Treasury Board of Canada Secretariat
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, 2005

Canada

Report on the Public Service Pension Plan

for the Fiscal Year Ended March 31, 2005

Catalogue No. BT1-13/2005
ISBN 0-662-69578-X

This document is available on the Treasury Board of Canada Secretariat
Web site at www.tbs-sct.gc.ca

This document is also available in alternate formats on request.

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, 2005*.

Respectfully submitted,

The Honourable John Baird, P.C., M.P.
President of the Treasury Board

Table of Contents

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 as at March 31, 2005, as well as information on plan membership, administration, and benefits.

Overview

The Public Service Pension Plan (the "Plan") was established in January 1954 under the *Public Service Superannuation Act* (the "Act"). 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 death, the Plan provides an 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 Act and the 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 of 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 also 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.

In respect of pensionable service accrued before April 1, 2000, contributions and benefit payments are recorded in the Public Service Superannuation Account (the "Account") in the Accounts of Canada. The balance in the Account is credited with notional interest as if 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 to build assets to pay future benefits. Deloitte & Touche LLP audits the financial statements of PSP Investments.

Governance Structure

In accordance with the Act, the President of the Treasury Board is responsible for the overall management of the Plan, while the Minister of Public Works and Government Services 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 (TBS)

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 PWGSC on the accounting for the Plan. TBS also provides Public Works and Government Services Canada with the various actuarial calculations used to prepare the Plan's financial statements.

Public Works and Government Services Canada (PWGSC)

PWGSC provides 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, internal controls, and the preparation of Account Transaction Statements for the Public Accounts reporting. PWGSC also operates the central treasury, payments, and the entire accounting functions. PWGSC is also, along with TBS, responsible for the preparation of the Plan's Financial Statements.

Public Sector Pension Investment Board (PSP Investments)

PSP Investments is a Crown corporation that reports to Parliament through the President of the Treasury Board. In accordance with the *Public Sector Pension Investment Board Act* and its regulations, post April 1, 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 and Canadian fixed income securities. The relevant financial results of PSP Investments are included in the Plan's financial statements.

Office of the Superintendent of Financial Institutions (OSFI)

As required by the *Public Pensions Reporting Act*, 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 estimates contribution rates required to ensure the Plan's ongoing financial sustainability. The last actuarial report on the Plan was conducted as at March 31, 2002. The next periodic review as at March 31, 2005, is scheduled to be tabled sometime during the spring or summer of 2006. For accounting purposes, the triennial actuarial valuations are updated annually using the government's best estimate assumptions.

Committees

The Public Service Pension Advisory Committee (PSPAC) is comprised of thirteen members—one pensioner, six members representing employees, and six members chosen from the executive ranks of the Public Service. There are four subcommittees reporting to the PSPAC—Communication, Governance, Pension Policy, and Review Mechanism. 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

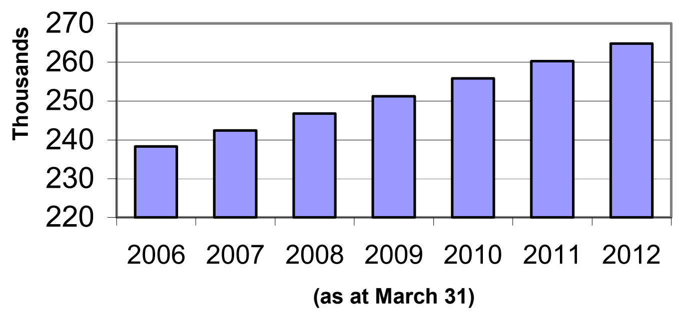
As at March 31, 2005, the Plan had 496,915 members, including those currently or previously employed by the Government of Canada, certain public service corporations, and territorial governments. The membership consisted of 270,835 active contributors, 161,468 retirees, 59,060 survivors, and 5,552 deferred annuitants. (See membership profile below.)

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

	2005	2004	2003	2002
Active Contributors	270,835	268,852	266,620	255,231
Retirees	161,468	159,693	159,279	159,542
Survivors	59,060	56,413	53,939	57,344
Deferred annuitants	5,552	5,545	4,967	5,429
Total	**496,915**	**490,503**	**484,805**	**477,546**
Ratio of contributors to those receiving benefits	1.20:1	1.21:1	1.22:1	1.15:1

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.

TOTAL EXPECTED NUMBER OF RETIREES AND SURVIVORS

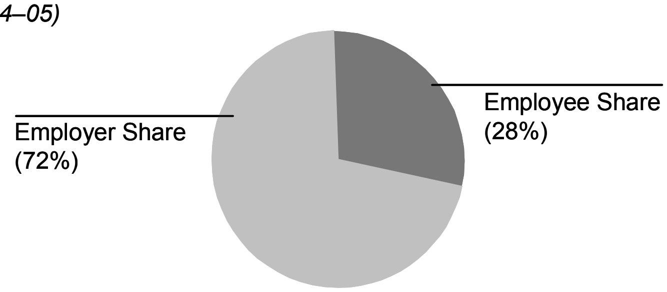


Source: Office of the Superintendent of Financial Institutions

Contributions

In 2004–05, about $3,190 million was paid into the Plan, of which employees contributed $923 million and the employer $2,267 million. Employee contributions are compulsory and are set at a rate of 4.0 per cent of annual salary up to the Year's Maximum Pensionable Earnings (YMPE) defined by the Canada Pension Plan and the Quebec Pension Plan ($41,100 in 2005) and 7.5 per cent of annual salary above this amount. The employer paid 2.56 times the employee rate for current service, or 72 per cent of the current service costs, as noted in the graph below.

