



Report on Public Sector Pension Plans as at March 31, 2022

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About this report

This report provides overviews of the four main public sector pension plans. These overviews are based on information from the most recent annual and actuarial reports for each plan, the <u>Public Sector Pension Investment Board</u> annual report and the Public Accounts of Canada.

Data in this report is for the fiscal year ended March 31, 2022. If data as of this date is not available, data from other years is presented and noted.

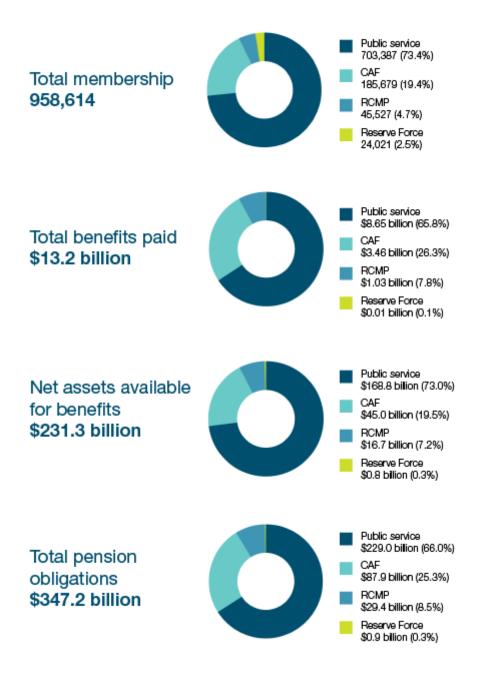
About the plans

Pension plans are one component of a total compensation package. They provide a lifetime income to eligible plan members upon retirement, disability or termination. The level of pension received is usually based on the plan member's salary and years of service. These plans also provide benefits to eligible survivors upon the member's death.

The Government of Canada sponsors pension plans for the public service, the Royal Canadian Mounted Police (RCMP) and the Canadian Armed Forces (CAF) and its Reserve Force. These plans are contributory defined benefit pension plans established under legislation. ¹ This means that both the employer and employee make <u>contributions</u>.

Fiscal year highlights

Fiscal year highlights

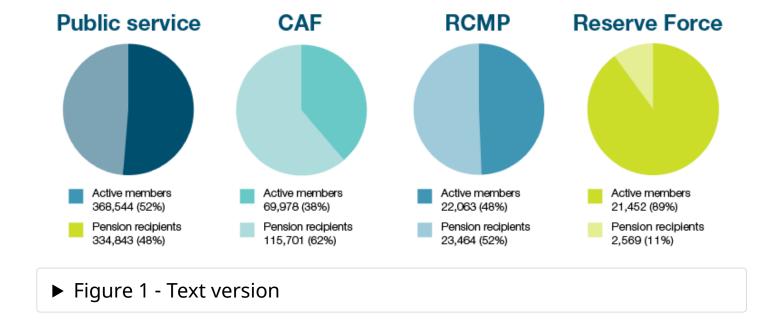


► Fiscal year highlights- Text version

Members

Plan members are classified as either active members or pension recipients (which includes survivors and deferred annuitants). The breakdown of members for each pension plan appears in Figure 1.

Figure 1. Individual plan membership, by type of member



Benefits

A plan member's benefits are based on their years of <u>pensionable service</u> and on their pensionable salary, and are calculated using a formula set out in the applicable legislation. 1

Members may receive their benefits in one of the following ways: immediate or <u>deferred pensions</u>, annual allowances, or disability retirement benefits. Eligible survivors and children may receive survivor benefits and child allowances, respectively.

All benefits are indexed annually to cover increases in the cost of living, as determined by the Consumer Price Index (CPI). The CPI is a measure of price changes published by Statistics Canada based on retail prices of about 300 goods and services, including food, housing, transportation, clothing and recreation.

The indexation rate was 2.4% for calendar year 2022 and 1% for calendar year 2021.

Table 1 shows the average pension paid to retired members and their eligible survivors for fiscal year ended March 31, 2022.

