



Treasury Board of Canada
Secrétariat

Secrétariat du Conseil du Trésor
du Canada

ANNUAL REPORT TO PARLIAMENT



Report on the Public Service Pension Plan

for the Fiscal Year Ended March 31, 2006

annual
report



Canada

Report on the Public Service Pension Plan

for the Fiscal Year Ended March 31, 2006



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Catalogue No. BT1-13/2006
ISBN 978-0-662-69729-9

This document is available on the Treasury Board of Canada Secretariat
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Her Excellency the Right Honourable Michaëlle Jean, C.C., C.M.M., C.O.M., C.D.
Governor General of Canada

Excellency:

I have the honour to submit to Your Excellency the annual *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2006*.

Respectfully submitted,

The Honourable Vic Toews, P.C., Q.C., M.P.
President of the Treasury Board

Table of Contents

Introduction.....	1
Overview.....	1
Financial Statement Overview	1
Governance Structure	2
Treasury Board of Canada Secretariat	2
Public Works and Government Services Canada.....	2
Public Sector Pension Investment Board	3
Office of the Superintendent of Financial Institutions Canada.....	3
Committees.....	3
Plan Membership	4
Contributions	5
Benefit Payments.....	6
Net Assets and Other Accounts Available for Benefits	8
Accrued Pension Benefits	8
Investment Management	8
Investment Policy	9
Rate of Return on PSP Investments	10
Interest on the Public Service Superannuation Account	10
Key Performance Drivers	10
PSP Investment Objectives.....	11
Plan Administration Objectives	12
Expenses.....	14
Transfer Agreements.....	14
Pending Litigation	14

Other Related Benefits	15
Life Insurance.....	15
Retirement Compensation Arrangements.....	15
Further Information	16
Financial Statements of the Public Service Pension Plan.....	17
Statement of Responsibility	18
Auditor’s Report.....	19
Financial Statements	20
Notes to Financial Statements.....	24
Account Transaction Statements	44
Public Service Superannuation Account and Public Service Pension Fund Account.....	45
Retirement Compensation Arrangements Account.....	48
Supplementary Death Benefit	51
Statistical Tables	52
Glossary of Terms.....	60

Introduction

Pursuant to section 46 of the *Public Service Superannuation Act*, the *Report on the Public Service Pension Plan* provides an overview of the financial status of the Public Service Pension Plan for the fiscal year ending March 31, 2006, as well as information on Plan membership, administration, and benefits.

Overview

The Public Service Pension Plan (Plan) was established in January 1954 under the *Public Service Superannuation Act* (PSSA). The Plan covers substantially all of the full-time and part-time employees of the Government of Canada, certain Crown corporations, and territorial governments. In the event of a member's death, the Plan provides income for survivors and eligible children.

The Plan is generally referred to as a contributory defined benefit pension plan. A contributory plan is one in which both the employer and employee make contributions. A defined benefit plan is one in which the benefits payable on death, disability, termination of service, and retirement are specified in the plan document, in this case, the PSSA and its regulations. The benefits are directly related to the employee's salary and period of pensionable service.

Financial Statement Overview

The audited financial statements provide a comprehensive presentation of the Plan's financial position. These statements have been prepared in accordance with the government's stated accounting policies for the Plan, which are based on Canadian generally accepted accounting principles. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

The Office of the Auditor General of Canada audits the Plan financial statements. In addition, there are a number of corporate management reports used by senior management to monitor the investment performance, administration activities, liability position, and design features of the Plan.

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

Contributions and benefit payments in respect of pensionable service accrued after March 31, 2000, are recorded in the Public Service Pension Fund Account in the Accounts of Canada. Contributions net of current benefits and Plan administration expenses are regularly

transferred to the Public Sector Pension Investment Board (PSP Investments) for investment in capital markets. Deloitte & Touche LLP is responsible for auditing the 2005–06 financial statements of PSP Investments. Due to an expanded mandate resulting from an amendment to the *Financial Administration Act*, the Office of the Auditor General of Canada is expected to be a full participant in the audit of the 2006–07 financial statements of PSP Investments.

Governance Structure

In accordance with the PSSA, the President of the Treasury Board is responsible for the overall management of the Plan, while the Minister of Public Works and Government Services Canada 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.

Treasury Board of Canada Secretariat

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

Public Works and Government Services Canada

PWGSC is responsible for the day-to-day administration of the Plan. This includes the development and maintenance of the public service pension systems, the books of accounts, records, and internal controls, and the preparation of Account Transaction Statements for the Public Accounts reporting. In addition, PWGSC operates the central treasury, payment, and all accounting functions. PWGSC is also, along with TBS, responsible for the preparation of the Plan's Financial Statements and the annual *Report on the Public Service Pension Plan*.

Public Sector Pension Investment Board

PSP Investments is a Crown corporation established by the *Public Sector Pension Investment Board Act* (PSPIBA) in September 1999. It commenced operation on April 1, 2000, and reports to the President of the Treasury Board. PSP Investments is governed by a 12-member board of directors accountable to Parliament through the President of the Treasury Board, who is responsible for the PSPIBA and must table an annual report in Parliament.

In accordance with the PSPIBA and its regulations, post-March 2000, employees' and employers' pension contributions net of benefit payments and administration expenses are transferred to PSP Investments and are invested in a mix of Canadian and foreign equities, fixed income securities, and real return assets. The relevant financial results of PSP Investments are included in the Plan's financial statements.

Office of the Superintendent of Financial Institutions Canada

As required by the *Public Pensions Reporting Act*, the Office of the Superintendent of Financial Institutions Canada (OSFI) performs triennial actuarial valuations of the Plan. These valuations, which are tabled in Parliament by the President of the Treasury Board, are used to compare the Plan's assets and other accounts with its liabilities and to determine contribution rates required to ensure the Plan's ongoing financial sustainability. The last actuarial report on the Plan was conducted as at March 31, 2005, and was tabled on November 3, 2006. For accounting purposes, the triennial actuarial valuation is updated annually using the government's best estimate assumptions. The accounting actuarial valuation has been updated as at March 31, 2006, using the demographic assumptions and based populations of the funding actuarial valuation as at March 31, 2005.

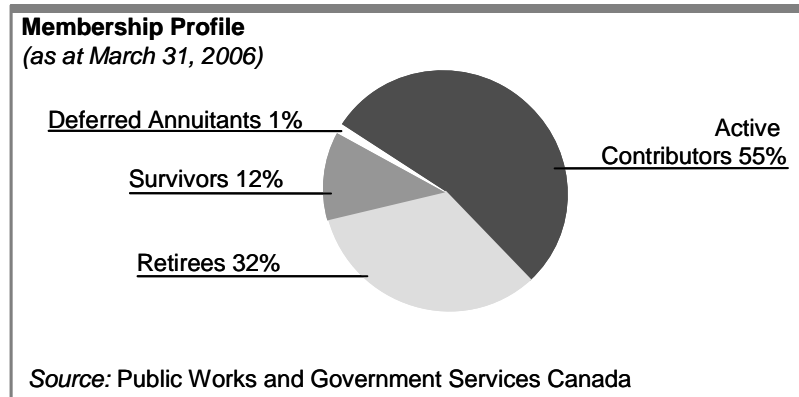
Committees

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

There is also a steering committee chaired by the Associate Secretary of TBS that reviews issues concerning the management and administration of the Plan. In addition, the Pensions Steering Committee, involving both TBS and PWGSC officials, examines issues concerning communication and information to Plan members.

Plan Membership

As at March 31, 2006, the Plan has 505,870 members, including those currently or previously employed by the Government of Canada, certain public service corporations, and territorial governments. The membership consists of 277,432 active contributors, 164,084 retirees, 58,998 survivors, and 5,356 deferred annuitants. (See membership profile below.)

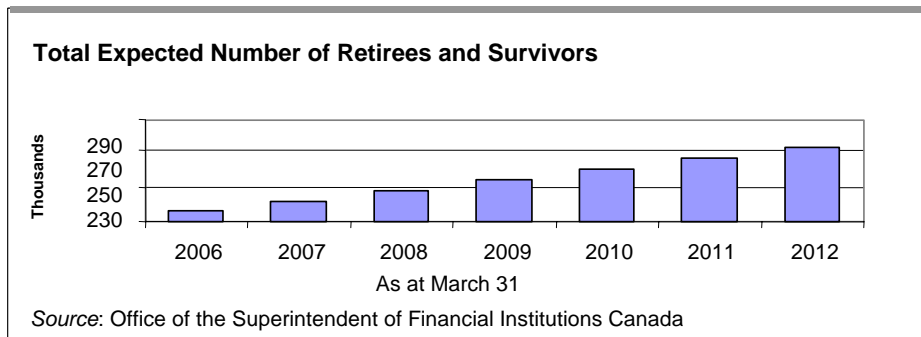


The chart below shows the membership profile over the last four years.