CURRENT SERVICE CONTRIBUTIONS
(2004–05)



Source: Treasury Board of Canada Secretariat

However, a 60:40 cost-sharing ratio between the employer and the employees, respectively, is the historical average for this Plan. Member contribution rates will be increased, through a yearly adjustment of 0.3% of salary beginning January 1, 2006, to result in final rates of 6.4% of salary up to the YMPE and 8.4% of salary above the YMPE by 2013, which is estimated to 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 2004–05, the Plan paid out $3,768 million in benefits, an increase of $172 million over the previous year. Benefits were paid to 220,528 retirees and survivors (216,106 in 2003–04). In 2004–05, there were 7,098 new retirees during the year, of whom 4,774 were entitled to immediate annuities (2,165 obtained a normal retirement benefit at age 60 and 2,609 received an unreduced early retirement benefit). The remaining members became entitled to 387 deferred annuities, 1,475 annual allowances, and 462 disability retirement benefits. New retirees received an average annual pension of $29,311 in 2004–05. The number of beneficiaries has been fairly stable over the past few years but is expected to rise in the future.

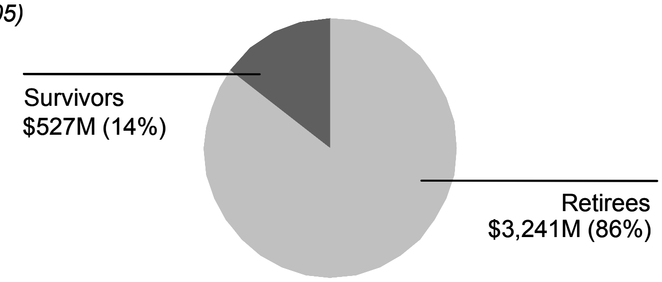
The Plan provides benefits based on the number of years of pensionable service to a maximum of 35 years. The benefits are determined by a formula set out in the Act; they are not based on the financial status of the Plan. The basic benefit formula is 2 per cent per year of pensionable service times the average of the five consecutive years of highest paid service. Benefits are co-ordinated 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.

An amendment to the Plan to change the formula by which plan benefits are co-ordinated with the CPP/QPP benefits in plan members' favour has been announced. Legislation, however, is required to authorize this change.

Pension benefits are fully indexed to annual increases in the Consumer Price Index. This adjustment is made each January and was 1.7 per cent on January 1, 2005 (3.3 per cent on January 1, 2004).

Benefits paid to retirees represented 86 per cent of 2004–05 pension payments and benefits paid to survivors represented 14 per cent. Included in benefits paid to retirees are those to disabled retirees. These represent 5 per cent of the total.

BENEFIT PAYMENTS
(2004–05)

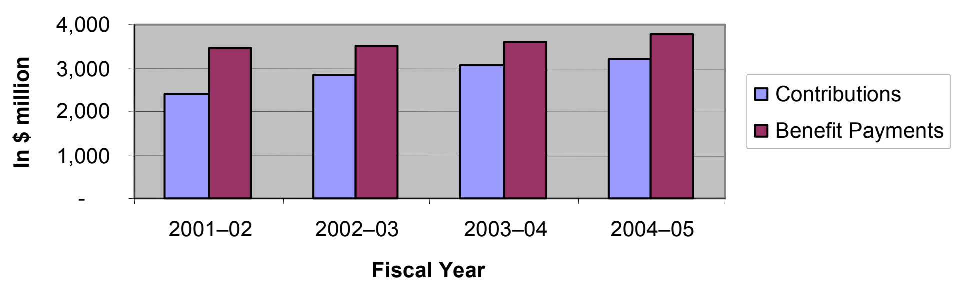


Source: Public Works and Government Services Canada

Further, 1,431 plan members left the Public Service before age 50 and withdrew about $102 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 $8.1 million returned to 3,888 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 2001–02, as illustrated in the table below.

Total Contributions / Benefit Payments
(2001–02 to 2004–05)



Source: Previous years' annual reports

Net Assets and Other Accounts Available for Benefits

The Statement of Changes in Net Assets and Other Accounts Available for Benefits shows the amount available to pay current and future pension benefits to plan members. As at March 31, 2005, $100,081 million—an increase of $5,922 million from the previous year, was available to pay current and future pension 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, (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 Public Service Pension Fund ("Pension Fund") deficit.

Amounts are withdrawn 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 gains 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, 2005, the level of accrued pension benefits was $89,009 million, an increase of approximately $2,493 million from the previous fiscal year.

Investment Policy

Prior to April 1, 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 Act 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 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 *Public Sector Pension Investment Board Act*, is to manage the amounts transferred in the best interests of the contributors and beneficiaries under the Act 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, the Board of Directors has established a policy portfolio, 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 triennial actuarial valuation, as at March 31, 2002, that is 4.3%.

As noted in the 2005 annual report of PSP Investments,[1] the investments held during the year ended March 31, 2005, were in accordance with the Act and PSP Investments' Statement of Investment Policies, Standards and Procedures (the SIP&P) with the exception of the foreign property limits set out in the SIP&P, which were exceeded during the period from March 15 to March 31, 2005, in anticipation of the adoption of the February 23, 2005, federal budget, which provides for the elimination of the limits on investments in property that constitutes foreign property for purposes of the *Income Tax Act (Canada)*.

Rate of Return on PSP Investments

In 2004–05, the assets invested at PSP Investments earned a rate of return of 7.9 per cent. These assets were invested in roughly equal portions in Canadian equities, foreign equities, and fixed income securities. The latter consisted of Canadian federal, provincial, municipal, and corporate bonds, as well as short-term cash equivalent investments.

Following is the annual rate of return for each of the last four years as compared to the composite benchmark for PSP Investments.

	2005	2004	2003	2002
Annual rate of return	7.9%	26.1%	-13.5%	2.7%
Composite benchmark annual rate of return	7.2%	25.4%	-12.9%	2.8%

PSP Investments has, for the past two years, outperformed its Policy Benchmark.

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:

	2005	2004	2003	2002
Interest on Account	8.0%	8.3%	8.5%	8.7%

1. The Public Sector Pension Investment Board. *2005 Annual Report*, page 25.

Key Performance Drivers

Identified below is a list of plan objectives for the fiscal year under review, the extent to which the objectives have been achieved, and stated objectives for the next fiscal year.

