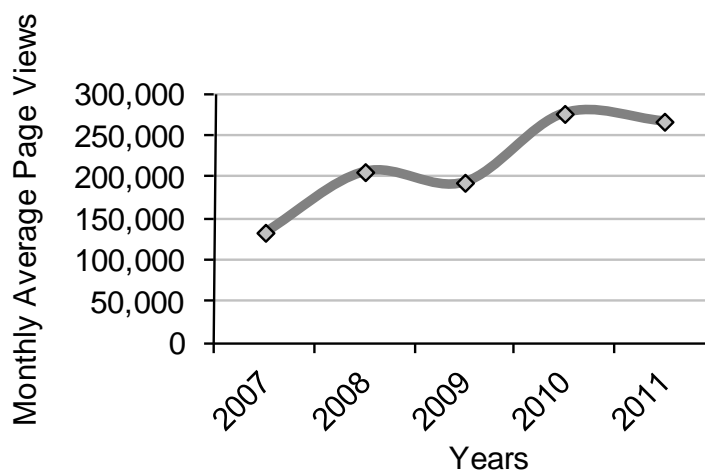
- ▶ Publishing articles in the 2011 edition of the newsletter *Your Pension and Benefits Liaison* that address retired plan members' recurring pension and benefits questions;

- ▶ Creating the information booklet *Your Pension at a Glance*, available online and in print, to provide plan members with an overview of the main features of the public service pension plan; and
- ▶ Expanding the scope of outreach events to more plan members in promoting the Web portal [Your Public Service Pension and Benefits](#).<sup>vi</sup>

As part of the Government of Canada's continued efforts to provide accessible quality information to public service pension plan members, the Secretariat and PWGSC have partnered to manage the Web portal. This comprehensive pension and benefits site provides authoritative pension and insurance benefits information for active and retired plan members, survivors and dependants, as well as for prospective employees of the Government of Canada who are interested in finding out more about their potential pension and insurance benefits. This portal is a single entry point to pension and group insurance benefits information, services and tools, and is designed to assist plan members in making informed decisions at different stages of their lives and careers.

Figure 11. Your Public Service Pension and Benefits Web Portal Monthly Average Page Views

This portal continues to be one of the main sources of information for active and retired plan members. The number of page views has doubled since its launch in October 2006.



## Pension Modernization Project

The pension administration transformation initiative, which consists of the Government of Canada Pension Modernization Project and the Centralization of Pension Services Delivery Project, was undertaken to replace outdated pension systems and to centralize the delivery of employee pension services at PWGSC.

By streamlining operations through the pension transformation initiative, PWGSC expects to generate approximately \$29 million annually in government-wide savings.

In 2010–11, the Government of Canada Pension Modernization Project completed the development and testing of the largest and most complex of its five releases. Scheduled to be implemented in April 2011, this release will provide the new core pension system and functionality for the administration of active member (contributor) accounts.

To date, the Centralization of Pension Services Delivery Project has centralized 9 of the 12 pension services to the Public Service Pension Centre located in Shediac, New Brunswick. In 2010–11, the project completed the development activities of the remaining three services, Benefit Entitlements, Survivor Pension Entitlements, and Employer Support services, planned to be centralized in April 2011.

The Public Service Pension Centre received over 300,000 calls to their call centre during the fiscal year ended March 31, 2011. These calls included inquiries on a variety of pension services ranging from service buy-back to survivor benefits. The number of calls from retired members accounted for roughly 85 percent of the calls; 15 percent of the calls were from active members. With the 2011 completion of the Centralization of Pension Services Delivery Project, it is expected that calls from active members will greatly increase in future years because all pension service calls will be forwarded to the Public Service Pension Centre.

## Summary of Benefits

The following presents a brief description of the main benefits offered under the public service pension plan. If there is a discrepancy between this information and information contained in the PSSA, the PSSR or other applicable laws, the legislation prevails at all times.

## Types of Benefits

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



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

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

## Protection from Inflation

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

## Survivor Benefits

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

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

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

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

## Financial Statements Content Overview

### Financial Audit

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

### Canadian Auditing Standards

The audit of the public service pension plan was conducted by the OAG in accordance with Canadian Auditing Standards (CAS), which came into effect for audits of financial statements for periods ending on or after December 14, 2010. CAS is based on international standards for auditing and quality control.

The auditor's report has been enhanced under CAS to expand and clarify the auditor's and management's responsibilities. The auditor's report is now referred to as the Independent Auditor's Report.

### Actuarial Valuation

Pursuant to the *Public Pensions Reporting Act*, the President of Treasury Board directs the Chief Actuary of Canada to conduct an actuarial valuation for funding purposes at least every three years. The last funding valuation was conducted as at March 31, 2008, and the actuarial report was tabled in Parliament by the President of the Treasury Board on November 19, 2009. The purpose of the actuarial review is to determine the state of the pension account and fund as well as to assist the President of the Treasury Board in making informed decisions regarding the financing of the government's pension benefit obligation.

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

## Net Assets and Other Accounts Available for Benefits

The Statement of Changes in Net Assets and Other Accounts Available for Benefits shows the amount, as at March 31, 2011, available for payment of current pensions and accrued pension benefits that are payable in the future to eligible pension plan members, survivors and dependants. As at that date, \$139.4 billion is available for benefits, an increase of \$9.8 billion from March 31, 2010.

This Statement shows that credits come from a number of different sources, including contributions from pension plan members and the employer, income from investments and interest credited, and transfers to the public service pension plan from other pension funds when employees leave an outside organization and join an employer covered under the PSSA. Amounts are debited from the public service pension plan to cover benefits, administrative expenses, and transfers or refunds from the public service pension plan to other registered pension plans. Further details can be found in the Financial Statements section.

## Investment Management

Contributions relating to service since April 1, 2000, are recorded in the Public Service Pension Fund. An amount equal to contributions in excess of benefit payments and administrative expenses is transferred regularly to PSPIB and invested in capital markets.

PSPIB's statutory objectives are to manage the funds transferred to it in the best interests of the contributors and beneficiaries, and invest its assets with a view to achieving a maximum rate of return without undue risk of loss, having regard to the funding, policies and requirements of the pension plan. Accordingly, PSPIB's board of directors has established an investment policy whereby the expected real rate of return is at least equal to the long-term valuation discount rate assumption. This rate is the same as that used in the most recently tabled actuarial valuation for funding purposes of the public service pension plan. That rate was set at 4.3 percent in the *Actuarial Report on the Pension Plan for the Public Service of Canada* as at March 31, 2008.

As noted in PSPIB's *2011 Annual Report*, the investments allocated to the public service pension plan during the year ended March 31, 2011, were in compliance with the PSPIBA and the statement of investment policies, standards and procedures approved by its board of directors.

## Accrued Pension Benefits

The Statement of Changes in Accrued Pension Benefits shows the present value of benefits earned for service to date and payable in the future. As at March 31, 2011, the value of accrued pension benefits is \$134.2 billion, an increase of \$7.5 billion from the previous fiscal year.

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

In 2010–11, the assets held by PSPIB earned a rate of return of 14.5 percent. In accordance with the current investment policy, the assets are invested with a long-term target weight of 66 percent in equities, 16 percent in fixed income securities, and 18 percent in real return assets. Refer to Note 4 and Note 5 of the financial statements for additional detail.

## Interest Credited on the Public Service Superannuation Account

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

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

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Percentage Interest on Account	8.7	8.5	8.3	8.0	7.8	7.5	7.3	7.0	6.7	<b>6.5</b>

## Administrative Expenses

Legislation provides for the pension-related administrative expenses of government organizations to be charged to the public service pension plan, namely, those of the Secretariat, PWGSC, and the OCA. The operating expenses of PSPIB are also charged to the public service pension plan. In 2010–11, total expenses charged to the pension plan were \$128 million (\$129 million in 2009–10) for government departments and \$83 million (\$67 million in 2009–10) for PSPIB.

The increase in administrative expenses over the past few years is due in large part to the capital expenditure requirement related to the pension modernization project started in 2007–08, which is expected to end in 2012–13. Total expenses have also increased as a result of the growth in membership and in investments under PSPIB's management.

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## Transfer Agreements

The pension plan has transfer agreements with approximately 100 employers, including other levels of government, university, and private sector employers. During 2010–11, \$72 million (\$110 million in 2009–10) was transferred into the public service pension plan, and \$71 million (\$36 million in 2009–10) was transferred out of the public service pension plan under these agreements.

## Retirement Compensation Arrangements

Under the authority of the *Special Retirement Arrangements Act*, separate Retirement Compensation Arrangements (RCAs) 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 value of accrued pension benefits are not consolidated in the public service pension plan's financial statements, but a summary of these arrangements is provided in the accompanying notes.

RCA No. 1 provides for benefits in excess of those permitted under the ITA for registered pension plans. In 2011, this primarily included benefits on salaries over \$142,800 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 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 RCA Account in the Public Accounts. The balance in the RCA Account is credited with interest at the same rate as that of the Public Service Superannuation Account.

## Pension Litigation

The PSPBIA, 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 Public Service Pension Fund. The legal validity of these provisions has been challenged in the Superior Court of Justice in Ontario. On November 20, 2007, the court rendered its decision and dismissed all the plaintiffs' claims. The plaintiffs appealed this decision to the Court of Appeal for Ontario, and on October 8, 2010, the court dismissed the appeals. The plaintiffs applied for leave to appeal to the Supreme Court of Canada in December 2010. On May 5, 2011, the Supreme Court of Canada granted the application for leave to appeal. The hearing date for the appeal has been set for February 9, 2012.

## Further Information

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

- ▶ [Treasury Board of Canada Secretariat<sup>vii</sup>](#)
- ▶ [Office of the Chief Actuary<sup>viii</sup>](#)
- ▶ [Public Sector Pension Investment Board<sup>ix</sup>](#)
- ▶ [Public Service Superannuation Act<sup>x</sup>](#)
- ▶ [Public Works and Government Services Canada, Compensation Sector<sup>xi</sup>](#)
- ▶ [Your Public Service Pension and Benefits<sup>xii</sup>](#) Web portal

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Financial Statements of the  
Public Service Pension Plan  
for the Fiscal Year  
Ended March 31, 2011

## Statement of Responsibility

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

The financial statements of the pension plan for the year ended March 31, 2011, 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, PWGSC has developed and maintains books, records, internal controls, and management practices designed to provide reasonable assurance as to the reliability of the financial information and to ensure that transactions are in accordance with the *Public Service Superannuation Act* (PSSA) and regulations, as well as the *Financial Administration Act* (FAA) and regulations.