As at March 31

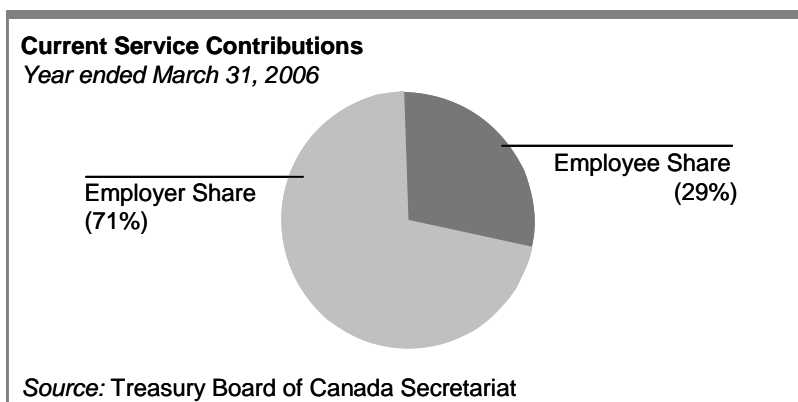
	2006	2005	2004	2003
Active contributors	277,432	270,835	268,852	266,620
Retirees	164,084	161,468	159,693	159,279
Survivors	58,998	59,060	56,413	53,939
Deferred annuitants	5,356	5,552	5,545	4,967
Total	505,870	496,915	490,503	484,805
Ratio of contributors to those receiving benefits	1.21:1	1.20:1	1.21:1	1.22:1

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



Contributions

In 2005–06, \$3,390 million was paid into the Plan, of which employees contributed \$1,003 million and the employer, \$2,387 million. Employee contributions are compulsory and, in calendar year 2006, are set at a rate of 4.3 per cent of annual salary up to the year’s maximum pensionable earnings (YMPE) defined by the Canada Pension Plan and the Quebec Pension Plan (\$42,100 in 2006) and 7.8 per cent of annual salary above this amount. During the fiscal year, employees paid approximately 29 per cent of the total contributions made in respect of current service, as noted in the graph below. The blended rate of 29 per cent consists of 28 per cent from April 1, 2005, to December 31, 2005, and 31 per cent from January 1, 2006, to March 31, 2006.



A 60:40 cost-sharing ratio between the employer and the employees, respectively, is the historical average for the Plan. Member contribution rates are accordingly scheduled to increase through a yearly adjustment of 0.3 per cent of salary beginning January 1, 2006, to result in final rates of 6.4 per cent of salary up to the YMPE and 8.4 per cent of salary above the YMPE by 2013, which is estimated will result in an employer-member cost-sharing ratio of approximately 60:40. The increase in member contribution rates reflects the Government of Canada's goal of ensuring that the costs of the Plan are shared in a balanced way between the Plan members and the government and, ultimately, the Canadian taxpayer.

Benefit Payments

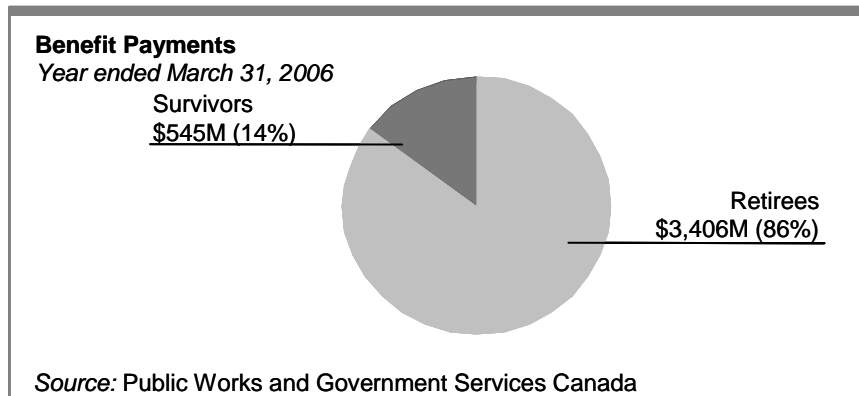
In 2005–06, the Plan paid out \$3,951 million in benefits, an increase of \$183 million over the previous year. Benefits were paid to 223,082 retirees and survivors (220,528 in 2004–05). In 2005–06, there were 7,909 new retirees during the year, of whom 5,518 were entitled to immediate annuities (2,534 obtained a normal retirement benefit at age 60 and 2,984 received an unreduced early retirement benefit). The remaining members became entitled to 403 deferred annuities, 1,540 annual allowances, and 448 disability retirement benefits. New retirees received an average annual pension of \$31,355 in 2005–06. The number of beneficiaries has been fairly stable over the past few years but is expected to rise in the future.

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

A legislative amendment to the Plan to change the formula by which Plan benefits are coordinated with the CPP/QPP benefits in Plan members' favour received Royal Assent in June 2006. With the change, beginning in 2008, the pension reduction for individuals reaching age 65 in 2008 and beyond will be smaller than if the previous reduction factor had been applied.

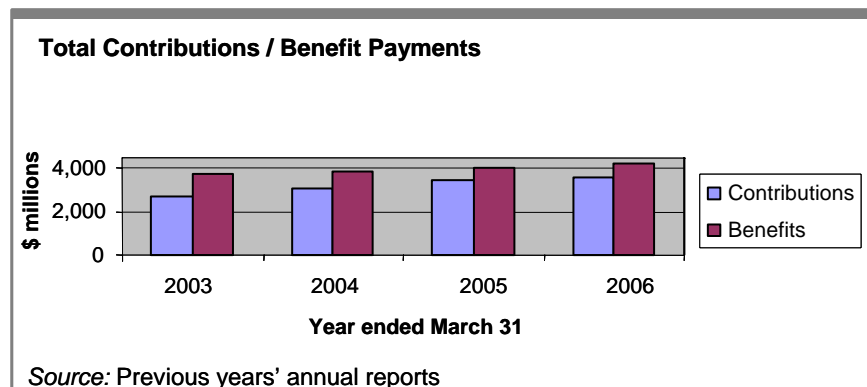
Pension benefits are adjusted annually according to the increase in the Consumer Price Index. This adjustment is made each January and was 2.2 per cent on January 1, 2006 (1.7 per cent on January 1, 2005).

Benefits paid to retirees (\$3,406 million) represented 86 per cent of 2005–06 pension payments, and benefits paid to survivors (\$545 million) represented 14 per cent. Included in benefits paid to retirees are those to disabled retirees. These represent 5 per cent of the total.



Further, in 2005–06, 1,166 Plan members left the public service before age 50 and withdrew about \$90 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. There was also approximately \$6.8 million returned to 3,585 Plan members who left the public service with less than two years of pensionable service under the Plan.

Historically, contributions and benefit payments to the Plan have risen steadily, with both increasing by approximately \$500 million since 2002–03, as illustrated in the table below.



Net Assets and Other Accounts Available for Benefits

The Statement of Changes in Net Assets and Other Accounts Available for Benefits shows the amount earmarked to guarantee payment of current pensions and accrued pension benefits as at March 31, 2006, payable in the future to Plan members, survivors and beneficiaries. As at that date, \$108,664 million—an increase of \$8,583 million from the previous year—is available for benefits.

As reflected in the statement, inflows come from a number of different sources, including (i) contributions made by both Plan members and the Government of Canada, (ii) income from investments and interest credited, (iii) money transferred to the Plan from other pension funds by employees coming to work for the Government of Canada from other organizations, and (iv) money transferred to deal with the actuarial excess (deficiency) in the Public Service Pension Fund.

Amounts are withdrawn and/or debited from the Plan (i) to pay benefits, (ii) to transfer from the Plan to other pension plans or to locked-in vehicles (e.g. RRSPs), (iii) to pay administrative expenses, and (iv) to deal with actuarial excess (deficiency) in the Account.

Accrued Pension Benefits

The Statement of Changes in Accrued Pension Benefits shows the present value of benefits earned with respect to service to date. As at March 31, 2006, the level of accrued pension benefits is \$96,415 million, an increase of \$7,406 million from the previous fiscal year.

Investment Management

Prior to April 2000, transactions relating to the Plan were recorded in the Public Service Superannuation Account, created by legislation in the Accounts of Canada. Pursuant to the PSSA as amended by the PSPIBA, transactions relating to service subsequent to March 2000 are recorded in the Public Service Pension Fund. The excess of contributions over benefits and administration costs recorded in the Public Service Pension Fund is regularly transferred to PSP Investments and is invested in capital markets.

The mission of PSP Investments, as stated in section 4 of the PSPIBA, is to manage the amounts transferred in the best interests of the contributors and beneficiaries under the PSSA and to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies, and requirements of the Plan and the ability of the Plan to meet its financial obligations.

Accordingly, PSP Investments' Board of Directors has established an investment policy, which has an expected real rate of return that is at least equal to the actuarial rate of return assumption

for the Plan used in the previous triennial actuarial valuation, as at March 31, 2002, that is, 4.3 per cent.

As noted in the 2006 annual report of PSP Investments, the investments held during the year ended March 31, 2006, were in accordance with the PSSA and PSP Investments' Statement of Investment Policy, Standards and Procedures.