PSP Investment Objectives

Fiscal 2004–05 Objectives	Status
1. Implement changes to the Policy Portfolio following strategic review	COMPLETE
2. Complete extensive review of value-added activities and implement changes	COMPLETE
3. Ensure that operations can support these new activities	COMPLETE
4. Implement a strong human resources process to support growth of PSP Investments	COMPLETE

Key Objectives for Fiscal 2005–06

The principal objectives of PSP Investments for the fiscal year 2005–06 are to:

1. continue implementing investments in real estate, private equity, and other new asset classes;
2. further increase the level of active risk, within the authorized ceiling, in order to increase the level of returns;
3. develop enhanced capabilities to manage private transactions; and
4. further strengthen infrastructure and support staff to keep pace with the rapid growth of investment activities.

Plan Administration Objectives

Fiscal 2004–05 Objectives	Status
1. Enhance Web-based pension services to current employees, annuitants, and survivors	COMPLETE • A Web-based monthly pension payment statement was introduced, as well as a self-service capability for retirees to modify deductions pending the completion of security assessments. • The Contact Us page was modified to allow retirees to contact the administration directly by e-mail. • Compensation Web applications were introduced to permit employee access to real data in the use of pension benefit service buyback calculators to all PWGSC employees.
2. Progress on the Pension System Modernization project with Project Definition Phase • Undertake procurement activities in support of a firm to provide business transformation services and the acquisition of a commercially available pension administration solution capable of supporting multiple pension plans • Preparatory activities for the 2005–06 Requirements Mapping and Gap Analysis Phase, and Architecture and Design Phase • Establishment of a project management office to support the Major Crown Project	COMPLETE • A draft and a final request for proposals were issued and vendor proposals were received. Evaluation of the proposals commenced and is targeted for completion in fiscal 2005–06. • Significant progress was made for the development of documentation of the current state, of use cases, and other required documentation in preparation for the fiscal 2005–06 phase activities. • A project management office to support the Major Crown Project was established.
3. Progress on the Pension Service Delivery Project • Centralization and improvement of the administration of the *Pension Benefits Division Act* and Pension Transfer Agreements (PTAs); increase in the number of pre-retirement seminars	COMPLETE • *Pension Benefits Division Act* services were centralized. • Process reviews were carried out in anticipation of centralizing of PTAs.

Key Objectives for Fiscal Year 2005–06

The key objectives are as follows:

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;

2. progress on the pension system modernization project by 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 a 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;

3. progress on the Pension Service Delivery Project through work on the centralization and improvement of processes and services related to PTAs 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; and

4. progress on the Pension Data Correction Project aimed at improving accountability and reconciliation of contributions made to the Plan.

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.

	2005	2004	2003	2002
	($ millions)			
Government department administrative expenses	61	57	51	49
PSP Investments operating expenses	25	15	9	5
Total expenses	**86**	**72**	**60**	**54**

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

Plan administration costs totalled $61.0 million (or approximately $123 per member) in 2004–05, an increase of $4.3 million from the previous year. Administration costs were $.06 per $100 of amounts available for benefits.

Transfer Agreements

The Plan has transfer agreements with approximately 100 employers, including other levels of government, universities, and private-sector employers. During 2004–05, approximately $58 million was transferred into the Plan and $56 million was transferred out of the Plan under these agreements.

Pending Litigation

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.

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. If that amount is not a multiple of $1,000, the benefit amount is adjusted 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 No. 2) have been established under the authority of the *Special Retirement Arrangements Act* to provide supplementary benefits to employees. As 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 2004–05, this includes primarily benefits on salaries over $114,400, plus some survivor benefits. As at March 31, 2005, there were 9,300 plan members earning over $114,400 and 1,573 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 a 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 is 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 the Public Service Superannuation Account.

Further Information

For additional information on the Public Service Pension Plan, you may consult the Treasury Board of Canada Secretariat's Web site at http://www.tbs-sct.gc.ca, the PWGSC Web site at www.pwgsc.gc.ca, the PSP Investments Web site at www.pspinvestments.ca, and the Office of the Superintendent of Financial Institutions Canada Web site 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, 2005, 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

R. Jolicoeur

Renée Jolicoeur
Acting Assistant Deputy Minister
Accounting, Banking and Compensation Branch
Public Works and Government Services Canada

Wayne G. Wouters
Secretary of the Treasury Board of Canada
Treasury Board of Canada Secretariat

Phil Charko

Phil Charko
Assistant Secretary
Pensions and Benefits Sector
Treasury Board of Canada Secretariat

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

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

I have audited the statement of net assets 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, 2005 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, 2005 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, with the exception of the foreign property limits set out in the Statement of Investments Policies, Standards and Procedures of the Public Sector Pension Investment Board which were exceeded during the period from March 15 to March 31, 2005 in anticipation of the adoption of the Federal Budget announced on February 23, 2005 which provided for the elimination of the limits on investments in property that constitute foreign property for the purpose of the *Income Tax Act* (Canada).

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
October 27, 2005

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, 2005

	2005	2004
	($ millions)	
Net Assets and Other Accounts Available for Benefits		
Assets		
Public Service Pension Fund Account (note 3)	150	143
Investments (note 4)	13,978	10,205
Contributions receivable—post-March 2000 service (note 5)	998	725
Other assets (note 6)	4	4
	15,130	**11,077**
Liabilities		
Accounts payable	7	3
Net Assets	**15,123**	**11,074**
Other Accounts		
Public Service Superannuation Account (note 3)	84,501	82,569
Contributions receivable—pre-April 2000 service (note 5)	457	516
Net Assets and Other Accounts Available for Benefits	**100,081**	**94,159**
Actuarial asset value adjustment (note 7)	(767)	(604)
Actuarial Value of Net Assets and Other Accounts Available for Benefits	**99,314**	**93,555**
Accrued Pension Benefits (note 7)	**89,009**	**86,516**
Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits (note 8)	**10,305**	**7,039**

