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Secrétariat

Secrétariat du Conseil du Trésor
du Canada

ANNUAL REPORT TO PARLIAMENT



Report on the Public Service Pension Plan

for the Fiscal Year Ended March 31, 2004

Pension plan



Canada

Report on the Public Service Pension Plan

for the Fiscal Year Ended March 31, 2004



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Her Excellency the Right Honourable Adrienne Clarkson, C.C., C.M.M., C.D.
Governor General of Canada

Excellency:

I have the honour to submit to Your Excellency the annual *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2004*.

Respectfully submitted,

The paper version was signed by Reg Alcock

President of the Treasury Board and
Minister responsible for the Canadian Wheat Board

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Introduction

Pursuant to section 46 of the *Public Service Superannuation Act* (PSSA), the *Report on the Public Service Pension Plan* provides an overview of the financial status of the Public Service Pension Plan (the Plan) as at March 31, 2004, as well as information on plan membership, administration, and benefits.

Roles and Responsibilities

In accordance with the PSSA, the President of the Treasury Board is responsible for the overall management of the Plan, while the Minister of Public Works and Government Services Canada (PWGSC) is responsible for its day-to-day administration and for maintaining the books of accounts. Responsibility for the integrity and objectivity of the financial statements of the Plan rests jointly with both ministers.

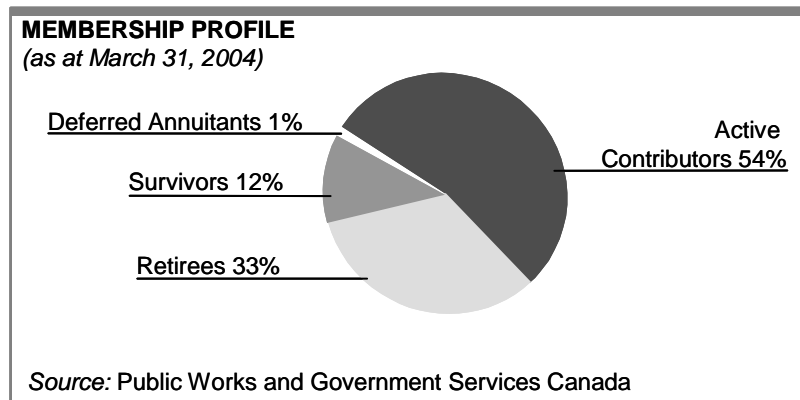
In addition, an Advisory Committee comprising 13 members—one pensioner, six members representing employees, and six members chosen from the executive ranks of the Public Service—provides advice to the President of the Treasury Board on matters respecting the benefit design and funding of the Plan.

The Public Sector Pension Investment Board (PSP Investments), a Crown corporation reporting to Parliament through the President of the Treasury Board, invests some of the Plan's funds in accordance with the *Public Sector Pension Investment Board Act* and its regulations.

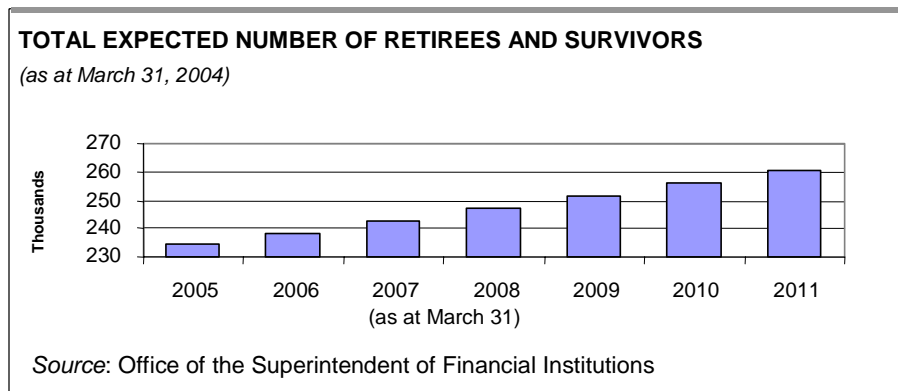
The Office of the Superintendent of Financial Institutions undertakes triennial actuarial valuations of the Plan. These valuations, which are tabled in Parliament by the President of the Treasury Board, compare the Plan's assets with its liabilities and estimate contribution rates required to ensure its ongoing financial sustainability. The last actuarial report on the Plan was conducted as at March 31, 2002. The date of the next periodic review is March 31, 2005.

Plan Membership

As at March 31, 2004, the Plan had 490,503 members, including those currently or previously employed by the Government of Canada, certain Public Service Corporations, and territorial governments. The membership consisted of 268,852 active contributors, 159,693 retirees, 56,413 survivors, and 5,545 deferred annuitants. (See membership profile below.)



Over the coming years, the proportion of retired employees to active contributors is expected to rise as more baby boomers retire. Plan members can continue to be assured that they will obtain their benefits. The information provided in the triennial actuarial valuations has allowed the government to anticipate and appropriately fund these upcoming retirements.



Discussion and Analysis of Financial Statements

Context

The audited financial statements provide a comprehensive presentation of the Plan's financial position. These statements have been prepared in accordance with the federal government's stated accounting policies for the Plan, which are based on Canadian generally accepted accounting principles. Plan assets in respect of pensionable service accrued before April 1, 2000, are treated differently from an investment perspective than plan assets in respect of pensionable service accrued after March 31, 2000.

In respect of pensionable service accrued before April 1, 2000, contributions and benefit payments are recorded in the Public Service Superannuation Account. The balance in the Account is credited with interest based on the Government of Canada long-term bond rate. As at March 31, 2004, approximately 89 per cent of plan assets is credited with interest in this manner.

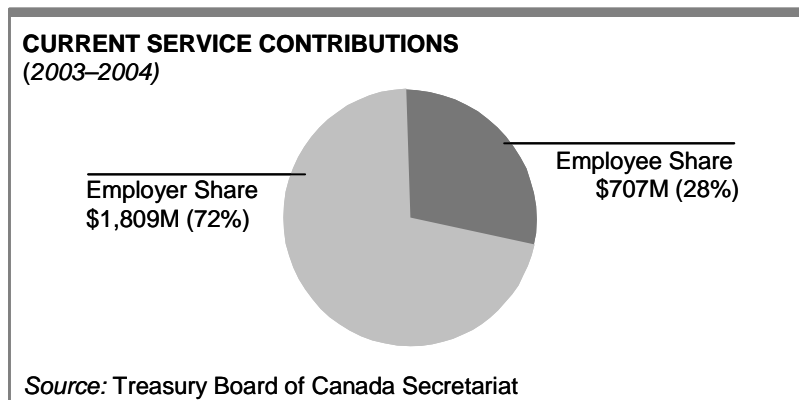
Contributions and benefit payments in respect of pensionable service accrued since April 1, 2000, are first recorded in the Public Service Pension Fund Account. Contributions net of current benefits and plan administration expenses are subsequently transferred to PSP Investments for investment in capital markets to build assets to pay future benefits. Approximately 11 per cent of plan assets is invested through PSP Investments.

The 89 per cent of assets earning interest at the long-term bond rate earned a real rate of return of roughly 8.3 per cent. The remaining 11 per cent of assets invested in the markets earned a time-weighted rate of return of 26.1 per cent. These assets were invested in roughly equal portions in Canadian equities, foreign equities, and fixed income securities. The latter consisted of Canadian federal, provincial, and corporate bonds, as well as short-term cash equivalent investments. The overall rate of return, taking into consideration the two investment approaches, was approximately 10.3 per cent.

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 (RCA) Account. The balance in the RCA Account is credited with interest at the same rate as the Public Service Superannuation Account.

Contributions

In 2003–04, about \$3,045 million¹ was paid into the Plan, of which employees contributed \$892 million and the employer \$2,153 million. Employee contributions are compulsory and are set at a rate of 4.0 per cent of annual salary up to the Year’s Maximum Pensionable Earnings defined by the Canada Pension Plan and the Quebec Pension Plan (\$40,500 in 2004) and 7.5 per cent of annual salary above this amount. The employer pays 2.56 times the employee rate for current service, or 72 per cent of the current service costs, as noted in the graph below.



