



Treasury Board of Canada  
Secrétariat

Secrétariat du Conseil du Trésor  
du Canada

Canada

# Report on the Public Service Pension Plan

for the fiscal year  
ended March 31, 2015



ANNUAL REPORT

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represented by the President of the Treasury Board, 2016

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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, 2015*.

Respectfully submitted,

Original signed by

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The Honourable Scott Brison, P.C., M.P.  
President of the Treasury Board

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## Message from the President of the Treasury Board

I am pleased to table the annual *Report on the Public Service Pension Plan for the fiscal year ended March 31, 2015*. This report provides information on how the Government of Canada has managed this plan for the federal public service over the last fiscal year, and will be of interest to plan members, parliamentarians and Canadians.

The Treasury Board of Canada Secretariat oversees the management of the public service pension plan. It helps maintain its financial integrity and sustainability by carrying out the required financial analysis and providing strategic leadership.

A strong pension plan is a key part of ensuring Canada has the best public service in the world. It is important for recruiting and retaining the best employees, and for fostering efficient, collaborative and innovative organizations that produce the best results.

The public service is a place where people dedicate their careers to serving Canadians every day and building a better Canada. The Secretariat recognizes this and will ensure that the plan continues to provide appropriate benefits to plan members at a fair cost, shared between plan members and taxpayers.

Let me take this opportunity to thank our employees for their service and all those who work to ensure that the public service pension plan supports a world-class public service for Canada.



**The Honourable Scott Brison**  
President of the Treasury Board

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The Honourable Scott Brison, P.C., M.P.  
President of the Treasury Board

## Message from the Chief Human Resources Officer

I am pleased to present the 2014–15 annual *Report on the Public Service Pension Plan*. This is my first report as Chief Human Resources Officer.

The role of the Office of the Chief Human Resources Officer is to provide strategic enterprise-wide leadership in people management that supports the renewal of the public service. Over the past year, we have been making great progress in improving people management in the public service, as well as modernizing our systems, tools, and practices for the future.

With regard to our pension plan, in keeping with our commitment to have our public service pension plan information accessible online, we successfully merged Government of Canada pension information within Canada.ca. This is the single window for all government information and is accessible using any device with an Internet connection, including tablets or mobile phones.

This report would not be complete without the collaboration of the pension plan's administrator, Public Services and Procurement Canada. I would like to thank all those involved in producing this report and I look forward to continued collaboration in the future.

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Anne Marie Smart  
Chief Human Resources Officer  
Treasury Board of Canada Secretariat



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## Public service pension plan year at a glance, 2014–15 compared with 2013–14

- ▶ Total plan membership including active members, retired members, survivors and deferred members decreased by 0.3 per cent to 568,763 members.
- ▶ Retired members increased by 2.8 per cent to 213,203 members.
- ▶ Active members decreased by 2.9 per cent to 290,653 members.
- ▶ Employer and employee cash contributions decreased by 2.6 per cent to \$4.5 billion.
- ▶ Total benefit payments to eligible pension plan members and survivors increased by 4.4 per cent to \$6.6 billion.
- ▶ The value of the pension obligations increased by 7.6 per cent to \$169.6 billion.
- ▶ The net value of the public service pension plan assets held by the Public Sector Pension Investment Board<sup>1</sup> increased over the past year to \$81.3 billion.
- ▶ The investment return for the year was 14.5 per cent, for a net investment income of \$10 billion.<sup>2</sup>
- ▶ The net amount transferred to the Public Sector Pension Investment Board decreased by 8.9 per cent to a total of \$3.2 billion.
- ▶ The average annual pension increased by 1.5 per cent to \$36,066 for members who retired in 2014–15.
- ▶ The average pension paid to all retired members increased by 2.5 per cent to \$28,711.

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**290,653**  
active members

**213, 203**  
retired members

**14.5%**  
rate of return

**\$81.3 billion**  
in net assets

**\$10 billion**  
in net investment income<sup>2</sup>

- 
1. The Public Sector Pension Investment Board operates under the commercial name of PSP Investments. For information on the Public Sector Pension Investment Board, refer to the “[Roles and responsibilities](#)” section.
  2. Net investment income is calculated after operational and investment expenses.

## Introduction to the public service pension plan

The public service pension plan is a contributory defined benefit plan serving more than 503,000 public service members. The Government of Canada has a legal obligation to pay pension benefits. The plan is the largest of its kind in Canada in terms of total membership, covering substantially all of the employees of the Government of Canada. This includes 141 departments and agencies in the federal public service, certain Crown corporations and the territorial governments. The public service pension plan has been governed by the *Public Service Superannuation Act* since 1954.

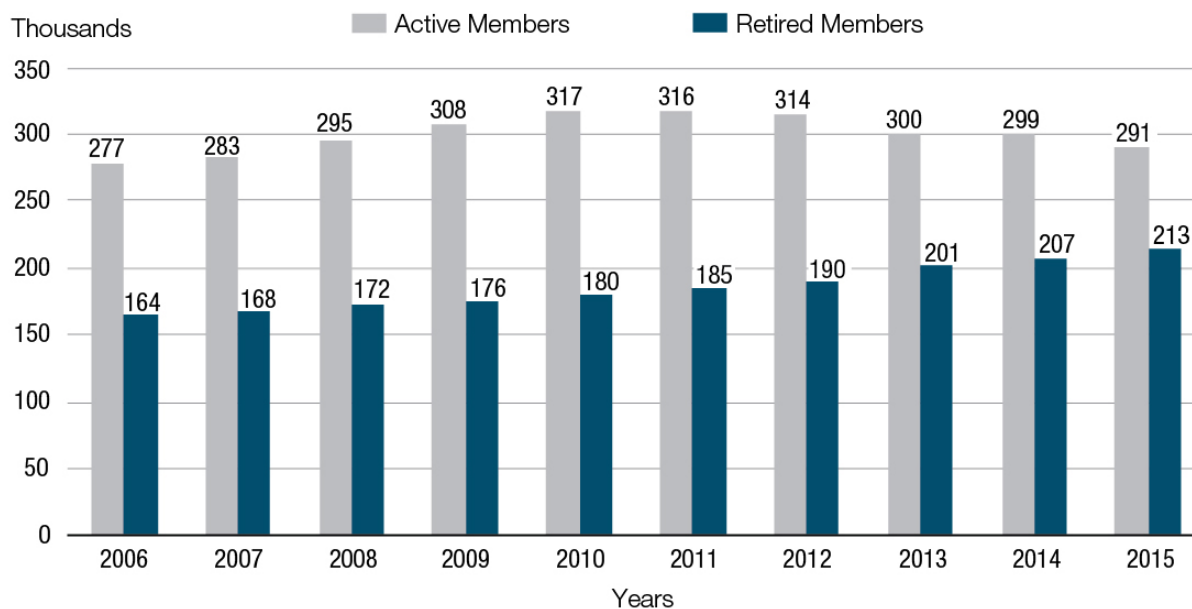
## 2014–15 highlights

- ▶ Employee pension contribution increases continued to be phased in, to eventually reach an employer-employee cost-sharing ratio of 50:50 by 2017.
- ▶ The Treasury Board of Canada Secretariat is of the view that the Government of Canada is on track to meeting the recommendations contained in the *2014 Spring Report of the Auditor General of Canada* on the public sector pension plans. In collaboration with its key partners, the government worked toward completing a funding policy, assessing the governance framework, and developing a new consolidated pension report.
- ▶ Online information about the public service pension plan was merged into a single entry point in [Canada.ca/pension-benefits](http://Canada.ca/pension-benefits).
- ▶ The Pension and Insurance Benefits Statement was redesigned for active public service pension plan members. The new statement reflects industry best practices and provides personalized information in an easy-to-read format.

## Demographic highlights

Figure 1. Membership profile from 2006 to 2015 (year ended March 31)

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

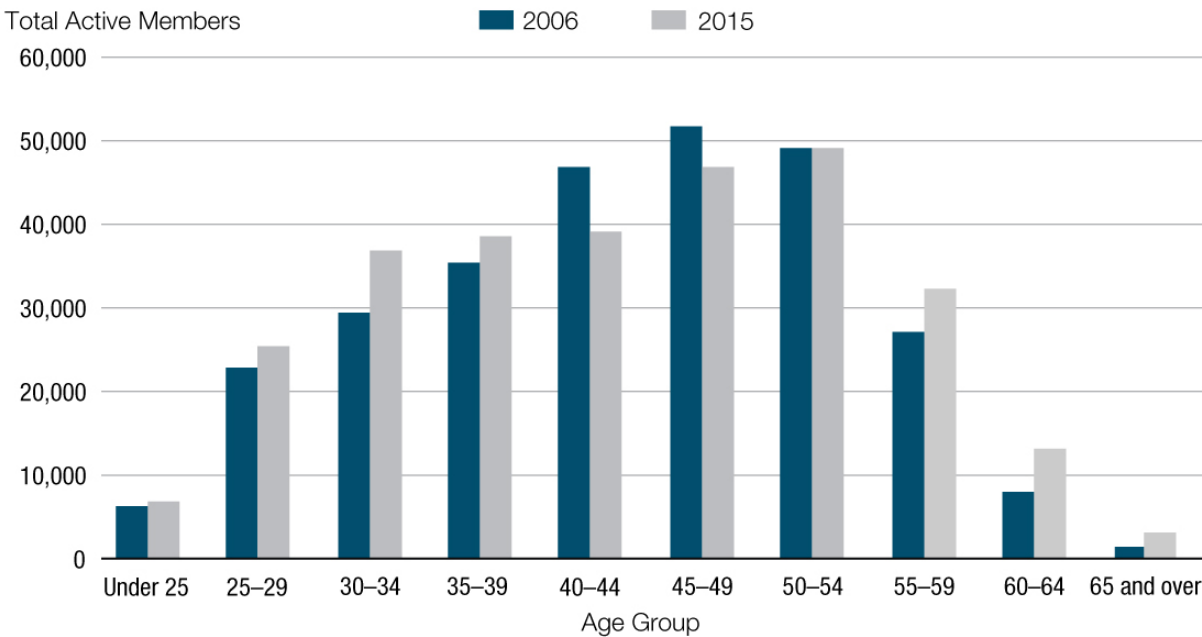


The 10-year annual average growth rate for active members was 0.7 per cent (1.1 per cent in 2014) compared with 2.8 per cent for retired members (2.6 per cent in 2014).<sup>3</sup>

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

Figure 2. Profile of active members by age group in 2006 and 2015  
(year ended March 31)

Figure 2 shows the number of active members by age group in 2015 relative to the number of active members in 2006.



**Note:** The distribution of members by age group was estimated by applying a pro rata methodology using data from the *Actuarial Report on the Pension Plan for the Public Service of Canada* for funding purposes on the pension plan. Data for 2006 was obtained from the actuarial report as at March 31 2005, and data for 2015 was obtained from the actuarial report as at March 31 2014.

Table 1. Comparison of membership distribution in 2006 and 2015  
(year ended March 31)

Membership profile	Number of members 2006	Per cent of total 2006	Number of members 2015	Per cent of total 2015	Per cent change 2006–15
Active members	277,432	54.8	290,653	51.1	4.8
Retired members	164,084	32.4	213,203	37.5	29.9
Survivors	58,998	11.7	60,693	10.7	2.9
New deferred annuitants <sup>4</sup>	5,356	1.1	4,214	0.7	(21.3)
<b>Total</b>	<b>505,870</b>	<b>100.0</b>	<b>568,763</b>	<b>100.0</b>	<b>12.4</b>

The ratio of active to retired members (including survivors and deferred annuitants) in the public service pension plan has declined. In 2006, the ratio was 1.21 active members to 1 retired member, while in 2015 the ratio was 1.05 active members to 1 retired member. From 2006 to 2015, the number of active members increased by 4.8 per cent, while the number of retired members increased by 29.9 per cent. Over the same period, the number of survivors increased by 2.9 per cent and the number of deferred annuitants decreased by 21.3 per cent.

## Financial overview

### Contributions

Employee contribution rate increases continue to be phased in, to eventually reach an employer-employee cost-sharing ratio of 50:50 by 2017.

Generally, if an employee was participating in the plan on or before December 31, 2012, the contribution rates for Group 1 (members with a normal retirement age of 60) are applied. If an employee began participating in the plan on or after January 1, 2013, contribution rates for Group 2 (members with a normal retirement age of 65) are applied.

As illustrated in Table 2, Group 2 plan members pay lower contribution rates than Group 1 members because they are eligible to receive a pension benefit five years later than Group 1 members. Since Group 2 members receive a benefit that has a lower overall cost, they do not pay as much as those who are eligible for an unreduced pension at age 60.

4. These figures represent the number of plan members who left the public service and opted for a deferred annuity during the years ending March 31, 2006, and March 31, 2015, respectively. Deferred annuitants from previous years who are not yet in receipt of an annuity are included in the active members' category.

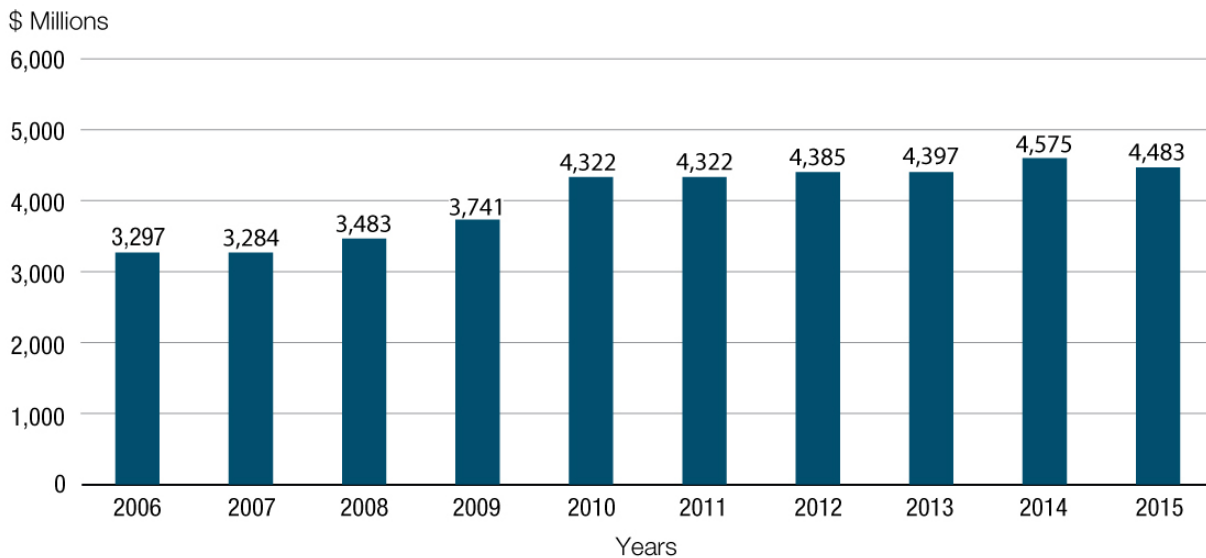
Table 2. Employee contribution rates

	2015	2014
<b>Members who were participating in the plan on or before December 31, 2012 (Group 1)</b>		
On earnings up to the year's maximum pensionable earnings	8.15%	7.50%
On any earnings over the year's maximum pensionable earnings	10.40%	9.80%
<b>Members who began participating in the plan on or after January 1, 2013 (Group 2)</b>		
On earnings up to the year's maximum pensionable earnings	7.05%	6.62%
On any earnings over the year's maximum pensionable earnings	8.54%	7.89%

The yearly maximum pensionable earnings in 2015 was \$53,600 (\$52,500 in 2014).

Figure 3. Total cash contributions from 2006 to 2015 (year ended March 31)

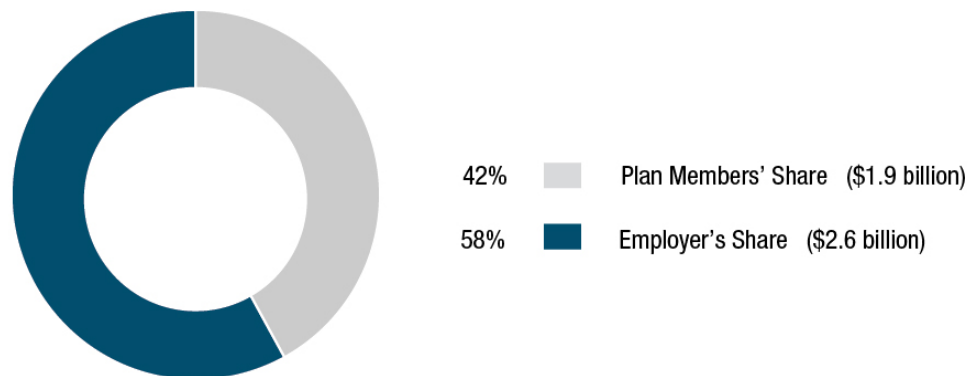
Figure 3 shows the total amount of cash contributions from both the employer and the plan members over the period from 2006 to 2015.



The annual growth rate in cash contributions from both the employer and the plan members over the past 10 years averaged 4.2 per cent. The contributions do not include the year-end accrual adjustments, which are reported in the Financial Statements of this report.

Figure 4. Total employer and plan member cash contributions<sup>5</sup>  
(year ended March 31, 2015)

Figure 4 shows the share of total cash contributions between the employer and the plan members as at March 31, 2015.



Public service pension plan benefits are funded through compulsory contributions from the employer and the plan members, as well as from investment earnings. Cash contributions received in 2014–15 totalled \$4.5 billion (\$4.6 billion in 2013–14), excluding year-end accrual adjustments. The employer contributed \$2.6 billion (\$2.8 billion in 2013–14), and plan members contributed \$1.9 billion (\$1.8 billion in 2013–14). As shown in Figure 4, the employer paid approximately 58 per cent of total contributions during the fiscal year (61 per cent in 2013–14); the plan members paid 42 per cent (39 per cent in 2013–14). Cash contributions in Figure 4 include both current service and past service (e.g., service buybacks, pension transfers). The contributions presented in the Financial Statements of this report include year-end accrual adjustments.