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, 2005

	2005	2004
	($ millions)	
Net Assets and Other Accounts Available for Benefits, Beginning of Year	**94,159**	**88,770**
Increase in Net Assets and Other Accounts:		
Interest income on the Public Service Superannuation Account (note 3)	6,529	6,647
Contributions (note 9)	3,190	3,045
Investment income (note 4)	466	342
Current-year change in fair value of investments and currency	503	1,414
Transfers from other pension funds	64	68
Public Service Pension Fund actuarial adjustment (note 10)	4	4
Total Increase in Net Assets and Other Accounts	10,756	11,520
Decrease in Net Assets and Other Accounts:		
Benefits	3,768	3,596
Refunds and transfers (note 11)	210	223
Public Service Superannuation Account actuarial adjustment (note 10)	770	2,240
Administrative expenses (note 12)	86	72
Total Decrease in Net Assets and Other Accounts	4,834	6,131
Increase in Net Assets and Other Accounts Available for Benefits	**5,922**	**5,389**
Net Assets and Other Accounts Available for Benefits, End of Year	**100,081**	**94,159**

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

Statement of Changes in Accrued Pension Benefits

Year ended March 31, 2005

	2005	2004
	($ millions)	
Accrued Pension Benefits, Beginning of Year	**86,516**	**81,324**
Increase in Accrued Pension Benefits:		
Interest on accrued pension benefits	6,279	6,146
Benefits earned	2,887	2,841
Experience losses	710	362
Transfers from other pension funds	64	68
Total Increase in Accrued Pension Benefits	9,940	9,417
Decrease in Accrued Pension Benefits:		
Benefits	3,768	3,596
Refunds and transfers (note 11)	210	223
Administrative expenses included in the service cost	61	57
Changes in actuarial assumptions (note 7)	3,408	349
Total Decrease in Accrued Pension Benefits	7,447	4,225
Net Increase in Accrued Pension Benefits	**2,493**	**5,192**
Accrued Pension Benefits, End of Year	**89,009**	**86,516**

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, 2005

	2005	2004
	($ millions)	
Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits, Beginning of Year	**7,039**	**8,022**
Increase in net assets and other accounts available for benefits	5,922	5,389
Change in actuarial asset value adjustment	(163)	(1,180)
Increase in actuarial value of net assets and other accounts available for benefits	5,759	4,209
Net increase in accrued pension benefits	(2,493)	(5,192)
Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits, End of Year	**10,305**	**7,039**

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

Notes to Financial Statements

Year ended March 31, 2005

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.

1. Description of Plan (continued):

(b) Funding policy:

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

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, 2005

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 integrated with the CPP and QPP, and are fully indexed to the increase in the Consumer Price Index. When benefits under the CPP/QPP become payable, the basic benefit formula becomes 1.3 per cent per year of pensionable service for earnings subject to the CPP/QPP, up to the average of the maximum earnings under the CPP/QPP for the year of termination and the previous four years, and 2 per cent on earnings above that average.

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

(d) Income taxes:

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

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements present information on the 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.

Investments consist of the unit interest in the assets under the management of PSP Investments that are allocated to the Plan. 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.

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.

Notes to Financial Statements

Year ended March 31, 2005

2. Significant accounting policies (continued):

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

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 according to the number of units of PSP Funds held by the Plan. Investment income represents realized gains and losses on the disposal of investments, and interest and dividend income. These income items include the related distributions from PSP Funds.

The current-year change in fair value of investments and currency is the 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.

(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.

2. Significant accounting policies (continued):

(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, 2005

4. Investments:

(a) Investment portfolio:

PSP Investments has created the PSP Funds, which represent unit interests in the assets under the management of PSP Investments. The Plan's investments consist of the unit interest of PSP Investments' assets held through the PSP Funds. The investment income is allocated by PSP Investments according to the number of units of PSP Funds held by the Plan.

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

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
	($ millions)		($ millions)	
PSP Canadian Equities Fund	4,488	5,598	3,230	3,823
PSP Foreign Equities Fund	3,765	3,810	2,767	2,816
PSP Private Equities Fund	3	2	-	-
PSP Real Estate Fund	67	71	52	53
PSP Foreign Real Estate Fund(1)	280	278	-	-
PSP Hedging Fund	8	12	-	-
PSP Fixed Income Fund(1)	4,009	4,077	3,350	3,450
PSP Absolute Return Fund(1)	135	130	86	63
Total	**12,755**	**13,978**	**9,485**	**10,205**

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

(1) On November 30, 2004, PSP Investments restructured its funds as follows:

The PSP Foreign Real Estate Fund was created to hold foreign real estate investments.

The nature of the PSP Fixed Income Fund has changed to include cash equivalent investments. As a result, the investments previously held in the PSP Cash Equivalents Fund were transferred into the PSP Fixed Income Fund. For comparative purposes, the amount shown as the PSP Cash Equivalents Fund for the prior year has been reclassified.

The PSP Absolute Return Fund was created and investments previously held in the PSP Currency Overlay Fund were transferred to it. For comparative purposes, the amount shown as the PSP Currency Overlay Fund for the prior year has been reclassified.

4. Investments (continued):

(b) Investment asset mix:

The investment asset mix held through PSP Investments was as follows:

Asset Class	2005 Fair Value ($ millions)	2005 % of Portfolio	2004 Fair Value ($ millions)	2004 % of Portfolio
Cash Equivalents	316	2.3	69	0.7
Bonds				
Fixed Return	3,711	26.6	3,434	33.6
Real Return	159	1.1		
Public and Private Equities				
Public Equities:				
Canadian Equity	5,598	40.1	3,823	37.5
Foreign Equity:				
US Equities:				
Large Cap	1,670	12.0	1,523	14.9
Small Cap	76	0.5	47	.5
EAFE Equity	1,809	12.9	1,246	12.2
Emerging Equity	255	1.8		
Private Equities	2	_		
Real Estate	310	2.2	53	0.5
Absolute Return Strategies	72	0.5	10	0.1
Total	**13,978**	**100.0**	**10,205**	**100.0**

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

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 the underlying portfolios of PSP Investments.