Investment Policy

The Board of Directors has adopted the asset mix (Policy Portfolio) shown below, with target weights and ranges as indicated:

Asset Class	Long-Term Target Weight ³	Long-Term Range	Benchmark
	(%)		
Large Cap Developed World Equity (Total)	40		
Canadian Equity	30	24–36	S&P / TSX Equity Index
US Large Cap Equity	5	4–6	S&P 500 Index
EAFE Large Cap Equity	5	4–6	MSCI EAFE Index
Small Cap Developed World Equity	7	5–9	80% of S&P 600 Index plus 20% of MSCI EAFE Small Cap Index
Emerging Markets Equity	7	6–8	MSCI EMF Index
Private Equity^{1,2}	8	6–10	Undisclosed ⁴
Nominal Fixed Income (Total)	15		
Cash and Cash Equivalents	2	0–4	Scotia Capital 91-Day T-Bill Index
World Government Bonds	5	3–7	JP Morgan Government Bond Index
Canadian Fixed Income	8	4–12	Scotia Capital Universe Bond Index
Real Return Assets (Total)	23		
World Inflation-Linked Bonds ¹	5	3–7	Merrill Lynch Global Government Inflation-Linked Index
Real Estate ¹	10	5–15	Undisclosed ⁴
Infrastructure ^{1,2}	8	5–11	Undisclosed ⁴

1. Until the phase-in is complete, there will be discrepancies between long-term policy and actual asset allocations for these asset classes. Existing Policy Portfolio weights will be drawn down to bring these assets to their respective long-term policy weights during the transition period.

2. Benchmark on deployed assets accrued during ramp-up period, where relevant.

3. Market Value basis.

4. For competitive reasons, these benchmarks are not disclosed.

Rate of Return on PSP Investments

In 2005–06, the assets invested by PSP Investments earned a rate of return of 19.1 per cent. These assets were invested in equities (70 per cent), fixed income securities (23 per cent), and real return assets (7 per cent).

Following is the annual rate of return for each of the last four years as compared to the composite benchmark for PSP Investments. PSP Investments has, for the past three years, outperformed its Policy Benchmark.

Year ended March 31

	2006	2005	2004	2003
	(%)			
Annual rate of return	19.1	7.9	26.1	-13.5
Composite benchmark annual rate of return	18.0	7.2	25.4	-12.9

Interest on the Public Service Superannuation Account

This Account is credited quarterly with interest 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. The annualized interest rate credited is as follows:

Year ended March 31

	2006	2005	2004	2003
	(%)			
Interest on Account	7.8	8.0	8.3	8.5

Key Performance Drivers

Set out below is a list of Plan objectives for the fiscal year under review, along with an indication of the extent to which the objectives have been achieved, and stated objectives for the next fiscal year.

PSP Investment Objectives

Fiscal Year 2005–06 Objectives	Status
1. Continue implementing investments in real estate, private equity, and other new asset classes.	COMPLETED
2. Further increase the level of active risk, within the authorized ceiling, in order to increase the level of returns.	COMPLETED
3. Develop enhanced capabilities to manage private transactions.	COMPLETED
4. Strengthen support staff and systems to keep pace with the rapid growth of investment activities.	COMPLETED

Key Objectives for Fiscal Year 2006–07

The principal objectives of PSP Investments for fiscal year 2006–07 are as follows:

1. Further enhance support systems and services, with a particular focus on information technology, to reflect the increased size and complexity of the organization.
2. Assemble an infrastructure team and roll out infrastructure investments, while expanding investments in other private assets such as private equities and real estate.
3. Continue looking—with a longer-term view—for new sources of returns that will complement PSP Investments' liquidity and extended investment time horizon.

Plan Administration Objectives

Fiscal Year 2005–06 Objectives	Status
<p>1. Enhance web-based pension services to current employees, annuitants, and survivors, and release the pension secure web applications to employees in Transport Canada, the Privy Council Office, National Defence, Statistics Canada, the RCMP, and the Transportation Safety Board of Canada.</p>	<p>COMPLETED / IN PROGRESS</p> <ul style="list-style-type: none"> • Web access to personal pension information for PWGSC employees through web application and government-wide implementation of compensation web applications got underway. • The Employee Pension Benefit Statement web application was enhanced to include an additional 10,000 Government Operational Service employees. • The pensioner applications have been developed and will be deployed when the security requirements are satisfied to implement a secure channel solution for the enrolment and registration processes.
<p>2. Progress on the Government of Canada Pension Modernization Project (GoCPMP) by:</p> <ul style="list-style-type: none"> • awarding a contract to a firm to provide business transformation services and a commercially available pension administration solution capable of supporting multiple pension plans; • conducting requirements mapping and gap analysis for the business and technical requirements and the solution proposed by the chosen firm; • completing the Architecture and Design phase; and • preparing substantive cost estimates and a schedule in support of a Treasury Board submission for effective project approval. 	<p>COMPLETE / IN PROGRESS</p> <ul style="list-style-type: none"> • The evaluation of the vendor proposals received in response to the Request for Proposals was completed, and the Treasury Board approved the contract award to EDS Canada Inc. on October 31, 2005. • The requirements mapping and gap analysis were completed and the results compiled and documented, as planned. • The Architecture and Design phase began in May 2006 and is currently under way. • The GoCPMP is currently in the process of preparing the substantive cost estimates and the implementation schedule to support the Treasury Board submission for effective project approval.
<p>3. Progress on the Pension Service Delivery Project through work on the centralization and improvement of processes and services related to pension transfer agreements and pre-retirement seminars, as well as development of a strategic implementation plan and business case that will result in a Treasury Board submission to seek the necessary funding to proceed with the centralization of the remaining pension services from the departments to PWGSC over the next four years.</p>	<p>COMPLETE / IN PROGRESS</p> <ul style="list-style-type: none"> • Three of the business processes (Division of Pension Benefits, Public Service Pension Plan Retirement Information Sessions, and Pension Transfer Services) were developed and implemented by the end of fiscal year 2005–06. • Planning and Funding originally scheduled for completion in March 2006 was delayed, with the targeted completion moved to the end of 2006. The development of the strategy and Strategic Implementation Plan were finalized.

Fiscal Year 2005–06 Objectives	Status
<p>4. Progress on the Pension Data Correction Project aimed at improving accountability and reconciliation of contributions made to the Plan.</p>	<p>COMPLETE / IN PROGRESS</p> <ul style="list-style-type: none"> • A selective refresh process was implemented to assess account integrity to the most current date of data for an account. • The correction of approximately 1,100 accounts was completed and the correction of another 3,000 is in progress. • Surveys were conducted to confirm the requirement for data correction and common errors resulting in incorrect pension data on accounts were identified.

Key Objectives for Fiscal Year 2006–07

The key objectives are as follows:

1. Progress on Pension Communication and Web Development by producing and distributing a pension newsletter for active and retired Plan members, developing and delivering the Electronic Services Portal to target audiences and developing a set of processes and standards to support the ongoing quality and relevance of the portal content and its associated websites, and implementing changes to applications as required by policy, legislation, and/or the client.
2. Progress on the Government of Canada Pension Modernization Project (GoCPMP) by completing the Architecture and Design phase; preparing the Treasury Board submission for effective project approval, including the substantive cost estimates and a detailed implementation plan, and receiving Treasury Board approval; and beginning the GoCPMP Implementation phase with the initial Start-Up phase.
3. Progress on the Pension Service Delivery Project by initiating the development of the Pre-Employment Information, Spousal/Dependant Benefits Information, and Service Purchase business processes; obtain funding approval via Treasury Board submission for the nine remaining business processes expected to be fully implemented by the year 2010.
4. Progress on the Pension Data Correction Project by reviewing correction activities of the project and pay offices to identify overlaps in analysis and opportunities to reduce total time spent per account, participating in seeking a solution to pay office resource issues that are creating a backlog in accounts, flagging individual pension accounts to reflect their quality status (Pass or Fail) and sending the quality status to the Contributor System, and continuing to identify data entry errors in the Regional Pay System or processes that create incorrect pension data on accounts.
5. Integrate imaging technology into the operational processing environment to reduce paper handling, storage, and retrieval, as well as manual data capture.

Expenses

Legislation provides for administrative expenses of government organizations related to the Plan to be charged to the Plan. The following chart shows total expenses that have been charged to the Plan.

Year ended March 31

	2006	2005	2004	2003
	(\$ millions)			
Government department administrative expenses	66	61	57	51
PSP Investments expenses	57	25	15	9
Total expenses	123	86	72	60

Expenses charged by government departments include those of PWGSC, TBS, and OSFI. Operating expenses incurred by PSP Investments and external investment manager fees are also charged to the PSP Investments account.

Plan administration costs totalled \$66 million (or approximately \$130 per member) in 2005–06, an increase of \$5 million from the previous year. Administration costs were \$.06 per \$100 of amounts available for benefits.

The higher PSP Investments expenses can be attributed primarily to the growth in assets under management and to a continuing shift to actively managed assets, which entail considerably higher expense than passive mandates. Actively managed assets, such as absolute return mandates, international equities, and private investments, experienced the highest growth in fiscal year 2005–06. Although such asset classes are generally more expensive to manage, they offer the potential of higher returns.