## Benefits

In 2014–15, the public service pension plan paid out \$6.6 billion in benefits, which represents an increase of \$276 million over the previous year. Benefits were paid to 273,896 retired members and survivors, compared with 266,826 members in 2013–14.

Of the 9,667 members who retired in 2014–15,

- ▶ 6,953 members were entitled to immediate annuities (8,078 in 2013–14);
- ▶ 1,615 members received annual allowances (1,657 in 2013–14);

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5. Figures have been rounded.

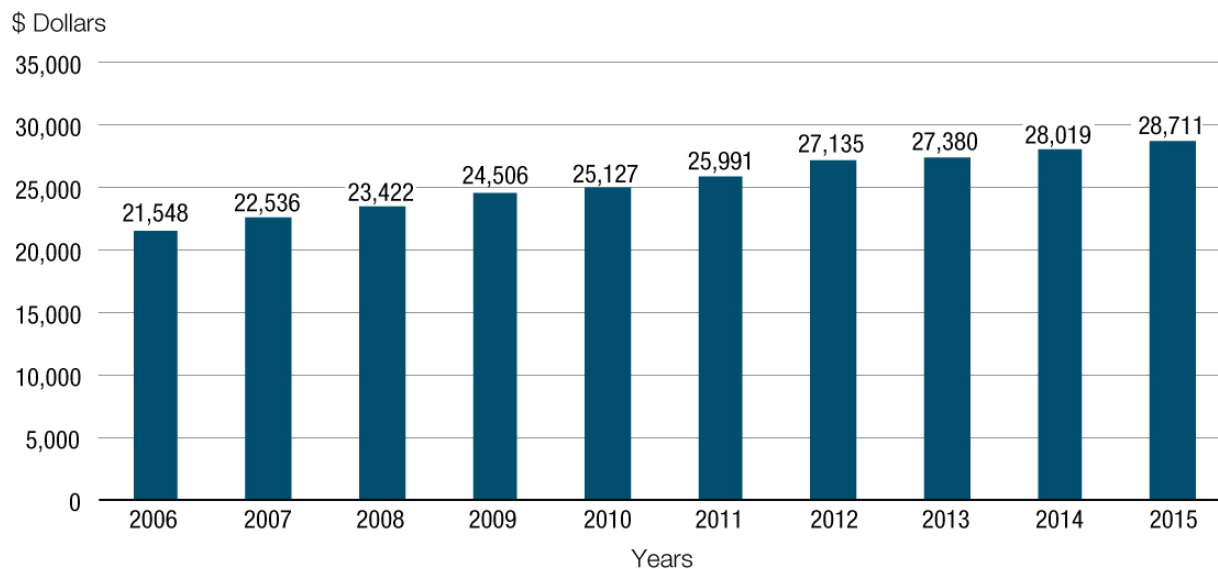
- ▶ 638 members were eligible to receive disability retirement benefits (616 in 2013–14); and
- ▶ 461 members were entitled to deferred annuities (488 in 2013–14).

In 2014–15, a total of 2,091 plan members left the public service before the age of 50 (2,552 in 2013–14) and withdrew approximately \$315 million (\$348 million in 2013–14) in lump-sum amounts (i.e., the present value of their future benefits), excluding return of contributions for non-vested<sup>6</sup> members. These sums were transferred to other pension plans or to locked-in retirement vehicles.

The average annual pension for members who retired in 2014–15 was \$36,066, compared with \$35,548 in 2013–14. This represents an increase of 1.5 per cent. The average pension paid to all retired members was \$28,711 in 2014–15 (\$28,019 in 2013–14), an increase of 2.5 per cent over 2013–14.

Figure 5. Average pension paid to retired members from 2006 to 2015 (year ended March 31)

This figure presents the average pension paid to retired members from 2006 to 2015. In 2014–15, the average pension was \$28,711 (\$28,019 in 2013–14).



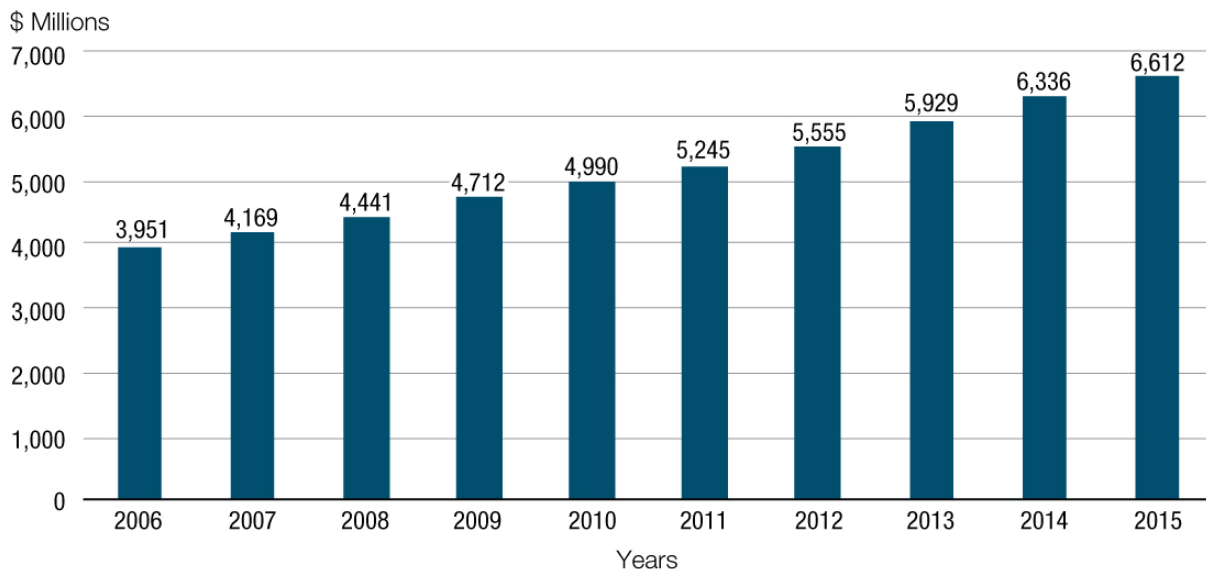
Pensions under the public service pension plan are indexed annually to take into account the cost of living, which is based on increases in the Consumer Price Index. In 2015, the indexation rate was 1.7 per cent (0.9 per cent in 2014).

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



Figure 6. Benefit payments from 2006 to 2015 (year ended March 31)

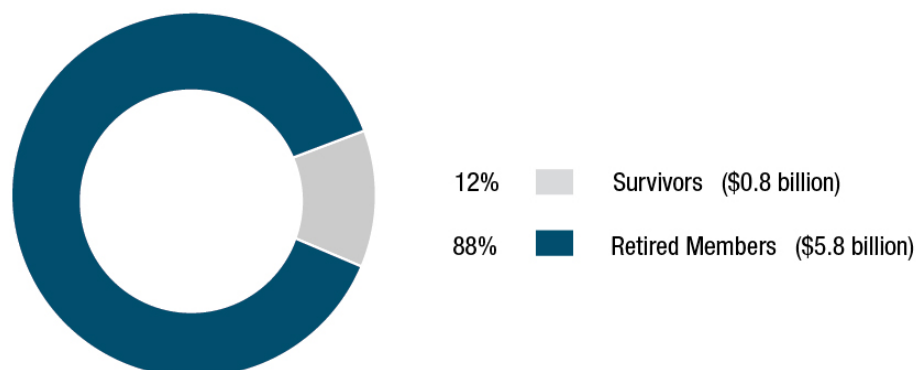
This figure presents the total amount of benefits paid to plan members and survivors each year from 2006 to 2015.



Benefit payments have increased on average by 5.8 per cent annually over the past 10 years. Benefit payments are indexed annually to take into account the cost of living.

Figure 7. Benefit payments (year ended March 31, 2015)

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



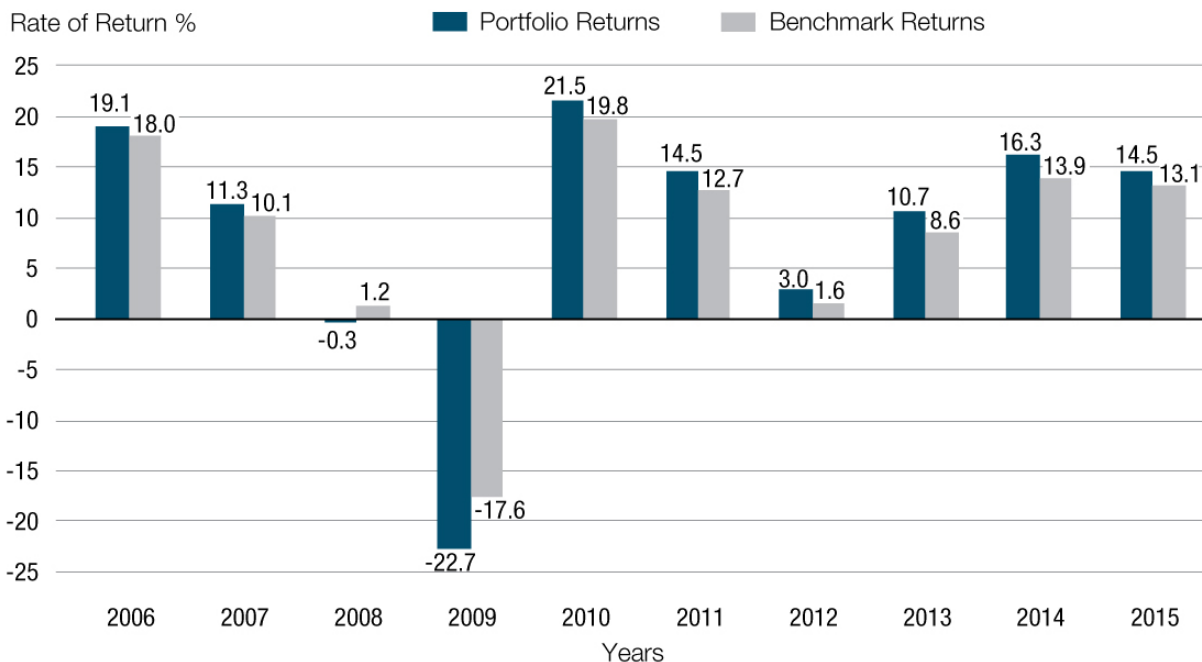
Benefits paid to retired members (\$5.8 billion), which include benefits paid to plan members who retired on grounds of disability, represented 88 per cent of the 2014–15 pension payments (no change from 2013–14). Benefits paid to survivors (\$0.8 billion) represented 12 per cent of the pension payments (no change from 2013–14).

## Investment returns

The Public Sector Pension Investment Board has generated above-benchmark returns in eight of the past ten years. It has accomplished this by increasing the internal active management of its investments and by diversifying its asset classes. The internal active management of assets allows for better control in terms of investment risks and costs. In the past, the Public Sector Pension Investment Board was fully invested in public markets. It is now also active in private market areas such as private equity, real estate, infrastructure and natural resources. Nine of the twelve asset classes met or exceeded their benchmark returns in 2014–15, with the overall portfolio being driven primarily by the public markets, real estate, infrastructure and natural resources portfolios.

Figure 8. Rate of return on assets held by the Public Sector Pension Investment Board from 2006 to 2015 (year ended March 31)

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

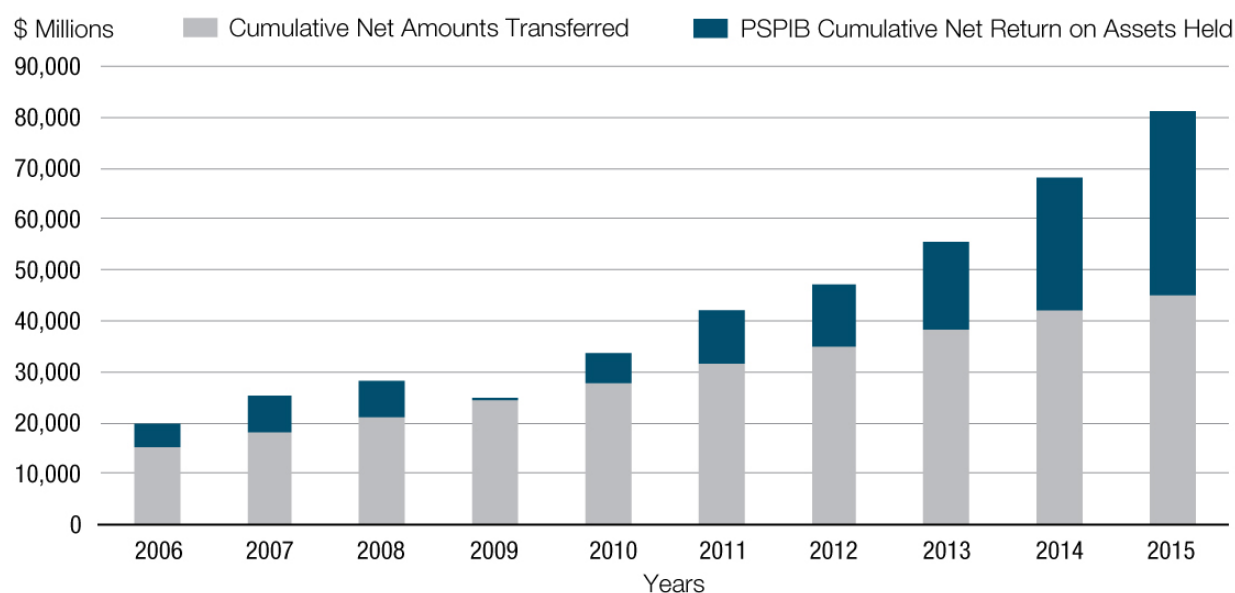


The Public Sector Pension Investment Board reported a rate of return of 14.5 per cent for the 2014–15 fiscal year (16.3 per cent in 2013–14), compared with the benchmark rate of return of 13.1 per cent (13.9 per cent in 2013–14). Over the past 10 years, the Public Sector Pension Investment Board has recorded an annualized rate of return of 8.0 per cent, compared with the benchmark rate of return of 7.6 per cent over the same period.<sup>7</sup>

Additional information concerning the rate of return on assets held by the Public Sector Pension Investment Board and comparative benchmarks is available on the [PSP Investments website](#).<sup>i</sup>

Figure 9. Net assets held by the Public Sector Pension Investment Board from 2006 to 2015 (year ended March 31)

This figure presents the total value of public service pension plan assets held by the Public Sector Pension Investment Board each year over the last 10 years for years ended March 31. Amounts include the cumulative net amounts transferred from the Government of Canada, and the cumulative net return on assets held. In 2015, the total net value of assets reached \$81.3 billion. To date, \$45.2 billion (55.6 per cent) of the total value has been transferred from the Government of Canada.



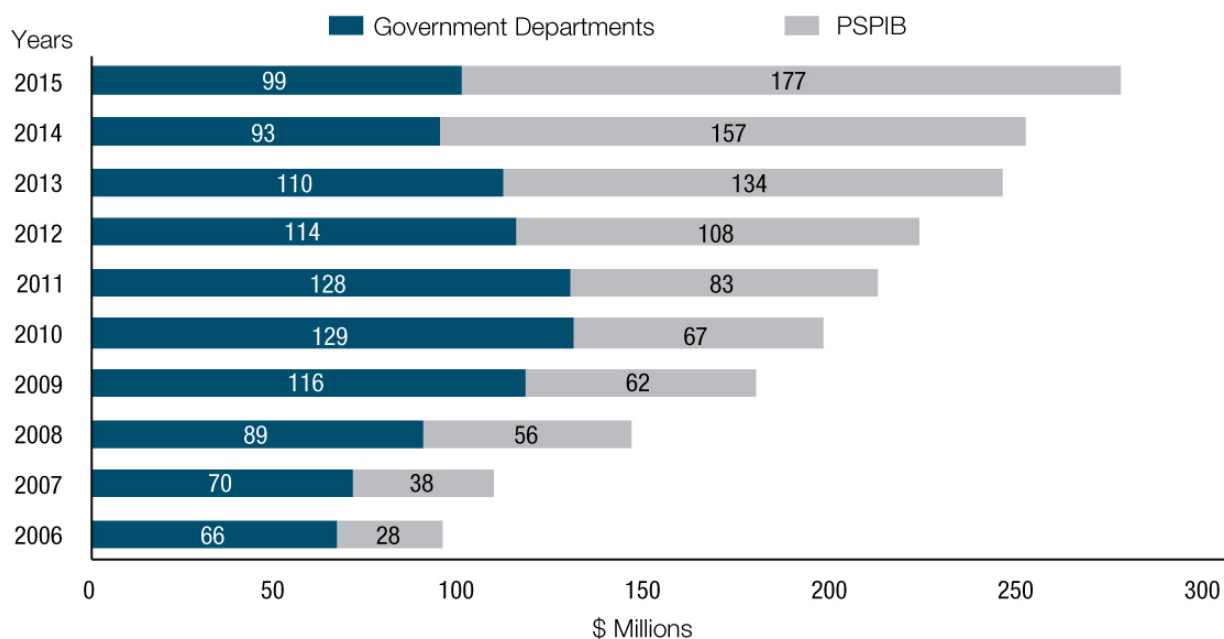
7. The rate of return of 8.0 per cent and the benchmark rate of return of 7.6 per cent represent nominal annualized returns for the past 10 years. They are different from the 10-year annualized net return of 7.6 per cent and the net benchmark rate of return of 6.0 per cent from the Public Sector Pension Investment Board's 2015 Annual Report. The rate of return is net of all expenses and fees, and the benchmark rate of return is net of inflation.