Notes to Financial Statements

Year ended March 31, 2005

4. Investments (continued):

(c) Investment policy:

At March 31, 2005, the asset mix policy and the corresponding benchmarks of PSP Investments are as follows:

Asset Class	Policy Mix	Benchmark[1]
Cash Equivalents	2%	SC 91-day T-bill
Bonds		
Fixed Return	20%	SC Universe
Real Return[2]	5%	SC RRB
Public and Private Equities:		
Public Equities:		
Canadian Equity	30%	S&P TSX
US Equities:		
Large Cap	5%	S&P 500
Small Cap	5%	S&P 600
EAFE Equity	8%	MSCI EAFE
Emerging Equity	7%	MSCI EMF
Private Equity[3]	8%	S&P 600 (1/3) and S&P 400 (2/3) + 4%
Real Estate[4]	10%	CPI + 5.5%

(1) Benchmarks include the following:

SC 91-day T-bill—Scotia Capital 91-day Treasury Bill Index
SC Universe—Scotia Capital Bond Universe Index
SC RRB—Scotia Capital Real Return Bonds
S&P TSX—Standard and Poor's TSX Composite Index
S&P 500—Standard and Poor's 500 Composite Index
S&P 600—Standard and Poor's 600 Composite Index
MSCI EAFE—Morgan Stanley Capital International Index (Europe, Australia, Far East)
MSCI EMF—Morgan Stanley Capital International Index (Emerging Markets Free)
CPI—Consumer Price Index

(2) Real Return Bonds ("RRB") target weight is 5%. Until the target weight of 5% is reached, assets destined for RRBs will be invested in Fixed Income and measured against the SC Universe.

(3) Private Equity ("PE") target weight is 8%. Until the target weight of 8% is reached, assets destined for PE will be invested in Public Equities and measured against the corresponding public equity benchmarks.

(4) Real Estate ("RE") target weight is 10%. Until the target weight of 10% is reached, assets destined for RE will be invested in a short-term bond benchmarked to the Scotia Capital Short-Term Federal government Index.

The foreign property limits set out in the investment policy were exceeded during the period from March 15 to March 31, 2005.

4. Investments (continued):

(d) Foreign currency exposure:

The Plan's investments are exposed to currency risk through holdings of units in pooled funds of non-Canadian assets where investment values will fluctuate due to changes in foreign exchange rates. The underlying net foreign currency exposure in Canadian dollars at March 31 is as follows:

	2005		2004	
Currency	**Fair value**	**% of total**	**Fair value**	**% of total**
	($ millions)		**($ millions)**	
US dollars	1,985	49.8	1,575	55.8
Euro	692	17.3	470	16.6
British pound	376	9.4	233	8.3
Yen	359	9.0	309	11.0
Others	577	14.5	235	8.3
	3,989	**100.0**	**2,822**	**100.0**

(e) Investment income:

	2005	2004
	($ millions)	
Interest and dividend income	299	215
Realized gains	167	127
	466	**342**

Notes to Financial Statements

Year ended March 31, 2005

4. Investments (continued):

(f) Investment performance:

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

	2005		2004		
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns	Benchmark
Cash Equivalents	2.9%	2.2%	3.2%	3.0%	SC 91-day T-bill
Fixed Income	5.0%	4.7%	10.9%	10.8%	SC Bond Universe, SC RRB (2004—excluded SC RRB)
Canadian Equities	15.7%	13.9%	36.1%	37.7%	S&P TSX
Foreign Equities	1.7%	1.5%	30.7%	28.8%	S&P 500, S&P 600, MSCI EAFA, MSCI EMF (2004—excluded S&P 600, and MSCI EMF)
Real Estate	7.9%	6.7%	3.6%	2.5%	CPI+5.5% (2004—CPI+4%)
Total Return	**7.9%**	**7.2%**	**26.1%**	**25.4%**	

Returns have been calculated in accordance with the methodology recommended by the CFA Institute. Returns are presented gross of expenses. The total return includes the impact of the PSP Hedging Fund and the PSP Absolute Return Fund.

5. Contributions receivable:

	2005	2004
	($ millions)	
Post-April 1, 2000, service		
Employee contributions for past service elections	251	196
Employers' share of contributions for past service elections	608	474
Other contributions receivable	139	55
	998	**725**
Pre-March 31, 2000, service		
Employee contributions for past service elections	237	267
Employers' share of contributions for past service elections	220	249
	457	**516**
Total	**1,455**	**1,241**

Notes to Financial Statements

Year ended March 31, 2005

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 2005, 71.7 per cent of the operating expenses were allocated to the Public Service Pension Plan (71.1 per cent in 2004). 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:

	2005	2004
	($ millions)	
Share of expenses receivable from		
Canadian Forces Pension Plan	2.1	1.3
Royal Canadian Mounted Police Pension Plan	0.7	0.4
	2.8	1.7
Other	1.6	2.3
Total other assets	**4.4**	**4.0**

7. 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 most recent actuarial valuation of the Plan for funding purposes was made as of March 31, 2002, by the Chief Actuary of the Office of the Superintendent of Financial Institutions.

The assumptions used in determining the actuarial value of accrued pension benefits were developed with reference to short-term 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 2004). At March 31, 2005, 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 7.8 per cent respectively (5.8 per cent and 7.6 per cent in 2004). The corresponding assumptions used in the cost of current service and in the interest expense are 5.8 per cent and 7.6 per cent respectively (6.25 per cent and 7.8 per cent in 2004).