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

These statements have been audited by the Interim 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 15, 2011



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

November 15, 2011





## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

I have audited the accompanying financial statements of the public service pension plan, which comprise the 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 31 March 2011, and the statement of changes in net assets and other accounts available for benefits, statement of changes in accrued pension benefits and statement of changes in excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the stated accounting policies set out in Note 2 to the financial statements, which conform with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the 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 31 March 2011, 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.



Auditor General of Canada  
Vérificateur général du Canada

#### Report on Other Legal and Regulatory Requirements

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

A handwritten signature in blue ink, appearing to read 'John Wiersema'.

John Wiersema, FCA  
Interim Auditor General of Canada

15 November 2011  
Ottawa, Canada

## 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 (\$ millions)

	2011	2010
<b>Net Assets and Other Accounts Available for Benefits</b>		
<b>Assets</b>		
Public Service Pension Fund Account (Note 3)	\$231	\$260
Investments (Note 4)	44,375	35,045
Investment-related assets (Note 4)	1,075	584
Contributions receivable—post–March 31, 2000 service (Note 6)	926	870
Other assets (Note 7)	48	40
<b>Total Assets</b>	<b>\$46,655</b>	<b>\$36,799</b>
<b>Liabilities</b>		
Investment-related liabilities (Note 4)	\$3,140	\$1,970
Accounts payable	59	38
<b>Net Assets</b>	<b>\$43,456</b>	<b>\$34,791</b>
<b>Other Accounts</b>		
Public Service Superannuation Account (Note 3)	\$95,782	\$94,569
Contributions receivable—pre–April 1, 2000 service (Note 6)	181	215
<b>Net Assets and Other Accounts Available for Benefits</b>	<b>\$139,419</b>	<b>\$129,575</b>
Actuarial asset value adjustment (Note 10)	(3,308)	(1,002)
<b>Actuarial Value of Net Assets and Other Accounts Available for Benefits</b>	<b>\$136,111</b>	<b>\$128,573</b>
<b>Accrued Pension Benefits (Note 10)</b>	<b>\$134,217</b>	<b>\$126,694</b>
<b>Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits (Note 11)</b>	<b>\$1,894</b>	<b>\$1,879</b>

Commitments and Contingency (Notes 19 and 20)

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

## Financial Statements (cont'd)

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

Year ended March 31 (\$ millions)

	2011	2010
<b>Net Assets and Other Accounts Available for Benefits, Beginning of Year</b>	<b>\$129,575</b>	<b>\$118,960</b>
<b>Increase in Net Assets and Other Accounts Available for Benefits</b>		
Interest income on the Public Service Superannuation Account (Note 3)	\$6,005	\$6,160
Investment income (Note 13)	5,130	5,525
Contributions (Note 12)	4,343	4,178
Transfers from other pension funds	72	110
<b>Total Increase in Net Assets and Other Accounts Available for Benefits</b>	<b>\$15,550</b>	<b>\$15,973</b>
<b>Decrease in Net Assets and Other Accounts Available for Benefits</b>		
Benefits paid	\$5,245	\$4,990
Refunds and transfers (Note 15)	250	172
Administrative expenses (Note 16)	211	196
<b>Total Decrease in Net Assets and Other Accounts Available for Benefits</b>	<b>\$5,706</b>	<b>\$5,358</b>
<b>Net Increase in Net Assets and Other Accounts Available for Benefits</b>	<b>\$9,844</b>	<b>\$10,615</b>
<b>Net Assets and Other Accounts Available for Benefits, End of Year</b>	<b>\$139,419</b>	<b>\$129,575</b>

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

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## Financial Statements (cont'd)

### Statement of Changes in Accrued Pension Benefits

Year ended March 31 (\$ millions)

	2011	2010
<b>Accrued Pension Benefits, Beginning of Year</b>	<b>\$126,694</b>	<b>\$120,053</b>
<b>Increase in Accrued Pension Benefits</b>		
Interest on accrued pension benefits	\$7,936	\$7,571
Benefits earned	4,357	3,956
Changes in actuarial assumptions (Note 10)	1,238	(585)
Transfers from other pension funds	72	110
<b>Total Increase in Accrued Pension Benefits</b>	<b>\$13,603</b>	<b>\$11,052</b>
<b>Decrease in Accrued Pension Benefits</b>		
Benefits paid	\$5,245	\$4,990
Experience gains (losses)	457	(880)
Refunds and transfers (Note 15)	250	172
Administrative expenses included in the service cost (Note 16)	128	129
<b>Total Decrease in Accrued Pension Benefits</b>	<b>\$6,080</b>	<b>\$4,411</b>
<b>Net Increase in Accrued Pension Benefits</b>	<b>\$7,523</b>	<b>\$6,641</b>
<b>Accrued Pension Benefits, End of Year</b>	<b>\$134,217</b>	<b>\$126,694</b>

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

## Financial Statements (cont'd)

### 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 (\$ millions)

	2011	2010
<b>Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits, Beginning of Year</b>	<b>\$1,879</b>	\$1,357
Increase in net assets and other accounts available for benefits	<b>9,844</b>	10,615
Change in actuarial asset value adjustment	<b>(2,306)</b>	(3,452)
<b>Increase in Actuarial Value of Net Assets and Other Accounts Available for Benefits</b>	<b>\$7,538</b>	\$7,163
Net increase in accrued pension benefits	<b>(7,523)</b>	(6,641)
<b>Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits, End of Year</b>	<b>\$1,894</b>	\$1,879

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

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**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

## **1. Description of the Public Service Pension Plan**

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

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

### **(A) General**

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

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

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

### **(B) Funding Policy**

The public service pension plan is funded from plan member and employer contributions. For the fiscal year, plan members contributed 5.5 percent (2010 – 5.2 percent) for the first nine months and 5.8 percent (2010 – 5.5 percent) for the last three months of pensionable earnings up to the maximum covered by the Canada Pension Plan (CPP) or Québec Pension Plan (QPP) and 8.4 percent (2010 – 8.4 percent) for the fiscal year of pensionable earnings above

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

that maximum. The Government's contribution is made monthly to provide for the cost (net of plan member contributions) of the benefits that have accrued in respect of that month at a rate determined by the President of the Treasury Board. The cost of the benefits is determined based on actuarial valuations, which are performed triennially. The last valuation was performed as at March 31, 2008.

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

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

**(C) Benefits**

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



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## **Notes to the Financial Statements**

### **Year Ended March 31, 2011**

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

## **2. Significant Accounting Policies**

### **(A) Basis of Presentation**

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

These financial statements are prepared 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) Future Changes in Accounting Policies**

In April 2010, the Accounting Standards Board of Canada (AcSB) issued Section 4600 “Pension Plans” to the *CICA Handbook* replacing the current Section 4100 “Pension Plans.” The provisions of Section 4600 apply to annual financial statements for fiscal years beginning on or after January 1, 2011.

Under Section 4600, pension plans in Canada are to continue to present all investments at fair value and will be required to present a liability for accrued pension benefits on the statement of financial position. Underlying accounting policies related to the presentation of the fair value of the investment portfolio will be based on International Financial Reporting Standards (IFRS). Other accounting policies not related to investments or pension obligations will be applied on a basis consistent with IFRS to the extent that they do not conflict with the requirements of Section 4600.

The public service pension plan is currently evaluating the impact of incorporating the requirements of Section 4600 into its accounting policies for the fiscal year ending March 31, 2012.

### **(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.

## **Notes to the Financial Statements Year Ended March 31, 2011**

In the case of the Pension Fund, the investments are held by PSP Investments and allocated to the public service pension plan. Investments, investment-related assets and investment-related liabilities are recorded as of the trade date (the date upon which the substantial risks and rewards are transferred) and are carried 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.

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

Valuation techniques are generally applied to investments in the Private Equity, Real Estate and Infrastructure asset classes (collectively "Private Market Investments"), over-the-counter (OTC) derivatives as well as asset-backed term notes (ABTNs). The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The valuation methods of each asset class are described in Note 4 (A) and (B).

### **(D) Valuation of Capital Debt Financing**

PSP Investments' short-term capital debt financing is recorded at cost plus accrued interest, which approximates fair value. The fair value of PSP Investments' long-term capital debt financing is based on prices that are obtained from third-party pricing sources. It is measured using an interest rate curve with a spread consistent with PSP Investments' credit quality.

### **(E) Transaction Costs**

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

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**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**(F) Investment Management Fees**

Investment management fees are costs directly attributable to the external management of assets on behalf of PSP Investments. Investment management fees incurred for Private Market Investments are paid by the investment directly, through capital contributions by PSP Investments or offset against distributions received from the investment (Note 4 (A) (II)). Investment management fees are also incurred for certain public equity investments, and these amounts are paid either directly by PSP Investments or offset against distributions received from pooled fund investments. In both cases, they are recorded against investment income (loss) (Note 13).

**(G) Income Recognition**

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

Investment income (loss) is made up of interest income, dividends, realized gains (losses) on the disposal of investments and unrealized gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the year. Interest income is recognized as earned. Dividends are recognized on the ex-dividend date and are reflected as dividend income. Dividends paid or payable on securities sold short are reflected as dividend expense. Other income includes securities lending income (net of fees on securities borrowed), and Private Market Investments' distributions from pooled funds, limited partnerships or from direct investments 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**

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

**Notes to the Financial Statements  
Year Ended March 31, 2011**

**(K) Use of Estimates**

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 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 Superannuation Account is established in the accounts of Canada pursuant to the PSSA. It portrays a notional portfolio of bonds and is credited with interest as though net cash flows were invested quarterly in 20-year Government of Canada bonds issued at prescribed rates and held to maturity. The PSSA requires that the Superannuation Account record transactions, such as contributions, benefit payments, interest and transfers that relate to pre-April 1, 2000, service.

Transactions pertaining to service since April 1, 2000, are recorded in the Pension Fund Account, which is also included in the accounts of Canada. An amount equal to contributions in excess of benefit payments and administrative costs is transferred regularly to PSP Investments for investment in capital markets. The Pension Fund Account is only a flow-through account and, as such, does not earn interest. At year-end, the balance in the Pension Fund Account represents amounts of net contributions in transit awaiting imminent transfer to PSP Investments.