Net Assets Available for Benefits

The statement of net assets available for benefits shows the level of assets available to pay current and future pension benefits to plan members. As at March 31, 2004, net assets available to pay current and future pension benefits were \$94,159 million—an increase of \$5,389 million from the previous year.

The level of assets is determined by both the amount of money going into the Plan and the amount going out. As reflected in the statement, money going in comes from a number of different sources, including (i) contributions made by both plan members and the Government of Canada, (ii) income from investments (including interest income), (iii) money transferred to the plan from other pension funds by employees coming to work for the Government of Canada from another organization, and (iv) money transferred to the Public Service Pension Fund to deal with the Fund deficit.

1. Contributions can be for either current service or past service. Contributions for current service are recorded on an accrual basis 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.

Money is withdrawn from the plan to pay (i) benefits, (ii) transfers from the plan to other pension plans or to locked-in vehicles (e.g. RRSPs), (iii) administrative expenses, and (iv) transfers out of the Public Service Superannuation Account to deal with the Account surplus.

Accrued Pension Benefits

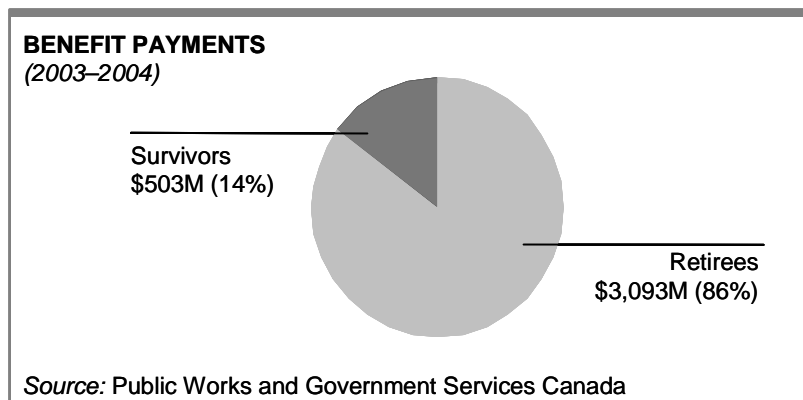
The statement of accrued pension benefits shows the present value of benefits earned with respect to service to date. As at March 31, 2004, the level of accrued pension benefits was \$86,516 million, an increase of approximately \$5,192 million from the previous fiscal year.

Excess of Actuarial Value of Net Assets over Accrued Pension Benefits

The statement of the changes in excess of actuarial value of net assets over accrued pension benefits represents the assets available after accrued pension benefits (i.e. benefits earned for service to date) are met. As at March 31, 2004, the excess of actuarial value of net assets over accrued pension benefits was \$7,039 million, a decrease of \$983 million from the previous fiscal year. As reflected in the statement, this decrease occurred because the net increase in accrued pension benefits is more than the increase in the actuarial value of net assets available for benefits.

Benefit Payments

In 2003–04, the plan paid out \$3,596 million in benefits, an increase of \$102 million over the previous year. Benefits were paid to 216,106 retirees and survivors (214,551 in 2002–03). In 2003–04, there were 5,961 new retirees during the year. New retirees received an average annual pension of \$27,793 in 2003–04. The number of beneficiaries has been fairly stable over the past few years but is expected to rise in the future.



Pension benefits are fully indexed to annual increases in the Consumer Price Index. This adjustment is made each January and was 3.3 per cent on January 1, 2004.

Benefits paid to retirees represented 86 per cent of 2003–04 pension payments and benefits paid to survivors represented 14 per cent. Included in benefits paid to retirees are those to disabled retirees. These represent 5 per cent of the total.

During 2003–04, members became entitled to 3,790 immediate annuities (1,920 obtained a normal retirement benefit at age 60 and 1,870 received an unreduced early retirement benefit). In addition, there were 332 deferred annuities, 1,377 annual allowances, and 462 disability retirement benefits.

In addition, 1,439 plan members left the Public Service before age 50 and withdrew about \$80.5 million (the present value of their future benefits) as lump sums that were transferred to other pension plans or to locked-in retirement vehicles of their choosing.

Life Insurance

The Supplementary Death Benefit provides decreasing term life insurance coverage to active plan members and those retired plan members who have chosen to continue to pay for this benefit. During fiscal year 2003–04, 4,913 claims for the Supplementary Death Benefit amounting to \$132 million were paid to beneficiaries.

Retirement Compensation Arrangements

Separate Retirement Compensation Arrangements (RCA No. 1 and No. 2) have been established under the authority of the *Special Retirement Arrangements Act* to provide supplementary benefits to employees. RCA No. 1 provides for benefits in excess of those permitted under the *Income Tax Act* for registered pension plans. In 2003–04, this includes primarily benefits on salaries over \$105,900, plus some survivor benefits. As at March 31, 2004, there were 9,052 plan members earning over \$105,900 and 1,313 retirees receiving benefits payments from RCA No. 1. RCA No. 2 provides for benefits due to an Early Retirement Incentive program terminated in 1998, which allowed eligible surplus employees to retire with an unreduced pension.

Plan Administration

Administrative Costs

The costs of administering the plan totalled \$56.7 million (or approximately \$116 per member) in 2003–04, an increase of \$5.5 million from the previous year. Relative to assets, administrative costs were \$0.06 per \$100 of plan assets.

Administrative initiatives included the ongoing development of Web-based facilities so that members will be able to obtain pension information on the Internet. In addition, the Government of Canada Pension Modernization Project is the renewal of public service pension systems and business processes to enable PWGSC to replace 30-year-old technologies and to use industry best practices to deliver pension administration services to public service employees, employers, and pensioners. The targeted implementation of these core contributor applications is January 2009.

Transfer Agreements

The Plan has transfer agreements with approximately 100 employers, including other levels of government, universities, and private-sector employers. During the fiscal year 2003–04, approximately \$36 million was transferred into and \$36 million (not including Crown corporation transfers as a result of privatization) was transferred out of the Plan under these agreements.

Further Information

For additional information on the Public Service Pension Plan, you may consult the Treasury Board of Canada Secretariat's Web site at www.tbs-sct.gc.ca and the PWGSC Web site at www.pwgsc.gc.ca.

Financial Statements of the
Public Service Pension Plan

Statement of Responsibility

Responsibility for the integrity and objectivity of the financial statements of the Public Service Pension Plan rests with Public Works and Government Services Canada and the Treasury Board of Canada Secretariat. The Treasury Board of Canada Secretariat carries out responsibilities in respect of the overall management of the Plan, while Public Works and Government Services Canada is responsible for the day-to-day administration of the Plan and for maintaining the books of accounts.

The financial statements of the Public Service Pension Plan, for the year ended March 31, 2004, have been prepared in accordance with the accounting policies set out in Note 2 of the financial statements, which are based on Canadian generally accepted accounting principles. They include management's best estimates and judgements where appropriate.

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

Additional information, as required, is obtained from the Public Sector Pension Investment Board. The Board maintains its own records and systems of internal control to account for the funds managed on behalf of the Public Service Pension Plan in accordance with the *Public Sector Pension Investment Board Act* and regulations.

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

Approved by:

The paper version was signed by
I. David Marshall
Deputy Minister and Deputy Receiver
General for Canada
Public Works and Government Services Canada

The paper version was signed by
Lysanne Gauvin
Assistant Deputy Minister
Finance, Accounting, Banking, and
Compensation Branch
and Senior Financial Officer
Public Works and Government Services Canada

The paper version was signed by
Wayne G. Wouters
Secretary of the Treasury Board of Canada
Treasury Board of Canada Secretariat

The paper version was signed by
Phil Charko
Assistant Secretary
Pensions and Benefits Sector
Treasury Board of Canada Secretariat



Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

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

I have audited the statement of net assets available for benefits, of accrued pension benefits, and of excess of actuarial value of net assets over accrued pension benefits of the Public Service Pension Plan as at March 31, 2004 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in excess of actuarial value of net assets over accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, the accrued pension benefits and the excess of actuarial value of net assets over accrued pension benefits of the Plan as at March 31, 2004 and the changes in net assets available for benefits, changes in accrued pension benefits and changes in excess of actuarial value of net assets over accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions of the Plan that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Service Superannuation Act* and regulations.