(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, 2005

8. 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, 2005, is as follows:

	Pre-April 1, 2000	Post-March 31, 2000	Total
		($ millions)	
Net assets and other accounts available for benefits	84,958	15,123	100,081
Actuarial asset value adjustment	–	(767)	(767)
Actuarial value of net assets and other accounts available for benefits	84,958	14,356	99,314
Accrued pension benefits	(74,746)	(14,263)	(89,009)
Excess of actuarial value of net assets and other accounts over accrued pension benefits	**10,212**	**93**	**10,305**

9. Contributions:

	2005	2004
	($ millions)	
From employees	923	892
From employers	2,267	2,153
	3,190	**3,045**

During the year, employees contributed approximately 28 per cent (28 per cent in 2004) of the total contributions made in respect of current service.

10. 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, which was tabled in Parliament on October 30, 2003, an amount of $3.5 million ($3.5 million in 2004) was transferred by the Government of Canada to fund the deficit in the Public Service Pension Fund, and the Public Service Superannuation Account was reduced by an adjustment of $770 million ($2,240 in 2004).

11. Refunds and transfers:

	2005	2004
	($ millions)	
Pension division payments	38	31
Returns of contributions and transfer value payments	110	90
Transfers to other pension funds	62	102
	210	**223**

Notes to Financial Statements

Year ended March 31, 2005

12. 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.

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

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

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

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

Administrative expenses consist of the following:

	2005	2004
	($ millions)	
PWGSC administrative expenses	58	54
PSP Investments administrative expenses	25	15
Treasury Board of Canada Secretariat administrative expenses	2	2
Office of the Superintendent of Financial Institutions administrative expenses	1	1
	86	**72**

13. 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, 2005

13. 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, 2005:

	2005	2004
	($ millions)	
Net balance and accrued pension benefits		
Balance of Account		
RCA Account	1,316	1,251
Refundable tax receivable	1,277	1,210
	2,593	**2,461**
Accrued pension benefits	**2,553**	**2,601**
Excess (deficiency) of the balance of the Account over the accrued pension benefits	**40**	**(140)**

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.

13. Retirement Compensation Arrangements (continued):

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

	2005	2004
	($ millions)	
Changes in the balance of the Account		
Increase		
Contributions—employers	89	183
Contributions—employees	11	13
Interest income	103	101
Actuarial adjustment	13	24
Increase in refundable tax receivable	67	141
	283	462
Decrease		
Benefits	82	78
Refunds and transfers	2	42
Refundable tax remittance	67	140
	151	260
Increase in the balance of the Account	**132**	**202**

Actuarial deficiencies found between the balance in the RCA Account and the actuarial liability 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 and RCA No. 2, respectively, during the year ($14.6 million and $9.8 million in 2004).

Notes to Financial Statements

Year ended March 31, 2005

14. Contingency:

The *Public Sector Pension Investment Board Act*, which received Royal Assent in September 1999, amended the PSSA to enable the federal government to deal with 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.

15. 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, benefit paid, and transfers that pertain to pre-April 1, 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. As a result, during 2004–05, a debit of $770 million was made to the Account.

All contributions made by Plan members, the government, and participating employers in respect of service accrued after March 31, 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 31, 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

(for the year ended March 31, 2005)

	2004–05	2003–04
	(in dollars)	
Opening Balance	**82,568,940,165**	**81,857,869,870**
Receipts and Other Credits		
Contributions		
Government employees	14,139,916	15,660,821
Retired employees	35,986,791	38,104,961
Public Service Corporation employees	795,437	5,080,136
Employer contributions		
Government	39,358,048	41,685,917
Public Service Corporations	584,320	667,992
Transfers from other pension funds	1,259,203	4,649,101
Interest	6,529,162,618	6,647,335,212
Total	**6,621,286,333**	**6,753,184,140**
Payments and Other Charges		
Annuities	3,696,750,519	3,550,134,808
Minimum benefits	10,347,997	12,717,339
Pension divisions payments	35,903,746	29,676,739
Pension transfer value payments	64,359,565	56,499,977
Returns of contributions		
Government employees	304,948	597,535
Public Service Corporation employees	90,822	(11,597)
Transfers to other pension funds	57,708,532	94,907,641
Transfers to Canada Post Corporation pension plan	–	6,422,938
Actuarial liability adjustment	770,000,000	2,240,000,000
Administrative expenses	53,500,955	51,168,465
Total	**4,688,967,084**	**6,042,113,845**
Receipts less Payments	**1,932,319,249**	**711,070,295**
Closing Balance	**84,501,259,414**	**82,568,940,165**

The account transaction statement above is unaudited.

Public Service Pension Fund Account Statement

(for the year ended March 31, 2005)

	2004–05	2003–04
	(in dollars)	
Opening Balance	**143,167,778**	**117,799,938**
Receipts and Other Credits		
Contributions		
Government employees	749,209,162	711,242,730
Retired employees	10,250,079	7,067,981
Public Service Corporation employees	64,150,498	62,441,236
Employer contributions		
Government	1,928,133,677	1,833,639,249
Public Service Corporations	133,419,564	125,600,388
Actuarial liability adjustment	3,500,000	3,500,000
Transfers from other pension funds	56,787,058	31,424,966
Transfer value election	6,419,864	32,403,363
Total	**2,951,869,902**	**2,807,319,913**
Payments and Other Charges		
Annuities	59,186,404	31,523,202
Minimum benefits	1,947,638	1,534,575
Pension divisions payments	2,288,691	919,400
Pension transfer value payments	37,754,454	23,974,468
Returns of contributions		
Government employees	6,081,707	7,270,022
Public Service Corporation employees	1,593,838	1,924,122
Transfers to other pension funds	3,920,666	2,674,362
Transfers to Canada Post Corporation pension plan	_	(1,956,160)
Administrative expenses	7,538,354	5,565,614
Total	**120,311,752**	**73,429,605**
Receipts less Payments	**2,831,558,150**	**2,733,890,308**
Transfers to Public Sector Pension Investment Board	**2,825,086,198**	**2,708,522,468**
Closing Balance	**149,639,730**	**143,167,778**

The account transaction statement above is unaudited.