Table 1. Average annual pension paid

Pension plan	Average pension	
Public service	\$34,682	
CAF – Regular Force	\$34,247	
RCMP	\$45,091	
CAF – Reserve Force	\$5,142	

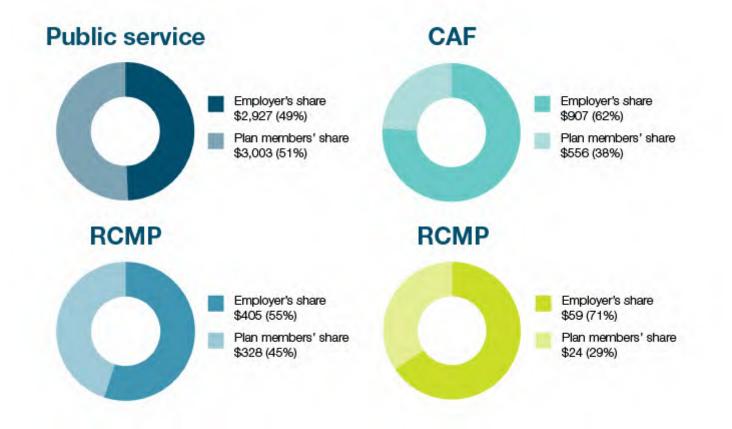
Contributions

Public sector pension plan benefits are funded by <u>contributions</u> from active plan members and the Government of Canada (as the employer), as well as from investment earnings.

Contributions include current service and past service contributions (for example, <u>service buybacks</u>) received during the year and do not include special employer contributions, which are special payments the Government of Canada is required to make to fund actuarial deficits.

For fiscal year ended March 31, 2022, total contributions were \$8.2 billion. Figure 2 shows a breakdown of the contributions.

Figure 2. Breakdown of individual plan contributions by plan members and the employer (\$ millions)



► Figure 2 - Text version

Plan members' contributions are a percentage of their salary and are collected through payroll deductions. Refer to <u>Appendix: Contribution</u> rates.

Pension obligations

<u>Pension obligations</u> measure, in today's dollars, the benefits that will be paid to members in the future.

The amount of pension obligations is based on a plan's <u>actuarial valuation</u> that is conducted each year for accounting purposes by the <u>Office of the Chief Actuary</u>. The valuation uses economic assumptions, such as future rates of return on investments, and demographic assumptions, such as life expectancy and retirement age.

Investment returns

Net assets consist mainly of net investments managed by the <u>Public Sector</u> <u>Pension Investment Board</u> (PSPIB) on behalf of the plans.

Since April 1, 2000, (March 1, 2007, for the Reserve Force pension plan), plan member and employer contributions, net of benefit payments and other charges to the plans, have been transferred to the PSPIB for investment.

Returns on these investments are key to funding plan benefits. The contribution transfers are over and above benefit payments and administrative costs. As the plans mature, the quantity of assets that come from investment returns is expected to continue growing.

Since 2018, the cumulative net investment returns have exceeded the cumulative net contribution transfers sent to the PSPIB.

Administrative expenses

Under legislation, authorized government organizations and the PSPIB charge eligible administrative expenses to the public sector pension plans.

Expenses by government departments are for the administration of the public sector pension plans. Expenses incurred by the PSPIB are for operating costs to invest pension assets. Investment management fees are either paid directly by the PSPIB or offset against distributions received from the investments.

For the fiscal year ended March 31, 2022, total administrative expenses for the public sector pension plans were \$770 million (see Table 2).

Table 2. Breakdown of administrative expenses

Paid by	Amount
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Paid by	Amount
Government organizations	\$183 million
Public Sector Pension Investment Board	\$587 million
Total	\$770 million

Impact on public finances

Pension expenses are calculated based on Canadian public sector accounting standards and are included in the <u>Public Accounts of Canada 2022</u>.

- **Pension expense** includes employers' contributions and recognized actuarial valuation gains and losses and other adjustments
- Net interest expense is calculated based on the average accrued pension obligations (benefits earned by members under their pension plan for pensionable service)

Table 3 shows a summary of transactions for the plans that resulted in expenses for the Government of Canada in fiscal year ended March 31, 2022.

Table 3. Summary of expenses for the public sector pension plans (\$ millions)

Pension plan	Pension expense	Net interest expense	Total expense
Public service	3,754	938	4,692
CAF	2,103	886	2,989
RCMP	663	272	935
Reserve Force	54	1	55
Total expenses	6,574	2,097	8,671

Pension plan funding

▶ In this section

Key measures to support sustainability

The governance framework of the public sector pension plans includes key measures that help ensure that the plans remain sustainable and affordable for plan members and taxpayers. These measures include:

- actuarial valuations, which provide an estimate of expenses and obligations
- reviews of the funded status of the plans
- annual reports on the plans

Each plan also has an advisory committee that comprises representatives of the employer, active plan members and retired plan members. These committees provide additional oversight, accountability and transparency by reviewing administration, design and funding of benefits.

The sustainability of the plans is supported by the <u>Funding Policy for the Public Sector Pension Plans</u> and a strong governance framework that was put in place in response to the 2014 Auditor General of Canada's performance audit of the public sector pension plans. As part of the implementation of the Funding Policy for the Public Sector Pension Plans, which TBS, the RCMP and National Defence approved in 2018, a sustainability review of the plans is currently underway.