The paper version was signed by
Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
October 29, 2004

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Financial Statements

Statement of Net Assets Available for Benefits, of Accrued Pension Benefits, and of Excess of Actuarial Value of Net Assets over Accrued Pension Benefits

As at March 31, 2004

	2004	2003
	(\$ millions)	
Net Assets Available for Benefits		
Assets		
Public Service Superannuation Account (notes 3 and 10)	82,569	81,858
Public Service Pension Fund Account (note 3)	143	118
Investments (note 4)	10,205	5,755
Contributions receivable (note 5)	1,241	1,037
Other assets (note 6)	4	3
	94,162	88,771
Liabilities		
Accounts payable	3	1
	94,159	88,770
Actuarial asset value adjustment (note 7)	(604)	576
	93,555	89,346
Actuarial Value of Net Assets Available for Benefits	93,555	89,346
Accrued Pension Benefits (note 7)	86,516	81,324
Excess of Actuarial Value of Net Assets over Accrued Pension Benefits (note 8)	7,039	8,022

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2004

	2004	2003
	(\$ millions)	
Net Assets Available for Benefits, Beginning of Year	88,770	85,489
Increase in Net Assets:		
Interest income on the Public Service Superannuation Account (note 3)	6,647	6,636
Contributions (note 9)	3,045	2,856
Investment income (note 4)	342	147
Current-year change in fair value of investments and currency	1,414	(800)
Transfers from other pension funds	68	18
Public Service Pension Fund actuarial adjustment (note 10)	4	–
Total Increase in Net Assets	11,520	8,857
Decrease in Net Assets:		
Benefits	3,596	3,494
Refunds and transfers (note 11)	223	2,022
Public Service Superannuation Account actuarial adjustment (note 10)	2,240	–
Administrative expenses (note 12)	72	60
Total Decrease in Net Assets	6,131	5,576
Increase in Net Assets Available for Benefits	5,389	3,281
Net Assets Available for Benefits, End of Year	94,159	88,770

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

Statement of Changes in Accrued Pension Benefits

Year ended March 31, 2004

	2004	2003
	(\$ millions)	
Accrued Pension Benefits, Beginning of Year	81,324	75,359
Increase in Accrued Pension Benefits:		
Interest on accrued pension benefits	6,146	5,805
Benefits earned	2,841	2,343
Experience losses	362	2,371
Transfers from other pension funds	68	18
Total Increase in Accrued Pension Benefits	9,417	10,537
Decrease in Accrued Pension Benefits:		
Benefits	3,596	3,494
Refunds and transfers (note 11)	223	2,022
Administrative expenses included in the service cost	57	51
Changes in actuarial assumptions (note 7)	349	(995)
Total Decrease in Accrued Pension Benefits	4,225	4,572
Net Increase in Accrued Pension Benefits	5,192	5,965
Accrued Pension Benefits, End of Year	86,516	81,324

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

Statement of Changes in Excess of Actuarial Value of Net Assets over Accrued Pension Benefits

Year ended March 31, 2004

	2004	2003
	(\$ millions)	
Excess of Actuarial Value of Net Assets over Accrued Pension Benefits, Beginning of Year	8,022	10,290
Increase in net assets available for benefits	5,389	3,281
Change in actuarial asset value adjustments	(1,180)	416
Increase in actuarial value of net assets available for benefits	4,209	3,697
Net increase in accrued pension benefits	(5,192)	(5,965)
Excess of Actuarial Value of Net Assets over Accrued Pension Benefits, End of Year	7,039	8,022

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

Notes to Financial Statements

Year ended March 31, 2004

1. Description of Plan:

The Public Service Pension Plan (the “Plan”), which is governed by the *Public Service Superannuation Act* (the “PSSA” or the “Act”), provides pension benefits for public service employees. This Act has been in effect since January 1, 1954.

The following description of the Plan is a summary only.

(a) General:

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

The Government of Canada is the sole sponsor of the Plan. The President of the Treasury Board is the minister responsible for the PSSA. The Treasury Board of Canada Secretariat is responsible for the management of the Plan, while Public Works and Government Services Canada (“PWGSC”) provides the day-to-day administration of the Plan. The Office of the Superintendent of Financial Institutions makes periodic actuarial valuations of the Plan.

Until April 1, 2000, separate market-invested funds were not set aside to provide for payment of pension benefits. Instead, transactions relating to the Plan were recorded in a Public Service Superannuation Account created by legislation in the Accounts of Canada. Pursuant to the PSSA as amended by the *Public Sector Pension Investment Board Act*, transactions relating to service subsequent to March 31, 2000, are now recorded in the Public Service Pension Fund (the “Pension Fund”), where the excess of contributions over benefits and administrative costs is invested in capital markets through the Public Sector Pension Investment Board (“PSP Investments”). PSP Investments is a separate corporate body that started operations on April 1, 2000. Its goal is to achieve maximum rates of return on investments without undue risk, while respecting the requirements and financial obligations of the Plan.

Notes to Financial Statements

Year ended March 31, 2004

1. Description of Plan (continued):

(b) Funding policy:

The Plan is funded from contributions whereby plan members contribute 4 per cent of pensionable earnings up to the maximum covered by the Canada Pension Plan or Quebec Pension Plan (“CPP” or “QPP”) and 7.5 per cent of pensionable earnings above that maximum, and employer contributions are made monthly to provide for the cost (net of employee contributions) of the benefits that have accrued in respect of that month. The determination of the cost of the benefits is made on the basis of actuarial valuations, which are performed triennially.

Until April 1, 2000, a separate market-invested fund was not maintained; however, the legislation provides that all pension obligations arising from the Plan be met by the Government of Canada. In addition, the legislation governing the Plan requires actuarial deficiencies found in the Public Service Superannuation Account to be dealt with by increasing the Account in equal installments over a period not exceeding 15 years and actuarial deficiencies found in the Public Service Pension Fund to be dealt with by transferring amounts to the Fund in equal installments over a period not exceeding 15 years. The legislation allows surpluses in the Public Service Superannuation Account to be dealt with by reducing the Account over a period of up to 15 years and surpluses in the Pension Fund to be dealt with by a reduction of government and/or plan member contributions or by withdrawing amounts from the Fund.

(c) Benefits:

The Plan provides benefits based on the number of years of pensionable service to a maximum of 35 years. The benefits are determined by a formula set out in legislation; they are not based on the financial status of the plan. The basic benefit formula is 2 per cent per year of pensionable service times the average of the five consecutive years of highest paid service. Benefits are integrated with the CPP and QPP, and are fully indexed to the increase in the Consumer Price Index. When benefits under the CPP/QPP become payable, the basic benefit formula becomes 1.3 per cent per year of pensionable service for earnings subject to the CPP/QPP, up to the average of the maximum earnings under the CPP/QPP for the year of termination and the previous four years, and 2 per cent on earnings above that average.

Notes to Financial Statements

Year ended March 31, 2004

1. Description of Plan (continued):

(c) Benefits (continued):

Other benefits include survivor pensions, minimum benefits in the event of death, unreduced early retirement pensions, and disability pensions. To reflect the *Income Tax Act* restrictions on registered pension plan benefits, separate Retirement Compensation Arrangements have been implemented to provide benefits that exceed the income tax limit. Since these arrangements are covered by separate legislation, their net assets available for benefits and accrued pension benefits are not consolidated in these financial statements. However, condensed information is presented in note 13.