Retirement Compensation Arrangements Account

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

Transactions pertaining to both RCA No. 1 and RCA No. 2, such as contributions, benefits, and interest credits, are recorded in the RCA Account, which is maintained in the Accounts of Canada. The RCA Account earns interest quarterly at the same rates as those credited to the Public Service Superannuation Account. The RCA is registered with the Canada Revenue Agency (CRA) and a transfer is made annually between the RCA Account and CRA either to remit a 50-per-cent refundable tax in respect of 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 ($14.6 million and $9.8 million in 2004).

RCA No. 1

For tax purposes, financial transactions for plan members who earned more than $114,400 in 2005 are recorded separately. As of March 31, 2005, there were 9,300 public service employees in this category and 1,573 retirees receiving RCA No. 1 benefits.

RCA No. 1 Statement

(Public Service Portion)

(for the year ended March 31, 2005)

	2004–05	2003–04
	(in dollars)	
Opening Balance	**416,151,867**	**356,603,407**
Receipts and Other Credits		
Contributions		
Government employees	9,673,579	11,509,684
Retired employees	264,183	354,791
Public Service Corporation employees	1,272,443	1,477,650
Employer contributions		
Government	78,984,352	162,848,564
Public Service Corporations	10,862,035	20,436,021
Interest	36,389,184	34,955,714
Actuarial liability adjustment	2,400,000	14,600,000
Transfer value election	–	8,973
Total	**139,845,776**	**246,191,397**
Payments and Other Charges		
Annuities	4,529,484	2,741,106
Minimum benefits	29	61,277
Pension divisions payments	598,590	314,854
Pension transfer value payments	247,245	125,052
Returns of contributions		
Government employees	16,432	9,124
Public Service Corporation employees	8,684	5,606
Transfer to other pension plans	990,991	42,121,032
Transfers to Canada Post Corporation pension plan	–	(20,625)
Refundable tax	68,440,104	141,285,511
Total	**74,831,559**	**186,642,937**
Receipts less payments	**65,014,217**	**59,548,460**
Closing Balance	**481,166,084**	**416,151,867**

The account transaction statement above is unaudited.

RCA No. 2

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

RCA No. 2 Statement

(for the year ended March 31, 2005)

	2004–05	2003–04
	(in dollars)	
Opening Balance	**835,423,865**	**832,924,383**
Receipts and Other Credits		
Government contributions and interest		
Contributions	–	–
Interest	64,933,033	66,501,801
Actuarial liability adjustment	10,300,000	9,800,000
Total	**75,233,033**	**76,301,801**
Payments and Other Charges		
Annuities	77,077,670	75,401,760
Refundable tax	(833,122)	(1,599,441)
Total	**76,244,548**	**73,802,319**
Receipts less Payments	**(1,011,515)**	**2,499,482**
Closing Balance	**834,412,350**	**835,423,865**

The account transaction statement above is unaudited.

Supplementary Death Benefit

As at March 31, 2005, there were 260,090 active participants and 122,586 retired elective participants in the Supplementary Death Benefit Plan. During fiscal year 2004–05, 4,700 claims for Supplementary Death Benefits were paid.

Public Service Death Benefit Account Statement
(for the year ended March 31, 2005)

	2004–05	2003–04
	(in dollars)	
Opening Balance	**2,100,375,954**	**1,998,277,095**
Receipts and Other Credits		
Contributions		
Employees (government and Public Service Corporations)	63,750,919	61,554,346
Government		
General	7,397,981	7,305,629
Single premium for $10,000[1] benefit	1,343,749	1,256,548
Public Service Corporations	835,829	811,248
Interest	167,449,737	163,384,196
Total	**240,778,215**	**234,311,967**
Payments and Other Charges		
Benefit payments		
General[2]	88,676,074	87,557,810
$10,000 benefit[3]	40,537,332	44,572,812
Other death benefit payments	73,965	82,486
Total	**129,287,371**	**132,213,108**
Receipts less Payments	**111,490,844**	**102,098,859**
Closing Balance	**2,211,866,798**	**2,100,375,954**

The account transaction statement above is unaudited.

Notes:

(1) Single premium for a $5,000 benefit prior to September 14, 1999, and for a $10,000 benefit effective September 14, 1999.

(2) Benefits paid in respect of participants who, at the time of death, were employed in the Public Service or were in receipt of an immediate pension under the Act.

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

Statistical Tables

Table 1

Pensions in Pay
(in Fiscal Year)

Number of Pensions and Survivor Pensions in Pay as at March 31

Fiscal Year	Pensions(1)	Survivor Pensions(2)	Total
2002–03	159,029	55,522	214,551
2003–04	159,693	56,413	216,106
2004–05	161,468	59,060	220,528

Average Annual Amount—Pensions and Survivor Pensions in Pay as at March 31(3)

		Pensions(1)			Survivor Pensions		
Fiscal Year		**Men**	**Women**	**Total**	**Spouse / Common Law Partner**	**Children**	**Students**
2002–03	Average Annual Amount	$22,502	$12,890	**$19,233**	**$9,279**	**$1,580**	**$2,152**
	Average Age	70.03	69.28	**69.78**	**75.87**		
	Average Pensionable Service	24.77	20.29	**23.25**	**21.56**		
2003–04	Average Annual Amount	$23,477	$13,547	**$20,047**	**$9,737**	**$1,669**	**$2,097**
	Average Age	70.29	69.43	**69.99**	**76.18**		
	Average Pensionable Service	24.83	20.40	**23.30**	**21.66**		
2004–05	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**		

(1) Includes immediate annuities (including those receiving a disability retirement benefit), 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 (in Fiscal Year)

Pensions that Became Payable(1), (2)

Fiscal Year	Men	Women	Total	Total Amount Paid	Average Pension
2002–03	3,024	2,129	5,153	$128,060,113	$24,851
2003–04	3,476	2,485	5,961	$165,565,831	$27,793
2004–05	4,046	3,052	7,098	$208,051,220	$29,311

Pensions that Became Payable to Survivors(2)

Fiscal Year	Spouse / Common Law Partner	Children and Students	Total	Total Amount Paid	Avg. Pension Spouse / Common Law Partner	Avg. Pension Children and Students
2002–03	2,929	367	3,296	$33,012,334	$11,002	$2,127
2003–04	2,895	343	3,238	$33,941,926	$11,453	$2,262
2004–05	2,874	297	3,174	$34,246,778	$11,671	$2,346

(1) For 2004–05, the pensions that became payable include immediate annuities (4,774), deferred annuities (387), annual allowances payable to former contributors only (1,475), and disability retirement benefits (462).