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**4. Investments**

**(A) Investment Portfolio**

At March 31, the portfolio of 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):

<b>Asset Class</b>	<b>2011 Fair Value</b>	<b>2011 Cost</b>	<b>2010 Fair Value</b>	<b>2010 Cost</b>
<b>World Equity</b>				
Canadian Equity	<b>\$10,304</b>	<b>\$8,466</b>	\$7,518	\$6,623
Foreign Equity				
US Large Cap Equity	<b>2,829</b>	<b>2,590</b>	1,552	1,497
Europe, Australasia and the Far East (EAFE) Large Cap Equity	<b>2,251</b>	<b>2,353</b>	1,502	1,725
Small Cap Developed World Equity	<b>2,319</b>	<b>1,957</b>	1,420	1,320
Emerging Markets Equity	<b>2,061</b>	<b>1,737</b>	1,830	1,636
Private Equity	<b>3,994</b>	<b>3,480</b>	3,797	4,059
<b>Nominal Fixed Income</b>				
Cash, Cash Equivalents and Other <sup>1</sup>	<b>3,208</b>	<b>3,307</b>	3,357	3,455
World Government and Corporate Bonds	<b>2,082</b>	<b>2,156</b>	788	841
Canadian Fixed Income	<b>4,947</b>	<b>4,723</b>	5,116	4,980
<b>Real Return Assets</b>				
World Inflation-Linked Bonds	<b>2,173</b>	<b>2,236</b>	243	255
Real Estate	<b>4,837</b>	<b>4,690</b>	4,451	4,479
Infrastructure	<b>1,973</b>	<b>2,139</b>	1,715	1,761
<b>Absolute Return</b>	<b>1,397</b>	<b>998</b>	1,756	1,630
<b>Investments</b>	<b>\$44,375</b>	<b>\$40,832</b>	<b>\$35,045</b>	<b>\$34,261</b>
<b>Investment-Related Assets</b>				
Amounts receivable from pending trades	<b>\$508</b>	<b>\$508</b>	\$119	\$119
Interest receivable	<b>102</b>	<b>102</b>	76	76
Dividends receivable	<b>36</b>	<b>36</b>	42	42
Derivative-related receivables	<b>429</b>	<b>21</b>	347	4
<b>Total Investment-Related Assets</b>	<b>\$1,075</b>	<b>\$667</b>	<b>\$584</b>	<b>\$241</b>

## Notes to the Financial Statements Year Ended March 31, 2011

Asset Class	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost
<b>Investment-Related Liabilities</b>				
Amounts payable from pending trades	<b>\$(790)</b>	<b>\$(790)</b>	\$(333)	\$(333)
Interest payable	<b>(16)</b>	<b>(16)</b>	(10)	(10)
Securities sold short	<b>(32)</b>	<b>(27)</b>	(82)	(95)
Securities sold under repurchase agreements	<b>(372)</b>	<b>(372)</b>	(0)	(0)
Derivative-related payables	<b>(144)</b>	<b>(17)</b>	(302)	(3)
Capital debt financing (Note 8)				
Short-term	<b>(512)</b>	<b>(512)</b>	(472)	(472)
Long-term	<b>(1,274)</b>	<b>(1,246)</b>	(771)	(734)
<b>Total Investment-Related Liabilities</b>	<b>\$(3,140)</b>	<b>\$(2,980)</b>	\$(1,970)	\$(1,647)
<b>Net Investments</b>	<b>\$42,310</b>	<b>\$38,519</b>	\$33,659	\$32,855

1. Includes floating rate notes with maturities greater than one year with a fair value of \$915 million for the pension plan (2010 – \$1,015 million).

### (I) Canadian Equity and Foreign Equity

Canadian Equity and Foreign Equity include direct and indirect investments in 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.

#### *Valuation Techniques*

Direct investments in Canadian and Foreign Equities are measured at fair value using quoted market prices, namely, the bid price. In the case of investments in pooled funds, fair value is measured by using unit values obtained from each of the funds' administrators. Such unit values are derived from the fair value measurement of the underlying investments in each pooled fund.

### (II) Private Equity, Real Estate and Infrastructure

The Private Equity asset class is comprised of direct investments and co-investments in companies as well as fund investments. They include investments in various private entities as well as mezzanine debt and distressed debt.

The Real Estate asset class is comprised of direct investments in various private entities, properties and third-party debts, as well as fund investments in the real estate sector. Real Estate investments are classified into two portfolios (an equity portfolio and a debt portfolio). The equity portfolio is comprised of direct investments in properties, partnerships and companies operating in the office, retail, industrial, hospitality and residential sectors, as well

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## Notes to the Financial Statements

### Year Ended March 31, 2011

as private funds 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, other structured finance products as well as real estate debt funds (collectively termed “Real Estate Debt”) where significant portions of the value are attributed to the underlying real estate assets. The Real Estate asset class is accounted for net of all third-party financings. As at March 31, 2011, the total amount of third-party financing included in the Real Estate asset class contracted by direct investments controlled by PSP Investments for the pension plan was \$1,540 million (2010 – \$1,549 million).

The Infrastructure asset class is comprised of direct investments and co-investments in various private entities and fund investments. They include investments in companies engaged in the management, ownership or operation of assets in power, transportation and other regulated businesses. The Infrastructure asset class is accounted for net of all third-party financings. As at March 31, 2011, the total amount of third-party financing included in the Infrastructure asset class contracted by direct investments controlled by PSP Investments for the pension plan was \$37 million (2010 – \$57 million).

#### ***Valuation Techniques***

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

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

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

## **Notes to the Financial Statements Year Ended March 31, 2011**

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

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

In the case of Private Equity, Real Estate, Infrastructure fund investments as well as Private Equity co-investments, the annual fair value is generally determined based on the audited fair values reported by the fund's general partner using acceptable industry valuation methods.

### **(III) Nominal Fixed Income and World Inflation–Linked Bonds**

Nominal Fixed Income includes Cash, Cash Equivalents and Other, World Government and Corporate Bonds and Canadian Fixed Income. Cash Equivalents include short-term instruments having a maximum term to maturity of one year. Floating rate notes are included in Cash, Cash Equivalents and Other, provided the final maturity date does not exceed three years and the coupons reset more than once per year. World Government and Corporate Bonds and Canadian Fixed Income include government bonds, provincial and territorial bonds, municipal bonds and corporate bonds. World Inflation–Linked Bonds reported as Real Return Assets are fixed income securities that earn inflation adjusted returns.

PSP Investments holds ABTNs reported as Canadian Fixed Income in the investment portfolio for the four major public sector pension plans. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. The ABTNs had an original face value of \$1,962 million, of which \$1,422 million has been allocated to the public service pension plan.

PSP Capital Inc., a wholly owned subsidiary of PSP Investments, provided funding facilities of a maximum amount of \$969 million to support potential margin calls on the ABTNs, of which \$705 million was allocated to the pension plan. As at March 31, 2011, the margin funding facilities have not been drawn upon since inception. The agreement to exchange the non-bank ABCP for ABTNs included a moratorium preventing collateral calls for an 18-month period that ended on July 16, 2010.



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## **Notes to the Financial Statements**

### **Year Ended March 31, 2011**

PSP Investments management's best estimate of the fair value of ABTNs allocated to the pension plan as at March 31, 2011, was equal to \$906 million (2010 – \$862 million). This amount was net of principal repayments and corresponding gains, together amounting to \$44 million for the year ended March 31, 2011 (for the year ended March 31, 2010 – \$107 million). PSP Investments recorded an increase of \$57 million in the fair value of the ABTNs allocated to the pension plan during the year ended March 31, 2011 (increase of \$145 million during the year ended March 31, 2010). The fair value of the ABTNs allocated to the pension plan was reduced by the impact of the funding facilities amounting to \$42 million as at March 31, 2011 (2010 – \$47 million).

#### ***Valuation Techniques***

Cash Equivalents are recorded at cost plus accrued interest, which approximate fair value.

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

ABTNs are measured at fair value using comparable notes with similar credit quality and terms as a proxy, while taking into consideration the impact of the funding facilities. The valuation model used includes certain assumptions that are not fully supported by market observable data. Such assumptions include interest rate spreads, assumed credit rating, expected returns, an average maturity of six years as well as liquidity estimates.

#### **(IV) Absolute Return**

In addition to the different asset classes outlined in the Statement of Investment Policies, Standards and Procedures (SIP&P) for assets managed by PSP Investments, PSP Investments employs a number of absolute return strategies that consist of externally managed investments. Such investments take advantage of specific opportunities aimed to perform positively irrespective of market performance. Such opportunities include investments in equity, fixed income and derivative instruments.

#### ***Valuation Techniques***

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

#### **(V) Amounts Receivable and Payable from Pending Trades**

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

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

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

***Valuation Techniques***

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

**(VI) Interest and Dividends Receivable**

Interest and dividends are recorded at the amounts expected to be received as at the reporting date.

**(VII) Interest Payable**

Interest accrued is recorded at the amount expected to be paid as at the reporting date.

**(VIII) Securities Sold Short**

Securities sold short reflect PSP Investments' commitment to purchasing securities pursuant to short-selling transactions. In such transactions, PSP Investments sells securities it does not own with a commitment to purchasing similar securities on the market to cover its position.

***Valuation Techniques***

Using ask prices as inputs, the fair value of securities sold short is measured using the same method as the similar long positions presented under Nominal Fixed Income, World Inflation-Linked Bonds, Canadian Equity and Foreign Equity.

**(IX) Securities Sold Under Repurchase Agreements**

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

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

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

***Valuation Techniques***

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

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**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**(B) Derivative Financial Instruments**

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

PSP Investments uses the following types of derivative financial instruments:

**(I) Swaps**

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

**(II) Futures**

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a specific time in the future for a specific price that is 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.

**(V) Warrants and Rights**

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

**Notes to the Financial Statements  
Year Ended March 31, 2011**

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

**(VI) Collateralized Debt Obligations**

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

***Valuation Techniques***

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

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

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**4. Investments (cont'd)**

**(B) Derivative Financial Instruments (cont'd)**

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

Investments	2011				2010			
	Notional Value	Fair Value Assets	Fair Value Liabilities	Net	Notional Value	Fair Value Assets	Fair Value Liabilities	Net
<b>Equity and Commodity Derivatives</b>								
Futures	\$314	\$0	\$0	\$0	\$82	\$0	\$0	\$0
Total Return Swaps	4,039	139	0	139	2,563	84	(1)	83
Warrants and Rights	2	2	0	2	1	1	0	1
Options: Listed-purchased	322	9	0	9	0	0	0	0
Listed-written	288	0	(14)	(14)	4	0	0	0
<b>Currency Derivatives</b>								
Forwards	12,466	230	(88)	142	7,407	225	(20)	205
Swaps	1,219	18	(8)	10	0	0	0	0
Options: OTC-purchased	736	4	0	4	476	3	0	3
OTC-written	133	0	(2)	(2)	124	0	(1)	(1)
<b>Interest Rate Derivatives</b>								
Bond Forwards	724	4	(2)	2	149	0	(1)	(1)
Futures	1,290	0	0	0	379	0	0	0
Interest Rate Swaps	12,791	10	(12)	(2)	2,840	17	(28)	(11)
Total Return Swaps	471	0	0	0	2,045	14	(10)	4
Swaptions	2,568	5	(2)	3	0	0	0	0
Options: Listed-purchased	3,898	5	0	5	309	0	0	0
Listed-written	5,476	0	(5)	(5)	847	0	0	0
<b>Credit Derivatives<sup>1</sup></b>								
Purchased	305	2	(3)	(1)	20	1	0	1
Sold	298	1	(8)	(7)	541	2	(241)	(239)
<b>Total Investments</b>	<b>\$47,340</b>	<b>\$429</b>	<b>\$(144)</b>	<b>\$285</b>	<b>\$17,787</b>	<b>\$347</b>	<b>\$(302)</b>	<b>\$45</b>

1. Credit derivatives include credit default swaps and collateralized debt obligations. 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 above.