(d) Income taxes:

The Plan is a registered pension plan under the *Income Tax Act* and, as such, is not subject to income taxes.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements present information on the Public Service Pension Plan on a going concern basis. They are prepared to assist plan members and others in reviewing the activities of the Plan for the year, but they are not meant to portray the funding requirements of the Plan.

These financial statements are prepared using the accounting policies stated below, which are based on Canadian generally accepted accounting principles.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.

Notes to Financial Statements

Year ended March 31, 2004

2. Significant accounting policies (continued):

(b) Valuation of assets:

The Public Service Superannuation Account held in the Accounts of Canada is considered a non-marketable asset and is valued at cost.

Investments consist of the unit interest in the assets under the management of PSP Investments that are allocated to the Plan and that are held through the PSP Funds. Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act.

Fair value for investments in pooled funds is based on unit values, which reflect the quoted market prices of the underlying securities.

Contributions receivable for past service elections are recorded at their estimated net present value, which approximates their fair value.

The actuarial value of net assets is based on the market-related value of investments, whereby the fluctuations between the market and expected market value are deferred and recognized over a five year period, within a ceiling of plus or minus 10 per cent of the market value. Market-related value of investments is used to mitigate the impact of large fluctuations in the market value of plan investments.

(c) Income recognition:

Interest income from the Public Service Superannuation Account and investment income are recorded on an accrual basis. The investment income has been allocated by PSP Investments according to the number of units of PSP Funds held by the Plan. Investment income represents realized gains and losses on the disposal of investments, and interest and dividend income. These income items include the related distributions from PSP Funds.

The current-year change in fair value of investments and currency is the unrealized difference between the fair value and the cost of investments at the beginning and end of each year.

Notes to Financial Statements

Year ended March 31, 2004

2. Significant accounting policies (continued):

(d) Contributions:

Contributions for current service are recorded on an accrual basis 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.

(e) Benefits, refunds, and transfers:

Benefits are accrued as pensionable service accumulates and they are recognized as a reduction of accrued pension benefits and assets when paid. Refunds and transfers are recognized at the moment the refund or transfer occurs, until which time they are presented with the net assets available for benefits and with the related accrued pension benefits.

(f) Translation of foreign currencies:

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at year-end are translated at exchange rates in effect at the year-end date. The realized gains (losses) on disposal of investments that relate to foreign currency translation are included in investment income.

Unrealized gains and losses resulting from year-end translation of foreign-currency-denominated investments are included in the current-year change in fair value of investments and currency.

(g) Comparative figures:

Certain comparative figures have been reclassified to conform with the current-year presentation.

Notes to Financial Statements

Year ended March 31, 2004

3. Public Service Superannuation Account and Pension Fund Account:

The Public Service Superannuation Account is held in the Accounts of Canada pursuant to the PSSA. This Account records transactions such as contributions, benefits, and transfers that pertain to pre-April 1, 2000, service. The Account earns interest quarterly at rates that are calculated as though the amounts recorded in the Account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity.

Transactions pertaining to post-March 31, 2000, service are recorded in the Public Service Pension Fund through the Public Service Pension Fund Account, which is also held in the Accounts of Canada. The net amount of contributions less benefits and payments is regularly transferred to PSP Investments for investment in the capital markets. The Pension Fund Account is only a flow-through account and, as such, does not earn interest. At March 31, the balance in the Public Service Pension Fund Account represents amounts in transit or impending transfer to PSP Investments.

Notes to Financial Statements

Year ended March 31, 2004

4. Investments:

- (a) PSP Investments has created the PSP Funds, which represent unit interests in the assets under the management of PSP Investments. The Plan's investments consist of the unit interest of PSP Investments' assets held through the PSP Funds. The investment income is allocated by PSP Investments according to the number of units of PSP Funds held by the Plan. At March 31, the portfolio of investments and the asset mix held through PSP Investments are as follows:

	2004			2003		
	Cost	Fair Value	% of Portfolio (at Fair Value)	Cost	Fair Value	% of Portfolio (at Fair Value)
	(\$ millions)			(\$ millions)		
Canadian Equities						
PSP Canadian Equities Fund	3,230	3,823	37.5%	2,476	2,245	39.0%
Foreign Equities						
PSP Foreign Equities Fund	2,767	2,816		1,928	1,478	
PSP Currency Overlay Fund	–	10		–	–	
	2,767	2,826	27.7%	1,928	1,478	25.7%
Real Estate						
PSP Real Estate Fund	52	53	0.5%	–	–	
Fixed Income						
PSP Fixed Income Fund	3,335	3,434	33.6%	1,872	1,858	32.3%
Cash Equivalents						
PSP Cash Equivalent Fund	16	16		174	174	
PSP Currency Overlay Fund	86	53		–	–	
	102	69	0.7%	174	174	3.0%
	9,486	10,205	100%	6,450	5,755	100%

Notes to Financial Statements

Year ended March 31, 2004

4. Investments (continued):

(b) Investment policy:

At March 31, the asset mix policy and benchmarks of the investment portfolio held through PSP Investments are as follows:

	2004	2003	
Asset class	Policy mix	Policy mix	Benchmark*
Canadian Equities	35%	35%	S&P/TSX
Foreign Equities	30%	30%	S&P 500, MSCI EAFE
Real Estate**	up to 5%	—	CPI + 4%
Fixed Income**	27 to 32%	32%	SC Bond Universe
Cash Equivalents	3%	3%	SC 91-day T-bill
	100%	100%	

* Benchmarks include the following:

S&P/TSX—Standard and Poor's TSX Composite Index

S&P 500—Standard and Poor's 500 Composite Index

MSCI EAFE—Morgan Stanley Capital International Index (Europe, Australia, Far East)

CPI—Consumer Price Index

SC Bond Universe—Scotia Capital Bond Universe Index

SC 91-day T-bill—Scotia Capital 91-day Treasury Bill Index

** Any investments in the Real Estate asset class will automatically reduce the designated target weight for the Fixed Income asset class.

Notes to Financial Statements

Year ended March 31, 2004

4. Investments (continued):

(c) Foreign currency exposure:

The Plan's investments are exposed to currency risk through holdings of units in pooled funds of non-Canadian assets where investment values will fluctuate due to changes in foreign exchange rates. A PSP Currency Overlay Fund has been created to hold cash equivalents and derivative instruments (currency forward contracts and currency options) to reduce the foreign currency risk exposure or as an alternative to holding the underlying currency. The underlying foreign currency exposure in Canadian dollars, before allocating the economic impact of the PSP Currency Overlay Fund, as at March 31, is as follows:

Currency	2004		2003	
	Fair value (\$ millions)	% of total	Fair value (\$ millions)	% of total
US dollars	1,575	55.8%	870	58.9%
Euro	470	16.6%	224	15.2%
Yen	309	11.0%	126	8.5%
British pound	233	8.3%	141	9.5%
Others	235	8.3%	117	7.9%
	2,822	100.0%	1,478	100.0%

The fair value of the PSP Foreign Equities Fund and PSP Currency Overlay Fund include \$4 million Canadian (\$1 million in 2003) that are not included in the above foreign currency exposure.

(d) Investment income:

	2004	2003
	(\$ millions)	
Interest and dividend income	215	146
Realized gains	127	1
	342	147

Notes to Financial Statements

Year ended March 31, 2004

4. Investments (continued):

(e) Investment Performance:

Portfolio and benchmark returns for the year are as follows:

	2004		2003	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Canadian Equities	36.1%	37.7%	(18.6)%	(17.6)%
Foreign Equities	30.7%	28.8%	(30.5)%	(29.9)%
Real Estate	3.6%	2.5%	–	–
Fixed Income	10.9%	10.8%	9.4%	9.2%
Cash Equivalents	3.2%	3.0%	3.2%	2.7%
Total Return	26.1%	25.4%	(13.5)%	(12.9)%

Returns have been calculated in accordance with the mandatory requirements set forth by the Association for Investment Management and Research (AIMR). Returns are presented gross of expenses. The total return includes the impact of the PSP Currency Overlay Fund.