## Administrative expenses

The legislation provides for the pension-related administrative expenses of government organizations to be charged to the public service pension plan, namely, those of the Treasury Board of Canada Secretariat, Public Services and Procurement Canada,<sup>8</sup> Health Canada and the Office of the Chief Actuary. Administrative expenses also include Public Sector Pension Investment Board operating expenses.

Figure 10. Administrative expenses from 2006 to 2015 (year ended March 31)

This figure presents the administrative expenses charged to the public service pension plan each year from 2006 to 2015, as shared between government departments and the Public Sector Pension Investment Board (PSPIB).



The increase in administrative expenses for government departments from 2008 to 2010 was due in large part to the capital expenditure requirements related to the pension modernization project started in 2007–08. This project was completed in January 2013. The decrease in administration expenses for government departments from 2011 to 2014 was due to the completion of the centralization of pension services that started in 2006–07. The increase in administrative expenses in 2015 was due to system maintenance costs.

8. On December 8, 2015, the applied title of the Department of Public Works and Government Services changed from Public Works and Government Services Canada (PWGSC) to Public Services and Procurement Canada (PSPC).

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The Public Sector Pension Investment Board's increase in expenses from 2011 to 2015 was due in part to the growth in assets under management, and in part to the Public Sector Pension Investment Board's management strategy to increasingly manage the investment portfolio internally. Managing assets internally increases operating expenses; however, it also reduces external management expenses. The total value of assets managed internally increased to approximately \$82 billion at the end of fiscal year 2015, compared with \$70 billion at the end of the previous fiscal year. As a result, over the past five fiscal years, internally managed assets allocated to the public sector pension plans (the public service, Royal Canadian Mounted Police and Canadian Armed Forces – Regular and Reserve pension plans) increased by approximately \$51 billion, while the associated operating expenses grew by \$151 million.

Based on available market data related to investment implementation style, it is estimated that increasing internally managed assets has resulted in savings ranging from \$150 million to \$250 million for fiscal year 2014–15. These savings would not have materialized had the Public Sector Pension Investment Board employed external investment managers to manage these funds. As a result of the savings, the Public Sector Pension Investment Board's cost ratios have declined each year for the past five fiscal years. Cost ratios are operating expenses plus asset management expenses as a percentage of average net investment assets. In 2014–15, the average cost per 100 dollars of invested assets was 58.8 cents; in 2009–10, the average cost was 76.6 cents per 100 dollars, an overall decrease of 23 per cent.

Refer to Note 20 of the Financial Statements for more details on the administrative expenses.

## Pension objective

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

## Historical context

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

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

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

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

In 2010–11, following amendments to the *Income Tax Act* that increased the maximum age to accrue pension benefits under a registered pension plan, the *Public Service Superannuation Regulations* were 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.

Further amendments to the *Public Service Superannuation Act* were enacted by Parliament in 2012 to allow for pension plan member contribution rates to be gradually increased to reach an employer-employee cost-sharing ratio of 50:50. In addition, the age of eligibility for an unreduced pension benefit was increased from age 60 to age 65 for new public service employees who began participating in the plan on or after January 1, 2013.

## Roles and responsibilities

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

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

The roles and responsibilities of each organization are 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 on behalf of the Government of Canada, the plan sponsor. The Secretariat supports the Treasury Board's role as the employer of the public service by developing policy for the funding, design and governance of the public service pension plan and other retirement programs and arrangements. In addition, the Secretariat is responsible for providing strategic direction, program advice and interpretation; developing legislation; liaising with stakeholders; and communicating to plan members and preparing the annual *Report on the Public Service Pension Plan*.

## Public Services and Procurement Canada

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

In addition, Public Services and Procurement Canada processes payments and carries out all accounting and financial administrative functions. Through its pay and pension services, Public Services and Procurement Canada's [Pay and Pension Services for Government Employees](#)<sup>ii</sup> ensures that federal government employees and retired pension plan members receive their pay and pension benefits payments accurately and on time. In total, this involves payments of approximately \$28 billion annually.

## Public Sector Pension Investment Board

The Public Sector Pension Investment Board is a Canadian Crown corporation established by the *Public Sector Pension Investment Board Act*. It is governed by an eleven-member board of directors and is accountable to Parliament through the President of the Treasury Board. In accordance with its mandate, the Public Sector Pension Investment Board's statutory objectives

are to manage the funds transferred to it in the best interests of the contributors and beneficiaries, and to invest its assets with a view to achieving a maximum rate of return without undue risk of loss, having regard to the funding, policies and requirements of the pension plan. Since April 1, 2000, the Public Sector Pension Investment Board has been investing, on behalf of the public sector pension plans, the amounts transferred to it by the Government of Canada. The relevant financial results of the Public Sector Pension Investment Board are included in the pension plan's Financial Statements.

## Office of the Chief Actuary

The [Office of the Chief Actuary](#),<sup>iii</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 Office of the Chief Actuary is responsible for conducting an annual actuarial valuation of the pension plan for accounting purposes, as well as a triennial (i.e., once every three years) funding valuation. Further details can be found in the “Financial Statements Content Overview” section.

## Public Service Pension Advisory Committee

The Public Service Pension Advisory Committee, established under the *Public Service Superannuation Act*, provides advice to the President of the Treasury Board on matters relating to the public service pension plan's administration, the design of the benefit plan, and funding.

The committee is composed of thirteen members: one pensioner, appointed from pensioners nominated by the public servant pensioner associations; six employee representatives, appointed from employees nominated by the National Joint Council of the Public Service of Canada; and six members nominated by the President of the Treasury Board, traditionally chosen from the executive ranks of the public service. All members are appointed by the Governor in Council to hold office for a term not exceeding three years, and they are eligible for reappointment for one or more additional terms.

## Summary of plan benefits

The following presents an overview of the main benefits offered under the public service pension plan as of March 31, 2015. If there is a discrepancy between this information and information contained in the [Public Service Superannuation Act](#),<sup>iv</sup> the [Public Service Superannuation Regulations](#)<sup>v</sup> or other applicable laws, the legislation prevails at all times.

## Types of pension benefits

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



Table 3. Types of benefits based on age and pensionable service

Table 3.1 Members who were participating in the plan on or before December 31, 2012 (Group 1)

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 up to age 60	At least 2 years	A deferred annuity payable at age 60; or An annual allowance payable as early as age 50
Under age 50	At least 2 years	A deferred annuity payable at age 60; or An annual allowance payable as early as age 50; or A transfer value
Under age 60	At least 2 years and retiring because of disability	An immediate annuity
Any age	Less than 2 years	A return of contributions with interest

Table 3.2 Members who were participating in the plan on or after January 1, 2013 (Group 2)

If a member is...	And leaves the public service with pensionable service of...	The member would be entitled to...
Age 65 or over	At least 2 years	An immediate annuity
Age 60 or over	At least 30 years	An immediate annuity
Age 55 up to age 65	At least 2 years	A deferred annuity payable at age 65; or An annual allowance payable as early as age 55
Under age 55	At least 2 years	A deferred annuity payable at age 65; or An annual allowance payable as early as age 55; or A transfer value
Under age 65	At least 2 years and retiring because of disability	An immediate annuity
Any age	Less than 2 years	A return of contributions with interest

## Protection from inflation

Pensions under the public service pension plan are indexed annually to take into account the cost of living, which is based on increases in the Consumer Price Index. In 2015, the indexation rate was 1.7 per cent (0.9 per cent in 2014).

## Survivor benefits

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

**Survivor benefit**—A monthly allowance equal to half of the member's unreduced pension, payable immediately to the eligible survivor.

**Child allowance**—An allowance equal to 10 per cent of the member's unreduced pension (20 per cent of the member's unreduced pension if the member has no eligible survivor). The amount is payable until age 18, or age 25 if the child is a full-time student. If there are more than four children, the maximum allowance payable would be equally split among all eligible children. The maximum allowance for all children is 40 per cent of the member's pension, or 80 per cent if there are dependent children but no spouse eligible for a survivor benefit.

**Supplementary death benefit**—A lump-sum benefit equal to twice the member's annual salary, payable to the designated beneficiary or to the estate. Coverage decreases by 10 per cent 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 of 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.

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## Communications to plan members

The Government of Canada recognizes that the public service pension plan is an integral part of the public service workforce recruitment, retention and renewal strategy, and it is committed to providing timely and accurate information about the plan to plan members. To fulfill this commitment, the government has focused on a number of initiatives, including providing information about the public service pension plan in print and online. Outreach events were undertaken to promote the availability of online information and to answer questions from plan members.

As part of the ongoing effort to consolidate online information and services in a single entry point for all of Government of Canada, information about the public service pension plan from Your Public Service Pension and Benefits Web Portal and the Treasury Board of Canada Secretariat website was successfully merged in [Canada.ca/pension-benefits](http://Canada.ca/pension-benefits).

## Financial statements content overview

### Financial and performance audits

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

### 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 purpose of the actuarial review is to determine the state of the pension account and pension fund, as well as to assist the President of the Treasury Board in making informed decisions regarding the financing of the government's pension obligations. The last funding valuation was conducted as at March 31, 2014.

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

## Net assets available for benefits

The Statement of Financial Position shows that as at March 31, 2015, net assets were \$82.9 billion compared with \$69.6 billion last year. The net assets mainly comprise of the assets managed by the Public Sector Pension Investment Board on behalf of the pension plan and contributions receivable for past service elections.

The Statement of Changes in Net Assets Available for Benefits shows that credits come from a number of different sources, including the following:

- ▶ Contributions from pension plan members and employers;
- ▶ Income from investments; and
- ▶ Transfers to the public service pension plan from other pension plans when employees leave an outside organization and join an employer covered under the *Public Service Superannuation Act*.<sup>vi</sup>

Amounts are debited from the public service pension plan to cover

- ▶ benefits;
- ▶ administrative expenses; and
- ▶ transfers or refunds from the public service pension plan to other registered pension plans.

Detailed information can be found in the Financial Statements.

## Investment management

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

The Public Sector Pension Investment Board's 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 (4.1 per cent as reported in the *Actuarial Report on the Pension Plan for the Public Service of Canada as at March 31, 2014*).

As noted in the Public Sector Pension Investment Board's 2015 Annual Report, the investments allocated to the public service pension plan during the year ended March 31, 2015, were in compliance with the *Public Sector Pension Investment Board Act* and the statement of investment policies, standards and procedures approved by its board of directors.

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## Pension obligations

The Statement of Changes in Pension Obligations shows the present value of benefits earned for service to date that will be payable in the future. For the year ended March 31, 2015, the value of pension obligations was \$169.6 billion (\$157.6 billion in 2014), an increase of \$12 billion from the previous fiscal year. The increase is due primarily to an increase in accrued pension benefits.

## Rate of return on assets held by the Public Sector Pension Investment Board

In 2014–15, the assets held by the Public Sector Pension Investment Board earned a rate of return of 14.5 per cent (16.3 per cent in 2013–14). In accordance with the current investment policy, the assets are invested with a long-term target weight of 54.0 per cent in equities, 33.0 per cent in real return assets, and 13.0 per cent in nominal fixed income. Refer to Note 5 and Note 8 of the Financial Statements or to the [PSP Investments website](#)<sup>vii</sup> for more details.

## 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 reduction in interest credited to the account relates to declining bond interest rates. The interest credited on the Public Service Superannuation Account is no longer recognized as “interest income” in the Statement of Changes in Net Assets Available for Benefits and is only reported in the “Account Transaction Statements” section of this report.

Table 4. Annualized interest rate credited to the superannuation account  
(year ended March 31)

Table 4 shows the annualized interest rate credited.

Years	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Percentage interest rate on account	7.8	7.5	7.3	7.0	6.7	6.5	6.0	5.6	5.4	<b>5.1</b>

**Note:** The streamed weighted average of long-term bond rates is a calculated 20-year weighted moving average of long-term bond rates projected over time. The streamed rates take into account historical long-term bond rates and, over time, reflect expected long-term bond rates.

## Administrative expenses

The legislation provides for the pension-related administrative expenses of government organizations to be charged to the public service pension plan, namely, those of the Treasury Board of Canada Secretariat, Public Services and Procurement Canada, Health Canada and the Office of the Chief Actuary. Administrative expenses also include Public Sector Pension Investment Board operating expenses. Investment management fees are paid either directly by the Public Sector Pension Investment Board or offset against distributions received from the investments. In 2014–15, total expenses recorded by the pension plan were \$99 million (\$93 million in 2013–14) for government departments and \$177 million (\$157 million in 2013–14) for the Public Sector Pension Investment Board.

## Transfer agreements

The pension plan has transfer agreements with other levels of government, universities and private sector employers. In 2014–15, \$30 million (\$96 million in 2013–14) was transferred into the public service pension plan, and \$52 million (\$49 million in 2013–14) was transferred out of the public service pension plan under these agreements.

## Retirement compensation arrangements

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

Retirement Compensation Arrangement No. 1 provides for benefits in excess of those permitted under the *Income Tax Act* for registered pension plans. In 2015, this primarily included benefits on salaries over \$157,700 (\$155,000 in 2014) plus some survivor benefits.

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

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

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## Further information

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

- ▶ [Canada.ca/pension-benefits](https://Canada.ca/pension-benefits)<sup>viii</sup>
- ▶ [Public Services and Procurement Canada, Pay and Pension Services for Government Employees](#)<sup>ix</sup>
- ▶ [Public Service Superannuation Act](#)<sup>x</sup>
- ▶ [PSP Investments](#)<sup>xi</sup>
- ▶ [Office of the Chief Actuary](#)<sup>xii</sup>

## Account transaction statements



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## Public Service Superannuation Account and Public Service Pension Fund

Prior to April 2000, all pension transactions accumulated in relation to the pension plan were accounted for, and recorded in, the Public Service Superannuation Account in the Public Accounts of Canada (to the extent that any funds held in the Consolidated Revenue Fund have been earmarked specifically for the pension plan). The Superannuation Account does not consist of cash or marketable securities. The account is used to record transactions, such as contributions, benefit payments, interest, administrative expenses and other charges, which pertain to service prior to April 1, 2000. The interest is credited quarterly at rates calculated as though the amounts recorded in the account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity.

All pension transactions related to service accrued since April 1, 2000, are recorded in the Public Service Pension Fund Account in the accounts of Canada. An amount equal to contributions in excess of benefit payments and government organizations' administrative expenses is transferred regularly to the Public Sector Pension Investment Board and invested in capital markets. The balance in the Public Service Pension Fund Account at year-end represents amounts awaiting imminent transfer to the Public Sector Pension Investment Board.

The treatment of any actuarial excess or surplus and shortfall or deficit for both the Superannuation Account and the Pension Fund is outlined in the Financial Statements of the Public Service Pension Plan for the Fiscal Year Ended March 31, 2015. As a result of the latest actuarial valuation as at March 31, 2014, no actuarial adjustment was made to the Superannuation Account (nil in 2013–14) during the year ended March 31, 2015. Starting with the year ended March 31, 2013, an annual adjustment of \$435 million will be made to the Pension Fund for a period of 13 years ending in 2025. The *Public Service Superannuation Act* 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.

## Public Service Superannuation Account statement

Year ended March 31 (in dollars)

	2015	2014
<b>Opening Balance (A)</b>	<b>\$96,423,778,971</b>	\$96,648,001,666
<b>Receipts and Other Credits</b>		
Employee contributions		
Government employees	2,613,255	3,974,740
Retired employees	14,933,383	17,027,791
Public service corporation employees	196,820	261,641
Employer contributions		
Government	14,472,374	17,233,070
Public service corporations	112,735	242,123
Transfers from other pension funds	0	391,468
Interest	4,797,893,981	5,061,490,938
<b>Total—Receipts and Other Credits (B)</b>	<b>\$4,830,222,550</b>	\$5,100,621,772
<b>Payments and Other Charges</b>		
Annuities	\$5,240,665,149	\$5,163,832,473
Minimum benefits	16,184,060	16,775,306
Pension division payments	18,100,278	29,996,061
Pension transfer value payments	34,531,513	45,395,025
Returns of contributions		
Government employees	721,889	154,484
Public service corporation employees	31,857	141,859
Transfers to other pension funds	9,343,265	10,651,878
Administrative expenses	58,478,052	57,897,383
<b>Total—Payments and Other Charges (C)</b>	<b>\$5,378,056,061</b>	\$5,324,844,467
<b>Receipts Less Payments (B - C) = (D)</b>	<b>\$(547,833,511)</b>	\$(224,222,695)
<b>Closing Balance (A + D)</b>	<b>\$95,875,945,459</b>	\$96,423,778,971

The above account transaction statement is unaudited.

## Public Service Pension Fund Account statement

Year ended March 31 (in dollars)

	2015	2014
<b>Opening Balance (A)</b>	<b>\$499,943,338</b>	<b>\$550,792,204</b>
<b>Receipts and Other Credits</b>		
Employee contributions		
Government employees	<b>1,667,207,395</b>	1,586,029,379
Retired employees	<b>38,077,475</b>	36,906,148
Public service corporation employees	<b>157,358,746</b>	151,031,744
Employer contributions		
Government	<b>2,342,382,010</b>	2,519,014,713
Public service corporations	<b>218,193,084</b>	242,823,824
Actuarial liability adjustment	<b>435,000,000</b>	435,000,000
Transfers from other pension funds	<b>25,218,640</b>	91,526,497
Transfer value election	<b>4,400,704</b>	3,754,438
<b>Total—Receipts and Other Credits (B)</b>	<b>\$4,887,838,055</b>	<b>\$5,066,086,742</b>
<b>Payments and Other Charges</b>		
Annuities	<b>\$1,343,904,637</b>	\$1,143,851,882
Minimum benefits	<b>11,322,140</b>	11,418,925
Pension division payments	<b>26,204,917</b>	27,576,454
Pension transfer value payments	<b>279,072,403</b>	302,264,857
Returns of contributions		
Government employees	<b>7,572,183</b>	9,638,772
Public service corporation employees	<b>3,533,887</b>	3,505,117
Transfers to other pension funds	<b>52,019,965</b>	48,803,326
Administrative expenses	<b>41,056,226</b>	35,110,461
<b>Total—Payments and Other Charges (C)</b>	<b>\$1,764,686,356</b>	<b>\$1,582,169,796</b>
<b>Receipts Less Payments (B - C)</b>	<b>\$3,123,151,699</b>	<b>\$3,483,916,946</b>
<b>Transfers to Public Sector Pension Investment Board (D)</b>	<b>\$(3,220,804,650)</b>	<b>\$(3,534,765,812)</b>
<b>Closing Balance (A + B - C + D)</b>	<b>\$402,290,387</b>	<b>\$499,943,338</b>

The above account transaction statement is unaudited.