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**(B) Derivative Financial Instruments (cont'd)**

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

	2011	2010
Less than 3 Months	<b>\$17,608</b>	\$6,691
3 to 12 Months	<b>27,117</b>	8,195
Over 1 Year	<b>2,615</b>	2,901
<b>Total</b>	<b>\$47,340</b>	\$17,787

**(C) Fair Value Measurement**

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

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

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

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

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**(C) Fair Value Measurement (cont'd)**

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

	2011				Total Fair Value
	Level 1	Level 2	Level 3	No Level	
<b>World Equity</b>					
Canadian Equity and Foreign Equity	\$18,205	\$1,559	\$0	\$0	\$19,764
Private Equity	0	0	3,994	0	3,994
<b>Nominal Fixed Income</b>	425	8,791	1,021	0	10,237
<b>Real Return Assets</b>					
World Inflation-Linked Bonds	0	2,173	0	0	2,173
Real Estate	0	0	4,837	0	4,837
Infrastructure	0	0	1,973	0	1,973
<b>Absolute Return</b>	0	812	585	0	1,397
<b>Investments</b>	<b>\$18,630</b>	<b>\$13,335</b>	<b>\$12,410</b>	<b>\$0</b>	<b>\$44,375</b>
<b>Investment-Related Assets</b>					
Amounts Receivable from Pending Trades <sup>1</sup>	\$0	\$0	\$0	\$508	\$508
Interest Receivable <sup>1</sup>	0	0	0	102	102
Dividends Receivable <sup>1</sup>	0	0	0	36	36
Derivative-Related Receivables	15	412	2	0	429
<b>Total Investment-Related Assets</b>	<b>\$15</b>	<b>\$412</b>	<b>\$2</b>	<b>\$646</b>	<b>\$1,075</b>
<b>Investment-Related Liabilities</b>					
Amounts Payable from Pending Trades <sup>1</sup>	\$0	\$0	\$0	\$(790)	\$(790)
Interest Payable <sup>1</sup>	0	0	0	(16)	(16)
Securities Sold Short	(32)	0	0	0	(32)
Securities Sold Under Repurchase Agreements	0	(372)	0	0	(372)
Derivative-Related Payables	(19)	(118)	(7)	0	(144)
Capital Debt Financing					
Short-Term	0	(512)	0	0	(512)
Long-Term	0	(1,274)	0	0	(1,274)
<b>Total Investment-Related Liabilities</b>	<b>\$(51)</b>	<b>\$(2,276)</b>	<b>\$(7)</b>	<b>\$(806)</b>	<b>\$(3,140)</b>
<b>Net Investments</b>	<b>\$18,594</b>	<b>\$11,471</b>	<b>\$12,405</b>	<b>\$(160)</b>	<b>\$42,310</b>

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

**Notes to the Financial Statements  
Year Ended March 31, 2011**

	2010				Total Fair Value
	Level 1	Level 2	Level 3	No Level	
<b>World Equity</b>					
Canadian Equity and Foreign Equity	\$12,799	\$1,023	\$0	\$0	\$13,822
Private Equity	0	0	3,797	0	3,797
<b>Nominal Fixed Income</b>	88	8,238	935	0	9,261
<b>Real Return Assets</b>					
World Inflation-Linked Bonds	0	243	0	0	243
Real Estate	0	0	4,451	0	4,451
Infrastructure	0	0	1,715	0	1,715
<b>Absolute Return</b>	0	901	855	0	1,756
<b>Investments</b>	<b>\$12,887</b>	<b>\$10,405</b>	<b>\$11,753</b>	<b>\$0</b>	<b>\$35,045</b>
<b>Investment-Related Assets</b>					
Amounts Receivable from Pending Trades <sup>1</sup>	\$0	\$0	\$0	\$119	\$119
Interest Receivable <sup>1</sup>	0	0	0	76	76
Dividends Receivable <sup>1</sup>	0	0	0	42	42
Derivative-Related Receivables	0	343	4	0	347
<b>Total Investment-Related Assets</b>	<b>\$0</b>	<b>\$343</b>	<b>\$4</b>	<b>\$237</b>	<b>\$584</b>
<b>Investment-Related Liabilities</b>					
Amounts Payable from Pending Trades <sup>1</sup>	\$0	\$0	\$0	\$(333)	\$(333)
Interest Payable <sup>1</sup>	0	0	0	(10)	(10)
Securities Sold Short	(82)	0	0	0	(82)
Derivative-Related Payables	0	(61)	(241)	0	(302)
<b>Capital Debt Financing</b>					
Short-Term	0	(472)	0	0	(472)
Long-Term	0	(771)	0	0	(771)
<b>Total Investment-Related Liabilities</b>	<b>\$(82)</b>	<b>\$(1,304)</b>	<b>\$(241)</b>	<b>\$(343)</b>	<b>\$(1,970)</b>
<b>Net Investments</b>	<b>\$12,805</b>	<b>\$9,444</b>	<b>\$11,516</b>	<b>\$(106)</b>	<b>\$33,659</b>

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



## Notes to the Financial Statements

### Year Ended March 31, 2011

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

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2011 (no significant transfers during the year ended March 31, 2010).

### *Level 3 Reconciliation*

The reconciliation of all movements related to investments, investment-related assets and investment-related liabilities categorized within Level 3 for the year ended March 31, 2011, is as follows (\$ millions):

	World Equity	Nominal Fixed Income	Real Return Assets	Absolute Return	Derivative- Related Receivables / Payables (net)	Total
<b>Opening Balance</b>	<b>\$3,797</b>	<b>\$935</b>	<b>\$6,166</b>	<b>\$855</b>	<b>\$(237)</b>	<b>\$11,516</b>
Purchases	769	53	1,476	45	193	2,536
Sales/Settlements	(1,170)	(21)	(938)	(418)	(3)	(2,550)
Total Gains	610	54	106	103	42	915
Transfer Out of Level 3	(12)	0	0	0	0	(12)
<b>Closing Balance</b>	<b>\$3,994</b>	<b>\$1,021</b>	<b>\$6,810</b>	<b>\$585</b>	<b>\$(5)</b>	<b>\$12,405</b>

Total gains, for the year ended March 31, 2011, included in investment income and categorized within Level 3, are presented as follows (\$ millions):

	World Equity	Nominal Fixed Income	Real Return Assets	Absolute Return	Derivative- Related Receivables / Payables (net)	Total
<b>Total Realized Gains (Losses)</b>	<b>\$(158)</b>	<b>\$1</b>	<b>\$83</b>	<b>\$(30)</b>	<b>\$(180)</b>	<b>\$(284)</b>
<b>Total Unrealized Gains</b>	<b>768</b>	<b>53</b>	<b>23</b>	<b>133</b>	<b>222</b>	<b>1,199</b>
<b>Total Gains</b>	<b>\$610</b>	<b>\$54</b>	<b>\$106</b>	<b>\$103</b>	<b>\$42</b>	<b>\$915</b>

## Notes to the Financial Statements

### Year Ended March 31, 2011

The following table shows a reconciliation of all movements related to investments, investment-related assets and investment-related liabilities categorized within Level 3 for the year ended March 31, 2010 (\$ millions):

	World Equity	Nominal Fixed Income	Real Return Assets	Absolute Return	Derivative- Related Receivables / Payables (net)	Total
<b>Opening Balance</b>	\$3,075	\$817	\$7,105	\$495	\$(886)	\$10,606
Purchases	734	0	612	203	1	1,550
Sales/Settlements	(311)	(49)	(744)	(6)	0	(1,110)
Total Gains (Losses)	299	167	(807)	163	648	470
Transfers Into or Out of Level 3	0	0	0	0	0	0
<b>Closing Balance</b>	<b>\$3,797</b>	<b>\$935</b>	<b>\$6,166</b>	<b>\$855</b>	<b>\$(237)</b>	<b>\$11,516</b>

Total gains (losses) for the year ended March 31, 2010, included in investment income and categorized within Level 3 are presented as follows (\$ millions):

	World Equity	Nominal Fixed Income	Real Return Assets	Absolute Return	Derivative- Related Receivables / Payables (net)	Total
<b>Total Realized Gains (Losses)</b>	\$33	\$11	\$21	\$0	\$(1)	\$64
<b>Total Unrealized Gains (Losses)</b>	266	156	(828)	163	649	406
<b>Total Gains (Losses)</b>	<b>\$299</b>	<b>\$167</b>	<b>\$(807)</b>	<b>\$163</b>	<b>\$648</b>	<b>\$470</b>

### *Level 3 Sensitivity Analysis*

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4 (A) and (B). Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 2-percent increase / decrease (2010 – 3-percent increase / decrease) in the fair value of financial instruments categorized as Level 3. This excludes Private Market fund investments as well as Real Estate Debt, where a sensitivity analysis is not possible given that the underlying assumptions used are not available to PSP Investments. In the case of Private Market fund investments, the fair value is determined based on the audited financial statements of the fund's general partner as indicated in Note 4 (A). With respect to Real Estate Debt, the fair value is obtained from third-party appraisers as described in Note 4 (A).

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**(D) Investment Asset Mix**

PSP Investments has an established SIP&P that determines the manner in which the assets are to be invested. The SIP&P sets out the long-term target weights of the assets that shall be invested. Investments are classified by asset mix category as set out in the SIP&P based on the economic intent of the investment strategies of the underlying assets.