5. Contributions receivable:

	2004	2003
	(\$ millions)	
Contributions receivable from employees for past service	463	415
Contributions receivable from employers for past service	723	586
Other contributions receivable	55	36
	1,241	1,037

Notes to Financial Statements

Year ended March 31, 2004

6. Other assets:

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

In 2004, 71.1 per cent of the operating expenses, excluding custodial fees, were allocated to the Public Service Pension Plan (70.4 per cent in 2003). PSP Investments initially charges all the expenses to the Public Service Pension Plan, which is reimbursed on a quarterly basis by the two other Plans. At year-end, the balance of the other assets is as follows:

	2004	2003
	(\$ millions)	
Share of expenses receivable from		
Canadian Forces Pension Plan	1.3	1.3
Royal Canadian Mounted Police Pension Plan	0.4	0.4
	1.7	1.7
Other	2.3	1.3
Total other assets	4.0	3.0

Notes to Financial Statements

Year ended March 31, 2004

7. Accrued pension benefits:

(a) Present value of accrued pension benefits:

The present value of accrued pension benefits is determined using the projected benefit method prorated on service. Actuarial valuations are performed triennially for funding purposes and are updated annually for accounting purposes, using the government's best estimate assumptions. The information in these financial statements is based on this annual valuation. The most recent actuarial valuation of the Plan for funding purposes was made as of March 31, 2002, by the Chief Actuary of the Office of the Superintendent of Financial Institutions.

The assumptions used in determining the actuarial value of accrued pension benefits were developed with reference to short-term forecast and expected long-term market conditions. Many assumptions are required in the actuarial valuation process, including estimates of future inflation, interest rates, expected return on investments, general wage increases, workforce composition, retirement rates, and mortality rates. The assumptions for the long-term rate of inflation and long-term general wage increase used in the accounting valuation are 2.0 per cent and 2.9 per cent respectively (2.0 per cent and 3.0 per cent in 2003). At March 31, 2004, the expected rate of return on pension investments and the assumed average government long-term bond rate used to value the pension liability are 5.8 per cent and 7.6 per cent respectively (6.25 per cent and 7.8 per cent in 2003). The corresponding assumptions used in the cost of current service and in the interest expense are 6.25 per cent and 7.8 per cent respectively (6.25 per cent and 8.0 per cent in 2003).

(b) Actuarial asset value adjustment:

The actuarial value of net assets available for benefits has been determined from short-term forecasts consistent with the assumptions underlying the valuation of the accrued pension benefits. The actuarial asset value adjustment represents the difference between investments valued at fair value and investments valued at market-related values.

Notes to Financial Statements

Year ended March 31, 2004

8. Excess of actuarial value of net assets over accrued pension benefits:

For funding purposes, the pre-April 1, 2000, and post-March 31, 2000, excess of actuarial value of net assets over the accrued pension benefits is determined separately. Based on the accounting assumptions used for these financial statements, the breakdown as at March 31, 2004, is as follows:

	Pre- April 1, 2000	Post- March 31, 2000	Total
			(\$ millions)
Net assets available for benefits	83,085	11,074	94,159
Actuarial asset value adjustment	–	(604)	(604)
Actuarial value of net assets available for benefits	83,085	10,470	93,555
Accrued pension benefits	(75,812)	(10,704)	(86,516)
Excess (deficit) of actuarial value of net assets over accrued pension benefits	7,273	(234)	7,039

9. Contributions:

	2004	2003
		(\$ millions)
From employees	892	817
From employers	2,153	2,039
	3,045	2,856

During the period, employees contributed approximately 28 per cent (28 per cent in 2003) of the total contributions made in respect of current service.

Notes to Financial Statements

Year ended March 31, 2004

10. Actuarial Adjustments:

In accordance with the legislation governing the Plan, the President of the Treasury Board of Canada is required to direct that any actuarial deficiency found in either the Public Service Superannuation Account or the Pension Fund be credited to the Plan in equal installments over a period not exceeding 15 years, commencing in the year in which the actuarial report is tabled in Parliament.

The legislation also contains comparable provisions, which grant authority to deal with surpluses in the Public Service Superannuation Account by reducing the Account over a period of up to 15 years. Surpluses in the Pension Fund may be dealt with by a reduction of government and/or plan member contributions or by withdrawing amounts from the Fund.

As a result of the March 31, 2002, triennial actuarial valuation of the Public Service Pension Plan, which was tabled in Parliament on October 30, 2003, an amount of \$3.5 million was transferred by the Government of Canada to fund the deficit in the Public Service Pension Fund (nil in 2003), and the Public Service Superannuation Account was reduced by a one time adjustment of \$2,240 million (nil in 2003).

11. Refunds and transfers:

	2004	2003
	(\$ millions)	
Pension division payments	31	28
Returns of contributions and transfer value payments	90	103
Transfers to other pension funds	102	1,891
	223	2,022

During the year ended March 31, 2001, Canada Post Corporation and three other corporations implemented their own pension plans and their employees ceased to be members of the Public Service Pension Plan. In conclusion of these settlements, amounts totalling approximately \$1,800 million were transferred to the pension plans of these corporations in 2003. Until their transfer, these amounts remained part of the Public Service Superannuation Account and of the accrued pension benefits.

Notes to Financial Statements

Year ended March 31, 2004

12. Administrative expenses:

Administrative expenses consist of the following:

	2004	2003
	(\$ millions)	
PWGSC administrative expenses	54	49
Treasury Board of Canada Secretariat administrative expenses	2	1
PSP Investments administrative expenses	15	9
Office of the Superintendent of Financial Institutions administrative expenses	1	1
	72	60

The legislation provides for administrative expenses to be charged to the Plan. These administrative services are provided by government organizations related to the Plan. The administrative expenses relating to PWGSC, the Treasury Board of Canada Secretariat, and the Office of the Superintendent of Financial Institutions are approved annually by the Treasury Board of Canada.

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

The Treasury Board of Canada Secretariat, as the program manager of the Plan, provides policy interpretation support, information to plan members, financing and funding services, and support to the Pension Advisory Committee and charges its administrative costs to the Plan.

PSP Investments, as the manager of the investment funds of the Plan, charges its operating expenses, salaries, and benefits, as well as other operating and external investment management fees, to the Plan.

The Office of the Superintendent of Financial Institutions provides actuarial valuation services and charges these costs to the Plan.

Notes to Financial Statements

Year ended March 31, 2004

13. Retirement Compensation Arrangements (RCA):

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

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 RCA Account earns interest quarterly at the same rates as those credited to the Public Service Superannuation Account. The RCA is registered with the Canada Revenue Agency (CRA) and a transfer is made annually between the RCA Account and CRA either to remit a 50-per-cent refundable tax in respect of their net contributions and interest credits or to be credited a reimbursement based on their net benefit payments.

Notes to Financial Statements

Year ended March 31, 2004

13. Retirement Compensation Arrangements (continued):

Since these arrangements are covered by separate legislation, their net assets available for benefits and accrued pension benefits are not consolidated in the financial statements of the Plan. The following summarizes the financial position of RCA No. 1 and RCA No. 2 as at March 31, 2004:

	2004	2003
	(\$ millions)	
Net assets available for benefits and accrued pension benefits and deficiency		
Net assets available for benefits		
RCA Account	1,251	1,189
Refundable tax receivable	1,210	1,070
	2,461	2,259
Accrued pension benefits	2,601	2,573
Deficiency of net assets over accrued pension benefits	(140)	(314)

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

Notes to Financial Statements

Year ended March 31, 2004

13. Retirement Compensation Arrangements (continued):

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

	2004	2003
	(\$ millions)	
Changes in net assets available for benefits		
Increase in assets		
Contributions—employers	183	211
Contributions—employees	13	14
Interest income	101	93
Actuarial adjustment	24	82
Increase in refundable tax receivable	141	42
	<hr/>	<hr/>
	462	442
Decrease in assets		
Benefits	78	76
Refunds and transfers	42	236
Refundable tax remittance	140	42
	<hr/>	<hr/>
	260	354
Increase in net assets available for benefits	<hr/>	<hr/>
	202	88

Actuarial deficiencies found in the RCA are credited to the RCA Account in equal installments over a period not exceeding 15 years. As a result of the last triennial valuation, credit adjustments of \$14.6 million and \$9.8 million were made to RCA No. 1 and RCA No. 2, respectively, during the year (\$77.7 million and \$4.7 million in 2003).