Transfer Agreements

The Plan has transfer agreements with approximately 100 employers, including other levels of government, universities, and private-sector employers. During 2005–06, \$42 million was transferred into the Plan and \$98 million was transferred out under these agreements.

Pending Litigation

The *Public Sector Pension Investment Board Act*, which received Royal Assent in September 1999, amended the *Public Service Superannuation Act* to enable the federal government to deal with excess amounts in the Public Service Superannuation Account and the

Public Service Pension Fund. The legal validity of these provisions has been challenged in the courts. The outcome of these lawsuits is not determinable at this time.

Other Related Benefits

Life Insurance

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

Upon a Plan member's death, the Plan provides a benefit equal to twice the member's annual salary, rounded to the next highest multiple of \$1,000. The amount of the benefit automatically goes up as the member's salary increases.

If a Plan member leaves the public service with an entitlement to an immediate annuity or an annual allowance payable within 30 days of ceasing to be employed, the Plan member is deemed to have elected to continue his or her participation in the Supplementary Death Benefit Plan. Beginning at age 66, the Plan member's basic supplementary death benefit coverage will decline by 10 per cent of the initial amount each year until the coverage reaches \$10,000 (paid-up benefit), which is provided for life at no cost.

Employee and employer contributions plus interest are credited to the Public Service Death Benefit Account in the Accounts of Canada. Benefits are paid out of the Consolidated Revenue Fund and charged against the Public Service Death Benefit Account.

Unaudited financial information on the Supplementary Death Benefit Plan is contained in the Account Transaction Statements.

Retirement Compensation Arrangements

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 benefits to employees. Since these arrangements are covered by separate legislation, their balance and corresponding accrued pension benefits are not consolidated in the Plan's financial statements, but a summary of these arrangements is provided in the accompanying notes.

RCA No. 1 provides for benefits in excess of those permitted under the *Income Tax Act* for registered pension plans. In 2005–06, this includes primarily benefits on salaries over \$120,300,

plus some survivor benefits. As at March 31, 2006, there are approximately 9,600 Plan members earning over \$120,300 and 1,863 retirees receiving benefit payments from RCA No. 1.

RCA No. 2 provides pension benefits to public service employees who were declared surplus as a result of the three-year Early Retirement Incentive Program that ended on March 31, 1998, which allowed eligible surplus employees to retire with an unreduced pension. The cost of RCA No. 2 is entirely assumed by the Government of Canada.

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 in the Accounts of Canada. The balance in the RCA Account is credited with interest at the same rate as for the Public Service Superannuation Account.

Further Information

For additional information on the Public Service Pension Plan, you may consult the TBS website at <http://www.tbs-sct.gc.ca>, the PWGSC website at <http://www.pwgsc.gc.ca/>, the PSP Investments website at <http://www.investpsp.ca>, and the OSFI website at <http://www.osfi-bsif.gc.ca>.

Further information is also available in *Your Pension and Benefits Guide*, which accompanies your individual pension and benefits annual statement.

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, 2006, have been prepared in accordance with the accounting policies set out in Note 2 of the financial statements, which are based on Canadian generally accepted accounting principles. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles. The financial statements include management's best estimates and 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:

I. David Marshall
Deputy Minister and Deputy Receiver
General for Canada
Public Works and Government Services
Canada

Wayne G. Wouters
Secretary of the Treasury Board
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 and other accounts available for benefits, of accrued pension benefits, and of excess of actuarial value of net assets and other accounts over accrued pension benefits of the Public Service Pension Plan as at March 31, 2006, and the statements of changes in net assets and other accounts available for benefits, changes in accrued pension benefits, and changes in excess of actuarial value of net assets and other accounts over accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the net assets and other accounts available for benefits, the accrued pension benefits, and the excess of actuarial value of net assets and other accounts over accrued pension benefits of the Plan as at March 31, 2006, and the changes in net assets and other accounts available for benefits, changes in accrued pension benefits, and changes in excess of actuarial value of net assets and other accounts over accrued pension benefits, for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
November 3, 2006

Financial Statements

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

As at March 31, 2006

	2006	2005
	(\$ millions)	
Net Assets and Other Accounts Available for Benefits		
Assets		
Public Service Pension Fund Account (note 3)	141	150
Investments (note 4)	20,268	13,978
Contributions receivable—post-March 2000 service (note 5)	1,138	998
Other assets (note 6)	7	4
	21,554	15,130
Liabilities		
Accounts payable	25	7
Investment-related liabilities (notes 4 and 7)	253	—
	21,276	15,123
Net Assets		
Other Accounts		
Public Service Superannuation Account (note 3)	86,978	84,501
Contributions receivable—pre-April 2000 service (note 5)	410	457
	108,664	100,081
Net Assets and Other Accounts Available for Benefits	108,664	100,081
Actuarial asset value adjustment (note 8)	(2,000)	(767)
	106,664	99,314
Actuarial Value of Net Assets and Other Accounts Available for Benefits	106,664	99,314
Accrued Pension Benefits (note 8)	96,415	89,009
Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits (note 9)	10,249	10,305

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

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

Year ended March 31, 2006

	2006	2005
	(\$ millions)	
Net Assets and Other Accounts Available for Benefits, Beginning of Year	100,081	94,159
Increase in Net Assets and Other Accounts:		
Interest income on the Public Service Superannuation Account (note 3)	6,458	6,529
Contributions (note 10)	3,390	3,190
Investment income (note 11)	2,166	621
Current-year change in fair value of investments and currency	824	348
Transfers from other pension funds	42	64
Public Service Pension Fund actuarial adjustment (note 12)	4	4
Total Increase in Net Assets and Other Accounts	12,884	10,756
Decrease in Net Assets and Other Accounts:		
Benefits	3,951	3,768
Refunds and transfers (note 13)	227	210
Public Service Superannuation Account actuarial adjustment (note 12)	–	770
Administrative expenses (note 14)	123	86
Total Decrease in Net Assets and Other Accounts	4,301	4,834
Increase in Net Assets and Other Accounts Available for Benefits	8,583	5,922
Net Assets and Other Accounts Available for Benefits, End of Year	108,664	100,081

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

Statement of Changes in Accrued Pension Benefits

Year ended March 31, 2006

	2006	2005
	(\$ millions)	
Accrued Pension Benefits, Beginning of Year	89,009	86,516
Increase in Accrued Pension Benefits:		
Interest on accrued pension benefits	6,644	6,279
Benefits earned	3,062	2,887
Experience losses	1,644	710
Transfers from other pension funds	42	64
Total Increase in Accrued Pension Benefits	11,392	9,940
Decrease in Accrued Pension Benefits:		
Benefits	3,951	3,768
Refunds and transfers (note 13)	227	210
Administrative expenses included in the service cost (note 14)	66	61
Changes in actuarial assumptions (note 8)	(258)	3,408
Total Decrease in Accrued Pension Benefits	3,986	7,447
Net Increase in Accrued Pension Benefits	7,406	2,493
Accrued Pension Benefits, End of Year	96,415	89,009

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

Statement of Changes in Excess of Actuarial Value of Net Assets and Other
Accounts Over Accrued Pension Benefits

Year ended March 31, 2006

	2006	2005
	(\$ millions)	
Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits, Beginning of Year	10,305	7,039
Increase in net assets and other accounts available for benefits	8,583	5,922
Change in actuarial asset value adjustment	(1,233)	(163)
Increase in actuarial value of net assets and other accounts available for benefits	7,350	5,759
Net increase in accrued pension benefits	(7,406)	(2,493)
Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits, End of Year	10,249	10,305

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

Notes to Financial Statements

Year ended March 31, 2006

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 Crown corporation 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, 2006

1. Description of Plan (continued):

(b) Funding policy:

The Plan is funded from employee and employer contributions. Plan members contribute 4.3 per cent (4.0 per cent prior to January 2006) of pensionable earnings up to the maximum covered by the Canada Pension Plan or Quebec Pension Plan ("CPP" or "QPP") and 7.8 per cent (7.5 per cent prior to January 2006) of pensionable earnings above that maximum. The government's contribution is made monthly to provide for the cost (net of employee contributions) of the benefits that have accrued in respect of that month. The determination of the cost of the benefits is made on the basis of actuarial valuations, which are performed triennially.

The PSSA requires actuarial deficiencies found in the Public Service Pension Fund to be dealt with by transferring amounts to the Fund in equal instalments over a period not exceeding 15 years. It also allows excesses 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.

Until April 1, 2000, a separate market-invested fund was not maintained; however, the PSSA provides that all pension obligations arising from the Plan be met by the Government of Canada. For pre-April 2000 service, the PSSA requires deficiencies found between the balance of the Public Service Superannuation Account and the actuarial liability to be reduced by crediting the Account in equal instalments over a period not exceeding 15 years. When the balance of the Public Service Superannuation Account exceeds the actuarial liability, it also allows the excess to be reduced by debiting the Account over a period of up to 15 years.