## Retirement Compensation Arrangements

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

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

Actuarial shortfalls found between the balance in the Retirement Compensation Arrangements Account and the actuarial liabilities are credited to the Retirement Compensation Arrangements Account in equal instalments over a period of up to 15 years. As a result of the triennial valuation of March 31, 2014, no adjustment was made to Retirement Compensation Arrangement No. 1 (nil in 2013–14), but a credit adjustment of \$8 million was made to cover an actuarial deficiency in Retirement Compensation Arrangement No. 2 during the year (\$8.0 million in 2013–14).

## Retirement Compensation Arrangement No. 1

For tax purposes, financial transactions related to pension plan members' pensionable earnings over \$157,700 in 2015 are recorded separately. As at March 31, 2015, there were 5,256 public service employees (5,556 in 2014) and 11,398 retired members (9,544 in 2014) in this category.

Year ended March 31 (in dollars)

	2015	2014
<b>Opening Balance (A)</b>	<b>\$1,040,164,700</b>	<b>\$975,251,232</b>
<b>Receipts and Other Credits</b>		
Employee contributions		
Government employees	<b>10,065,768</b>	10,588,750
Retired employees	<b>420,128</b>	264,330
Public service corporation employees	<b>2,006,026</b>	1,721,296
Employer contributions		
Government	<b>75,678,400</b>	83,641,858
Public service corporations	<b>14,750,273</b>	13,501,115
Interest	<b>54,330,519</b>	54,134,392
Transfer from other pension funds	<b>696,843</b>	24,072
Transfer value election	<b>(712)</b>	773
<b>Total—Receipts and Other Credits (B)</b>	<b>\$157,947,245</b>	<b>\$163,876,586</b>
<b>Payments and Other Charges</b>		
Annuities	<b>\$30,744,211</b>	\$26,098,541
Minimum benefits	<b>165,375</b>	165,922
Pension division payments	<b>737,864</b>	903,333
Pension transfer value payments	<b>548,456</b>	324,334
Returns of contributions		
Government employees	<b>6,224</b>	18,401
Public service corporation employees	<b>55,168</b>	5,809
Transfers to other pension plans	<b>267,634</b>	1,747,052
Refundable tax	<b>61,260,886</b>	69,699,727
<b>Total—Payments and Other Charges (C)</b>	<b>\$93,785,819</b>	<b>\$98,963,118</b>
<b>Receipts Less Payments (B - C) = (D)</b>	<b>\$64,161,425</b>	<b>\$64,913,468</b>
<b>Closing Balance (A + D)</b>	<b>\$1,104,326,125</b>	<b>\$1,040,164,700</b>

The above account transaction statement is unaudited.

**Retirement Compensation Arrangement No. 2**

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

Year ended March 31 (in dollars)

	2015	2014
<b>Opening Balance (A)</b>	<b>\$729,836,158</b>	\$749,295,712
<b>Receipts and Other Credits</b>		
Government interest	<b>35,493,565</b>	38,383,183
Actuarial liability adjustment	<b>8,000,000</b>	8,000,000
<b>Total—Receipts and Other Credits (B)</b>	<b>43,493,565</b>	\$46,383,183
<b>Payments and Other Charges</b>		
Annuities	<b>84,608,122</b>	\$84,639,840
Refundable tax	<b>(20,127,194)</b>	(18,797,103)
<b>Total—Payments and Other Charges (C)</b>	<b>64,480,928</b>	65,842,737
<b>Receipts Less Payments (B - C) = (D)</b>	<b>\$(20,987,363)</b>	\$(19,459,554)
<b>Closing Balance (A + D)</b>	<b>\$708,848,795</b>	\$729,836,158

The above account transaction statement is unaudited.

## Supplementary Death Benefit

As at March 31, 2015, there were 285,140 active participants (287,563 in 2014) and 172,545 retired elective participants (166,827 in 2014) entitled to a Supplementary Death Benefit under Part II of the *Public Service Superannuation Act*. In 2014–15, a total of 3,001 claims (3,263 in 2014) for Supplementary Death Benefits were paid.

Year ended March 31 (in dollars)

	2015	2014
<b>Opening Balance (A)</b>	<b>\$3,310,011,661</b>	\$3,208,242,034
<b>Receipts and Other Credits</b>		
Contributions		
Employees (government and public service corporation)	<b>98,686,885</b>	96,660,263
Government		
General	<b>10,906,651</b>	11,456,742
Single premium for \$10,000 benefit	<b>2,769,441</b>	2,793,056
Public service corporations	<b>1,376,392</b>	1,315,296
Interest	<b>167,169,944</b>	170,131,983
<b>Total—Receipts and Other Credits (B)</b>	<b>\$280,909,314</b>	\$282,357,340
<b>Payments and Other Charges</b>		
Benefit payments		
General <sup>1</sup>	<b>\$130,506,738</b>	\$137,143,304
\$10,000 benefit <sup>2</sup>	<b>35,956,362</b>	43,106,804
Other death benefit payments	<b>373,077</b>	337,605
<b>Total—Payments and Other Charges (C)</b>	<b>\$166,836,177</b>	\$180,587,713
<b>Receipts Less Payments (B - C) = (D)</b>	<b>\$114,073,137</b>	\$101,769,627
<b>Closing Balance (A + D)</b>	<b>\$3,424,084,798</b>	\$3,310,011,661

The above account transaction statement is unaudited.

Notes:

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

## Statistical tables



## Statistical table 1. Pensions in pay

**Statistical table 1.1. Number of pensions and survivor pensions in pay  
(year ended March 31)**

Year	Pensions <sup>1</sup>	Survivor pensions <sup>2</sup>	Total
2015	213,203	60,693	273,896
2014	207,495	59,331	266,826
2013	200,975	58,123	259,098

**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
2015	Average annual amount	\$32,617	\$23,783	\$28,711	\$13,394	\$2,111	\$3,480
	Average age	71.5	68.6	70.2	80.5	N/A	N/A
	Average pensionable service (years)	25.3	22.8	24.2	22.3	N/A	N/A
2014	Average annual amount	\$31,882	\$22,974	\$28,019	\$13,031	\$2,038	\$3,471
	Average age	71.3	68.5	70.1	80.1	N/A	N/A
	Average pensionable service (years)	25.4	22.7	24.2	22.3	N/A	N/A
2013	Average annual amount	\$31,277	\$22,084	\$27,380	\$12,802	\$2,043	\$3,472
	Average age	71.1	68.5	70.0	79.4	N/A	N/A
	Average pensionable service (years)	25.3	22.5	24.1	22.2	N/A	N/A

**Notes:**

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 to members<sup>1, 2</sup> (year ended March 31)**

Year	Men	Women	Total	Total amount paid	Average pension
<b>2015</b>	<b>4,433</b>	<b>5,234</b>	<b>9,667</b>	<b>\$348,650,269</b>	<b>\$36,066</b>
2014	4,811	6,028	10,839	\$385,271,381	\$35,548
2013	6,033	7,313	13,346	\$450,740,734	\$33,773

**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	Average pension Spouse / Common-law Partner	Average pension Children and students
<b>2015</b>	<b>2,258</b>	<b>602</b>	<b>2,860</b>	<b>\$37,929,875</b>	<b>\$15,939</b>	<b>\$3,330</b>
2014	2,285	628	2,913	\$36,505,401	\$15,091	\$3,349
2013	2,557	363	2,920	\$38,025,675	\$15,850	\$2,930

Notes:

1. In 2015, the pensions that became payable included immediate annuities (6,953), deferred annuities (461), annual allowances payable to former contributors only (1,615) and disability retirement benefits (638).
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															Average age <sup>4</sup>	Average unreduced pension <sup>5</sup>
Year	50– 54 <sup>2</sup>	55	56	57	58	59	60 <sup>3</sup>	61	62	63	64	65	66 and over	Total		
<b>2015</b>	<b>81</b>	<b>1,218</b>	<b>454</b>	<b>419</b>	<b>370</b>	<b>314</b>	<b>1,113</b>	<b>570</b>	<b>491</b>	<b>358</b>	<b>341</b>	<b>440</b>	<b>784</b>	<b>6,953</b>	<b>60</b>	<b>\$40,633</b>
2014	69	1,521	614	563	478	451	1,227	576	494	435	397	486	767	8,078	60	\$39,273
2013	57	1,668	755	679	609	537	1,624	702	617	482	465	561	903	9,659	60	\$36,668

Notes:

1. Excludes immediate annuities resulting from disability retirement benefits (638 in 2015).
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. In 2015, there were 461 deferred annuities (212 men, 249 women) that became payable at age 60.
4. In 2015, the average retirement age was 60.64 for men and 59.92 for women.
5. In 2015, the average unreduced pension was \$40,254 for men and \$40,998 for women.

## Statistical table 4. Reduced pensions (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
2015	615	1,000	1,615	\$28,923	7,584	\$431,132,155
2014	592	1,065	1,657	\$29,536	9,071	\$478,127,833
2013	1,027	1,710	2,737	\$29,224	11,767	\$373,460,521

Notes:

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 members, retired members and survivors on pension

Statistical table 5.1. Changes in number of active members (year ended March 31, 2015)

	Men	Women	Total
<b>Number of active members, March 31, 2014</b>	<b>132,667</b>	<b>166,626</b>	<b>299,293</b>
Additions	9,690	12,885	22,575
Deletions <sup>1</sup>	10,491	13,983	24,474
<b>Adjustments<sup>2</sup></b>	<b>(2,977)</b>	<b>(3,764)</b>	<b>(6,741)</b>
<b>Number of active members, March 31, 2015</b>	<b>128,889</b>	<b>161,764</b>	<b>290,653</b>

Note:

1. Includes full return of contributions, immediate annuities, annual allowances paid, transfer values, deferred annuities chosen, deferred annuities locked in (if applicable), transfers out and deaths in service.
2. 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, 2015)**

	<b>Total</b>
<b>Number of retired members, March 31, 2014</b>	<b>207,495</b>
Additions	9,667
Deletions	3,297
<b>Adjustments<sup>2</sup></b>	<b>(662)</b>
<b>Number of retired members, March 31, 2015</b>	<b>213,203</b>

Notes:

1. Does not include 4,214 members who elected to become deferred annuitants during the year ending March 31, 2015.
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, 2015)**

	<b>Total</b>
<b>Number of survivors on pension, March 31, 2014</b>	<b>57,974</b>
Additions	2,258
Deletions	282
<b>Adjustments<sup>1</sup></b>	<b>(577)</b>
<b>Number of survivors on pension, March 31, 2015</b>	<b>59,373</b>

Note:

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, 2015)**

	<b>Total</b>
<b>Number of children and students on pension, March 31, 2014</b>	<b>1,357</b>
Additions	602
Deletions	212
<b>Adjustments<sup>1</sup></b>	<b>(427)</b>
<b>Number of children and students on pension, March 31, 2015</b>	<b>1,320</b>

Note:

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, 2015)

Years of pensionable service	Age at termination						Total (\$)
	Under 30	30–34	35–39	40–44	45–49	Total	
Under 5	352	261	148	141	145	1,047	
5–9	57	133	133	94	88	505	
10–14	1	33	85	99	101	319	
15–19	0	0	10	41	62	113	
20–24	0	0	1	21	63	85	
25–29	0	0	0	0	15	15	
30–35	0	0	0	0	7	7	
<b>Overall total</b>	<b>410</b>	<b>427</b>	<b>377</b>	<b>397</b>	<b>481</b>	<b>2,091</b>	<b>\$313,603,916</b>
<b>Total women</b>						<b>1,221</b>	
<b>Total men</b>						<b>870</b>	

Statistical table 7. Supplementary death benefit—number of participants and number of benefits paid (year ended March 31)

Year	Active participants <sup>1</sup>			Retired participants <sup>2</sup>			Death benefits paid			
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Amount paid
2015	125,175	159,965	285,140	96,222	76,323	172,545	2,181	820	3,001	\$166,836,177
2014	126,151	161,412	287,563	94,655	72,172	166,827	2,358	905	3,263	\$180,587,713
2013	128,150	164,563	292,713	92,445	67,100	159,545	3,097	1,322	4,419	\$153,864,830

Notes:

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

Financial Statements of the  
Public Service Pension Plan for the Fiscal Year Ended  
March 31, 2015

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## 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 Services and Procurement Canada (PSPC) and the Treasury Board of Canada Secretariat (the Secretariat). The Secretariat carries out responsibilities in respect of the overall management of the pension plan, while PSPC 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, 2015, have been prepared in accordance with the stated accounting policies set out in Note 2 of the financial statements, which are based on Canadian accounting standards for pension plans. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian accounting standards for pension plans. The financial statements include management's best estimates and judgments where appropriate.

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

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

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

Approved by:

Original signed by

George Da Pont  
Deputy Minister and Deputy Receiver  
General for Canada  
Public Services and Procurement Canada

January 26, 2016

Original signed by

Yaprak Baltacıoğlu  
Secretary of the Treasury Board  
Treasury Board of Canada Secretariat

January 26, 2016



Auditor General of Canada  
Vérificateur général du Canada

## Independent Auditor's Report

To the President of the Treasury Board and the Minister of Public Services and Procurement

### Report on the Financial Statements

I have audited the accompanying financial statements of the public service pension plan, which comprise the statement of financial position as at 31 March 2015, and the statement of change in net assets available for benefits and statement of change in pension obligations 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 of the financial statements, which conform with Canadian accounting standards for pension plan, 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.



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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 financial position of the public service pension plan as at 31 March 2015, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

**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.

Original signed by

Marian McMahon, CPA, CA  
Assistant Auditor General  
for the Auditor General of Canada

26 January 2016  
Ottawa, Canada

## Financial Statements

### Statement of Financial Position

(Canadian \$ millions)

	As at March 31, 2015	As at March 31, 2014
<b>Assets</b>		
Public Service Pension Fund (Note 4)	\$402	\$500
Investments (Note 5)	90,424	75,277
Contributions Receivable		
From plan members (Note 8)	541	441
From employers (Note 8)	568	469
Other assets (Note 9)	127	111
<b>Total Assets</b>	<b>\$92,062</b>	<b>\$76,798</b>
<b>Liabilities</b>		
Investment-related liabilities (Note 5)	\$3,676	\$2,570
Accounts payable and other liabilities	131	111
Borrowings (Note 5 and Note 10)	5,384	4,540
<b>Net Assets Available for Benefits</b>	<b>\$82,871</b>	<b>\$69,577</b>
<b>Pension Obligations</b>		
Unfunded (Note 13 and Note 21)	\$95,999	\$92,064
Funded (Note 13)	73,581	65,522
<b>Total Pension Obligations</b>	<b>\$169,580</b>	<b>\$157,586</b>
<b>Deficit – To be Financed by the Government of Canada (Note 14)</b>	<b>\$(86,709)</b>	<b>\$(88,009)</b>

Commitments (Note 24)

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

## Financial Statements (cont'd)

### Statement of Changes in Net Assets Available for Benefits

Year ended March 31 (Canadian \$ millions)

	2015	2014
<b>Net Assets Available for Benefits, Beginning of Year</b>	<b>\$69,577</b>	\$56,929
<b>Increase in Net Assets Available for Benefits</b>		
Investment income, excluding changes in fair values of investment assets and investment liabilities (Note 15)	<b>1,994</b>	1,790
Changes in fair values of investment assets and investment liabilities – realized and unrealized gains and losses (Note 15)	<b>8,371</b>	7,704
Contributions		
From Plan Members (Note 16)	<b>1,963</b>	1,796
From Employers (Note 16)	<b>2,660</b>	2,753
Actuarial adjustment (Note 18)	<b>435</b>	435
Transfers from other pension plans	<b>30</b>	96
<b>Total Increase in Net Assets Available for Benefits</b>	<b>\$15,453</b>	\$14,574
<b>Decrease in Net Assets Available for Benefits</b>		
Benefits paid with respect to service after March 31, 2000 (Note 19)	<b>\$1,355</b>	\$1,155
Refunds and transfers (Note 19)	<b>368</b>	392
Investment-related expenses (Note 17)	<b>218</b>	187
Administrative expenses (Note 20)	<b>218</b>	192
<b>Total Decrease in Net Assets Available for Benefits</b>	<b>\$2,159</b>	\$1,926
<b>Net Increase in Net Assets Available for Benefits</b>	<b>\$13,294</b>	\$12,648
<b>Net Assets Available for Benefits, End of Year</b>	<b>\$82,871</b>	\$69,577

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

## Financial Statements (cont'd)

### Statement of Changes in Pension Obligations

Year ended March 31 (Canadian \$ millions)

	2015 Funded	2015 Unfunded	2015 Total	2014 Funded	2014 Unfunded	2014 Total
<b>Pension Obligations, Beginning of Year</b>	<b>\$65,522</b>	<b>\$92,064</b>	<b>\$157,586</b>	<b>\$59,965</b>	<b>\$93,783</b>	<b>\$153,748</b>
<b>Increase in Pension Obligations</b>						
Interest on pension obligations	3,278	4,558	7,836	2,891	4,921	7,812
Benefits earned	4,494	0	4,494	4,561	0	4,561
Changes in actuarial assumptions losses / (gains) (Note 13)	2,007	3,576	5,583	(19)	(878)	(897)
Experience losses / (gains) (Note 13)	54	1,187	1,241	(389)	(437)	(826)
Transfers from other pension plans	30	0	30	95	0	95
<b>Total Increase in Pension Obligations</b>	<b>\$9,863</b>	<b>\$9,321</b>	<b>\$19,184</b>	<b>\$7,139</b>	<b>\$3,606</b>	<b>\$10,745</b>
<b>Decrease in Pension Obligations</b>						
Benefits paid (Note 19)	\$1,355	\$5,257	\$6,612	\$1,155	\$5,181	\$6,336
Refunds and transfers (Note 19)	368	63	431	392	86	478
Administrative expenses included in the service cost (Note 20 and Note 21)	41	58	99	35	58	93
Plan Curtailments (Note 13)	40	8	48	0	0	0
<b>Total Decrease in Pension Obligations</b>	<b>\$1,804</b>	<b>\$5,386</b>	<b>\$7,190</b>	<b>\$1,582</b>	<b>\$5,325</b>	<b>\$6,907</b>
<b>Net Increase (Decrease) in Pension Obligations</b>	<b>\$8,059</b>	<b>\$3,935</b>	<b>\$11,994</b>	<b>\$5,557</b>	<b>\$(1,719)</b>	<b>\$3,838</b>
<b>Pension Obligations, End of Year</b>	<b>\$73,581</b>	<b>\$95,999</b>	<b>\$169,580</b>	<b>\$65,522</b>	<b>\$92,064</b>	<b>\$157,586</b>

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

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

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

The main provisions of the 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 (the Government), certain Crown corporations, and territorial governments. Membership in the pension plan is compulsory for all eligible employees.