14. Contingency:

The *Public Sector Pension Investment Board Act*, which received Royal Assent in September 1999, amended the PSSA to enable the federal government to deal with surpluses in the Public Service Superannuation Account and the Public Service Pension Fund. The legal validity of these provisions has been challenged in the courts. The outcome of these lawsuits is not determinable at this time.

Account Transaction Statements

Public Service Superannuation Account and Public Service Pension Fund Account

The Public Service Superannuation Account is used to record all transactions (contributions, benefit payments, and interest credits) with respect to pensionable service accrued by Plan members up to March 31, 2000.

The Superannuation Account earns interest at rates that are based on Government of Canada long-term bond rates. The interest credited to this Account changes every three months.

All contributions made by Plan members, the government, and participating employers in respect of service accrued on or after April 1, 2000, are credited to the Public Service Pension Fund. The contributions to the Pension Fund, net of benefits and other payments, are transferred to the Public Sector Pension Investment Board (PSP Investments) to be invested in financial markets. The contributions and benefits are recorded in an internal government account—the Public Service Pension Fund Account. The balance in this account at year-end represents impending amounts to be transferred to PSP Investments.

Public Service Superannuation Account Statement

(for the year ended March 31, 2004,
with comparative figures for the year ended March 31, 2003)

	2003-04	2002-03
	(in dollars)	
Opening Balance	81,857,869,870	80,550,373,546
Receipts and Other Credits		
Contributions		
Government employees	15,660,821	17,632,790
Retired employees	38,104,961	41,077,615
Public Service Corporation employees	5,080,136	1,595,739
Employer contributions		
Government	41,685,917	45,920,524
Public Service Corporations	667,992	1,699,657
Transfers from other pension funds	4,649,101	10,245,615
Interest	6,647,335,212	6,635,602,779
Total	6,753,184,140	6,753,774,719
Payments and Other Charges		
Annuities	3,550,134,808	3,468,623,384
Minimum benefits	12,717,339	10,355,592
Pension divisions payments	29,676,739	27,984,681
Pension transfer value payments	56,499,977	77,445,358
Returns of contributions		
Government employees	597,535	1,535,697
Public Service Corporation employees	(11,597)	194,387
Transfers to other pension funds	94,907,641	75,253,877
Transfers to Canada Post Corporation pension plan	6,422,938	1,736,683,000
Actuarial liability adjustment	2,240,000,000	-
Administrative expenses	51,168,465	48,202,419
Total	6,042,113,845	5,446,278,395
Receipts less Payments	711,070,295	1,307,496,324
Closing Balance	82,568,940,165	81,857,869,870

The account transaction statement above is unaudited.

Public Service Pension Fund Account Statement

(for the year ended March 31, 2004,
with comparative figures for the year ended March 31, 2003)

	2003-04	2002-03
	(in dollars)	
Opening Balance	117,799,938	67,428,155
Receipts and Other Credits		
Contributions		
Government employees	711,242,730	674,395,559
Retired employees	7,067,981	4,653,947
Public Service Corporation employees	62,441,236	59,408,249
Employer contributions		
Government	1,833,639,249	1,745,268,882
Public Service Corporations	125,600,388	123,103,837
Actuarial liability adjustment	3,500,000	—
Transfers from other pension funds	31,424,966	7,616,086
Transfer value election	32,403,363	183,426
Total	2,807,319,913	2,614,629,986
Payments and Other Charges		
Annuities	31,523,202	14,666,690
Minimum benefits	1,534,575	736,676
Pension divisions payments	919,400	175,744
Pension transfer value payments	23,974,468	15,838,553
Returns of contributions		
Government employees	7,270,022	6,551,456
Public Service Corporation employees	1,924,122	1,739,022
Transfers to other pension funds	2,674,362	713,258
Transfers to Canada Post Corporation pension plan	(1,956,160)	77,976,000
Administrative expenses	5,565,614	2,989,615
Total	73,429,605	121,387,014
Receipts less Payments	2,733,890,308	2,493,242,972
Transfers to Public Sector Pension Investment Board	2,708,522,468	2,442,871,189
Closing Balance	143,167,778	117,799,938

The account transaction statement above is unaudited.

Retirement Compensation Arrangements Account

Supplementary benefits for public service employees are provided under the authority of Retirement Compensation Arrangements (RCA) Regulations No. 1, parts I and II (Public Service portion) and No. 2 (special Early Retirement Incentive program). The *Special Retirement Arrangements Act* provided the authority for those regulations and established the RCA Account.

RCA No. 1

For tax purposes, financial transactions for plan members who earned more than \$105,900 in 2004 are recorded separately. As of March 31, 2004, there were 9,052 public service employees in this category and 1,313 retirees receiving RCA No. 1 benefits.

RCA No. 1 Statement

(Public Service Portion)

(for the year ended March 31, 2004,
with comparative figures for the year ended March 31, 2003)

	2003-04	2002-03
	(in dollars)	
Opening Balance	356,603,407	310,374,499
Receipts and Other Credits		
Contributions		
Government employees	11,509,684	12,470,219
Retired employees	354,791	449,304
Public Service Corporation employees	1,477,650	1,210,537
Employer contributions		
Government	162,848,564	190,034,492
Public Service Corporations	20,436,021	20,882,557
Interest	34,955,714	24,542,587
Actuarial liability adjustment	14,600,000	77,700,000
Transfers from other pension funds	–	511
Transfer value election	8,973	–
Total	246,191,397	327,290,207
Payments and Other Charges		
Annuities	2,741,106	1,637,986
Minimum benefits	61,277	32,974
Pension divisions payments	314,854	310,067
Pension transfer value payments	125,052	116,638
Returns of contributions		
Government employees	9,124	8,237
Public Service Corporation employees	5,606	3,409
Transfer to other pension plans	42,121,032	–
Transfers to Canada Post Corporation pension plan	(20,625)	235,757,000
Refundable tax	141,285,511	43,194,988
Total	186,642,937	281,061,299
Receipts less payments	59,548,460	46,228,908
Closing Balance	416,151,867	356,603,407

The account transaction statement above is unaudited.

RCA No. 2

During the three-year period commencing on April 1, 1995, a number of employees between the ages of 50 and 54 left the Public Service under the Early Retirement Incentive program, which waived the normal pension reduction for employees who were declared surplus.

RCA No. 2 Statement

(for the year ended March 31, 2004,
with comparative figures for the year ended March 31, 2003)

	2003-04	2002-03
	(in dollars)	
Opening Balance	832,924,383	833,455,844
Receipts and Other Credits		
Government contributions and interest		
Contributions	—	—
Interest	66,501,801	68,453,491
Actuarial liability adjustment	9,800,000	4,700,000
Total	76,301,801	73,153,491
Payments and Other Charges		
Annuities	75,401,760	74,737,998
Refundable tax	(1,599,441)	(1,053,046)
Total	73,802,319	73,684,952
Receipts less Payments	2,499,482	(531,461)
Closing Balance	835,423,865	832,924,383

The account transaction statement above is unaudited.

Supplementary Death Benefit

As at March 31, 2004, there were 263,268 active participants and 120,813 retired elective participants in the Supplementary Death Benefit Plan. During fiscal year 2003–04, 4,913 claims for Supplementary Death Benefits were paid.