Notes to Financial Statements

Year ended March 31, 2006

1. Description of Plan (continued):

(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 the legislation; they are not based on the financial status of the Plan. The basic benefit formula is 2 per cent per year of pensionable service times the average of the five consecutive years of highest paid service. Benefits are coordinated with the CPP and QPP, and 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.

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 15.

(d) Income taxes:

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

Notes to Financial Statements

Year ended March 31, 2006

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements present information on the Plan on a going concern basis. They are prepared to assist plan members and others in reviewing the activities of the Plan for the year, 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 presentation and results using the stated accounting policies do not result in any significant differences from 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 significantly from those estimates, although at the time of their preparation, management believes the estimates and assumptions to be reasonable.

(b) Valuation of assets and other accounts:

The Public Service Superannuation Account portrays a notional portfolio of bonds and is presented at the amount at which it is carried in the Accounts of Canada.

The investments of the Plan are held and managed through PSP Investments. Investments grouped by asset class holdings are presented at the respective fair value and cost of the underlying investments held in PSP Investments. This presentation was changed from the previous year where unit interests in PSP investment's assets (the PSP Funds) were allocated to the Plan. This change has resulted in a reclassification of certain previous year's comparative numbers.

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 or other generally accepted pricing methodologies for the underlying securities

Notes to Financial Statements

Year ended March 31, 2006

2. Significant accounting policies (continued):

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

Contributions receivable for past service elections made after March 2000 are recorded at their estimated net present value, which approximates their fair value. Contributions receivable for past service elections made prior to April 2000 that will be credited to the Public Service Superannuation Account once the members' share is received are also presented at their estimated net present value.

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

(c) Income recognition:

Investment income is recorded on an accrual basis. The investment income has been allocated by PSP Investments proportionately based on the assets held by the Public Service Pension Plan. Investment income represents realized gains and losses on the disposal of investments, interest and dividends and net operating income from private market real estate investments. These income items include the related distributions from pooled funds and limited partnerships.

The current-year change in fair value of investments and currency is the change in unrealized appreciation (depreciation) on investments held at the end of the year.

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

(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.

Notes to Financial Statements

Year ended March 31, 2006

2. Significant accounting policies (continued):

(e) Benefits, refunds, and transfers:

Benefits are accrued as pensionable service accumulates and they are recognized as a reduction of accrued pension benefits and net assets and other accounts 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 and other accounts 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.

3. Public Service Superannuation Account and Public Service Pension Fund Account:

The Public Service Superannuation Account is established in the Accounts of Canada pursuant to the PSSA. It portrays a notional portfolio of bonds and is not funded by the Government of Canada. The Act requires that this Account record transactions such as contributions, benefits paid, and transfers that pertain to pre-April 1, 2000, service and that the Account be credited with interest. The *Public Service Superannuation Regulations* require that interest be credited 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 included in the Accounts of Canada. The net amount of contributions less benefits and other payments is regularly transferred to PSP Investments for investment in capital markets. The Pension Fund Account is only a flow-through account and, as such, does not earn interest. At March 31, the balance in the Public Service Pension Fund Account represents amounts of net contributions in transit awaiting imminent transfer to PSP Investments.

Notes to Financial Statements

Year ended March 31, 2006

4. Investments:

(a) Investment portfolio:

At March 31, the portfolio of investments held through PSP Investments is as follows:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	(\$ millions)		(\$ millions)	
Developed World Equity				
Canada Equity	5,833	6,767	4,638	5,599
US Large Cap Equity	1,754	1,895	1,655	1,670
EAFE Large Cap Equity	1,883	2,329	1,662	1,809
Small Cap Developed World Equity	1,316	1,453	68	76
Emerging Markets Equity	1,104	1,407	259	255
Private Equity	221	218	3	2
Nominal Fixed Income				
Cash Equivalents	284	284	316	316
Canadian Fixed Income	3,844	3,795	3,668	3,711
Real Return Assets				
World Inflation-linked Bonds	279	305	150	158
Real Estate	1,346	1,400	308	310
Absolute Return	402	415	73	72
Investments	18,266	20,268	12,800	13,978
Investment-related liabilities (note 7)	(253)	(253)		
Net Investments	18,013	20,015	12,800	13,978

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

The presentation of the investment portfolio was changed during the year and references to the "PSP Funds" have been eliminated. Whereas in prior years, the investment portfolio represented holding unit interests in the "PSP Funds", this has been replaced by an investment portfolio depicting the effective asset class holdings.

Notes to Financial Statements

Year ended March 31, 2006

4. Investments (continued):

(a) Investment portfolio (continued):

Direct investments, derivative contracts and investment-related receivables and liabilities are classified by asset-mix category based on the intent of the investment strategies of PSP Investments. In addition to the different asset classes outlined in the asset mix policy, PSP Investments employs a number of absolute return strategies.

(b) Investment asset mix:

PSP Investments has established a Statement of Investment Policies, Standards and Procedures (SIP&P) that sets out the manner in which the assets shall be invested. During the course of the year, PSP Investments modified its assets mix policy.

The investment asset mix, as set out is the SIP&P as at March 31, is as follows:

Asset Class	2006		2005	
	Actual Asset Mix	Policy Portfolio	Actual Asset Mix	Policy Portfolio
Equities	70.2%	62.0%	67.3%	63.0%
Fixed Income	22.4%	15.0%	29.4%	22.0%
Real Return Assets	7.4%	23.0%	3.3%	15.0%
	100.0%	100.0%	100.0%	100.0%

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

Differences between the actual asset mix and the policy portfolio targets are due principally to the target weights of certain asset classes, which have yet to be attained. For instance, real return assets include real estate and infrastructure assets with policy portfolio target weights of 10% and 8%, respectively, and actual asset weights of only 7% and nil, respectively.

Notes to Financial Statements

Year ended March 31, 2006

4. Investments (continued):

(c) Foreign currency risk:

The Plan's investments are exposed to currency risk through holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets where investment values will fluctuate due to changes in foreign exchange rates. To mitigate this risk, PSP Investments may take, through derivative contracts, trading positions in foreign currencies.

The underlying net foreign currency exposure in Canadian dollars, as at March 31, was as follows:

Currency	2006		2005	
	Fair value (\$ millions)	% of total	Fair value (\$ millions)	% of total
US dollars	4,201	57.0%	1,985	49.8%
Euro	1,141	15.4%	692	17.3%
Yen	669	9.1%	359	9.0%
British pound	487	6.6%	376	9.4%
Others	879	11.9%	577	14.5%
	7,377	100.0%	3,989	100.0%

Notes to Financial Statements

Year ended March 31, 2006

4. Investments (continued):

(d) Investment performance:

Portfolio and benchmark returns, of the investment portfolio held through PSP Investments for the year ended March 31, are as follows:

	2006		2005	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Developed World Equity				
Canada Equity	28.8%	28.7%	15.6%	13.9%
US Large Cap Equity	9.5%	7.7%	(0.6)%	(1.8)%
EAFE Large Cap Equity	20.8%	20.0%	4.3%	5.9%
Small Cap Developed World Equity	18.6%	19.3%	n.a.	n.a.
Emerging Markets Equity	39.6%	42.6%	n.a.	n.a.
Private Equity	0.6%	n.a.	(33.8)%	n.a.
Nominal Fixed Income				
Cash Equivalents	2.7%	2.8%	2.9%	2.2%
Canadian Fixed Income	4.7%	4.9%	5.0%	5.0%
Real Return Assets				
World Inflation-linked Bonds	10.9%	11.8%	8.8%	9.2%
Real Estate	21.6%	8.3%	7.9%	6.7%
Total Return	19.1%	18.0%	7.9%	7.2%

Comparative figures have been reclassified to conform to the current year's presentation

Notes to Financial Statements

Year ended March 31, 2006

4. Investments (continued):

(d) Investment performance (continued):

Returns have been calculated in accordance with the methodology recommended by the CFA Institute. Returns are presented gross of expenses. PSP Investments has identified relevant benchmarks for each asset class. The asset class benchmark returns are used in evaluating the relative performance of each asset class. The total benchmark return aggregates the asset class benchmark returns according to the weights under the actual asset mix. The return of the private equity asset class is not being measured against any benchmark during the ramp-up period as per the PSP Investments' SIP& P. However, for the purposes of calculating the total 2006 and 2005 benchmark returns, the actual private equity portfolio returns of 0.6% and (33.8)%, respectively, are used. The total portfolio returns include the performance impact of absolute return strategies. Hedging investment returns have been netted against respective hedged assets.

5. Contributions receivable:

	2006	2005
	(\$ millions)	
Post-April 1, 2000, service		
Employee contributions for past service elections	312	251
Employers' share of contributions for past service elections	756	608
Other contributions receivable	70	139
	1,138	998
Pre-March 31, 2000, service		
Employee contributions for past service elections	213	237
Employers' share of contributions for past service elections	197	220
	410	457
Total	1,548	1,455

Notes to Financial Statements

Year ended March 31, 2006

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 Pension Plan, the Canadian Forces Pension Plan, and the Royal Canadian Mounted Police Pension Plan. The direct costs of investment activities, such as external investment management fees and custodial fees, are allocated to each plan and the operating expenses are allocated on a quarterly basis, based upon the asset value of each plan's investments under management.