The Government is the sole sponsor of the pension plan. The President of the Treasury Board is the Minister responsible for the PSSA. The Treasury Board of Canada Secretariat (the Secretariat) is responsible for the management of the pension plan while Public Services and Procurement Canada (PSPC) 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 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*, transactions relating to service since April 1, 2000, are now recorded in the Public Service Pension Fund (Pension Fund). An amount equal to contributions in excess of benefit payments and administrative costs is transferred regularly to the Public Sector Pension Investment Board (PSPIB) and invested in capital markets. PSPIB is a Crown corporation whose statutory objectives are to manage the funds transferred to it for investment and to maximize investment returns without undue risk of loss, having regard to the funding, policies and requirements of the three main public sector pension plans (i.e., public service, Royal Canadian Mounted Police (RCMP) and Canadian Forces).

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

The pension plan is funded from plan member and employer contributions, and investment earnings. For the fiscal year, plan members of the pension plan on or before December 31, 2012 (i.e., Group 1) contributed 7.50 percent (2014 – 6.85 percent) for the first nine months; and 8.15 percent (2014 – 7.50 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 9.80 percent (2014 – 9.20 percent) for the first nine months and

Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

10.40 percent for the last three months (2014 – 9.80 percent) of pensionable earnings above that maximum.

The contribution rates for public service employees joining the pension plan on or after January 1, 2013 (i.e., Group 2) was set at 6.62 percent (2014 – 6.27 percent) for the first nine months and 7.05 percent (2014 – 6.62 percent) for the last three months of pensionable earnings up to the maximum covered by the CPP and QPP, and 7.89 percent (2014 – 7.63 percent) for the first nine months; and 8.54 percent (2014 – 7.89 percent) for the last three months of pensionable earnings above that maximum. The Government's contribution is made monthly to provide for the cost (net of 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 contribution rates are determined based on actuarial valuations, which are performed triennially.

The PSSA provides that all pension obligations arising from the pension plan be met by the Government. The PSSA requires that any actuarial deficit in the Pension Fund 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. PSSA also allows any surplus to be lowered by reducing Government and pension plan member contributions. In addition, if there is an amount considered to be non-permitted surplus (refer to PSSA section 44.4(5) for definition of non-permitted surplus) related to the Pension Fund, no further Government pension contributions are permitted while pension plan member contributions under the Pension Fund may be reduced and amounts from PSPIB may be transferred to the Government's Consolidated Revenue Fund (CRF).

### **(C) Benefits**

The pension plan provides pension benefits based on the number of years of pensionable service up 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. 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 22.

Pension 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 0.625 percent for those turning age 65 in calendar year 2012 and later. Also, benefits are fully indexed to the increase in the Consumer Price Index.

Other benefits include survivor pensions, minimum benefits in the event of death, unreduced early retirement pensions, and disability pensions.

## **2. Significant Accounting Policies**

The significant accounting policies that have been applied in the preparation of these financial statements are summarized below.

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

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

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

PSPIB is a Crown corporation whose statutory objectives are to manage the funds transferred to it for investment. The PSPIB forms part of the pension plan reporting entity and its subsidiaries, other than those that solely provide PSPIB with services that relate to its investment activities, are not consolidated since PSPIB activities qualify as those undertaken by an investment entity as defined under IFRS 10, *Consolidated Financial Statements*. PSPIB's subsidiaries are measured at fair value through profit or loss ("FVTPL") in accordance with IFRS 9, *Financial Instruments*, including those that are formed by PSPIB and that qualify as investment entities ("investment entity subsidiaries"). PSPIB's investments in associates, joint ventures and financial assets and financial liabilities are measured at FVTPL in accordance with IAS 28, *Investments in Associates and Joint Ventures* and IFRS 9.

The financial statements for the year ended March 31, 2015 were authorized for issue by the signatories on January 26, 2016.

### **(B) Interests in Other Entities**

Management, through the activities of PSPIB, assesses control, joint control and significant influence with respect to the investees disclosed in Note 6 as follows:

Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

### **(I) Control and Significant Influence**

It is determined that PSPIB has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSPIB does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSPIB determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSPIB ownership interest, other contractual arrangements, or a combination thereof.

### **(II) Joint Control**

It is determined that PSPIB is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

## **(C) Financial Instruments**

### **(I) Classification**

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 5.

Borrowings under the capital market debt financing program, as described under Note 10, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

### **(II) Recognition**

Financial assets and financial liabilities are recorded at the date upon which PSPIB becomes a party to the associated contractual provisions. Purchases and sales are recorded as of the trade date.



### **(III) Initial and Subsequent Measurement**

All financial assets and financial liabilities are recorded in the Statement of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statement of Changes in Net Assets Available for Benefits.

### **(IV) Derecognition**

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired; or
  - PSPIB has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party.
- and
- PSPIB has transferred substantially all the risks and rewards of the asset; or
  - In cases where PSPIB has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

### **(D) Determination of Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSPIB evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, 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 value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

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

Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

The determination of fair value of all financial assets and financial liabilities is described in Note 5.

**(E) Foreign Currency Translation**

Transactions during the period, including purchases and sales of securities, income and expenses are recorded at the rate of exchange prevailing on the date of the transaction.

Financial assets and financial liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains or losses on all financial instruments are included in investment income (loss).

**(F) Securities Lending and Securities Borrowing and Related Collateral**

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

The securities lending and borrowing programs required collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standards securities lending and borrowing programs. PSPIB and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

**(G) Securities Sold under Repurchase Agreements and Related Collateral**

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

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

Securities sold under repurchase agreements 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 required the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs. PSPIB does not sell, repledge or otherwise use collateral held.

### **(H) Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset with the net amount reported in the Statement of Financial Position only if PSPIB has a current enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### **(I) Pension Obligations**

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

### **(J) Investment Income**

The investment income (loss) has been allocated proportionately by PSPIB based on the asset value held by the pension plan and is detailed in Note 15.

Investment income (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized as earned. Dividends are recognized on the ex-dividend date. Distributions from pooled funds, limited partnerships or from direct investments and co-investments are recognized as interest, dividend or realized gains (losses) as appropriate. Co-investments are investments in private entities where the investment is made in conjunction with an external manager with whom PSPIB already has committed and delegated funds.

### **(K) 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.

### **(L) Benefits Earned, Benefits Paid, and Refunds and Transfers**

Benefits earned are accrued as pensionable service accumulates. Benefits paid are recognized as a reduction of pension obligations, and of net assets available for benefits when the payments are made.

Benefit payments, refunds to former members and transfer payments to other plans are recorded in the period in which they are paid.

### **(M) Investment-Related Expenses**

Investment-related expenses are made up of interest expense, as described in Note 5 (A) (VI), transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

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External investment management fees are directly attributable to the external management of assets on behalf of PSPIB. These fees are paid directly by PSPIB and are expensed as they are incurred. This excludes amounts not paid directly by PSPIB for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 17.

Other (net) includes dividend expenses related to securities sold short and securities lending income net of fees on securities borrowed.

### **(N) Significant Accounting Judgments, Estimates and Assumptions**

In preparing the financial statements, management makes certain judgments, estimates and assumptions which can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2(A), and the determination of control, joint control and significant influence as described in Note 2 (B).

Management has made estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets, certain fixed income securities and the pension obligation. The main assumptions made regarding measurement of financial instruments are outlined in Note 5 and those regarding the assessment of risk are outlined in Note 7, and those regarding actuarial assumptions used in determining the pension obligation as described in Note 13.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

## **3. Application of New IFRS and Future Changes in Accounting Standards**

### **(A) Current Accounting Standards Adopted Before the Effective Date**

In 2014, the International Accounting Standards Board (IASB) completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 – *Financial Instruments*. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. IFRS 9 has been adopted early and applied retrospectively as of April 1, 2014. There was no significant impact resulting from the early adoption of IFRS 9 except for minor changes in the accounting policies disclosed in Note 2 (C) and additional disclosures in Note 5.

### **(B) Future Changes in Accounting Standards**

The International Accounting Standards Board (IASB) has issued IFRS 11- *Joint Arrangements* that is not yet effective. IFRS 11 relates to one or more of the pension plan's significant accounting policies or disclosures:

***IFRS 11 Joint Arrangements***

IFRS 11 was amended, effective in annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. Management is currently assessing the impact of adopting this amendment.

**4. Public Service Pension Fund**

The Government has a statutory obligation to pay benefits relating to the pension plan. This pension obligation is to plan members and their beneficiaries. In order for the Government to track the transactions related to contributions, benefit payments, interest and transfers, the Government established the Pension Fund in the accounts of Canada. The accounts have no capacity to pay pensions. All cash receipts and disbursements go to or come from the CRF.

In 1999, the pension legislation was amended to allow the Government to invest funds in capital markets in order to provide for the pension obligations. This legislation created the PSPIB to manage and invest amounts that are transferred regularly to it from the CRF related to service since April 1, 2000. The transactions are recorded in the Pension Fund. The Pension Fund is merely a flow through account. At year-end, the balance in the Pension Fund represents net contributions transferable to PSPIB. PSPIB investment assets and investment-related liabilities are reflected directly in the pension plan's financial statements.

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## 5. Investments

### (A) Classes of Financial Assets and Financial Liabilities

Financial assets and liabilities are aggregated in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values as at March 31 were as follows (\$ millions):

	2015	2014
<b>Investments</b>		
<b>Public Markets</b>		
Canadian Equity	\$6,009	\$6,631
Foreign Equity	24,203	20,166
<b>Private Markets</b>		
Real Estate	12,355	9,292
Private Equity	7,276	5,874
Infrastructure	5,631	4,752
Renewable Resources	1,663	862
<b>Fixed Income</b>		
Cash and Money Market Securities	2,826	2,812
Government and Corporate Bonds	13,240	12,421
Inflation-Linked Bonds	4,670	3,630
Other Fixed Income Securities	5,586	5,238
<b>Alternative Investments</b>	4,004	2,191
<b>Total Investments</b>	<b>\$87,463</b>	<b>\$73,869</b>
<b>Investment-Related Assets</b>		
Amounts Receivable from Pending Trades	\$1,462	\$534
Interest Receivable	154	159
Dividends Receivable	71	60
Derivative-Related Assets	1,274	655
<b>Total Investment-Related Assets</b>	<b>\$2,961</b>	<b>\$1,408</b>
<b>Investments Representing Financial Assets at FVTPL</b>	<b>\$90,424</b>	<b>\$75,277</b>

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	2015	2014
<b>Investment-Related Liabilities</b>		
Amounts Payable from Pending Trades	<b>\$(1,165)</b>	\$(689)
Interest Payable	<b>(24)</b>	(20)
Securities Sold Short	<b>(387)</b>	(520)
Securities Sold Under Repurchase Agreements	<b>0</b>	(460)
Derivative-Related Liabilities	<b>(2,100)</b>	(881)
<b>Investment-Related Liabilities Representing Financial Liabilities at FVTPL</b>	<b>\$(3,676)</b>	\$(2,570)
<b>Borrowings</b>		
Capital Market Debt Financing	<b>\$(5,384)</b>	\$(4,540)
<b>Borrowings Representing Financial Liabilities Designated at FVTPL</b>	<b>\$(5,384)</b>	\$(4,540)
<b>Net Investments</b>	<b>\$81,364</b>	\$68,167

## (I) Public Markets

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

### *Valuation Techniques*

Direct investments in Canadian and foreign equities are measured at fair value using quoted market prices and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. PSPIB reviews the fair value received to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

## (II) Private Markets

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

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail and industrial sectors, as well as private funds invested in real estate assets. Real estate

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investments are presented net of all third-party financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSPIB was \$3,974 million (March 31, 2014 – \$2,945 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSPIB for the pension plan, was \$1,043 million (March 31, 2014 – \$1,196).

Renewable resources investments are comprised of direct investments and partnerships in timberlands and agriculture.

***Valuation Techniques***

The fair value of private markets investments is determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5(C) (III).

**(III) Fixed Income**

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

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

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

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 23.



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

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

### ***Valuation Techniques***

Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5(C) (III).

The fair value measurement of fund investments included as part of private debt investments is described in Note 5(C) (II).

### **(IV) Alternative Investments**

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

### ***Valuation Techniques***

The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. PSPIB reviews the fair value received to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

### **(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.

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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 period, which approximates fair value.

**(VII) Interest Payable**

With respect to the borrowings described in Note 5 (A) (X), interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

**(VIII) Securities Sold Short**

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

***Valuation Techniques***

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

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

As described in Note 2 (F), PSPIB is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and specified future date.

***Valuation Techniques***

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

**(X) Borrowings under the Capital Market Debt Program**

PSPIB's capital market debt program is described in Note 10. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSPIB's medium-term notes is based on prices that are obtained from third-party pricing sources. Such

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

## **(B) Derivative-Related Assets and Liabilities**

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the 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. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSPIB uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSPIB uses the following types of derivative financial instruments:

### **(I) Swaps**

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

### **(II) Futures**

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

### **(III) Forwards**

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

### **(IV) Options**

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

### **(V) Warrants and Rights**

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

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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.

**(VII) Determination of Fair Value of Derivative Financial Instruments**

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques, such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

The fair value of collateralized debt obligations is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 5 (C) (III).

**(VIII) Notional Values and Fair Values of Derivative-Related Assets and Liabilities**

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

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

	2015			2014		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
<b>Equity and Commodity Derivatives</b>						
<b>Listed</b> –Futures	\$494	\$0	\$0	\$1,019	\$0	\$0
<b>Listed</b> –Warrants and Rights	1	5	0	4	4	0
<b>Listed</b> – Options: Purchased	401	13	0	501	14	0
Written	388	0	(6)	301	0	(13)
<b>OTC</b>						
Forwards	277	22	(43)	0	0	0
Total return swaps	11,949	189	(46)	9,858	155	(16)
Options: Purchased	2,952	132	0	3,990	224	0
Written	2,992	0	(126)	4,430	0	(256)
<b>Currency Derivatives</b>						
<b>Listed</b> – Futures	113	0	0	51	0	0
<b>OTC</b>						
Forwards	32,209	352	(1,066)	22,549	110	(328)
Swaps	2,307	18	(236)	2,584	7	(91)
Options: Purchased	8,404	297	0	2,924	24	0
Written	8,522	0	(286)	2,549	0	(12)
<b>Interest Rate Derivatives</b>						
<b>Listed</b> – Futures	5,629	0	0	1,768	0	0
<b>Listed</b> – Options: Purchased	35,088	10	0	19,255	13	0
Written	36,163	0	(6)	20,193	0	(6)
<b>OTC</b>						
Bond forwards	2,092	0	(4)	510	0	0
Interest rate swaps	6,007	97	(119)	8,620	29	(63)
Total return swaps	0	0	0	0	0	0
Swaptions	33,713	132	(137)	22,942	60	(51)
Options: Purchased	4,035	3	0	7,389	11	0
Written	1,308	0	(2)	10,937	0	(11)
<b>OTC –cleared –</b>	<b>8,880</b>	<b>0</b>	<b>0</b>	<b>6,087</b>	<b>0</b>	<b>0</b>
Interest rate swaps						
<b>Credit Derivatives<sup>1</sup></b>						
OTC – Purchased	913	0	(16)	1,552	1	(33)
OTC – Sold	435	4	(7)	399	3	(1)
OTC-cleared – Purchased	446	0	0	619	0	0
OTC-cleared – Sold	842	0	0	934	0	0
<b>Total</b>		<b>\$1,274</b>	<b>\$(2,100)</b>		<b>\$655</b>	<b>\$(881)</b>

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

Total derivative-related assets and liabilities as at March 31 are comprised of (\$ millions):

	2015			2014		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Listed	<b>\$78,277</b>	<b>\$28</b>	<b>\$(12)</b>	\$43,092	\$31	\$(19)
Derivatives						
OTC	<b>118,115</b>	<b>1,246</b>	<b>(2,088)</b>	101,233	624	(862)
Derivatives						
OTC-	<b>10,168</b>	<b>0</b>	<b>0</b>	7,640	0	0
cleared						
Derivatives						
<b>Total</b>		<b>\$1,274</b>	<b>\$(2,100)</b>		<b>\$655</b>	<b>\$(881)</b>

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

	2015
Less than 3 Months	<b>\$76,669</b>
3 to 12 Months	<b>90,652</b>
Over 1 Year	<b>39,239</b>

## (C) Fair Value Hierarchy

### (I) Classification

Financial assets and financial liabilities described under Note 5 (A) are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to their fair value measurement as a whole.

**Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSPIB can access at the end of the reporting period.

**Level 2** inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:

- (i) Quoted prices for similar assets or liabilities in active markets

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- (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
- (iii) Inputs other than quoted prices that are observable for the asset or liability.
- (iv) Market-corroborated inputs.

**Level 3** inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect PSPIB's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSPIB determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

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The following table shows the fair value of financial assets and financial liabilities as at March 31, 2015 classified within the fair value hierarchy (\$ millions):

	Level 1	Level 2	Level 3	No Level <sup>1</sup>	Total Fair Value
<b>Investments</b>					
<b>Public Markets</b>					
Canadian Equity	\$5,471	\$538	\$0	\$0	\$6,009
Foreign Equity	20,313	3,890	0	0	24,203
<b>Private Markets</b>					
Real Estate	0	0	12,355	0	12,355
Private Equity	0	0	7,276	0	7,276
Infrastructure	0	0	5,631	0	5,631
Renewable Resources	0	0	1,663	0	1,663
<b>Fixed Income</b>					
Cash and Money Market Securities	0	1,749	0	1,077	2,826
Government and Corporate Bonds	0	13,240	0	0	13,240
Inflation-Linked Bonds	0	4,670	0	0	4,670
Other Fixed Income Securities	0	1,740	3,846	0	5,586
<b>Alternative Investments</b>	0	1,024	2,980	0	4,004
<b>Total Investments</b>	<b>\$25,784</b>	<b>\$26,851</b>	<b>\$33,751</b>	<b>\$1,077</b>	<b>\$87,463</b>
<b>Investment-Related Assets</b>					
Amounts Receivable from Pending Trades	\$0	\$0	\$0	\$1,462	\$1,462
Interest Receivable	0	0	0	154	154
Dividends Receivable	0	0	0	71	71
Derivative-Related Receivables	28	1,246	0	0	1,274
<b>Total Investment-Related Assets</b>	<b>\$28</b>	<b>\$1,246</b>	<b>\$0</b>	<b>\$1,687</b>	<b>\$2,961</b>
<b>Investments Representing Financial Assets at FVTPL</b>	<b>\$25,812</b>	<b>\$28,097</b>	<b>\$33,751</b>	<b>\$2,764</b>	<b>\$90,424</b>
<b>Investment-Related Liabilities</b>					
Amounts Payable from Pending Trades	\$0	\$0	\$0	\$(1,165)	\$(1,165)
Interest Payable	0	0	0	(24)	(24)
Securities Sold Short	(387)	0	0	0	(387)
Securities Sold Under Repurchase Agreements	0	0	0	0	0
Derivative-Related liabilities	(12)	(2,082)	(6)	0	(2,100)
<b>Investment-Related Liabilities Representing Financial Liabilities at FVTPL</b>	<b>\$(399)</b>	<b>\$(2,082)</b>	<b>\$(6)</b>	<b>\$(1,189)</b>	<b>\$(3,676)</b>
<b>Borrowings</b>					
Capital market debt financing	\$0	\$(5,384)	\$0	\$0	\$(5,384)
<b>Borrowings Representing Financial Liabilities Designated at FVTPL</b>	<b>\$0</b>	<b>\$(5,384)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$(5,384)</b>
<b>Net Investments</b>	<b>\$25,413</b>	<b>\$20,631</b>	<b>\$33,745</b>	<b>\$1,575</b>	<b>\$81,364</b>

<sup>1</sup> With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.



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The following table shows the fair value of financial assets and financial liabilities as at March 31, 2014 classified within the fair value hierarchy (\$ millions):

	Level 1	Level 2	Level 3	No Level <sup>1</sup>	Total Fair Value
<b>Investments</b>					
<b>Public Markets</b>					
Canadian Equity	\$6,152	\$479	\$0	\$0	\$6,631
Foreign Equity	17,063	3,103	0	0	20,166
<b>Private Markets</b>					
Real Estate	0	0	9,292	0	9,292
Private Equity	0	0	5,874	0	5,874
Infrastructure	0	0	4,752	0	4,752
Renewable Resources	0	0	862	0	862
<b>Fixed Income</b>					
Cash and Money Market Securities	590	2,222	0	0	2,812
Government and Corporate Bonds	0	12,421	0	0	12,421
Inflation-Linked Bonds	0	3,630	0	0	3,630
Other Fixed Income Securities	0	2,228	3,010	0	5,238
<b>Alternative Investments</b>	0	818	1,373	0	2,191
<b>Total Investments</b>	<b>\$23,805</b>	<b>\$24,901</b>	<b>\$25,163</b>	<b>\$0</b>	<b>\$73,869</b>
<b>Investment-Related Assets</b>					
Amounts Receivable from Pending Trades	\$0	\$0	\$0	\$534	\$534
Interest Receivable	0	0	0	159	159
Dividends Receivable	0	0	0	60	60
Derivative-Related Receivables	31	624	0	0	655
<b>Total Investment-Related Assets</b>	<b>\$31</b>	<b>\$624</b>	<b>\$0</b>	<b>\$753</b>	<b>\$1,408</b>
<b>Investments Representing Financial Assets at FVTPL</b>	<b>\$23,836</b>	<b>\$25,525</b>	<b>\$25,163</b>	<b>\$753</b>	<b>\$75,277</b>
<b>Investment-Related Liabilities</b>					
Amounts Payable from Pending Trades	\$0	\$0	\$0	\$(689)	\$(689)
Interest Payable	0	0	0	(20)	(20)
Securities Sold Short	(520)	0	0	0	(520)
Securities Sold Under Repurchase Agreements	0	(460)	0	0	(460)
Derivative-Related Liabilities	(19)	(862)	0	0	(881)
<b>Investment-Related Liabilities Representing Financial Liabilities at FVTPL</b>	<b>\$(539)</b>	<b>\$(1,322)</b>	<b>\$0</b>	<b>\$(709)</b>	<b>\$(2,570)</b>
<b>Borrowings</b>					
Capital market debt financing	\$0	\$(4,540)	\$0	\$0	\$(4,540)
<b>Borrowings Representing Financial Liabilities Designated at FVTPL</b>	<b>\$0</b>	<b>\$(4,540)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$(4,540)</b>
<b>Net Investments</b>	<b>\$23,297</b>	<b>\$19,663</b>	<b>\$25,163</b>	<b>\$44</b>	<b>\$68,167</b>

<sup>1</sup> With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

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As at March 31, 2014, listed foreign equity securities held by a non-listed fund, were classified as Level 2. During the year ended March 31, 2015, the listed securities with a fair value of \$351 million were transferred to PSPIB and classified as Level 1 as at March 31, 2015.

During the year ended March 31, 2014, listed Canadian equity securities with a fair value of \$456 million classified as Level 1 were transferred to a non-listed fund held by PSPIB. Consequently, the securities were classified as Level 2 as at March 31, 2014.

**(II) Process for Level 3 Fair Value Determination**

The valuation process is monitored and governed by an internal valuation committee (“VC”). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, 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.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, 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 valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, PSPIB ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, PSPIB ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund’s general partner. In certain cases fair value is obtained from information provided by the fund’s administrators and is reviewed by PSPIB to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

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**(III) Level 3 Significant Inputs**

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized with Level 3 as at March 31, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (\$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
<b>Private Markets</b>					
Real Estate	Direct and co-investments	<b>\$11,230</b>	Discounted cash flow (DCF)	Discount Rate <sup>1 2</sup>	6.00% - 26.00% (8.21%)
				Terminal Capitalization rate <sup>1 2</sup>	4.00% - 12.00% (6.36%)
			Direct capitalisation	Capitalization rate <sup>1 3</sup>	3.25% - 9.25% (6.72%)
				Stabilized occupancy rate <sup>3 4</sup>	93.00% - 98.50% (96.49%)
			Net asset value method (NAV) <sup>5</sup>	N/A	N/A
			Transaction price	N/A	N/A
Other Private Markets	Fund investments	<b>\$1,125</b>	NAV <sup>5</sup>	N/A	N/A
	Direct and co-investments	<b>\$9,446</b>	DCF	Discount rate <sup>1</sup>	5.69% - 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV <sup>5</sup>	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	<b>\$5,124</b>	NAV <sup>5</sup>	N/A	N/A
<b>Fixed Income</b>					
Asset-Backed Securities	Term notes and mortgage-backed securities	<b>\$1,010</b>	Third-party pricing <sup>5</sup>	N/A	N/A
Other Fixed Income Securities	Direct and co-investments	<b>\$753</b>	DCF	Discount rate <sup>1</sup>	9.50% - 13.40% (11.22%)
			NAV <sup>5</sup>	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	<b>\$2,083</b>	NAV <sup>5</sup>	N/A	N/A
<b>Alternative Investments</b>	Fund investments	<b>\$2,980</b>	NAV <sup>5</sup>	N/A	N/A
<b>Derivative-Related Instruments<sup>6</sup></b>	Credit derivatives	<b>\$(6)</b>	Third-party pricing <sup>5</sup>	N/A	N/A
<b>TOTAL</b>		<b>\$33,745</b>			

<sup>1</sup> An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

<sup>2</sup> An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

<sup>3</sup> There is no predictable direct relationship between this input and any other significant unobservable input.

<sup>4</sup> An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

<sup>5</sup> In certain cases, fair value is determined by third parties where valuation information is not available to PSPIB.

<sup>6</sup> Credit derivatives have a notional value of \$138 million.

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The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized with Level 3 as at March 31, 2014:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (\$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private Markets					
Real Estate	Direct and co-investments	\$7,966	DCF	Discount Rate <sup>1 2</sup>	5.50% - 26.00% (8.50%)
				Terminal Capitalization rate <sup>1 2</sup>	4.00% - 10.25% (6.28%)
			Direct capitalisation	Capitalization rate <sup>1 3</sup>	4.00% - 9.50% (8.12%)
				Stabilized occupancy rate <sup>3 4</sup>	94.50% - 100% (97.58%)
				NAV <sup>5</sup>	N/A
			Transaction price	N/A	
			Fund investments	\$1,326	NAV <sup>5</sup>
Other Private Markets	Direct and co-investments	\$7,628	DCF	Discount rate <sup>1</sup>	6.25% - 13.50% (9.68%)
				Market comparables	N/A
			NAV <sup>5</sup>	N/A	
			Transaction price	N/A	
			Fund investments	\$3,860	NAV <sup>5</sup>
Fixed Income					
Asset-Backed Securities	Term notes and mortgage-backed securities	\$1,101	Third-party pricing <sup>5</sup>	N/A	N/A
Other Fixed Income Securities	Direct and co-investments	\$765	DCF	Discount rate <sup>1</sup>	4.00% - 13.40% (11.71%)
				NAV <sup>5</sup>	N/A
			Transaction price	N/A	
			Fund investments	\$1,144	NAV <sup>5</sup>
Alternative Investments	Fund investments	\$1,373	NAV <sup>5</sup>	N/A	N/A
Derivative-Related Instruments <sup>6</sup>	Credit derivatives	\$0	Third-party pricing <sup>5</sup>	N/A	N/A
TOTAL		\$25,163			

<sup>1</sup> An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

<sup>2</sup> An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

<sup>3</sup> There is no predictable direct relationship between this input and any other significant unobservable input.

<sup>4</sup> An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

<sup>5</sup> In certain cases, fair value is determined by third parties where valuation information is not available to PSPIB.

<sup>6</sup> Credit derivatives have a notional value of \$120 million.

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**(IV) Level 3 Reconciliation**

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2015 (\$ millions):

	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses) <sup>1</sup>	Transf er Out of Level 3	Closing Balance
Private Markets	\$20,780	\$5,456	\$(1,994)	\$0	\$350	\$2,561	\$(228)	\$26,925
Fixed Income	3,010	1,458	(805)	(105)	75	213	0	3,846
Alternative Investments	1,373	1,661	(424)	0	(33)	403	0	2,980
Derivative-Related Assets/Liabilities (net)	0	0	0	(2)	1	(5)	0	(6)
<b>Total</b>	<b>\$25,163</b>	<b>\$8,575</b>	<b>\$(3,223)</b>	<b>\$(107)</b>	<b>\$393</b>	<b>\$3,172</b>	<b>\$(228)</b>	<b>\$33,745</b>

<sup>1</sup> Includes pension plan allocation adjustments.

As at March 31, 2014 a private markets investment was classified under Level 3 as the fair value was determined based on significant unobservable inputs. During the year ended March 31, 2015, the investment was transferred to Level 1, as the underlying investee became publicly traded.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2014 (\$ millions):

	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains <sup>1</sup>	Transfer Out of Level 3	Closing Balance
Private Markets	\$16,608	\$5,013	\$(3,102)	\$0	\$547	\$1,906	\$(192)	\$20,780
Fixed Income	3,249	527	(883)	(211)	223	105	0	3,010
Alternative Investments	662	637	(19)	0	1	92	0	1,373
Derivative-Related Assets/Liabilities (net)	(2)	5	(7)	0	1	3	0	0
<b>Total</b>	<b>\$20,517</b>	<b>\$6,182</b>	<b>\$(4,011)</b>	<b>\$(211)</b>	<b>\$772</b>	<b>\$2,106</b>	<b>\$(192)</b>	<b>\$25,163</b>

<sup>1</sup> Includes pension plan allocation adjustments.

During the year ended March 31, 2014, such investments were transferred to Level 2 as the underlying investees indirectly held by PSPIB became publicly traded. In the case of one of the two private markets investments, the instruments held by PSPIB were subject to restrictions as at March 31, 2014, and could only be resold upon registration.

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**(V) 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 5 (C) (III). Although such assumptions reflect PSPIB's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 4 percent increase and 3 percent decrease as at March 31, 2015 (March 31, 2014 – 7 percent increase and 5 percent decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSPIB. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. PSPIB ensures the appropriateness of the work performed by third-party appraisers as described in Note 5 (C) (II). In the case of fund investments, the fair value is determined as indicated in Note 5(C) (II).

**(D) Collateral Pledged and Received**

PSPIB is party to agreements that involve pledging and holding collateral, as outlined in Notes 2 (F), 2 (G) and 7 (B) (I). The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase agreements as at March 31 (\$ millions):

	2015	2014
<b>Securities Lending and Borrowing</b>		
Securities Lent	<b>\$9,658</b>	\$6,998
Collateral Held <sup>1</sup>	<b>10,423</b>	7,449
Securities Borrowed	<b>387</b>	520
Collateral Pledged <sup>2</sup>	<b>408</b>	545
<b>Securities Repurchase Agreements</b>		
Securities Sold under Repurchase Agreements	<b>0</b>	458
Collateral Pledged	<b>0</b>	459
<b>Derivatives Contracts</b>		
Collateral Pledged	<b>1,021</b>	421
Collateral Held	<b>124</b>	25

<sup>1</sup> The minimum fair value of cash collateral required is equal to 102 percent of the fair value of the securities lent, and in the case of securities collateral 105 percent. As part of collateral held, cash amounted to \$1,947 million for the pension plan as at March 31, 2015 (March 31, 2014 – \$1,754 million) and securities amounted to \$8,476 million as at March 31, 2015 (March 31, 2014 – \$5,695 million). All cash collateral is re-invested.

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

## 6. Interest in Other Entities

### (A) Subsidiaries, Joint Ventures and Associates

As an investment entity, PSPIB does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSPIB measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2 (A).

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSPIB. As at March 31, 2015, 92 investment entity subsidiaries were incorporated in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2014 – 82 in North America, 13 in Europe, 9 in Oceania, 3 in Central and South America, and 1 in Africa).

In addition, PSPIB controlled 68 investees directly or through its investment entity subsidiaries as at March 31, 2015 (March 31, 2014 – 58 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSPIB where it has control, joint control or significant influence. PSPIB determines control, joint control and significant influence as described in Note 2 (B):

As at March 31, 2015

Entity's Name	Principal Place of Business	Ownership Interest Held by PSPIB	Relationship to PSPIB
Revera Inc.	North America	100%	Controlled investee
AviAlliance GmbH	Europe	100%	Controlled investee
Roccapina Fund, L.P.	North America	100%	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56%	Jointly controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50%	Jointly controlled investee
Telesat Holdings Inc.	North America	34%	Associate
TDF S.A.S.	Europe	25%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	22%	Jointly controlled investee
Acelity Inc. (formerly Kinetic Concepts, Inc.)	North America	21%	Associate
Transelect S.A.	Central and South America	18%	Associate

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As at March 31, 2014

Entity's Name	Principal Place of Business	Ownership Interest Held by PSPIB	Relationship to PSPIB
Revera Inc.	North America	100%	Controlled investee
AviAlliance GmbH	Europe	100%	Controlled investee
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
Forth Ports Limited	Europe	37%	Jointly controlled investee
Telesat Holdings Inc.	North America	34%	Associate
Kaingaroa Timberlands Ltd	Oceania	30%	Jointly controlled investee
Kinetic Concepts, Inc.	North America	21%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Transelect S.A.	Central and South America	18%	Associate
Gassled	Europe	5%	Associate

In addition to the above, PSPIB controls and consolidates two wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services are mainly related to raising capital used to finance private market investments within the context of PSPIB's capital market debt program described in Note 10.

## (B) Structured Entities

PSPIB holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSPIB to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 23 and commitments under Note 24.