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

Asset Class	2011 Fair Value		2011 Policy Portfolio Long- Term Target	2010 Fair Value		2010 Policy Portfolio Long-Term Target
<b>World Equity</b>						
Canadian Equity	<b>\$13,607</b>	<b>32.2%</b>	<b>30.0%</b>	<b>\$9,853</b>	<b>29.2%</b>	<b>30.0%</b>
Foreign Equity						
US Large Cap Equity	<b>2,791</b>	<b>6.6</b>	<b>5.0</b>	<b>1,536</b>	<b>4.6</b>	<b>5.0</b>
EAFE Large Cap Equity	<b>2,225</b>	<b>5.2</b>	<b>5.0</b>	<b>1,486</b>	<b>4.4</b>	<b>5.0</b>
Small Cap Developed World Equity	<b>2,348</b>	<b>5.5</b>	<b>5.0</b>	<b>1,438</b>	<b>4.3</b>	<b>5.0</b>
Emerging Markets Equity	<b>2,961</b>	<b>7.0</b>	<b>7.0</b>	<b>2,173</b>	<b>6.5</b>	<b>7.0</b>
Private Equity	<b>4,069</b>	<b>9.6</b>	<b>10.0</b>	<b>3,946</b>	<b>11.7</b>	<b>10.0</b>
<b>Nominal Fixed Income</b>						
Cash and Cash Equivalents <sup>1</sup>	<b>914</b>	<b>2.2</b>	<b>2.0</b>	<b>1,376</b>	<b>4.1</b>	<b>2.0</b>
World Government Bonds	<b>1,675</b>	<b>4.0</b>	<b>5.0</b>	<b>1,548</b>	<b>4.6</b>	<b>5.0</b>
Canadian Fixed Income	<b>3,927</b>	<b>9.3</b>	<b>8.0</b>	<b>3,513</b>	<b>10.4</b>	<b>8.0</b>
<b>Real Return Assets</b>						
World Inflation-Linked Bonds	<b>2,203</b>	<b>5.2</b>	<b>5.0</b>	<b>1,560</b>	<b>4.6</b>	<b>5.0</b>
Real Estate	<b>3,872</b>	<b>9.1</b>	<b>10.0</b>	<b>3,722</b>	<b>11.1</b>	<b>10.0</b>
Infrastructure	<b>1,718</b>	<b>4.1</b>	<b>8.0</b>	<b>1,508</b>	<b>4.5</b>	<b>8.0</b>
<b>Net investments</b>	<b>\$42,310</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$33,659</b>	<b>100.0%</b>	<b>100.0%</b>

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

## Notes to the Financial Statements

### Year Ended March 31, 2011

#### (E) Securities Lending and Borrowing Programs

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

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs. As at March 31, 2011, PSP Investments, on behalf of the pension plan, has reinvested \$1,092 million of collateral held (2010 – \$1,287 million).

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

	2011	2010
<b>Securities Lending</b>		
Securities lent	<b>\$4,210</b>	\$2,913
Collateral contractually receivable <sup>1</sup>	<b>4,404</b>	3,039
<b>Securities Borrowing</b>		
Securities borrowed	<b>32</b>	82
Collateral contractually payable <sup>2</sup>	<b>34</b>	87

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

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

#### (F) Securities Sold and Collateral Pledged Under Repurchase Agreements

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

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## **Notes to the Financial Statements**

### **Year Ended March 31, 2011**

On behalf of the pension plan, PSP Investments pledged collateral under the repurchase agreements with a fair value of \$372 million at March 31, 2011 (2010 – nil).

## **5. Investment Risk Management**

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

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

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

### **(A) Market Risk**

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

Market risk management focuses on the following two key components:

#### **Policy Portfolio**

The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR) defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation report of the pension plan. In the absence of other factors affecting the funding of the pension plan or changes to pension benefits under the pension plan, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.

## Notes to the Financial Statements Year Ended March 31, 2011

### Active Management

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

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

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

### *Measurement of Market Risk*

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSP Investments uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95 percent confidence level. In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR). Whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

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

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

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## Notes to the Financial Statements Year Ended March 31, 2011

Total VaR as at March 31:

	2011	2010
<b>Policy Portfolio VaR</b>	<b>22.4%</b>	21.2%
<b>Active VaR</b>	<b>2.2</b>	1.8
<b>Total VaR (Undiversified)</b>	<b>24.6</b>	23.0
<b>Diversification Effect</b>	<b>(2.9)</b>	(2.0)
<b>Total VaR</b>	<b>21.7%</b>	21.0%

### *Stress Testing*

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

### **(I) Interest Rate Risk**

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the investment portfolio's net asset values. The most significant exposure to interest rate risk is related to the investment in bonds, ABTNs and Real Estate Debt.

## Notes to the Financial Statements

### Year Ended March 31, 2011

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

	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	2011 Total	2010 Total
Government of Canada Bonds	\$18	\$838	\$42	\$344	\$1,242	\$1,843
Provincial and Territorial Bonds	84	330	517	302	1,233	1,162
Municipal Bonds	8	30	31	4	73	61
Corporate Bonds	96	661	481	255	1,493	1,234
ABTNs	0	35	871	0	906	862
<b>Total Canadian Fixed Income</b>	<b>\$206</b>	<b>\$1,894</b>	<b>\$1,942</b>	<b>\$905</b>	<b>\$4,947</b>	<b>\$5,162</b>
<b>Total World Government and Corporate Bonds</b>	<b>\$580</b>	<b>\$755</b>	<b>\$341</b>	<b>\$406</b>	<b>\$2,082</b>	<b>\$797</b>
<b>Total World Inflation-Linked Bonds</b>	<b>\$0</b>	<b>\$581</b>	<b>\$606</b>	<b>\$986</b>	<b>\$2,173</b>	<b>\$245</b>
<b>Real Estate Debt<sup>1</sup></b>	<b>\$162</b>	<b>\$53</b>	<b>\$0</b>	<b>\$0</b>	<b>\$215</b>	<b>\$352</b>
<b>Grand Total</b>	<b>\$948</b>	<b>\$3,283</b>	<b>\$2,889</b>	<b>\$2,297</b>	<b>\$9,417</b>	<b>\$6,556</b>

1. Real Estate Debt is a component of the Real Estate asset class disclosed in Note 4 (A).

The terms to maturity of PSP Investments' capital debt financing 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).

Additionally, the exposure to interest rate risk for short-term instruments is not significant due to their short-term nature.



## Notes to the Financial Statements

### Year Ended March 31, 2011

#### (II) Foreign Currency Risk

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

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

Currency	2011 Fair Value	2011 % of Total	2010 Fair Value	2010 % of Total
US Dollar (USD)	\$6,920	54.0%	\$4,565	51.2%
Euro (EUR)	1,739	13.6	1,321	14.8
British Pound (GBP)	971	7.6	566	6.4
Brazilian Real (BRL)	642	5.0	487	5.5
Japanese Yen (JPY)	516	4.0	312	3.5
Hong Kong Dollar (HKD)	484	3.8	368	4.1
Korean Won (KRW)	342	2.7	255	2.9
Australian Dollar (AUD)	223	1.7	110	1.2
New Taiwan Dollar (TWD)	205	1.6	145	1.6
South African Rand (ZAR)	123	1.0	114	1.3
Others	637	5.0	666	7.5
<b>Total Net Foreign Currency</b>	<b>\$12,802</b>	<b>100.0%</b>	<b>\$8,909</b>	<b>100.0%</b>

PSP Investments and its subsidiaries also have commitments, denominated in foreign currencies of \$2,904 million (2,576 million USD, 270 million EUR and 177 million ZAR), which are not included in the foreign currency exposure above.

## Notes to the Financial Statements Year Ended March 31, 2011

### (B) Credit Risk

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

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

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

PSP Investments’ concentration risk by credit rating for the pension plan, as at March 31, is as follows:

Credit Rating	2011	2010
Investment grade (AAA to BBB-)	98.0%	98.1%
Below investment grade (BB+ and below)	0.4	0.2
Not rated		
Rated by a single credit rating agency	0	0.2
Not rated by credit rating agencies	1.6	1.5
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The breakdown of credit concentration risk does not include investments in distressed debt included in pooled funds in the amount of approximately \$1.5 billion as at March 31, 2011 (2010 – approximately \$1.5 billion). Such investments typically include debt securities of issuers close to default, and the investment in such securities are quasi-equity in nature.

As at March 31, 2011, the investment portfolio also had a net notional exposure of \$190 million (2010 – \$447 million) to various tranches of collateralized debt obligations, of which approximately 44 percent (2010 – approximately 64 percent) of the underlying dollar exposure was rated “Investment grade,” as well as funding facilities of a maximum amount of \$705 million (2010 – \$705 million) to support potential margin calls on the ABTNs (Note 4 (A) (III)).

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## **Notes to the Financial Statements**

### **Year Ended March 31, 2011**

As at March 31, 2011, the investment portfolio's maximum exposure to credit risk, excluding collateral held and the investments in distressed debt and collateralized debt obligations described above, amounted to approximately \$12 billion (2010 – approximately \$9 billion). This amount also excludes the impact of guarantees and indemnities disclosed in Note 18.

#### **(I) Counterparty Risk**

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing, as well as securities sold under repurchase agreements. In order to minimize counterparty risk, 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. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties who have their credit rating downgraded below "A-" subsequent to the trade date.

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

As a credit mitigation technique, the ISDA Master Agreement contractually binds both parties to use master-netting arrangements and, in the case of default of the counterparty, close-out netting. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions are in high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. On behalf of the pension plan, PSP Investments did not deposit nor did it pledge any securities as collateral with respect to derivative contracts at March 31, 2011 (2010 – \$151 million). All collateral deposited or pledged was held, in the prior fiscal year, with counterparties having a minimum credit rating of "A-." Securities with a fair value of \$100 million were received from counterparties as collateral at March 31, 2011 (2010 – \$129 million). PSP Investments does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

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

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

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

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

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

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

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

***Financial Liabilities***

The fair value of non-derivative-related financial liabilities as well as derivative-related financial assets and liabilities, aggregated according to their maturities, as at March 31, 2011, is as follows (\$ millions):

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
<b>Non-derivative-related financial liabilities<sup>1</sup></b>				
Amounts payable from pending trades	<b>\$(790)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$(790)</b>
Interest payable	<b>0</b>	<b>(16)</b>	<b>0</b>	<b>(16)</b>
Securities sold short	<b>(32)</b>	<b>0</b>	<b>0</b>	<b>(32)</b>
Securities sold under repurchase agreements	<b>(372)</b>	<b>0</b>	<b>0</b>	<b>(372)</b>
Capital debt financing	<b>(418)</b>	<b>(94)</b>	<b>(1,274)</b>	<b>(1,786)</b>
Accounts payable and other liabilities	<b>(46)</b>	<b>(3)</b>	<b>(10)</b>	<b>(59)</b>
<b>Total</b>	<b>\$(1,658)</b>	<b>\$(113)</b>	<b>\$(1,284)</b>	<b>\$(3,055)</b>