In 2006, 72.2 per cent of the operating expenses were allocated to the Public Service Pension Plan (71.7 per cent in 2005). 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:

	2006	2005
	(\$ millions)	
Share of expenses receivable from		
Canadian Forces Pension Plan	3	2
Royal Canadian Mounted Police Pension Plan	1	1
	4	3
Other	3	1
Total other assets	7	4

7. Investment-related liabilities:

The investment-related liabilities of \$253 million (nil in 2005) consist of the Plan's portion of the short-term promissory notes of PSP Capital Inc., a subsidiary of PSP Investments. The notes have maturity dates within 60 to 90 days of issuance and therefore their stated value approximates their fair value. The capital raised was used primarily to finance real estate investments.

Notes to Financial Statements

Year ended March 31, 2006

8. Accrued pension benefits:

(a) Present value of accrued pension benefits:

The present value of accrued pension benefits is calculated actuarially 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 Chief Actuary of the Office of the Superintendent of Financial Institutions conducted the most recent actuarial valuation of the Plan for funding purposes as of March 31, 2005 but it has not yet been tabled in Parliament as at March 31, 2006. However, the accounting actuarial valuation has been updated as at March 31, 2006 using the demographic assumptions and based populations of the funding actuarial valuation as at March 31, 2005.

The assumptions used in determining the actuarial value of accrued pension benefits were developed with reference to short-term forecasts and expected long-term market conditions. Many assumptions are required in the actuarial valuation process, including estimates of future inflation, interest rates, expected return on investments, general wage increases, workforce composition, retirement rates, and mortality rates. 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 2.9 per cent in 2005). At March 31, 2006, the expected rate of return on pension investments and the assumed average government long-term bond rate used to value the pension liability are 6.2 per cent and 7.6 per cent respectively (6.2 per cent and 7.8 per cent in 2005). The corresponding assumptions used in the cost of current service and in the interest expense are 6.2 per cent and 7.8 per cent respectively (5.8 per cent and 7.6 per cent in 2005).

(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, 2006

9. Excess of actuarial value of net assets and other accounts over accrued pension benefits:

For funding purposes, the actuarial value of net assets and other accounts and the accrued pension benefits are tracked separately for service prior to April 1, 2000, and after March 31, 2000. Based on the accounting assumptions used in these financial statements, the breakdown as at March 31, 2006, is as follows:

	Pre- April 1, 2000	Post- March 31, 2000	Total
			(\$ millions)
Net assets and other accounts available for benefits	87,388	21,276	108,664
Actuarial asset value adjustment	–	(2,000)	(2,000)
Actuarial value of net assets and other accounts available for benefits	87,388	19,276	106,664
Accrued pension benefits	(77,968)	(18,447)	(96,415)
Excess of actuarial value of net assets and other accounts over accrued pension benefits	9,420	829	10,249

10. Contributions:

	2006	2005
		(\$ millions)
From employees	1,003	923
From employers	2,387	2,267
	3,390	3,190

During the year, employees contributed approximately 29 per cent (28 per cent in 2005) of the total contributions made in respect of current service. The blended rate of 29 per cent consists of 28 per cent from April 1, 2005 to December 31, 2005 and 31 per cent from January 1, 2006 to March 31, 2006.

Notes to Financial Statements

Year ended March 31, 2006

11. Investment income:

For the year ended March 31, the investment income is as follows:

	2006	2005
	(\$ millions)	
Interest and dividends	432	318
Net realized gains	1,734	303
Total	2,166	621

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

12. Actuarial adjustments:

In accordance with the legislation governing the Plan, the President of the Treasury Board is required to direct that any actuarial deficiency found in the Public Service Pension Fund be credited to the Fund in equal instalments over a period not exceeding 15 years, commencing in the year in which the actuarial report is tabled in Parliament. Excesses in the Pension Fund may be dealt with by a reduction of government and/or plan member contributions or by withdrawing amounts from the Fund.

The legislation also requires that deficiencies between the balance of the Public Service Superannuation Account and the actuarial liability be credited to the Account in equal instalments over a period not exceeding 15 years. When the balance of the Public Service Superannuation Account exceeds the actuarial liability, it also allows the excess to be reduced by debiting the Account over a period of up to 15 years.

As a result of the March 31, 2002 triennial actuarial valuation of the Public Service Pension Plan, that was tabled in Parliament on October 30, 2003, an amount of \$3.5 million (\$3.5 million in 2005) was transferred by the Government of Canada to fund the deficit in the Public Service Pension Fund, and no adjustment was required in 2006 (\$770 million reduction in 2005) to the Public Service Superannuation Account.

Notes to Financial Statements

Year ended March 31, 2006

13. Refunds and transfers:

	2006	2005
	(\$ millions)	
Pension division payments	33	38
Returns of contributions and transfer value payments	96	110
Transfers to other pension funds	98	62
	227	210

14. Administrative expenses:

The legislation provides for administrative expenses to be charged to the Plan. These administrative services are provided by government organizations related to the Plan. 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. The administrative expenses incurred by PSP Investments are also charged to the Plan.

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

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

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

Notes to Financial Statements

Year ended March 31, 2006

14. Administrative expenses (continued):

Administrative expenses consist of the following:

	2006	2005
	(\$ millions)	
PWGSC	63	58
Treasury Board of Canada Secretariat	2	2
Office of the Superintendent of Financial Institutions	1	1
Total Administrative expenses included in the service cost	66	61
PSP Investments		
Operating expenses	28	15
External investment management fees	29	10
Total PSP Investments	57	25
	123	86

15. Retirement Compensation Arrangements:

Separate Retirement Compensation Arrangements—RCA No. 1 and RCA No. 2—have been established under the authority of the *Special Retirement Arrangements Act* to provide supplementary pension benefits to employees. RCA No. 1 provides for benefits in excess of those permitted under the *Income Tax Act* restrictions for registered pension plans.

RCA No. 2 provides pension benefits to public service employees who were declared surplus as a result of a three-year Early Retirement Incentive program that ended on March 31, 1998. The cost of RCA No. 2 is entirely assumed by the Government of Canada.

Pursuant to the legislation, transactions pertaining to both RCA No. 1 and RCA No. 2, such as contributions, benefits, and interest credits are recorded in the RCA Account, which is maintained in the Accounts of Canada. The legislation also requires that the RCA Account be credited with interest quarterly at the same rates as those credited to the Public Service Superannuation Account. The RCA is registered with the Canada Revenue Agency (CRA) and a transfer is made annually between the RCA Account and CRA either to remit a 50-per-cent refundable tax in respect of the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments.

Notes to Financial Statements

Year ended March 31, 2006

15. Retirement Compensation Arrangements (continued):

Since these arrangements are covered by separate legislation, the balance in this Account and related accrued pension benefits are not consolidated in the financial statements of the Plan. The following summarizes the financial position of RCA No. 1 and RCA No. 2 that relates to the Plan as at March 31, 2006:

	2006	2005
	(\$ millions)	
Net balance and accrued pension benefits		
Balance of Account		
RCA Account	1,374	1,316
Refundable tax receivable	1,345	1,277
	2,719	2,593
Accrued pension benefits	2,582	2,553
Excess of the balance of the Account over the accrued pension benefits	137	40

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 notional rate of return expected for the Account.

Notes to Financial Statements

Year ended March 31, 2006

15. Retirement Compensation Arrangements (continued):

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

	2006	2005
	(\$ millions)	
Changes in the balance of the Account		
Increase		
Contributions—employers	85	89
Contributions—employees	10	11
Interest income	103	103
Actuarial adjustment	13	13
Increase in refundable tax receivable	67	67
	278	283
Decrease		
Benefits	84	82
Refunds and transfers	1	2
Refundable tax remittance	67	67
	152	151
Increase in the balance of the Account	126	132

Actuarial deficiencies found between the balance in the RCA Account and the actuarial liabilities are credited to the RCA Account in equal instalments over a period not exceeding 15 years. As a result of the triennial valuation of March 2002, credit adjustments of \$2.4 million and \$10.3 million were made to RCA No. 1 and RCA No. 2, respectively, during the year (\$2.4 million and \$10.3 million in 2005).

Notes to Financial Statements

Year ended March 31, 2006

16. 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 excess amounts in the Public Service Superannuation Account and the Public Service Pension Fund. The legal validity of these provisions has been challenged in the courts. The outcome of these lawsuits is not determinable at this time.

17. Subsequent event:

Pursuant to the Budget of May 2, 2006 and ensuing *Budget Implementation Act 2006* that received Royal Assent on June 22, 2006, amendments were made to the *Public Service Superannuation Act*. Effective January 1, 2008, these amendments will decrease from 0.7 per cent to 0.625 per cent over a five-year period, the pension reduction factor that results from the coordination of benefits with the CPP and QPP for plan members reaching age 65 in 2008 and beyond. As this legislation was initiated and approved after year-end, the increase in past service cost resulting from this amendment was not recognized in these financial statements and it will be recorded in the financial statements of 2007.