## 7. Investment Risk Management

PSPIB has implemented an investment approach that aims to maximize rates of return without undue risk of loss. In pursuit of such an objective, PSPIB has developed an Investment Risk



Management Policy (IRM Policy) to support the management of risks incurred through the investment processes. The IRM Policy, which supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), establishes the Investment Risk Management Framework (IRM Framework) with a goal of ensuring that all investments made by PSPIB or its investment entity subsidiaries respect the risk philosophy of PSPIB and are within the tolerances and limits of its risk appetite.

The IRM Framework requires reporting on risk to all levels of the organization. The PSPIB Board of Directors and its committees oversee all risk matters and receive reporting from senior management as well as PSPIB's independent internal auditor reporting directly to the Audit Committee.

The IRM Framework is designed to effectively manage all investment risks that PSPIB is exposed to, which include market, credit and liquidity risks, related to the implementation of the Policy Portfolio and active management activities.

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

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

Market risk management focuses on the following two key components:

#### **Policy Portfolio**

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

#### **Active Management**

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

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSPIB also takes into consideration the impact of the Policy Portfolio market risk on funding

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risk. Funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liabilities of the pension plan, which may require the contributions to the plan to be increased. The Policy Portfolio is reviewed by PSPIB at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSPIB's long-term expectations of market conditions and other factors that may affect the funding level of the pension plan.

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

***Measurement of Market Risk***

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

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

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

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 the end of the period. 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. The information is presented as at March 31:

	2015	2014
Policy Portfolio VaR	<b>20.6%</b>	20.3%
Active VaR	<b>2.6</b>	2.8
<b>Total VaR (Undiversified)</b>	<b>23.2</b>	23.1
Diversification Effect	<b>(0.9)</b>	(0.1)
<b>Total VaR</b>	<b>22.3%</b>	23.0%

### ***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. PSPIB uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Stress testing and scenario analysis are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

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

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

The terms to maturity of the classes of financial instruments, outlined in Note 5 (A), with the most significant exposure to interest rate risk were as follows as at March 31, 2015 (\$ millions):

	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government Bonds	\$771	\$3,231	\$1,531	\$2,710	\$0	\$8,243
Corporate Bonds	1,027	2,390	1,256	324	0	4,997
Inflation-Linked Bonds	2	1,025	1,517	2,126	0	4,670
Asset-Backed Securities	46	1,018	18	0	0	1,082
Private Debt Investments:	14	409	210	0	18	651
Directly Held						
Held Through Funds <sup>1</sup>	0	0	0	0	2,186	2,186
<b>Total Investments with Significant Exposure to Interest Rate Risk</b>	<b>\$1,860</b>	<b>\$8,073</b>	<b>\$4,532</b>	<b>\$5,160</b>	<b>\$2,204</b>	<b>\$21,829</b>
<b>Other Investments<sup>2</sup></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,493</b>	<b>\$4,493</b>
<b>Total Fixed Income</b>	<b>\$1,860</b>	<b>\$8,073</b>	<b>\$4,532</b>	<b>\$5,160</b>	<b>\$6,697</b>	<b>\$26,322</b>

<sup>1</sup> Due to their nature, information in connection with the terms to maturity of fund investments included in the private debt investments is not available.

<sup>2</sup> Consists of \$2,826 million in cash and money market securities and \$1,667 million in floating rate notes which, due to their nature, are not significantly exposed to interest rate risk.

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The terms to maturity of PSPIB's capital market debt financing are disclosed in Note 10.

Alternative investments as well as derivative contracts described in Notes 5 (A) and Note 5 (B), respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7 (A).

## (II) Foreign Currency Risk

PSPIB is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSPIB may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. In October 2013, PSPIB amended its policy to fully hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and renewable resources. PSPIB's previous policy was to hedge a target of 50 percent of its foreign currency investments in non-emerging countries. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the pension plan were as follows as at March 31 (\$ millions):

Currency	2015		2014	
	Fair Value	% of Total	Fair Value	% of Total
US Dollar (USD)	\$21,144	58.8%	\$17,882	61.0%
Euro (EUR)	2,611	7.3	2,520	8.6
Japanese Yen (JPY)	1,667	4.7	1,143	3.9
British Pound (GBP)	1,606	4.5	1,350	4.6
Hong Kong Dollar (HKD)	1,549	4.3	953	3.3
Korean Won (KRW)	1,302	3.6	952	3.2
Brazilian Real (BRL)	1,022	2.8	918	3.1
Swiss Franc (CHF)	825	2.3	579	2.0
Taiwanese New Dollar (TWD)	720	2.0	445	1.5
Indian Rupee (INR)	511	1.4	342	1.2
Australian Dollar (AUD)	468	1.3	369	1.3
South African Rand (ZAR)	442	1.2	285	1.0
Mexican Peso (MXN)	266	0.7	153	0.5
Thai Baht	168	0.5	82	0.3
Others	1,633	4.6	1,337	4.5
<b>Total</b>	<b>\$35,934</b>	<b>100.0%</b>	<b>\$29,310</b>	<b>100.0%</b>

As at March 31, 2015, PSPIB and its subsidiaries also had commitments, denominated in foreign currencies of \$10,770 million for the pension plan (US\$7,522 million, €570 million, £162 million, R213 million South African Rands, R\$315 million Brazilian Reals and \$30,873 million Colombian Pesos) which were not included in the foreign currency exposure table above.

## **(B) Credit Risk**

PSPIB is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSPIB relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities sold under repurchase agreements, is unable to meet its financial obligations.

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

As at March 31, 2015, the pension plan’s maximum exposure to credit risk amounted to approximately \$23 billion (March 31, 2014 – approximately \$22 billion). This amount excludes investments in distressed debt in the amount of approximately \$1.8 billion as at March 31, 2015 (March 31, 2014 – approximately \$1.2 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Note 5 (D) and the impact of guarantees and indemnities disclosed in Note 23.

As at March 31, 2015, the pension plan had a net notional exposure of \$46 million (March 31, 2014 – \$40 million) to various tranches of collateralized debt obligations, of which approximately 45 percent (March 31, 2014 – approximately 53 percent) of the underlying dollar exposure was rated “Investment Grade”, as well as funding facilities, as described in Note 23, to support potential margin calls on the ABTNs.

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

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

Credit Rating	2015	2014
<b>Investment grade (AAA to BBB-)</b>	<b>97.5%</b>	97.4%
<b>Below investment grade (BB+ and below)</b>	<b>0.4</b>	1.0
<b>Not rated:</b>		
<b>Rated by a single credit rating agency</b>	<b>0.6</b>	0.5
<b>Not rated by credit rating agencies</b>	<b>1.5</b>	1.1
<b>Total</b>	<b>100.0%</b>	100.0%

### (I) Counterparty Risk

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

For OTC derivatives, PSPIB's policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSPIB to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSPIB to contribute further collateral when requested. All collateral transactions under the CSA 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. Similarly, in the case of OTC-cleared derivatives, collateral in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSPIB does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing as well as securities sold under repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2 (F) and 2 (G) describe collateral requirements in securities lending and borrowing programs as well as securities sold under repurchase agreements.

Information in connection with collateral pledged by PSPIB and its counterparties is disclosed in Note 5(D).

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

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

### **(C) Liquidity Risk**

Liquidity risk corresponds to the risk that PSPIB will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSPIB's cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. PSPIB utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSPIB has the ability to raise additional capital through the use of its capital market debt program. This program allows PSPIB to issue short-term promissory notes and medium-term notes. Note 10 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 5 (B).

Notes to the Financial Statements  
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**Financial Liabilities**

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2015 and excluding the impact of guarantees and indemnities disclosed in Note 23 (\$ 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	\$(1,165)	\$0	\$0	\$(1,165)
Interest Payable	(22)	(2)	0	(24)
Securities Sold Short	(387)	0	0	(387)
Capital Market Debt Financing	(1,815)	(1,553)	(2,016)	(5,384)
Accounts Payable and Other Liabilities	(95)	0	(48)	(143)
<b>Total</b>	<b>\$(3,484)</b>	<b>\$(1,555)</b>	<b>\$(2,064)</b>	<b>\$(7,103)</b>

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
<b>Derivative-Related Financial Instruments</b>				
Derivative-Related Assets	\$545	\$452	\$277	\$1,274
Derivative-Related Liabilities <sup>1</sup>	(855)	(749)	(496)	(2,100)
<b>Total</b>	<b>\$(310)</b>	<b>\$(297)</b>	<b>\$(219)</b>	<b>\$(826)</b>

<sup>1</sup> Liabilities are presented in the earliest period in which the counterparty can request payment.



## (D) Offsetting

PSPIB is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 7 (B) (I). Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statement of Financial Position. Securities sold under repurchase agreements, as described in Note 2 (G) and Note 5 (D) are subject to similar arrangements although they are not offset.

The following tables present the financial assets and liabilities described above (\$ millions):

### *Financial Assets*

	Gross Amounts of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set off	Net Amount of Financial Assets Presented in the Statement of Financial Position (Note 6(B))	Less: Related Amounts not Set off in the Statement of Financial Position		
				Recognized Financial Liabilities	Collateral Held and Not Recognized	Net
As at March 31, 2015						
OTC-derivatives	\$1,266	\$20	\$1,246	\$1,119	\$83	\$44
Total	\$1,266	\$20	\$1,246	\$1,119	\$83	\$44
As at March 31, 2014						
OTC-derivatives	\$626	\$2	\$624	\$558	\$23	\$43
Total	\$626	\$2	\$624	\$558	\$23	\$43

Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

**Financial Liabilities**

	Gross Amounts of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set off	Net Amount of Financial Liabilities Presented in the Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position		
				Recognized Financial Assets	Collateral Pledged and Not Recognized	Net
As at March 31, 2015						
OTC-derivatives	\$2,108	\$20	\$2,088 <sup>1</sup>	\$1,119	\$888	\$81
Total	\$2,108	\$20	\$2,088	\$1,119	\$888	\$81
As at March 31, 2014						
OTC-derivatives	\$864	\$2	\$862 <sup>1</sup>	\$558	\$264	\$40
Repurchase agreements	460	0	460 <sup>2</sup>	0	459	1
Total	\$1,324	\$2	\$1,322	\$558	\$723	\$41

<sup>1</sup> As described in Note 5 (B).

<sup>2</sup> As described in Note 5 (A).

## 8. Contributions Receivable

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

	2015	2014
Plan Member Contributions for Past Service Elections	\$451	\$421
Other Plan Member Contributions Receivable	90	20
<b>Total Contributions Receivable from Plan Members</b>	<b>\$541</b>	<b>\$441</b>
Employers' Share of Contributions for Past Service Elections	\$450	\$438
Other Employers Contributions Receivable	118	31
<b>Total Contributions Receivable from Employers</b>	<b>\$568</b>	<b>\$469</b>
<b>Total Contributions Receivable</b>	<b>\$1,109</b>	<b>\$910</b>

## 9. Other Assets

The costs of operation of PSPIB are charged to the four plans for which PSPIB provides investment services, namely, the public service pension plan, the Canadian Forces pension plan, the Reserve Force pension plan and the Royal Canadian Mounted Police pension plan.

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Notes to the Financial Statements  
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The direct costs of investment activities such as external investment management fees and custodial fees are allocated to each plan, and their operating expenses are allocated on a quarterly basis based upon the asset value of each plan's investments under management.

In 2015, 72.7 percent of the PSPIB operating expenses were allocated to the public service pension plan (2014 – 72.9 percent) as disclosed in Note 20. PSPIB initially charges all expenses to the public service pension plan; they are reimbursed quarterly by the three other plans.

The other assets as at March 31 are as follows (\$ millions):

	2015	2014
Share of Expenses Receivable from:		
Canadian Forces Pension Plan	\$16	\$14
Royal Canadian Mounted Police Pension Plan	6	5
Subtotal	\$22	\$19
Other	105	92
<b>Total Other Assets</b>	<b>\$127</b>	<b>\$111</b>

## 10. Capital Market Debt Financing

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

The maximum amount authorized by PSPIB's Board of Directors for the capital market debt program is 10 percent of the net investments plus all recourse debt outstanding of PSPIB at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed \$3 billion for issuances in Canada and US \$5 billion for issuances in the United States.

PSPIB's capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2015 and March 31, 2014.

Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

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

	2015		2014	
	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.64% and 1.21% and maturing within 17 and 359 days of issuance (March 31, 2014 – 7 and 364 days; April 1, 2013 – 31 and 191 days)	\$507	\$506	\$1,044	\$1,043
Short-term US Dollar promissory notes, bearing interest between 0.17% and 0.47% and maturing within 84 and 367 days of issuance (March 31, 2014 – 35 and 365 days; April 1, 2013 – 29 and 189 days)	\$2,348	\$2,346	\$1,678	\$1,677
Medium-term notes Series 2, bearing interest of 2.94% per annum and matured on December 3, 2015	\$508	\$516	\$509	\$523
Medium-term notes Series 3, bearing variable interest of 3-month CDOR + 39 basis points and maturing on February 16, 2015	\$0	\$0	\$254	\$255
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	\$654	\$671	\$655	\$668
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	\$363	\$395	\$364	\$374
Medium-Term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	\$145	\$145	\$0	\$0
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2014	\$726	\$805	\$0	\$0
<b>Total</b>	<b>\$5,251</b>	<b>\$5,384</b>	<b>\$4,504</b>	<b>\$4,540</b>

Interest expense for the years ended March 31 is as follows (\$ millions):

	2015	2014
Short-Term Promissory Notes	\$10	\$10
Medium-Term Notes	63	62
<b>Total</b>	<b>\$73</b>	<b>\$72</b>

## 11. Related Party Transactions

As outlined in Note 2 (A), investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSPIB and such entities or subsidiaries of such entities are related party transactions. PSPIB enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 5 (A) as well

as guarantees, indemnities and commitments described under Notes 23 and 24, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets available for benefits as those with unrelated parties.

Transactions between PSPIB and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

Since PSPIB is a crown corporation it is considered to be related to the Government of Canada. As well, other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada are considered government-related entities.

PSPIB may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 5 (A). Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on the net assets available for benefits as those with unrelated parties. Consequently, management is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

## 12. Capital Management

PSPIB manages the pension plan's investments. PSPIB's investment objectives are:

- To invest fund transfers in the best interests of the beneficiaries and contributors under the PSSA. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plan established under the PSSA and the ability of the pension plan to meet its financial obligations. The funds are also invested in accordance with PSPIB's Investment Risk Management policies outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSPIB has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 10 provides information on the capital market debt financing and Note 7 (C) provides information on PSPIB's liquidity.

The public service pension plan capital consists of the actuarial funding surplus or deficit related to service since April 1, 2000 determined regularly by the actuarial funding valuation 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 OCA projects the future pension benefits to

Notes to the Financial Statements  
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estimate the current value of the pension obligations on a funding basis, which is compared with the sum of: the investment assets held by PSPIB, including their projected earnings; and the discounted value of future plan member and Government contributions, including future earnings on contributions. The result of this comparison is either an actuarial surplus or an actuarial deficit.

It is Government policy that the obligations pertaining to service before April 1, 2000, are unfunded and are paid as they become due. For the obligations for service since April 1, 2000, the objective of managing the capital position of the pension plan is to ensure that the investments held by PSPIB are sufficient to meet the related future pension obligations.

## **13. Pension Obligations**

### **(A) Present Value of Pension Obligations**

An actuarial valuation for accounting purposes is performed as at March 31 of each fiscal year by the OCA to measure and report the pension obligations, and to attribute the costs of the benefits to the period using the projected benefit method prorated on service. The actuarial valuation is based on the most recent triennial actuarial valuation for funding purposes, as applicable, in regards to demographic assumptions other than the percentage increase in population growth. The other assumptions underlying the valuation are based on management's best estimates of expected long-term experience and short-term forecasts. The assumptions include estimates of future inflation, interest rates, return on investments, general wage increases, workforce composition, retirement rates and mortality rates.

The discount rates used to measure the present value of the pension obligations, as well as the costs of benefits earned and the interest expense for the pension plan are as follows:

- for funded pension benefits, the streamed expected rates of return on invested funds; and
- for unfunded pension benefits, the streamed weighted average of Government of Canada long-term bond rates.

The streamed weighted average of Government of Canada long-term bond rates is a calculated 20-year weighted moving average of Government of Canada long-term bond rates projected over time. The streamed rates take into account historical Government of Canada long-term bond rates and, over time, reflect expected Government of Canada long-term bond rates.

Notes to the Financial Statements  
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The principal actuarial assumptions used in measuring the accrued pension obligations as at March 31, as well as the future benefit and interest expenses for the year were as follows:

	2015		2014	
	Accrued Benefit Obligations	Benefit and Interest Expenses	Accrued Benefit Obligations	Benefit and Interest Expenses
Discount Rates <sup>1</sup>				
Funded Pension Benefits	5.8%	4.9%	5.9%	4.7%
Unfunded Pension Benefits	4.2%	5.1%	4.6%	5.4%
Expected Rate of Return on Investments		4.9%		4.7%
Long-Term Rate of Inflation	2.0%	2.0%	2.0%	2.0%
Long-Term General Wage Increase	2.6%	2.6%	2.6%	2.6%

<sup>1</sup> The streamed discount rates used to measure the accrued benefit obligations are equivalent to the flat discount rates presented in the table. The initial discount rates used to measure the benefit expense are presented in the table whereas the ultimate discount rates are expected to reach 6.1 percent by 2022 (6.1 percent by 2020 for 2014) for the funded pension benefits and 5.1 percent by 2040 (5.1 percent by 2036 in 2014) for the unfunded pension benefits. The interest expense is calculated using the discount rates presented in the table.

For the year ended March 31, 2015, the pension plan recorded net losses related to changes in actuarial assumptions and due to experience losses in the amount of \$6.8 billion (net gains of \$1.7 billion in 2013-2014).