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
<b>Derivative-related financial assets and liabilities</b>				
Derivative-related assets	<b>\$175</b>	<b>\$247</b>	<b>\$7</b>	<b>\$429</b>
Derivative-related liabilities <sup>1</sup>	<b>(94)</b>	<b>(35)</b>	<b>(15)</b>	<b>(144)</b>
<b>Total</b>	<b>\$81</b>	<b>\$212</b>	<b>\$(8)</b>	<b>\$285</b>

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

**Notes to the Financial Statements  
Year Ended March 31, 2011**

**6. Contributions Receivable**

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

	2011	2010
Pre–April 1, 2000 Service		
Plan Member Contributions for Past Service Elections	<b>\$93</b>	\$110
Employers' Share of Contributions for Past Service Elections	<b>88</b>	105
<b>Total – Pre–April 1, 2000 Service</b>	<b>\$181</b>	\$215
Post–March 31, 2000 Service		
Plan Member Contributions for Past Service Elections	<b>\$352</b>	\$335
Employers' Share of Contributions for Past Service Elections	<b>542</b>	514
Other Contributions Receivable	<b>32</b>	21
<b>Total – Post–March 31, 2000 Service</b>	<b>\$926</b>	\$870
<b>Total Contributions Receivable</b>	<b>\$1,107</b>	\$1,085

**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.

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## Notes to the Financial Statements

### Year Ended March 31, 2011

In 2011, 72.7 percent of the operating expenses were allocated to the public service pension plan (2010 – 72.5 percent). PSP Investments initially charges all expenses to the public service pension plan; they are reimbursed quarterly by the three other plans. At year-end, the balance of the other assets is as follows (\$ millions):

	2011	2010
Share of Expenses Receivable From		
Canadian Forces Pension Plan	\$9	\$6
Royal Canadian Mounted Police Pension Plan	3	2
Reserve Force Pension Plan	0	0
Subtotal	\$12	\$8
Other	36	32
<b>Total Other Assets</b>	<b>\$48</b>	<b>\$40</b>

## 8. Capital Debt Financing

PSP Investments' Capital Debt Financing program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly owned subsidiary of PSP Investments. The capital raised is primarily used to finance investments in the Real Estate and Infrastructure asset classes. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy.

During the year ended March 31, 2011, the Board of Directors of PSP Investments amended the maximum amount authorized for the Capital Debt Financing program. Pursuant to such amendment, as at March 31, 2011, the maximum amount authorized was 7.5 percent of the net investments plus all recourse debt outstanding of PSP Investments. Within such amount, the short-term promissory note component cannot exceed \$3 billion. As at March 31, 2010, the maximum amount authorized by the Board of Directors of PSP Investments for the short-term promissory notes and medium-term notes was \$2 billion and \$2 billion, respectively.

## Notes to the Financial Statements Year Ended March 31, 2011

The following outlines the terms as well as the fair value of the notes issued under the Capital Debt Financing program allocated to the pension plan, as at March 31 (\$ millions):

	2011	2010
Short-term promissory notes, bearing interest between 1 percent and 1.39 percent and maturing within 29 and 363 days of issuance (March 31, 2010 – 14 and 120 days)	<b>\$512</b>	\$472
Medium-term notes Series 1, bearing interest of 4.57 percent per annum and maturing on December 9, 2013	<b>770</b>	771
Medium-term notes Series 2, bearing interest of 2.94 percent per annum and maturing on December 3, 2015	<b>504</b>	0
<b>Total</b>	<b>\$1,786</b>	\$1,243

The capital amounts allocated to the pension plan to be paid at maturity are \$513 million for the short-term promissory notes, and \$729 million and \$511 million for the Series 1 and Series 2 medium-term notes, respectively.

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

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

	2011	2010
Short-term promissory notes	<b>\$6,508</b>	\$5,393
Medium-term notes	<b>38,133</b>	33,214
<b>Total</b>	<b>\$44,641</b>	\$38,607

## 9. Capital Management

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

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



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**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**10. Accrued Pension Benefits**

**(A) Present Value of Accrued Pension Benefits**

The present value of accrued pension benefits is calculated by the OCA using the projected benefit method prorated on services and management's best estimate assumptions. Actuarial valuations for funding purposes are performed triennially. The most recent funding actuarial valuation of the public service pension plan was conducted as of March 31, 2008, and tabled in Parliament on November 19, 2009.

An actuarial valuation for accounting purposes is conducted annually using management's best estimate economic assumptions, demographic assumptions and base populations of the most recent funding actuarial valuation. The information in these financial statements is based on this annual valuation conducted as at March 31, 2011.

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

The assumptions for the long-term rate of inflation and long-term economic salary increase used in the accounting valuation are 2.0 percent and 2.9 percent, respectively (2010 – 2.0 percent and 2.9 percent).

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

	2011			2010		
	Liability Valuation		Expense Valuation	Liability Valuation		Expense Valuation
	Short-Term	Long-Term		Short-Term	Long-Term	
Expected Rate of Return on Pension Investments	<b>6.2%</b>	<b>6.2%</b>	<b>5.8%</b>	5.8%	6.3%	5.3%
Expected Weighted Average of Long-Term Bond Rates	<b>6.0%</b>	<b>5.0%</b>	<b>6.5%</b>	6.5%	5.1%	6.8%

## Notes to the Financial Statements Year Ended March 31, 2011

### (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) Pension Plan Amendments

During the year, no amendments were made to the public service pension plan (2010 – nil).

## 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, 2011, is as follows (\$ millions):

	Pre– April 1, 2000	Post– March 31, 2000	Total
Net Assets and Other Accounts Available for Benefits	\$95,963	\$43,456	\$139,419
Actuarial Asset Value Adjustment	0	(3,308)	(3,308)
<b>Actuarial Value of Net Assets and Other Accounts Available for Benefits</b>	<b>\$95,963</b>	<b>\$40,148</b>	<b>\$136,111</b>
Accrued Pension Benefits	(88,534)	(45,683)	(134,217)
<b>Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits</b>	<b>\$7,429</b>	<b>\$(5,535)</b>	<b>\$1,894</b>

## 12. Contributions

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

	2011	2010
From Plan Members	\$1,531	\$1,462
From the Employers	2,812	2,716
<b>Total Contributions</b>	<b>\$4,343</b>	<b>\$4,178</b>

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**13. Investment Income**

**(A) Investment Income**

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

	2011	2010
Interest Income	<b>\$374</b>	\$297
Dividend Income	<b>438</b>	296
Other Income	<b>132</b>	155
Dividend Expense	<b>(14)</b>	(16)
Interest Expense (Note 8)	<b>(45)</b>	(39)
Transaction Costs	<b>(41)</b>	(15)
External Investment Management Fees <sup>1</sup>	<b>(28)</b>	(24)
<b>Subtotal</b>	<b>\$816</b>	\$654
Net Realized Gains <sup>2</sup>	<b>1,328</b>	1,110
Net Unrealized Gains	<b>2,986</b>	3,761
<b>Investment Income</b>	<b>\$5,130</b>	\$5,525

1. Includes amounts incurred for public market investments that are paid directly by PSP Investments (Note 2). This excludes certain public market pooled fund investment fees, primarily related to performance, in the amount of \$62 million for the year ended March 31, 2011 (2010 – \$8 million) as well as Private Market Investments' management fees that are not paid directly by PSP Investments.

Private Market Investments' management fees, which generally vary between 0.1 percent and 2.0 percent of the total invested and/or committed amount, amounted to \$102 million for the year ended March 31, 2011 (2010 – \$111 million).

2. Includes foreign currency gains of \$83 million for the year ended March 31, 2011 (2010 – \$451 million).

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**(B) Investment Income by Asset Mix**

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

	2011	2010
<b>World Equity</b>		
Canadian Equity	<b>\$2,208</b>	\$2,680
Foreign Equity		
US Large Cap Equity	<b>218</b>	179
EAFE Large Cap Equity	<b>125</b>	183
Small Cap Developed World Equity	<b>354</b>	205
Emerging Markets Equity	<b>329</b>	736
Private Equity	<b>758</b>	880
<b>Nominal Fixed Income</b>		
Cash and Cash Equivalents	<b>15</b>	33
World Government Bonds	<b>33</b>	(250)
Canadian Fixed Income	<b>177</b>	142
<b>Real Return Assets</b>		
World Inflation-Linked Bonds	<b>63</b>	(184)
Real Estate	<b>467</b>	20
Infrastructure	<b>(34)</b>	115
<b>Absolute Return<sup>1</sup></b>	<b>417</b>	786
<b>Investment Income</b>	<b>\$5,130</b>	\$5,525

1. Includes amounts related to real estate debt strategies.

## 14. Actuarial Adjustments

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 (2010 – nil) nor to the Superannuation Account (2010 – nil).

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**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**15. Refunds and Transfers**

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

	2011	2010
Pension Division Payments	<b>\$34</b>	\$38
Returns of Contributions and Transfer Value Payments	<b>145</b>	98
Transfers to Other Pension Funds	<b>71</b>	36
<b>Total Refunds and Transfers</b>	<b>\$250</b>	\$172

**16. Administrative Expenses**

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

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

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

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

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

## Notes to the Financial Statements

### Year Ended March 31, 2011

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

	2011	2010
PWGSC	<b>\$122</b>	\$124
TBS	<b>5</b>	4
OCA	<b>1</b>	1
<b>Subtotal – Government Departments (included in the Service Cost)</b>	<b>\$128</b>	\$129
PSP Investments	<b>83</b>	67
<b>Total Administrative Expenses</b>	<b>\$211</b>	\$196

## 17. Retirement Compensation Arrangements

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

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

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## Notes to the Financial Statements

### Year Ended March 31, 2011

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

	2011	2010
<b>Balance of Account</b>		
RCA Account	<b>\$1,620</b>	\$1,564
Refundable Tax Receivable	<b>1,597</b>	1,539
Plan Member Contribution Receivable for Past Service	<b>5</b>	2
Employers Contributions Receivable for Past Service	<b>2</b>	1
<b>Subtotal</b>	<b>\$3,224</b>	\$3,106
Accrued Pension Benefits	<b>3,086</b>	3,086
<b>Excess of the Balance of the Account Over the Accrued Pension Benefits</b>	<b>\$138</b>	\$20

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

## Notes to the Financial Statements Year Ended March 31, 2011

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

	2011	2010
<b>Increase</b>		
Contributions—Employers	\$96	\$80
Contributions—Plan Members	11	11
Interest Income	102	102
Net Change in Prior Service Contributions Receivable	3	2
Actuarial Adjustment	6	6
Increase in Refundable Tax Receivable	58	49
<b>Total Increase</b>	<b>\$276</b>	<b>\$250</b>
<b>Decrease</b>		
Benefits Paid	\$98	\$96
Refunds and Transfers	3	1
Refundable Tax Remittance	58	49
<b>Total Decrease</b>	<b>\$159</b>	<b>\$146</b>
<b>Increase in the Balance of the Account</b>	<b>\$117</b>	<b>\$104</b>

Actuarial shortfalls found between the balance in the RCA Account and the actuarial liabilities are credited to the RCA Account in equal instalments over a period up to 15 years. As a result of the triennial valuation of March 2008, no adjustment was made to RCA No. 1 (2010 – nil), but a credit adjustment of \$6.2 million was made to cover an actuarial deficiency to RCA No. 2 (2010 – \$6.2 million) during the year.