18. Comparative figures:

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

Account Transaction Statements

Public Service Superannuation Account and Public Service Pension Fund Account

The Public Service Superannuation Account is used to record transactions such as contributions, benefits paid, and transfers that pertain to pre-April 2000 service.

The interest is credited 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. In accordance with pension legislation, sufficient debits are made to reduce the estimated excess in the Superannuation Account to no more than 10 per cent of the liabilities. No adjustment was made to the Account during the year. In 2005, a debit of \$770 million was made.

All contributions made by Plan members, the government, and participating employers in respect of service accrued after March 2000 are deposited in 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.

Actuarial deficiencies in the Public Service Pension Fund are credited to the Pension Fund in equal annual instalments over a period not exceeding 15 years. As a result of the last triennial valuation, a credit of \$3.5 million was made to the Fund during the year.

Transactions in respect of post-March 2000 service are recorded in an internal government account—the Public Service Pension Fund Account. The balance in this account at year-end represents amounts of net contributions awaiting imminent transfer to PSP Investments.

Public Service Superannuation Account Statement

Year Ended March 31, 2006

	2006	2005
	(in dollars)	
Opening Balance	84,501,259,414	82,568,940,165
Receipts and Other Credits		
Contributions		
Government employees	11,767,103	14,139,916
Retired employees	33,367,386	35,986,791
Public service corporation employees	1,018,048	795,437
Employer contributions		
Government	35,245,815	39,358,048
Public service corporations	2,184,082	584,320
Transfers from other pension funds	601,094	1,259,203
Interest	6,457,717,517	6,529,162,618
Total	6,541,901,045	6,621,286,333
Payments and Other Charges		
Annuities	3,832,829,255	3,696,750,519
Minimum benefits	14,179,858	10,347,997
Pension division payments	29,540,769	35,903,746
Pension transfer value payments	46,412,923	64,359,565
Returns of contributions		
Government employees	175,385	304,948
Public service corporation employees	33,719	90,822
Transfers to other pension funds	85,934,811	57,708,532
Actuarial liability adjustment	—	770,000,000
Administrative expenses	55,680,454	53,500,955
Total	4,064,787,174	4,688,967,084
Receipts Less Payments	2,477,113,871	1,932,319,249
Closing Balance	86,978,373,285	84,501,259,414

The account transaction statement above is unaudited.

Public Service Pension Fund Account Statement

Year Ended March 31, 2006

	2006	2005
	(in dollars)	
Opening Balance	149,639,730	143,167,778
Receipts and Other Credits		
Contributions		
Government employees	854,142,287	749,209,162
Retired employees	11,533,255	10,250,079
Public service corporation employees	70,663,613	64,150,498
Employer contributions		
Government	2,125,202,061	1,928,133,677
Public service corporations	151,982,298	133,419,564
Actuarial liability adjustment	3,500,000	3,500,000
Transfers from other pension funds	34,046,613	56,787,058
Transfer value election	7,548,102	6,419,864
Total	3,258,618,229	2,951,869,902
Payments and Other Charges		
Annuities	100,323,704	59,186,404
Minimum benefits	3,341,863	1,947,638
Pension division payments	2,990,785	2,288,691
Pension transfer value payments	43,328,613	37,754,454
Returns of contributions		
Government employees	5,416,292	6,081,707
Public service corporation employees	1,138,123	1,593,838
Transfers to other pension funds	12,098,880	3,920,666
Administrative expenses	10,582,136	7,538,354
Total	179,220,396	120,311,752
Receipts Less Payments	3,079,397,833	2,831,558,150
Transfers to Public Sector Pension Investment Board	3,087,786,982	2,825,086,198
Closing Balance	141,250,581	149,639,730

The account transaction statement above is unaudited.

Retirement Compensation Arrangements Account

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

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

Actuarial deficiencies found in the RCA are credited to the RCA Account in equal instalments over a period not exceeding 15 years. As a result of the last triennial valuation, credit adjustments of \$2.4 million and \$10.3 million were made to RCA No. 1 (public service portion) and RCA No. 2, respectively, during the year (same in 2005).

RCA No. 1

For tax purposes, financial transactions for Plan members who earned more than \$120,300 in 2006 are recorded separately. As of March 31, 2006, there are approximately 9,600 public service employees in this category and 1,863 retirees receiving RCA No. 1 benefits.

RCA No. 1 Statement
(Public Service Portion)

Year Ended March 31, 2006

	2006	2005
	(in dollars)	
Opening Balance	481,166,084	416,151,867
Receipts and Other Credits		
Contributions		
Government employees	8,614,364	9,673,579
Retired employees	145,161	264,183
Public service corporation employees	1,149,512	1,272,443
Employer contributions		
Government	74,942,546	78,984,352
Public service corporations	10,244,816	10,862,035
Interest	40,261,137	36,389,184
Actuarial liability adjustment	2,400,000	2,400,000
Transfer value election	4,119	–
Total	137,761,655	139,845,776
Payments and Other Charges		
Annuities	5,721,952	4,529,484
Minimum benefits	687	29
Pension division payments	324,424	598,590
Pension transfer value payments	428,995	247,245
Returns of contributions		
Government employees	26,003	16,432
Public service corporation employees	10,743	8,684
Transfers to other pension plans	2,043	990,991
Refundable tax	69,457,454	68,440,104
Total	75,972,301	74,831,559
Receipts Less Payments	61,789,354	65,014,217
Closing Balance	542,955,438	481,166,084

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

Year Ended March 31, 2006

	2006	2005
	(in dollars)	
Opening Balance	834,412,350	835,423,865
Receipts and Other Credits		
Government contributions and interest		
Contributions	—	—
Interest	62,659,599	64,933,033
Actuarial liability adjustment	10,300,000	10,300,000
Total	72,959,599	75,233,033
Payments and Other Charges		
Annuities	78,026,272	77,077,670
Refundable tax	(2,080,587)	(833,122)
Total	75,945,685	76,244,548
Receipts Less Payments	(2,986,086)	(1,011,515)
Closing Balance	831,426,264	834,412,350

The account transaction statement above is unaudited.

Supplementary Death Benefit

As at March 31, 2006, there are 271,981 active participants and 125,365 retired elective participants in the Supplementary Death Benefit Plan. During fiscal year 2005–06, 4,747 claims for Supplementary Death Benefits were paid.

Public Service Death Benefit Account Statement Year ended March 31, 2006

	2006	2005
	(in dollars)	
Opening Balance	2,211,866,798	2,100,375,954
Receipts and Other Credits		
Contributions		
Employees (government and public service corporation)	68,449,378	63,750,919
Government		
General	8,175,834	7,397,981
Single premium for \$10,000 ¹ benefit	1,392,467	1,343,749
Public service corporations	935,241	835,829
Interest	170,204,295	167,449,737
Total	249,157,215	240,778,215
Payments and Other Charges		
Benefit payments		
General ²	98,020,926	88,676,074
\$10,000 benefit ³	39,998,565	40,537,332
Other death benefit payments	62,962	73,965
Total	138,082,453	129,287,371
Receipts Less Payments	111,074,762	111,490,844
Closing Balance	2,322,941,560	2,211,866,798

The account transaction statement above is unaudited.

Notes

1. \$5,000 benefit prior to 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 PSSA.
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 PSSA 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

As at March 31

Number of Pensions and Survivor Pensions in Pay			
Year	Pensions¹	Survivor Pensions²	Total
2004	159,693	56,413	216,106
2005	161,468	59,060	220,528
2006	164,084	58,998	223,082

Average Annual Amount—Pensions and Survivor Pensions in Pay³							
Year		Pensions¹			Survivor Pensions		
		Men	Women	Total	Spouse / Common Law Partner	Children	Students
2004	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		
2005	Average Annual Amount	\$24,229	\$14,185	\$20,703	\$10,037	\$1,708	\$2,135
	Average Age	70.46	69.44	70.11	76.51		
	Average Pensionable Service	24.94	20.58	23.41	21.74		
2006	Average Annual Amount	\$25,190	\$14,995	\$21,548	\$10,399	\$1,763	\$2,238
	Average Age	70.60	69.44	70.19	76.86		
	Average Pensionable Service	25.07	20.79	23.54	21.83		

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

Table 2
Pensions That Became Payable
Year ended March 31, 2006

Pensions That Became Payable ^{1,2}					
Year	Men	Women	Total	Total Amount Paid	Average Pension
2004	3,476	2,485	5,961	\$165,565,831	\$27,775
2005	4,046	3,052	7,098	\$208,051,220	\$29,311
2006	4,506	3,403	7,909	\$247,993,023	\$31,355

Pensions That Became Payable to Survivors ²						
Year	Spouse / Common Law Partner	Children and Students	Total	Total Amount Paid	Avg. Pension Spouse / Common Law Partner	Avg. Pension Children and Students
2004	2,895	343	3,238	\$33,941,926	\$11,453	\$2,262
2005	2,874	297	3,171	\$34,246,778	\$11,671	\$2,346
2006	2,771	308	3,079	\$34,393,831	\$12,139	\$2,430

1. For 2006, the pensions that became payable include immediate annuities (5,518), deferred annuities (403), annual allowances payable to former contributors only (1,540), and disability retirement benefits (448).
2. These amounts include indexation.