## (B) Pension Plan Curtailment

In 2015, former employees of the Candu Reactor Division of Atomic Energy of Canada Limited ceased to be employed in the public service and became employed by a new employer. As a result, new regulations defer the availability of pensions under the pension plan for those individuals who chose to leave their accrued pension benefits under the pension plan until such time as they cease to be employed by the new employer. The impact of this change is a one-time past service cost of \$48 million.

## 14. Deficit – To be Financed by the Government of Canada

The financial statement deficit does not impact the benefit payments to plan members as the Government has a statutory obligation for the payment of the pension benefits it sponsors. Pursuant to pension legislation, the transactions for funded and unfunded pension benefits are tracked in the pension accounts within the accounts of Canada.

### (A) Funded Pension Benefits

The pension plan is financed from employee and employer contributions, as well as investment earnings. Funded pension benefits relate to post-March 2000 service that falls within the *Income Tax Act* limits, as an amount equal to contributions less benefit payments and other charges is

Notes to the Financial Statements  
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invested in capital markets through the PSPIB. Funded pension benefits also include pre-2000 service purchased since April 1, 2000.

### (B) Unfunded Pension Benefits

Unfunded pension benefits related to pre-April 2000 service are tracked in the pension plan superannuation account as no separate market invested funds are maintained for this account (see Note 21). Employee and employer contributions for unfunded pension benefits are part of the CRF.

## 15. Investment Income

The investment income of the pension plan is comprised of the following for the years ended March 31 (\$ millions):

	2015	2014
Interest Income	\$938	\$788
Dividend Income	1,056	1,002
<b>Total Investment Income, excluding changes in fair values of investment assets and investment liabilities</b>	<b>\$1,994</b>	<b>\$1,790</b>
Changes in Fair Values of Investment Assets and Investment Liabilities – realized and unrealized gains and losses	\$8,371	\$7,704
<b>Total Investment Income</b>	<b>\$10,365</b>	<b>\$9,494</b>

## 16. Contributions

The contributions related to funded benefits for the years ended March 31 are as follows (\$ millions):

	2015	2014
From Plan Members		
Current Service Required Contributions	\$1,933	\$1,773
Past Service Contributions	30	23
<b>Total Plan Member Contributions</b>	<b>\$1,963</b>	<b>\$1,796</b>
From the Employers		
Current Service Contributions	\$2,648	\$2,752
Past Service Contributions	12	1
<b>Total Employer Contributions</b>	<b>\$2,660</b>	<b>\$2,753</b>
<b>Total Plan Member and Employer Contributions</b>	<b>\$4,623</b>	<b>\$4,549</b>



## 17. Investment-Related Expenses

Investment-related expenses allocated to the pension plan are comprised of the following for the years ended March 31 (\$ millions):

	2015	2014
Interest Expense (Note 10)	\$73	\$72
Transaction Costs	75	69
External Investment Management Fees <sup>1</sup>	31	22
Other (Net)	39	24
<b>Total</b>	<b>\$218</b>	<b>\$187</b>

<sup>1</sup> Consists of amounts incurred for investments in public markets that are paid directly by PSPIB. This excludes fees related to certain pooled fund investments classified under alternative investments primarily related to performance, in the amount of \$75 million for the year ended March 31, 2015 (March 31, 2014 – \$40 million).

This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSPIB. Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled \$142 million for the year ended March 31, 2015 (March 31, 2014 – \$110 million).

## 18. Actuarial Adjustments

Starting with the plan year ended March 31, 2013, and based on the March 31, 2011 triennial actuarial valuation of the pension plan tabled in Parliament on June 21, 2012, an annual adjustment of \$435 million is made to the Pension Fund for a period of 13 years ending in 2025. The PSSA requires that any actuarial deficit be dealt with by transferring equal instalments to the Pension Fund over a period of up to 15 years, commencing in the year in which the actuarial report is tabled in Parliament. The next triennial actuarial valuation of the pension plan as of March 31, 2014 is expected to be tabled in Parliament during 2015-2016.

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## 19. Benefit Payments and Refunds and Transfers

### (A) Benefit Payments

The value of benefit payments for funded benefits, for the years ended March 31, are as follows (\$ millions):

	2015	2014
Retirement Benefit Payments	<b>\$1,201</b>	\$1,018
Disability Benefit Pension Payments	<b>143</b>	126
Death Benefit Payments <sup>1</sup>	<b>11</b>	11
<b>Total Benefit Payments</b>	<b>\$1,355</b>	\$1,155

<sup>1</sup> Consist of Minimum Benefit payments and Return of Contribution payments at death.

### (B) Refunds and Transfers

The value of refunds and transfers for funded benefits, for the years ended March 31, are as follows (\$ millions):

	2015	2014
Pension Division Payments	<b>\$26</b>	\$28
Returns of Contributions and Transfer Value Payments	<b>290</b>	315
Transfers to Other Pension Plans	<b>52</b>	49
<b>Total Refunds and Transfers</b>	<b>\$368</b>	\$392

## 20. Administrative Expenses

The legislation provides for administrative expenses to be charged to the pension plan. The Treasury Board approves the administrative expenses chargeable to the plan.

PSPC, 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.

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The Secretariat, as the program manager of the 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.

Health Canada is reimbursed for the costs related to medical examinations required for members that elect to purchase prior service, and for members retiring on medical grounds under the pension plan. These costs are included in the Secretariat's Operations and Maintenance costs charged to the pension plan.

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

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

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

	2015	2014
<b>PSPC</b>		
Salaries and Benefits	\$54	\$54
Professional and Consulting Fees	28	22
Operation and Maintenance	6	6
Other	6	6
<b>Total</b>	<b>\$94</b>	<b>\$88</b>
<b>The Secretariat</b>		
Salaries and Benefits	\$3	\$3
Operation and Maintenance	1	1
<b>Total</b>	<b>\$4</b>	<b>\$4</b>
<b>OCA – Actuarial Fees</b>	<b>\$1</b>	<b>\$1</b>
<b>Total – Government Departments (included in the Service Cost)</b>	<b>\$99</b>	<b>\$93</b>
<b>PSPIB</b>		
Salaries and Benefits	\$107	\$100
Operation and Maintenance	36	31
Professional and Consulting Fees	22	18
Other	12	8
<b>Total</b>	<b>\$177</b>	<b>\$157</b>
<b>Total Administrative Expenses<sup>1</sup></b>	<b>\$276</b>	<b>\$250</b>

<sup>1</sup> Administrative expenses related to the funded service for 2014-2015 totaled \$218 million compared to \$192 million in 2013-2014.

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## 21. Superannuation Account

A separate public service superannuation account (superannuation account) has been established in the accounts of Canada in accordance with the PSSA and is not consolidated in the pension plan financial statements. In order for the Government to track transactions made through the CRF, the superannuation account records contributions, benefit payments, interest and transfers that pertain to service before April 1, 2000. The superannuation account does not contain separate market-invested funds, rather, it is credited with notional 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 following summarizes the financial position of the superannuation account and contributions receivable for service before April 1, 2000 as at March 31 (\$ millions):

	2015	2014
<b>Balance of Account</b>		
Superannuation Account	<b>\$95,876</b>	\$96,424
Plan Member Contribution Receivable for Past Service	<b>43</b>	58
Employers Contributions Receivable for Past Service	<b>35</b>	47
<b>Subtotal</b>	<b>\$95,954</b>	\$96,529
Pension Obligations <sup>1</sup>	<b>\$95,999</b>	\$92,064
<b>Excess (Deficit) of the Balance of the Account Over the Pension Obligations</b>	<b>\$(45)</b>	\$4,465

<sup>1</sup> Pension Obligations are consolidated in the pension plan's financial statements. The actuarial assumptions used to value the pension obligations of the superannuation account are included in Note 13 (A).

The PSSA requires that any actuarial deficit 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 surplus 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 surplus amount must be reduced by decreasing the superannuation account annually over a period of up to 15 years.

Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

The following summarizes the transactions in the superannuation account and contributions receivable for unfunded pension benefits for the year ended March 31 (\$ millions):

	2015	2014
<b>Opening Balance</b>	<b>\$96,424</b>	<b>\$96,648</b>
<b>Increase</b>		
Contributions—Employers	\$14	\$19
Contributions—Plan Members	18	21
Transfers from Other Pension Plans	0	0
Interest Income	4,798	5,061
<b>Total Increase</b>	<b>\$4,830</b>	<b>\$5,101</b>
<b>Decrease</b>		
Benefits Paid	\$5,257	\$5,181
Refunds and Transfers	63	86
Administrative Expenses	58	58
<b>Total Decrease</b>	<b>\$5,378</b>	<b>\$5,325</b>
<b>Closing Balance</b>	<b>\$95,876</b>	<b>\$96,424</b>

## 22. Retirement Compensation Arrangements

Retirement Compensation Arrangements (RCAs) have been established under the authority of the *Special Retirement Arrangements Act* to provide supplementary pension benefits to certain plan members. Since these arrangements are covered by separate legislation, the balance of the RCAs and the related pension obligations are not consolidated in the financial statements of the pension plan.

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.

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 superannuation account. The RCA is registered with the Canada Revenue Agency (CRA), and a transfer is made annually between the RCA Account and the CRA either to remit a 50 percent refundable tax in respect of the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments.

Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

The following summarizes the financial position of RCA No. 1 and RCA No. 2 as at March 31 (\$ millions):

	2015	2014
<b>Balance of Account</b>		
RCA Account	\$1,813	\$1,770
Refundable Tax Receivable	1,793	1,752
Plan Members Contributions Receivable for Past Service	19	14
Employers Contributions Receivable for Past Service	6	5
<b>Subtotal</b>	<b>\$3,631</b>	<b>\$3,541</b>
Pension Obligations	\$3,774	\$3,272
<b>Excess (Deficit) of the Balance of the Account Over the Pension Obligations</b>	<b>\$(143)</b>	<b>\$269</b>

The actuarial assumptions used to value the pension obligations pertaining to the RCA Account are consistent with those used for the 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.

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

	2015	2014
<b>Opening Balance</b>	<b>\$3,541</b>	<b>\$3,438</b>
<b>Increase</b>		
Contributions—Employers	\$90	\$97
Contributions—Plan Members	12	13
Interest Income	90	92
Net Change in Prior Service Contributions Receivable	7	7
Actuarial Adjustment	8	8
Increase in Refundable Tax Receivable	41	51
<b>Total Increase</b>	<b>\$248</b>	<b>\$268</b>
<b>Decrease</b>		
Benefits Paid	\$115	\$111
Refunds and Transfers	2	3
Refundable Tax Remittance	41	51
<b>Total Decrease</b>	<b>\$158</b>	<b>\$165</b>
<b>Closing Balance</b>	<b>\$3,631</b>	<b>\$3,541</b>

Actuarial deficits 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. Adjustments to fund deficiencies are based on triennial actuarial valuations. No adjustment was made to RCA No. 1 (2014 – nil), but a credit adjustment of \$8.0 million was made to cover an actuarial deficiency to RCA No. 2 (2014 – \$8.0 million) during the year.

## 23. Guarantees and Indemnities

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

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

PSPIB unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 10.

PSP Capital Inc. provided funding facilities of a maximum amount of \$969 million to support potential margin calls on the ABTNs, of which \$705 million has been allocated to the pension plan. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

In certain investment transactions, PSPIB and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2015, PSPIB and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these arrangements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSPIB or its investment entity subsidiaries could assume obligations of up to \$1,147 million as at March 31, 2015 (March 31, 2014 – \$1,223 million), of which \$833 million has been allocated to the pension plan (March 31, 2014 – \$889 million) plus applicable interest and other related costs. The arrangements mature between June 2015 and September 2028.

Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

Additionally, PSPIB and its investment entity subsidiaries issued letters of credit totalling \$64 million as at March 31, 2015 (March 31, 2014 – \$82 million), of which \$46 million has been allocated to the pension plan (March 31, 2014 – \$60 million) in relation to investment transactions.

## 24. Commitments

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

	2015
Real Estate	\$1,357
Private Equity	3,764
Infrastructure	1,838
Renewal Resources	447
Other Fixed Income Securities	2,330
Alternative Investments	1,296
<b>Total</b>	<b>\$11,032</b>

Funding in connection with the above commitments can be called upon at various dates extending until 2032.

## 25. Reclassification of Prior Year Comparative Figures

Management has changed the presentation of certain elements of the financial statements in order to provide more relevant information to the users. Certain comparative information provided for the prior period has been reclassified to conform to the presentation adopted as of March 31, 2015.

Contributions receivable were presented as one amount in the statement of financial position as at March 31, 2014 and were reclassified as at March 31, 2015 to be presented as contributions from plan members and contributions from employers. An amount of \$910 million was reclassified from contributions receivable to contributions from plan members of \$441 million and contributions receivable from employers of \$469 million in the statement of financial position and in the related note.

Investment-related assets were presented separately in the statement of financial position as at March 31, 2014 and were reclassified as at March 31, 2015 to be shown as part of investments.



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Notes to the Financial Statements  
Year Ended March 31, 2015 (Canadian \$)

An amount of \$1,408 million was reclassified from investment-related assets to investments in the statement of financial position.

Investment-related liabilities included an amount for borrowings in the statement of financial position as at March 31, 2014 and this amount was reclassified as at March 31, 2015 to be shown separately as borrowings. An amount of \$4,540 million was reclassified from investment-related liabilities to borrowings in the statement of financial position and in the related notes.

Investment-related expenses were presented net of investment income in the statement of changes in net assets available for benefits at March 31, 2014 and were reclassified as at March 31, 2015 to be shown separately as investment-related expenses. An amount of \$187 million was reclassified from investment income to investment-related expenses in the statement of changes in net assets available for benefits and in the related notes.

## Glossary of terms

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

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

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

**administration expenses**—Expenses by government departments for the administration of the public service pension plan and for operating expenses incurred by the Public Sector Pension Investment Board to invest pension assets. Investment management fees are paid either directly by the Public Sector Pension Investment Board or offset against distributions received from the investments.

**annual allowance**—A benefit available to plan members who have more than two years of pensionable service, who retire before age 60 (Group 1) or before age 65 (Group 2), and who are not entitled to an immediate annuity. This benefit is a reduced pension that takes into account the early payment of a retirement pension. The earliest it becomes payable is at age 50 (Group 1) or at age 55 (Group 2).

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

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

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

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

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

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

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

**deferred annuity**—A benefit that is available to most plan members who leave the public service before age 60 (Group 1) or before age 65 (Group 2) and who 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 (Group 1) or until age 65 (Group 2). A plan member who is entitled to a deferred annuity may request an annual allowance at any time after he or she reaches age 50 (Group 1) or age 55 (Group 2).

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

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

**Group 1**—Members of the public service pension plan who were participating in the plan on or before December 31, 2012.

**Group 2**—Members of the public service pension plan who began participating in the plan on or after January 1, 2013.

**immediate annuity**—A benefit payable to plan members who retire at any time after reaching age 60 (Group 1) or age 65 (Group 2) with at least 2 years of pensionable service, or after reaching age 55 (Group 1) or age 60 (Group 2) with at least 30 years of pensionable service. An immediate annuity is also payable at any age to plan members who have at least two years of pensionable service and are retiring because of disability.

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

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

**net assets available for benefits**—Includes receivables and other assets, and the fair value of the assets held by the Public Sector Pension Investment Board on behalf of the pension plan, net of Public Sector Pension Investment Board liabilities.

**past service election**—A legally binding agreement to purchase a period of past service to increase a member's pensionable service under the federal public service pension plan. Past service can include eligible periods of employment, either in the public service or with another employer. Members can elect to purchase any eligible past service before they terminate employment.

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

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

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

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

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

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

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

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

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

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

**survivor**—The person who, at the time of the plan member's death, was married to the plan member before his or her retirement, or who was cohabiting with the plan member in a relationship of a conjugal nature prior to retirement and for at least one year prior to the date of death.

**survivor benefit**—A pension benefit paid to the survivor of a plan member who has died.

**transfer value**—A benefit option available to plan members who leave the public service before age 50 (Group 1) or before age 55 (Group 2) 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**—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. Once vested, the member is entitled to receive the value of the employee's own contributions plus those of the employer, along with the investment returns earned on both contributions.

**year's maximum pensionable earnings**—The maximum earnings on which contributions are made to the Canada Pension Plan and the Québec Pension Plan during the year. The year's maximum pensionable earnings were \$53,600 in 2015 (\$52,500 in 2014).

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## Endnotes

- i. PSP Investments, <http://www.investpsp.ca/en/index.html>
- ii. Public Services and Procurement Canada, Pay and Pension Services for Government Employees, <http://www.tpsgc-pwgsc.gc.ca/remuneration-compensation/txt/index-eng.html>
- iii. Office of the Chief Actuary, <http://www.osfi-bsif.gc.ca/Eng/oca-bac/Pages/default.aspx>
- iv. *Public Service Superannuation Act*, <http://laws-lois.justice.gc.ca/eng/acts/p-36/>
- v. *Public Service Superannuation Regulations*, [http://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,\\_c.\\_1358/](http://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,_c._1358/)
- vi. *Public Service Superannuation Act*, <http://laws-lois.justice.gc.ca/eng/acts/p-36/>
- vii. PSP Investments, <http://www.investpsp.ca/en/index.html>
- viii. Canada.ca/pensions-benefits, <http://www.tbs-sct.gc.ca/psm-fpfp/pb-pa/index-eng.asp>
- ix. Public Services and Procurement Canada, Pay and Pension Services for Government Employees, <http://www.tpsgc-pwgsc.gc.ca/remuneration-compensation/txt/index-eng.html>
- x. *Public Service Superannuation Act*, <http://laws-lois.justice.gc.ca/eng/acts/p-36/>
- xi. PSP Investments, <http://www.investpsp.ca/en/index.html>
- xii. Office of the Chief Actuary, <http://www.osfi-bsif.gc.ca/Eng/oca-bac/Pages/default.aspx>