Public Service Death Benefit Account Statement

(for the year ended March 31, 2004,
with comparative figures for the year ended March 31, 2003)

	2003–04	2002–03
	(in dollars)	
Opening Balance	1,998,277,095	1,897,231,807
Receipts and Other Credits		
Contributions		
Employees (government and Public Service Corporations)	61,554,346	58,539,765
Government		
General	7,305,629	6,693,118
Single premium for \$10,000 ¹ benefit	1,256,548	1,152,985
Public Service Corporations	811,248	743,517
Interest	163,384,196	159,239,807
Total	234,311,967	226,369,192
Payments and Other Charges		
Benefit payments		
General ²	87,557,810	80,178,959
\$10,000 benefit ³	44,572,812	45,028,145
Other death benefit payments	82,486	116,800
Total	132,213,108	125,323,904
Receipts less Payments	102,098,859	101,045,288
Closing Balance	2,100,375,954	1,998,277,095

The account transaction statement above is unaudited.

Notes:

1. Single premium for a \$5,000 benefit prior to September 14, 1999, and for a \$10,000 benefit effective September 14, 1999.
2. Benefits paid in respect of participants who, at the time of death, were employed in the Public Service or were in receipt of an immediate pension under the Act.
3. Benefits of \$10,000 (\$5,000 prior to September 14, 1999) in respect of participants who, at the time of death, were employed in the Public Service or were in receipt of an immediate annuity under the Act and on whose behalf a single premium for \$10,000 (\$5,000 prior to September 14, 1999) death-benefit coverage for life has been made.

Statistical Tables

Table 1

Pensions in Pay
(in Fiscal Year)

Number of Pensions and Survivor Pensions in Pay as at March 31			
Fiscal Year	Number		
	Pensions¹	Survivor Pensions²	Total
2001–02	159,542	57,344	216,886
2002–03	159,029	55,522	214,551
2003–04	159,693	56,413	216,106

Average Annual Amount—Pensions and Survivor Pensions in Pay as at March 31³							
Fiscal Year		Pensions¹			Survivor Pensions²		
		Men	Women	Total	Spouse / Common Law Partner	Children	Students
2001–02	Average Annual Amount	\$21,609	\$12,103	\$18,418	\$8,927	\$1,558	\$2,072
	Average Age	69.80	69.17	69.59	75.69		
	Average Pensionable Service	24.43	19.89	22.90	21.02		
2002–03	Average Annual Amount	\$22,502	\$12,890	\$19,233	\$9,279	\$1,580	\$2,152
	Average Age	70.03	69.28	69.78	75.87		
	Average Pensionable Service	24.77	20.29	23.25	21.56		
2003–04	Average Annual Amount	\$23,477	\$13,547	\$20,047	\$9,737	\$1,669	\$2,097
	Average Age	70.29	69.43	69.99	76.18		
	Average Pensionable Service	24.83	20.40	23.30	21.66		

1. Include immediate annuities (including those receiving a disability retirement benefit), deferred annuities, and annual allowances payable to former contributors only.
2. Include spouse / common law partner, children, and students.
3. Amounts include indexation.

Table 2

Pensions that Became Payable
(in Fiscal Year)

Pensions that Became Payable^{1, 2}					
Number					
Fiscal Year	Men	Women	Total	Total Amount Paid	Average Pension
2001–02	2,308	1,626	3,934	\$95,669,254	\$24,319
2002–03	3,024	2,129	5,153	\$128,060,113	\$24,851
2003–04	3,476	2,485	5,961	\$165,565,831	\$27,793

Pensions that Became Payable to Survivors²						
Number						
Fiscal Year	Spouse / Common Law Partner	Children and Students	Total	Total Amount Paid	Avg. Pension Spouse / Common Law Partner	Avg. Pension Children and Students
2001–02	2,816	349	3,165	\$30,330,673	\$9,583	\$1,799
2002–03	2,929	367	3,296	\$33,012,334	\$11,002	\$2,127
2003–04	2,895	343	3,238	\$33,941,926	\$11,453	\$2,262

1. For 2003–04, the pensions that became payable include immediate annuities (3,790), deferred annuities (332), annual allowances payable to former contributors only (1,377), and disability retirement benefits (462).

2. These amounts include indexation.

Table 3

Unreduced Pensions (Immediate Annuities)¹
(in Fiscal Year)

Fiscal Year	Age at Retirement														Total	Average Avg. Unreduced Age ⁴ Pension ^{5,6}
	50-54 ²	55	56	57	58	59	60 ³	61	62	63	64	65	66 and over			
2001-02	N/A	447	154	119	115	101	508	190	143	107	93	170	161	2,308	60.14	\$28,577
2002-03	47	660	249	166	148	125	651	243	178	152	118	185	212	3,134	59.53	\$29,886
2003-04	56	930	323	218	189	156	676	287	202	158	140	213	242	3,790	59.26	\$32,936

1. Includes unreduced pensions (immediate annuities), excludes those receiving an immediate annuity as a result of a disability retirement benefit (462 in 2003-04).
2. Include only eligible Correctional Service Canada operational employees who qualify for an unreduced pension. For 2001-02, the total number of these eligible employees was included in the 447 employees reported under age 55.
3. Exclude deferred annuities that became payable at age 60. For fiscal year 2003-04, there were 332 deferred annuities (204 men, 128 women) that became payable at age 60.
4. For fiscal year 2003-04, the average retirement age for men was 59.06 and for women it was 59.63.
5. These amounts include indexation.
6. For fiscal year 2003-04, the average unreduced pension for men was \$33,685 and for women it was \$31,549.

Table 4

Annual Allowances and Lump Sum Payments that Became Payable
(in Fiscal Year)

Fiscal Year	Annual Allowances ¹				Lump Sum Payments ²	
	Number		Total	Average Allowance ³	Number	Amount
	Men	Women				
2001-02	454	498	952	\$20,344	7,515	\$404,511,383
2002-03	609	667	1,276	\$18,526	7,075	\$207,432,033
2003-04	633	744	1,377	\$21,287	6,843	\$218,432,669

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

2. Include transfer values, returns of contributions, amounts transferred to other pension plans under Pension Transfer Agreements (not including Canada Post), and amounts transferred under the *Pension Benefits Division Act*.

3. These amounts include indexation.

Table 5

Changes in the Number of Active Contributors, Retirees, and Survivors on Pension
(in Fiscal Year)

Changes in the Number of Active Contributors			
	Men	Women	Total
Number of Active Contributors, April 1, 2003	123,975	141,426	265,401
Additions	8,156	10,829	18,985
Deletions			
Employees leaving the Public Service ¹	7,001	7,629	14,630
Reversions to a non-contributory status ²	267	265	532
Deaths	229	143	372
Total Deletions	7,497	8,037	15,534
Number of Active Contributors, March 31, 2004	124,634	144,218	268,852

Changes in the Number of Retirees³		Total
Number of Retirees, April 1, 2003		159,031
Additions		5,961
Deletions		5,299
Number of Retirees, March 31, 2004		159,693

Changes in the Number of Survivors on Pensions		Total
Survivors		
Number of Survivors on Pension, April 1, 2003		53,557
Additions		2,895
Deletions		2,399
Number of Survivors on Pension, March 31, 2004		54,053

Children and Students		Total
Number of Children and Students on Pension, April 1, 2003		2,071
Additions		343
Deletions		54
Number of Children and Students on Pension, March 31, 2004		2,360

1. Include full return of contributions, immediate annuities and annual allowances paid, options not yet made, transfer values, deferred annuities chosen, deferred annuities locked in (if applicable), and transfers out.
2. Describe contributors who ceased contributions temporarily (e.g. part-time, leave without pay, etc.).
3. Does not include 5,545 deferred annuitants as at March 31, 2004.