## 18. Guarantees and Indemnities

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



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## Notes to the Financial Statements

### Year Ended March 31, 2011

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

As at March 31, 2011, PSP Investments agreed to guarantee, as part of an investment transaction, a non-revolving term loan. In the event of a default, the pension plan could assume the obligation up to \$292 million (2010 – \$292 million) plus interest and other related costs.

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

PSP Investments also unconditionally and irrevocably guarantees all credit facilities, short-term promissory notes and medium-term notes issued by 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, the portion of PSP Investments' commitments that would be assumed by the public service pension plan is as follows (\$ millions):

	2011	2010
Private Equity	\$1,852	\$2,295
Real Estate	684	1,014
Infrastructure	569	311
Public Markets	188	238
<b>Total</b>	<b>\$3,293</b>	<b>\$3,858</b>

**Notes to the Financial Statements**  
**Year Ended March 31, 2011**

**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 was challenged in the Ontario Superior Court of Justice. On November 20, 2007, the Court rendered its decision and dismissed all of the plaintiffs' claims. The decision was appealed to the Ontario Court of Appeal, and the hearing took place in April 2010. The Ontario Court of Appeal dismissed the appeals on October 8, 2010. The plaintiffs applied for leave to appeal to the Supreme Court of Canada in December 2010. On May 5, 2011, the Supreme Court of Canada granted the application for leave to appeal. The tentative hearing date for the appeal is scheduled for February 9, 2012. The outcome is not determinable at this time.

**21. Comparative Figures**

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

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## Account Transaction Statements

## Public Service Superannuation Account and Public Service Pension Fund Account

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

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

The treatment of actuarial excesses and shortfalls for both the Superannuation Account and Pension Fund Account is outlined in Note 1 (B) of the public service pension plan financial statements. As a result of the last actuarial valuation for funding purposes tabled in November 2009, no adjustment was made to the Public Service Superannuation Account (nil in 2010) or to the Pension Fund (nil in 2010).

## Public Service Superannuation Account Statement

Year ended March 31 (in dollars)

	2011	2010
<b>Opening Balance (A)</b>	<b>\$94,568,793,168</b>	<b>\$93,054,796,451</b>
<b>Receipts and Other Credits</b>		
Contributions		
Government employees	5,741,576	6,941,893
Retired employees	23,057,162	25,294,035
Public service corporation employees	331,040	371,083
Employer contributions		
Government	23,197,946	25,776,126
Public service corporations	361,879	334,369
Transfers from other pension funds	50,394	883,897
Interest	6,004,517,929	6,159,725,451
<b>Total—Receipts and Other Credits (B)</b>	<b>\$6,057,257,926</b>	<b>\$6,219,326,854</b>
<b>Payments and Other Charges</b>		
Annuities	\$4,654,275,769	\$4,530,362,947
Minimum benefits	12,607,868	12,261,638
Pension division payments	23,959,826	27,948,347
Pension transfer value payments	32,279,928	26,187,931
Returns of contributions		
Government employees	86,319	22,013
Public service corporation employees	35,352	19,577
Transfers to other pension funds	30,752,009	14,274,266
Administrative expenses	90,027,286	94,253,418
<b>Total—Payments and Other Charges (C)</b>	<b>\$4,844,024,357</b>	<b>\$4,705,330,137</b>
<b>Receipts Less Payments (B - C)=(D)</b>	<b>\$1,213,233,569</b>	<b>\$1,513,996,717</b>
<b>Closing Balance (A + D)</b>	<b>\$95,782,026,737</b>	<b>\$94,568,793,168</b>

The account transaction statement above is unaudited.

## Public Service Pension Fund Account Statement

Year ended March 31 (in dollars)

	2011	2010
<b>Opening Balance (A)</b>	<b>\$259,560,587</b>	\$179,618,666
<b>Receipts and Other Credits</b>		
Contributions		
Government employees	<b>1,348,019,576</b>	1,358,836,378
Retired employees	<b>29,409,311</b>	23,708,690
Public service corporation employees	<b>119,656,803</b>	106,450,252
Employer contributions		
Government	<b>2,543,396,141</b>	2,569,573,674
Public service corporations	<b>228,623,470</b>	204,463,648
Transfers from other pension funds	<b>62,722,994</b>	99,190,949
Transfer value election	<b>9,212,757</b>	10,049,994
<b>Total—Receipts and Other Credits (B)</b>	<b>\$4,341,041,052</b>	\$4,372,273,585
<b>Payments and Other Charges</b>		
Annuities	<b>\$568,916,315</b>	\$441,050,660
Minimum benefits	<b>8,928,269</b>	6,308,145
Pension division payments	<b>10,096,061</b>	9,676,503
Pension transfer value payments	<b>97,684,827</b>	61,413,313
Returns of contributions		
Government employees	<b>12,298,589</b>	8,738,385
Public service corporation employees	<b>2,520,594</b>	1,900,298
Transfers to other pension funds	<b>40,395,688</b>	21,729,870
Administrative expenses	<b>37,725,355</b>	34,684,226
<b>Total—Payments and Other Charges (C)</b>	<b>\$778,565,698</b>	\$585,501,400
<b>Receipts Less Payments (B - C)</b>	<b>\$3,562,475,354</b>	\$3,786,772,185
<b>Transfers to Public Sector Pension Investment Board (D)</b>	<b>\$(3,590,979,603)</b>	\$(3,706,830,264)
<b>Closing Balance (A + B - C + D)</b>	<b>\$231,056,338</b>	\$259,560,587

The account transaction statement above is unaudited.

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## Retirement Compensation Arrangements Account

Supplementary benefits for certain federal public service employees are provided under the *Retirement Compensation Arrangements Regulations*, No. 1, parts I and II (public service portion), and No. 2 (Early Retirement Incentive Program). The *Special Retirement Arrangements Act* authorized these 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 rate as credited to the Public Service Superannuation Account. The RCA Account is registered with the Canada Revenue Agency (CRA), and a transfer debit or credit is made annually between the RCA Account and the CRA either to remit a 50 percent refundable tax for the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments.

Actuarial shortfalls found between the balance in the RCA Account and the actuarial liabilities are credited to the RCA Account in equal instalments over a period of up to 15 years. As a result of the triennial valuation of March 31, 2008, no adjustment was made to RCA No. 1 (nil in 2010), but a credit adjustment of \$6.2 million was made to cover an actuarial deficiency in RCA No. 2 during the year (\$6.2 million in 2010).

## RCA No. 1

For tax purposes, financial transactions related to pension plan members' pensionable earnings over \$142,800 in 2011 are recorded separately. As at March 31, 2011, there are 3,954 (4,152 in 2010) public service employees and 2,917 (2,721 in 2010) retired members in this category.

Year ended March 31 (in dollars)

	2011	2010
<b>Opening Balance (A)</b>	<b>\$767,691,100</b>	<b>\$701,293,471</b>
<b>Receipts and Other Credits</b>		
Contributions		
Government employees	<b>9,162,488</b>	9,185,855
Retired employees	<b>352,284</b>	298,634
Public service corporation employees	<b>1,578,249</b>	1,374,869
Employer contributions		
Government	<b>81,975,311</b>	69,466,421
Public service corporations	<b>14,375,676</b>	10,412,725
Interest	<b>52,072,718</b>	49,218,888
Transfers from other pension funds	<b>0</b>	1,368
Transfer value election	<b>24,564</b>	886
<b>Total—Receipts and Other Credits (B)</b>	<b>\$159,541,290</b>	<b>\$139,959,646</b>
<b>Payments and Other Charges</b>		
Annuities	<b>\$15,705,840</b>	\$13,512,882
Minimum benefits	<b>77,165</b>	4,816
Pension division payments	<b>391,575</b>	238,432
Pension transfer value payments	<b>426,839</b>	564,683
Returns of contributions		
Government employees	<b>26,276</b>	17,676
Public service corporation employees	<b>16,841</b>	1,784
Transfers to other pension plans	<b>2,266,316</b>	331,932
Refundable tax	<b>70,965,046</b>	58,889,812
<b>Total—Payments and Other Charges (C)</b>	<b>\$89,875,898</b>	<b>\$73,562,017</b>
<b>Receipts Less Payments (B - C) = (D)</b>	<b>69,665,392</b>	66,397,629
<b>Closing Balance (A + D)</b>	<b>\$837,356,492</b>	<b>\$767,691,100</b>

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 pension reduction under the PSSA for employees who were declared surplus.

Year ended March 31 (in dollars)

	2011	2010
<b>Opening Balance (A)</b>	<b>\$796,582,812</b>	<b>\$810,243,768</b>
<b>Receipts and Other Credits</b>		
Government contributions and interest		
Contributions	0	0
Interest	49,588,508	52,594,489
Actuarial liability adjustment	6,200,000	6,200,000
<b>Total—Receipts and Other Credits (B)</b>	<b>\$55,788,508</b>	<b>\$58,794,489</b>
<b>Payments and Other Charges</b>		
Annuities	\$82,037,465	\$82,188,537
Refundable tax	(12,671,024)	(9,733,092)
<b>Total—Payments and Other Charges (C)</b>	<b>69,366,441</b>	<b>72,455,445</b>
<b>Receipts Less Payments (B - C) = (D)</b>	<b>\$(13,577,933)</b>	<b>\$(13,660,956)</b>
<b>Closing Balance (A + D)</b>	<b>\$783,004,879</b>	<b>\$796,582,812</b>

The account transaction statement above is unaudited.

### Supplementary Death Benefit

As at March 31, 2011, there are 309,004 (309,540 in 2010) active participants and 146,771 (141,419 in 2010) retired elective participants entitled to a Supplementary Death Benefit under Part II of the PSSA. During 2010–11, 4,906 (4,992 in 2010) claims for Supplementary Death Benefits were paid.