Actuarial valuations

An actuarial valuation is an actuarial analysis that provides information on the financial condition of a pension plan. Such valuations are performed regularly to support the administration of the pension plans. The Office of the Chief Actuary performs two types of actuarial valuations:

- 1. **Actuarial valuations for accounting purposes** are conducted as at March 31 of each fiscal year to measure and report on the pension expense and obligations in the Public Accounts of Canada, and to provide the necessary information to prepare the plans' financial statements.
- 2. **Actuarial valuations for funding purposes** are conducted at least once every three years to determine the contribution rates, actuarial liability and the funded status of the plans. These valuations help the President of the Treasury Board make informed decisions on the financing of the pension plans. Assessments of the funded status of the pension plans are done annually, in consultation with the Office of the Chief Actuary.

Methodology and assumptions used in actuarial valuations

Assumptions underlying the actuarial valuation for accounting purposes are based on management's best estimates. The Office of the Chief Actuary determines the best estimate assumptions used in actuarial valuations for funding purposes.

Actuarial assumptions refer to economic and demographic assumptions, such as future expected rates of return, inflation, salary levels, retirement ages and mortality rates, that actuaries use when carrying out an actuarial valuation or calculation.

Economic assumptions are set in order to conduct actuarial valuations.

Population characteristics and benefit provisions are specific to each pension plan. As part of the economic assumptions, discount rates are used

to determine the present value of the future pension payments (the accrued benefit obligation or the actuarial liability), the costs of benefits earned and the interest expenses.

Discount rates are set as follows:

For accounting purposes:

- For **funded** pension benefits (post-March 2000), the discount rates are the streamed expected rates of return on funds invested by the PSPIB.
- For **unfunded** pension benefits (pre-April 2000), the discount rates are the government's cost of borrowing. That cost is derived from the yields on the actual zero-coupon yield curve for Government of Canada bonds, which reflect the timing of the expected future cash flows.

For funding purposes:

- For **funded** pension benefits (post-March 2000), the discount rates are the streamed expected rates of return on funds invested by the PSPIB.
- For **unfunded** pension benefits (pre-April 2000), the discount rates are the streamed weighted average of Government of Canada long-term bond rates. This average is a calculated 20-year weighted moving average of Government of Canada long-term bond rates projected over time. The streamed rates account for historical Government of Canada long-term bond rates and, over time, reflect expected Government of Canada long-term bond rates.

Table 4 presents some of the key economic assumptions used in the most recent actuarial valuations.

Table 4. Discount rates and assumptions used in actuarial valuations

	Long-term discount rate		Long-term rate	
Actuarial report	Funded pension benefits (post-March 2000) *	Unfunded pension benefits (pre-April 2000)	Salary increase	Pension indexation
For accounting purposes (as at March 31, 2021)	5.9%	1.8% to 1.85% (equivalent flat discount rate)	2.6%	2.0%
For funding pu	irposes			
Public service (as at March 31, 2020)	5.9%	4.1%	2.7%	2.0%
CAF (as at March 31, 2019)	6.0%	4.5%	2.7%	2.0%
RCMP (as at March 31, 2021)	5.9%	4.0%	2.6%	2.0%

<u>*</u> Long-term discount rates are calculated on a nominal basis and comprise the real rate of return and an indexation factor.

	Long-term discount rate		Long-term rate	
Actuarial report	Funded pension benefits (post-March 2000) *	Unfunded pension benefits (pre-April 2000)	Salary increase	Pension indexation
Reserve Force (as at March 31, 2019)	6.0%	n/a	2.7%	2.0%

<u>*</u> Long-term discount rates are calculated on a nominal basis and comprise the real rate of return and an indexation factor.

Actuarial valuation report: financial position

Tables 5 and 6 show the results of the superannuation account and the pension fund of each pension plan as of the last triennial funding valuation.

Table 5. State of the superannuation accounts as at March 31 (\$ millions)

Balance	Public service (2020)	RCMP (2021)	CAF (2019) Regular Force
Account balance	91,537	13,359	45,630
Actuarial liability	98,837	14,503	48,057
Actuarial excess (shortfall)	(7,300)	(1,144)	(2,427)

Table 6. Financial position of the pension funds as at March 31 (\$ millions)

	Public		CAF (2019)
Balance	service (2020)	RCMP (2021)	Regular Force	Reserve Force
Actuarial value of assets *	125,409	13,802	31,586	538
Actuarial liability	110,909	12,720	31,007	711
Actuarial surplus (deficit)	14,500	1,082	579	(173)

The actuarial value of assets is a method of valuing the investments of a pension plan using a five year smoothed value. Under this method, the expected return on investments is recorded immediately, while the difference between the expected and actual return on investments is recorded over a five year period through actuarial gains and losses. The actuarial value of assets is adjusted, if necessary, to ensure that it does not fall outside a limit of plus or minus 10% of the market value of investments at fiscal year end. Any difference is recorded immediately through actuarial gains and losses.