Table 6

Number and Amount of Transfer Value Payments by Years of Pensionable Service and Age at Termination
(in Fiscal Year)

Years of Pensionable Service ²	Age at Termination ¹						Total	Total (\$)
	Under 30	30–34	35–39	40–44	45–49			
Under 5	246	151	136	126	97	756		
5–9	12	88	76	56	60	292		
10–14	0	25	68	52	54	199		
15–19		1	16	41	38	96		
20–24			4	23	36	63		
25–29				4	26	30		
30–35					3	3		
Men, total	110	108	121	113	134	586		
Women, total	148	157	179	189	180	853		
OVERALL TOTAL	258	265	300	302	314	1,439	\$80,474,445	

1. Average age for contributors receiving transfer value payments was 37.85 years for men, 38.18 years for women, and 38.05 for men and women combined.

2. Average pensionable service for contributors receiving transfer value payments was 7.60 years for men, 7.47 years for women, and 7.52 for men and women combined.

Table 7

Supplementary Death Benefit: Number of Participants and Number of Benefits Paid (in Fiscal Year)

Fiscal Year	Active Participants			Retired Participants ¹			Death Benefits Paid			
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Amount Paid
2001-02	115,872	132,319	248,191	83,026	36,743	119,769	3,533	1,090	4,623	\$118,955,854
2002-03	120,454	139,649	260,103	82,558	37,661	120,219	3,674	1,227	4,901	\$125,323,904
2003-04	121,102	142,166	263,268	82,032	38,781	120,813	3,727	1,186	4,913	\$132,213,108

1. Includes 58 men and 21 women paying at a commercial rate.

Glossary of Terms

A

Accrued pension benefits — the present value of benefits earned by members under the plan for pensionable service to date

Actuarial assumptions — estimates used by actuaries of rates of return on plan assets, retirement age, mortality rates, future salary levels, and other factors when carrying out an actuarial valuation

Actuarial valuation — provides a “snapshot” of the financial status of a pension plan

Annual allowance — benefit available to plan members who retire before age 60 and have at least two years of pensionable service; this benefit is a deferred annuity reduced to take into account the early payment of the retirement pension and becomes payable at age 50 at the earliest

B

Benefits earned — the cost of benefits for service provided by members during the fiscal year

C

Canada Pension Plan (CPP) — a mandatory earnings-related pension plan implemented January 1, 1966, to provide basic retirement income to Canadians between the ages of 18 and 70 who work in all the provinces and territories, except in the province of Quebec, which operates its own pension plan similar to the CPP for persons who work in that province

Children of a plan member — dependant children who are under age 18; children between 18 and 25 may receive allowances if they are enrolled in a school or other educational institution full-time and have attended continuously since their eighteenth birthday; the allowance is equal to one tenth of the plan member’s pension (maximum of four tenths)

Consumer Price Index (CPI) — a measure of the average change in prices over time in a market basket of goods and services

Contributions — a sum paid by the employer (Government of Canada) and public service employees to fund future retirement benefits; each year, the government, as the employer, contributes amounts sufficient to fund the future benefits earned by employees in respect of that year, as determined by the President of the Treasury Board

Contributions receivable — amount owing to the plan in respect of service provided by members up to the date of the financial statements

Currency risk — the risk that the value of investments purchased in foreign currency will fluctuate due to changes in exchange rates

D

Deferred annuity — benefit available to plan members who leave the Public Service before age 60 and have at least two years of pensionable service; this benefit is

calculated using the same formula as an immediate annuity, but payment is deferred until age 60; a plan member entitled to a deferred annuity may request an annual allowance at any time after he or she reaches age 50

Defined benefit pension plan — a type of registered pension plan that promises a certain level of pension, usually based on the plan member's salary and years of service; the Public Service Pension Plan is a defined benefit pension plan.

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

E

Elective service — any period of qualifying employment, either in the Public Service or with another employer, that occurred before the employee became a contributor to the Public Service Pension Plan; the plan member may choose to count these periods of prior service as pensionable service

Excess of actuarial value of net assets over accrued pension benefits — the funded status of the plan; a positive amount indicates that plan net assets exceed accrued pension benefits, while a negative amount means that accrued pension benefits exceed net assets

Experience gains and losses — the difference between what has occurred and what was anticipated in the actuarial valuations

F

Foreign currency exposure — the amount by which the plan's investments are exposed to currency risk

I

Immediate annuity — benefit payable to plan members who retire at any time after reaching age 60 with at least two years of pensionable service **or** after reaching age 55 with at least 30 years of pensionable service **or** at any age in case of permanent disability

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

M

Market-related value — the value of an investment based on average market values over a number of years; it is used to reduce the impact of large fluctuations in the market value of plan investments

Minimum benefit — a benefit equal to the payment of the plan member's pension for a period of five years; if the plan member or his or her eligible survivors have not received, in total, pension payments equal to five times the amount of the plan member's

annual basic pension, the balance in the form of a lump sum becomes payable to his or her designated beneficiary or, if none, to his or her estate

N

Net assets available for benefits — the cash, receivables, and investments net of liabilities available for pension benefits expected to be paid in the future; for the purposes of this definition, a plan's liabilities do not include accrued pension benefits

P

Past service — service provided by members prior to the start of the current fiscal year

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

Pensionable service — periods for which lifetime retirement benefits are provided to a plan member, including any periods of elective service regardless of whether he or she has paid fully for that service

Public Sector Pension Investment Board — board established on April 1, 2000, under the *Public Sector Pension Investment Board Act* whose mandate is to invest the employer's and employees' pension contributions in the financial markets

Public Service Pension Plan — pension plan implemented on January 1, 1954, under the *Public Service Superannuation Act* that provides benefits for public service employees payable on retirement, termination of service, or disability and for their survivors after death

Public Service Pension Fund Account — an account established to record transactions relating to service provided by members on or after April 1, 2000

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

Public Service Superannuation Act — the Act that provides pensions for employees of the Public Service of Canada

Q

Quebec Pension Plan (QPP) — a pension plan similar to the Canada Pension Plan that covers persons working in the province of Quebec and is administered by the *Régie des rentes du Québec*

R

Return of contributions — benefit available to contributors who leave the Public Service with less than two years of pensionable service under the Public Service Pension Plan; it includes employee contributions plus interest, if applicable

Return (or rate of return) — the percentage change in assets in a particular period, resulting from income earned (such as interest, dividends, or rent) plus realized and unrealized capital gains or capital losses

S

S&P/TSX Composite Index — the most diversified Canadian market index representing almost 90 per cent of the capitalization of Canadian-based companies listed on the TSX; a committee of the Toronto Stock Exchange and Standard and Poor's selects companies for inclusion in the S&P/TSX Composite Index

Standard and Poor's 500 Composite Index (S&P 500 Index) — a U.S. index consisting of 500 stocks chosen for market size, liquidity, and industry group representation; it is a market-value-weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value; the Standard and Poor's Company selects stocks for inclusion in the index

Supplementary death benefit — decreasing term life insurance benefit equal to twice the annual salary of the plan member; coverage decreases by 10 per cent per year starting at age 66; a minimum amount of coverage (\$10,000) is provided at no cost 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 and is maintained for life

Survivor — the person who, at the time of the contributor's death and before his or her retirement:

- was married to the contributor (plan member); or
- was cohabitating in a relationship of a conjugal nature with the contributor for at least one year

Survivor benefit — pension benefit that is paid to the spouse of a plan member who dies; the same-sex survivor of a plan member may be entitled to a survivor benefit if this person has lived with the plan member in a relationship of a conjugal nature for at least one year at the time of death

T

Time-weighted rate of return — a return calculation methodology that eliminates the impact of cash flows into (or out of) a portfolio; this methodology recognizes the fact that managers have no control over the size and timing of cash flows

Transfer value — benefit available to contributors who leave the Public Service before age 50 with at least two years of pensionable service; this benefit is a lump sum and represents the value of the plan member's future 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

Y

Year's Maximum Pensionable Earnings

(**YMPE**) — the maximum earnings for which contributions can be made to the Canada Pension Plan/Quebec Pension Plan (earnings ceiling) during the year