Year ended March 31 (in dollars)

	2011	2010
<b>Opening Balance (A)</b>	<b>\$2,828,860,022</b>	<b>\$2,702,221,845</b>
<b>Receipts and Other Credits</b>		
Contributions		
Employees (government and public service corporation)	<b>92,653,997</b>	87,993,370
Government		
General	<b>9,951,785</b>	9,556,419
Single premium for \$10,000 benefit	<b>1,954,998</b>	1,846,852
Public service corporations	<b>1,153,071</b>	1,127,541
Interest	<b>181,929,477</b>	180,497,625
<b>Total—Receipts and Other Credits (B)</b>	<b>\$287,643,328</b>	<b>\$281,021,807</b>
<b>Payments and Other Charges</b>		
Benefit payments		
General <sup>1</sup>	<b>\$119,283,549</b>	\$114,568,042
\$10,000 benefit <sup>2</sup>	<b>36,154,611</b>	39,735,887
Other death benefit payments	<b>108,878</b>	79,701
<b>Total—Payments and Other Charges (C)</b>	<b>\$155,547,038</b>	<b>\$154,383,630</b>
<b>Receipts Less Payments (B - C) = (D)</b>	<b>\$132,096,290</b>	<b>\$126,638,177</b>
<b>Closing Balance (A + D)</b>	<b>\$2,960,956,312</b>	<b>\$2,828,860,022</b>

The account transaction statement above is unaudited.

1. Benefits paid in respect of participants who, at the time of death, were employed in the public service or in receipt of an immediate PSSA pension.

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

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## Statistical Tables

## Statistical Table 1: Pensions in Pay

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

Year	Pensions <sup>1</sup>	Survivor Pensions <sup>2</sup>	Total
2011	184,835	58,165	243,000
2010	179,670	58,575	238,245
2009	175,757	58,584	234,341

**Statistical Table 1.2: Average Annual Amount—Pensions and Survivor Pensions in Pay<sup>3</sup>**  
(year ended March 31)

		Pensions <sup>1</sup>			Survivor Pensions		
Year		Men	Women	Total	Spouse / Common- Law Partner	Children	Students
2011	Average annual amount	\$29,845	\$20,229	\$25,991	\$12,071	\$1,932	\$2,589
	Average age	71.0	68.8	70.1	78.4	N/A	N/A
	Average pensionable service (years)	25.7	22.2	24.3	22.2	N/A	N/A
2010	Average annual amount	\$28,985	\$19,111	\$25,127	\$11,758	\$1,924	\$2,524
	Average age	70.9	68.9	70.2	78.1	N/A	N/A
	Average pensionable service (years)	25.6	21.9	24.1	22.1	N/A	N/A
2009	Average annual amount	\$28,372	\$18,252	\$24,506	\$11,551	\$1,948	\$2,449
	Average age	70.8	69.0	70.1	77.8	N/A	N/A
	Average pensionable service (years)	25.4	21.6	24.0	22.1	N/A	N/A

1. Includes immediate annuities, disability retirement benefits, and annual allowances payable to former contributors only.

2. Includes spouse or common-law partner, children, and students.

3. Amounts include indexation.

## Statistical Table 2: Pensions that Became Payable

**Statistical Table 2.1: Pensions that Became Payable<sup>1,2</sup> (year ended March 31)**

Year	Men	Women	Total	Total Amount Paid	Average Pension
2011	5,121	5,511	10,632	\$380,609,902	\$35,799
2010	4,716	4,693	9,409	\$335,373,722	\$35,644
2009	4,996	4,764	9,760	\$338,128,203	\$34,644

**Statistical Table 2.2: Pensions that Became Payable to Survivors<sup>2</sup> (year ended March 31)**

Year	Spouse / Common- Law Partner	Children and Students	Total	Total Amount Paid	Avg. Pension Spouse / Common- Law Partner	Avg. Pension Children and Students
2011	2,575	211	2,786	\$37,491,990	\$14,330	\$2,807
2010	2,579	240	2,819	\$35,885,360	\$13,638	\$2,976
2009	2,783	252	3,035	\$37,392,248	\$13,198	\$2,628

1. For 2011, the pensions that became payable include immediate annuities (7,874), deferred annuities (433), annual allowances payable to former contributors only (1,709), and disability retirement benefits (616).

2. These amounts include indexation.

## Statistical Table 3: Unreduced Pensions, Immediate Annuities<sup>1</sup> (year ended March 31)



**Number of Pensions at Age at Retirement**

Year	50– 54 <sup>2</sup>	55	56	57	58	59	60 <sup>3</sup>	61	62	63	64	65	66 and over	Total	Avg. Age <sup>4</sup>	Average Unreduced Pension <sup>5</sup>
2011	75	1,585	603	592	478	476	1,326	566	476	400	299	395	603	7,874	60	\$39,826
2010	81	1,462	559	515	400	355	1,170	497	384	301	254	334	489	6,801	59	\$40,085
2009	68	1,522	590	509	415	406	1,289	530	392	254	248	347	451	7,021	59	\$39,312

1. Includes unreduced pensions (immediate annuities); excludes immediate annuities resulting from disability retirement benefits (616 in 2011).

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 2011, there were 433 deferred annuities (213 men, 220 women) that became payable at age 60.

4. For 2011, the average retirement age for men was 59.8 and for women, 59.4.

5. For 2011, the average unreduced pension for men was \$39,778 and for women, \$39,877.

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

Reduced Pensions <sup>1</sup>					Lump-Sum Payments <sup>2</sup>	
Year	Number for Men	Number for Women	Total Number	Average Allowance	Number	Amount
2011	622	1,087	1,709	\$28,659	6,414	\$250,109,193
2010	578	942	1,520	\$29,203	5,194	\$171,910,503
2009	616	1,074	1,690	\$26,801	5,762	\$245,877,289

1. Includes deferred annual allowances. A deferred annual allowance is a deferred annuity that is reduced because of early payment.

2. Includes transfer values, returns of contributions, amounts transferred to other pension plans under pension transfer agreements, and amounts transferred under the *Pension Benefits Division Act*.

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

**Statistical Table 5.1: Changes in Number of Active Contributors (year ended March 31, 2011)**

	Men	Women	Total
<b>Number of Active Contributors, April 1, 2010</b>	140,754	176,334	317,088
<b>Additions</b>	9,233	11,708	20,941
<b>Deletions:</b>			
Employees leaving the public service <sup>1</sup>	8,556	10,186	18,742
Reversions to non-contributory status <sup>2</sup>	418	404	822
Deaths	228	173	401
<b>Total Deletions</b>	9,202	10,763	19,965
<b>Adjustments<sup>3</sup></b>	(744)	(1,114)	(1,858)
<b>Number of Active Contributors, March 31, 2011</b>	<b>140,041</b>	<b>176,165</b>	<b>316,206</b>

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

**Statistical Table 5.2: Changes in Number of Retired Members<sup>1</sup> (year ended March 31, 2011)**

	<b>Total</b>
<b>Number of Retired Members, April 1, 2010</b>	179,670
Additions	10,632
Deletions	5,190
<b>Adjustments<sup>2</sup></b>	(277)
<b>Number of Retired Members, March 31, 2011</b>	<b>184,835</b>

1. Does not include 5,695 deferred annuitants as at March 31, 2011.

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

**Statistical Table 5.3: Changes in Number of Survivors on Pensions  
(year ended March 31, 2011)**

<b>Survivors</b>	<b>Total</b>
<b>Number of Survivors on Pension, April 1, 2010</b>	56,672
Additions	2,575
Deletions	2,158
<b>Adjustments<sup>1</sup></b>	(747)
<b>Number of Survivors on Pension, March 31, 2011</b>	<b>56,342</b>

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

**Statistical Table 5.4: Changes in Number of Children and Students on Pensions  
(year ended March 31, 2011)**

<b>Children and Students</b>	<b>Total</b>
<b>Number of Children and Students on Pension, April 1, 2010</b>	1,903
Additions	211
Deletions	40
<b>Adjustments<sup>1</sup></b>	(251)
<b>Number of Children and Students on Pension, March 31, 2011</b>	<b>1,823</b>

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

Statistical Table 6: Number and Amount of Transfer Value Payments by Years of Pensionable Service and Age at Termination (year ended March 31, 2011)

Years of Pensionable Service <sup>2</sup>	Age at Termination <sup>1</sup>						Total (\$)
	Under 30	30–34	35–39	40–44	45–49	Total	
Under 5	177	129	110	78	76	570	
5–9	25	100	99	73	72	369	
10–14	0	14	40	52	54	160	
15–19	0	1	15	30	52	98	
20–24	0	0	1	11	46	58	
25–29	0	0	0	1	22	23	
30–35	0	0	0	0	1	1	
<b>Men, Total</b>	<b>82</b>	<b>92</b>	<b>121</b>	<b>96</b>	<b>128</b>	<b>519</b>	
<b>Women, Total</b>	<b>120</b>	<b>152</b>	<b>144</b>	<b>149</b>	<b>195</b>	<b>760</b>	
<b>Overall Total</b>	<b>202</b>	<b>244</b>	<b>265</b>	<b>245</b>	<b>323</b>	<b>1,279</b>	<b>\$129,964,756</b>

1. Average age for contributors receiving transfer value payments was 38.5 for men, 38.6 for women, and 38.5 for men and women combined.

2. Average pensionable service for contributors receiving transfer value payments was 7.4 years for men, 8.1 years for women, and 7.8 years for men and women combined.

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

Year	Active Participants			Retired Participants			Death Benefits Paid			
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Amount Paid
2011	135,276	173,728	309,004	88,900	57,871	146,771	3,445	1,461	4,906	\$155,547,038
2010	135,788	173,752	309,540	87,403	54,016	141,419	3,521	1,471	4,992	\$154,383,630
2009	132,206	168,441	300,647	86,482	50,892	137,374	3,609	1,464	5,073	\$139,430,586



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## Glossary of Terms

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

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

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

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

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

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

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

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

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

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**Consumer Price Index (CPI)**—Is a measure of price changes published 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**—Are sums credited or paid by the employer (Government of Canada, some Crown corporations and territorial governments) and plan members to finance future pension benefits. Each year, the employer contributes amounts sufficient to fund the future benefits earned by employees in respect of that year, as determined by the President of the Treasury Board.

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

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

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

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

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

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

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

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

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

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

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

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

**Public Service Superannuation Act (PSSA)**—Is an Act to provide pension benefits to eligible federal public servants and their dependants.

**Québec Pension Plan (QPP)**—Is a pension plan similar to the CPP that covers individuals working in the province of Quebec. It is administered by the Régie des rentes du Québec.

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

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

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

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

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

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

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

**Year's maximum pensionable earnings (YMPE)**—Are the maximum earnings on which contributions are made to the CPP/QPP during the year.

## Endnotes

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