Source documents

- Report on the Public Service Pension Plan for the Fiscal Year Ended
 March 31, 2022
- Royal Canadian Mounted Police Pension Plan Annual Report, 2021–2022

- Canadian Armed Forces Pension Plan Annual Report, 2021–2022
- Public Sector Pension Investment Board annual report (2022)
- Public Accounts of Canada (2022)
- Actuarial Report on the Pension Plan for the Public Service of Canada as at 31 March 2020
- Actuarial Report on the Pension Plan for the Royal Canadian Mounted
 Police as at 31 March 2021
- Actuarial Report on the Pension Plan for the Canadian Forces: Regular
 Force and Reserve Force as at 31 March 2019

Glossary

contributions

Sums credited or paid by the employer 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 pension (also known as "deferred annuity")

A pension option that allows a member with at least two years of pensionable service to postpone their pension payments until a later date if they leave the public service before the retirement age applicable to them (60 or 65 years).

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 their education, training or experience and that can reasonably be expected to last for the rest of the individual's life.

pension obligation

The value, discounted in accordance with actuarial assumptions, of all future payable benefits accrued as of the valuation date in respect of all

previous pensionable service.

pensionable service

Periods of service to the credit of a public sector pension plan member. This service includes any complete or partial periods of purchased service (for example, service buyback or elective service).

Public Sector Pension Investment Board

A Crown corporation established on September 14, 1999, under the <u>Public Sector Pension Investment Board Act</u>. It manages the amounts transferred to it by the Government of Canada for the funding of benefits earned by members of the federal public sector pension plans. The board operates under the commercial name of <u>PSP Investments</u>.

service buyback

A legally binding agreement under which a member purchases a period of prior service to increase their pensionable service.

survivor

For the purposes of the public service pension plan, a survivor is a person who, at the time of a plan member's death, was married to the plan member before their retirement or was cohabiting with the plan member in a conjugal relationship prior to the member's retirement and for at least one year prior to the date of death.

For the purposes of the pension plans for the CAF and RCMP, a survivor is a person who, at the time of a plan member's death, was married to the plan member, or was cohabiting with the plan member in a conjugal relationship for at least one year prior to the plan member's retirement, or if retired, prior to the member's 60th birthday.

Appendix: Contribution rates

Contribution rates in the table below, effective January 1, apply to:

- public service pension plan members who were contributing to the before January 1, 2013
- public service pension plan members who are employed or deemed to be employed in <u>operational service</u> with Correctional Service Canada
- Canadian Armed Forces-Regular Force pension plan members
- Royal Canadian Mounted Police pension plan members

From your salary	In 2021 you contributed	In 2022 you contributed
On earnings up to the maximum covered by the Canada Pension Plan or Quebec Pension Plan (\$61,600 in 2021 and \$64,900 in 2022)	9.83%	9.36%
On earnings over the maximum covered by the Canada Pension Plan or Quebec Pension Plan	12.26%	12.48%

Note: Contribution rates are reduced to 1% of salary for all plan members who reach the maximum 35 years of pensionable service.

If you accumulate deemed operational service, you make an additional contribution of 0.62% of your salary to the pension plan for that service.

Contribution rates, effective January 1, for public service pension plan members who began participating in the plan on or after January 1, 2013, are as follows:

	In 2021 you	In 2022 you
From your salary	contributed	contributed

Note: Contribution rates are reduced to 1% of salary for all plan members who reach the maximum 35 years of pensionable service.

From your salary	In 2021 you contributed	In 2022 you contributed
On earnings up to the maximum covered by the Canada Pension Plan or Quebec Pension Plan (\$61,600 in 2021 and \$64,900 in 2022)	8.89%	7.95%
On earnings over the maximum covered by the Canada Pension Plan or Quebec Pension Plan	10.59%	11.82%

Note: Contribution rates are reduced to 1% of salary for all plan members who reach the maximum 35 years of pensionable service.

The <u>Public Service Superannuation Act</u>, the <u>Royal Canadian Mounted</u>
<u>Police Superannuation Act</u> and the <u>Canadian Forces Superannuation</u>
<u>Act</u>.

Date modified:

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