Table 3
Unreduced Pensions (Immediate Annuities)¹

Year ended March 31, 2006

Year	Age at Retirement														Total	Avg. Age ⁴	Average Unreduced Pension ^{5, 6}
	50-54 ²	55	56	57	58	59	60 ³	61	62	63	64	65	66 and over				
2004	56	930	323	218	189	156	676	287	202	158	140	213	242	3,790	59.26	\$32,936	
2005	95	1,278	446	331	296	163	777	302	242	176	168	252	248	4,774	58.85	\$34,478	
2006	93	1,363	498	419	353	258	858	341	299	212	188	301	335	5,518	59.04	\$36,124	

1. Includes unreduced pensions (immediate annuities); excludes immediate annuities resulting from disability retirement benefits (448 in 2006).
2. Includes only eligible Correctional Service Canada operational employees who qualify for an unreduced pension.
3. Excludes deferred annuities that became payable at age 60. For 2006, there were 403 deferred annuities (214 men, 189 women) that became payable at age 60.
4. For 2006, the average retirement age for men was 58.87 and for women, 59.33.
5. These amounts include indexation.
6. For 2006, the average unreduced pension for men was \$36,736 and for women, \$35,080.

Table 4
Annual Allowances and Lump Sum Payments That Became Payable
Year ended March 31, 2006

Year	Annual Allowances ¹			Lump Sum Payments ²		
	Number		Total	Average Allowance ³	Number	Amount
	Men	Women				
2004	633	744	1,377	\$21,287	6,843	\$218,432,669
2005	615	860	1,475	\$20,978	5,681	\$210,006,969
2006	630	910	1,540	\$23,100	5,030	\$227,070,300

1. Includes deferred annual allowances. A deferred annual allowance is a deferred annuity reduced because of early payment.
2. Includes transfer values, returns of contributions, amounts transferred to other pension plans under Pension Transfer Agreements, and amounts transferred under the Pension Benefits Division Act.
3. These amounts include indexation.

Table 5
 Changes in Number of Active Contributors, Retirees, and Survivors on Pension
 Year ended March 31, 2006

Changes in Number of Active Contributors			
	Men	Women	Total
Number of Active Contributors, April 1, 2005	124,044	145,812	269,856
Additions	9,892	13,647	23,539
Deletions			
Employees leaving the public service ¹	7,217	7,705	14,922
Reversions to non-contributory status ²	293	354	647
Deaths	236	158	394
Total Deletions	7,746	8,217	15,963
Number of Active Contributors, March 31, 2006	126,190	151,242	277,432

Changes in Number of Retirees³		Total
Number of Retirees, April 1, 2005		161,276
Additions		7,909
Deletions		5,101
Number of Retirees, March 31, 2006		164,084

Changes in Number of Survivors on Pensions		Total
Survivors		
Number of Survivors on Pension, April 1, 2005		56,437
Additions		2,771
Deletions		2,364
Number of Survivors on Pension, March 31, 2006		56,754

Children and Students		Total
Number of Children and Students on Pension, April 1, 2005		1,988
Additions		308
Deletions		52
Number of Children and Students on Pension, March 31, 2006		2,244

1. Includes 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. Describes contributors who ceased making contributions temporarily (e.g. part-time, leave without pay, etc.).
3. Does not include 5,356 deferred annuitants as at March 31, 2006.

Table 6
Number and Amount of Transfer Value Payments by Years of Pensionable
Service and Age at Termination

Year ended March 31, 2006

Years of Pensionable Service ²	Age at Termination ¹					Total	Total (\$)
	Under 30	30-34	35-39	40-44	45-49		
Under 5	192	164	103	100	68	627	
5-9	15	66	53	52	57	243	
10-14	0	9	41	49	46	145	
15-19	0	1	14	18	42	75	
20-24			1	12	35	48	
25-29				0	25	25	
30-35					3	3	
Men, Total	78	97	82	89	112	458	
Women, Total	129	143	130	142	164	708	
Overall Total	207	240	212	231	276	1,166	\$89,741,536

1. Average age for contributors receiving transfer value payments was 38.16 years for men, 38.10 years for women, and 38.12 for men and women combined.
2. Average pensionable service for contributors receiving transfer value payments was 8.09 years for men, 6.96 years for women, and 7.40 for men and women combined.

Table 7

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

Year ended March 31, 2006

Year	Active Participants			Retired Participants ¹			Death Benefits Paid			
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Amount Paid
2004	121,102	142,166	263,268	82,032	38,781	120,813	3,727	1,186	4,913	\$132,213,108
2005	121,266	144,824	266,090	82,235	40,351	122,586	3,491	1,209	4,700	\$129,287,371
2006	122,529	149,452	271,981	83,049	42,316	125,365	3,513	1,234	4,747	\$138,082,453

1. Includes 53 men and 20 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 of rates of return, retirement age, mortality rates, future salary levels, and other factors used by actuaries when carrying out an actuarial valuation.

Actuarial valuation—An actuarial report that provides information on the financial condition of a pension plan such that the future contribution of the pension scheme and its funding level can be clearly understood.

Annuities:

- **Immediate annuity**—Benefit payable to Plan members who retire at any time after reaching age 60 with at least two years of pensionable service **or** after reaching age 55 with at least 30 years of pensionable service **or** at any age in case of permanent disability. It is calculated according to the following basic pension formula:

2% X number of years of pensionable service (maximum 35 years) X average salary for the 5 consecutive years of highest-paid service

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

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

B

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

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

C

Canada Pension Plan (CPP)—

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

Cash Equivalents—Short-term, highly liquid securities (e.g. commercial papers, treasury bills, demand notes) with a term to maturity of less than one year from the date of issue. These investments are relatively easy to convert into cash.

Children of a Plan member—Dependent children who are under age 18. Children between 18 and 25 may receive allowances if they are enrolled in a school or other educational institution full-time and have attended continuously since their 18th birthday; the allowance is equal to one-tenth of the Plan member's pension for each eligible dependent child (maximum of four-tenths).

Consumer Price Index (CPI)—A measure of price changes produced by Statistics Canada on a monthly basis. The CPI measures the retail prices of a “shopping basket” of about 300 goods and services including food, housing, transportation, clothing, and recreation. The index is “weighted,” meaning that it gives greater importance to price changes for some products than others—more to housing, for

example, than to entertainment—in an effort to reflect typical spending patterns.

Increases in the CPI are also referred to as increases in the cost of living.

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

Contributions receivable—Amount owing to the Plan 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

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

Disability—A physical or mental impairment that prevents an individual from engaging in any employment for which the individual is reasonably suited by virtue of his or her education, training, or experience

and that can reasonably be expected to last for the rest of the individual's life.

E

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

Excess of actuarial value of net assets and other accounts over accrued pension benefits—The financial status of the Plan. A positive amount indicates that Plan net assets and other accounts exceed accrued pension benefits, while a negative amount means that accrued pension benefits exceed net assets and other accounts.

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

F

Foreign currency exposure—The amount by which the Plan's investments are exposed to currency risk.

I

Indexation—Automatic adjustment of pensions in pay or accrued pension benefits (deferred annuities) in accordance with changes in the Consumer Price Index. Public service pensions are indexed in January of each year 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 and other accounts available for benefits—The cash, receivables, investments, and other accounts net of liabilities available for pension benefits expected to be paid in the future. For the purposes of this definition, a plan's liabilities do not include accrued pension benefits.

P

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

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

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

Public Sector Pension Investment

Board—Board established on April 1, 2000, under the *Public Sector Pension Investment Board Act* 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 after March 2000.

Public Service Superannuation

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

Public Service Superannuation Act—The act that provides pensions for employees of the public service of Canada.

Q

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.

S

S&P/TSX Composite Index—The most diversified Canadian market index, representing almost 90 per cent of the capitalization of Canadian-based companies listed on the TSX. A committee of the Toronto Stock Exchange and the Standard and Poor's company 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 at age 65 to Plan members entitled to an immediate

annuity or an annual allowance payable within 30 days after termination of employment in the public service and is maintained for life.

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

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

Survivor benefit—Pension benefit that is paid to the survivor of a Plan member who dies.

T

Transfer value—Benefit available to contributors who leave the public service before age 50 with at least two years of pensionable service. This benefit is a lump sum and represents the value of the Plan member's accrued pension benefits payable in the future. It must be transferred to another registered pension plan, to a retirement savings vehicle, or to a financial institution to purchase an annuity.

Y

Year's Maximum Pensionable Earnings (YMPE)—The maximum earnings for which contributions can be made to the Canada Pension Plan / Quebec Pension Plan (earnings ceiling) during the year.