(2) These amounts include indexation.

Table 3

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

Fiscal Year	Age at Retirement															
	50–54[(2)]	**55**	**56**	**57**	**58**	**59**	**60**[(3)]	**61**	**62**	**63**	**64**	**65**	**66 and over**	**Total**	**Avg. Age**[(4)]	**Average Unreduced Pension**[(5),(6)]
2002–03	47	660	249	166	148	125	651	243	178	152	118	185	212	**3,134**	**59.53**	$29,886
2003–04	56	930	323	218	189	156	676	287	202	158	140	213	242	**3,790**	**59.26**	$32,936
2004–05	95	1,278	446	331	296	163	777	302	242	176	168	252	248	**4,774**	**58.85**	$34,478

(1) Includes unreduced pensions (immediate annuities), excludes those receiving an immediate annuity as a result of a disability retirement benefit (462 in 2004–05).

(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 fiscal year 2004–05, there were 387 deferred annuities (215 men, 172 women) that became payable at age 60.

(4) For fiscal year 2004–05, the average retirement age for men was 58.64 and for women it was 59.23.

(5) These amounts include indexation.

(6) For fiscal year 2004–05, the average unreduced pension for men was $35,041 and for women it was $33,489.

Table 4

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

Fiscal Year	Annual Allowances[1]				Lump Sum Payments[2]	
	Number		Total	Average Allowance[3]	Number	Amount
	Men	Women				
2002–03	609	667	1,276	$18,526	7,075	$207,432,033
2003–04	633	744	1,377	$21,287	6,843	$218,432,669
2004–05	615	860	1,475	$20,978	5,681	$210,006,969

(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 (not including Canada Post), and amounts transferred under the *Pension Benefits Division Act*.

(3) These amounts include indexation.

Table 5

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

Changes in the Number of Active Contributors	Men	Women	Total
Number of Active Contributors, April 1, 2004	124,134	143,596	267,730
Additions	7,507	10,567	18,074
Deletions			
Employees leaving the Public Service(1)	6,664	7,419	14,083
Reversions to a non-contributory status(2)	276	281	557
Deaths	200	129	329
Total Deletions	7,140	7,829	14,969
Number of Active Contributors, March 31, 2005	124,501	146,334	270,835

Changes in the Number of Retirees(3)	Total
Number of Retirees, April 1, 2004	159,659
Additions	7,098
Deletions	5,289
Number of Retirees, March 31, 2005	161,468

Changes in the Number of Survivors on Pensions

Survivors

	Total
Number of Survivors on Pension, April 1, 2004	56,282
Additions	2,874
Deletions	2,411
Number of Survivors on Pension, March 31, 2005	56,745

Children and Students

	Total
Number of Children and Students on Pension, April 1, 2004	2,064
Additions	297
Deletions	46
Number of Children and Students on Pension, March 31, 2005	2,315

(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 contributions temporarily (e.g. part-time, leave without pay, etc.).

(3) Does not include 5,552 deferred annuitants as at March 31, 2005.

Table 6

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

	Age at Termination[1]						
Years of Pensionable Service[2]	**Under 30**	**30–34**	**35–39**	**40–44**	**45–49**	**Total**	**Total ($)**
Under 5	264	173	137	126	87	**787**	
5–9	21	80	73	71	39	**284**	
10–14	0	15	79	52	47	**193**	
15–19		0	19	34	49	**102**	
20–24			1	14	36	**51**	
25–29				1	12	**13**	
30–35					1	**1**	
Men, total	**133**	**124**	**130**	**115**	**101**	**603**	
Women, total	**152**	**144**	**179**	**183**	**170**	**828**	
OVERALL TOTAL	**285**	**268**	**309**	**298**	**271**	**1,431**	**$102,114,019**

(1) Average age for contributors receiving transfer value payments was 36.81 years for men, 38.03 years for women, and 37.51 for men and women combined.

(2) Average pensionable service for contributors receiving transfer value payments was 6.70 years for men, 7.29 years for women, and 7.04 for men and women combined.

Table 7

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

	Active Participants			Retired Participants[1]			Death Benefits Paid			
Fiscal Year	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Amount Paid**
2002–03	120,454	139,649	260,103	82,558	37,661	120,219	3,674	1,227	4,901	$125,323,904
2003–04	121,102	142,166	263,268	82,032	38,781	120,813	3,727	1,186	4,913	$132,213,108
2004–05	121,266	144,824	266,090	82,235	40,351	122,586	3,491	1,209	4,700	$129,287,371

(1) Includes 57 men and 21 women paying at a commercial rate.

Glossary of Terms

A

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

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

Actuarial valuation — 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 dealers

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

Consumer Price Index (CPI) — This is 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 the individual from engaging in any employment for which the individual is reasonably suited by virtue of his or her education, training, or experience and that can reasonably be expected to last for the rest of the individual's life

E

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

Excess of actuarial value of net assets 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 — agreement negotiated between the Government of Canada and an eligible employer to provide portability of accrued pension credits from one pension plan to the other

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

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

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

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

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

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

Q

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

R

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

S

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

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

Supplementary death benefit — decreasing term life insurance benefit equal to twice the annual salary of the plan member; coverage decreases by 10 per cent per year starting at age 66; a minimum amount of coverage ($10,000) is provided at no cost to the plan member at age 65 for plan members entitled to an immediate annuity or an annual allowance payable within 30 days after termination of employment in the Public Service and is maintained for life

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

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

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

T

Transfer value — benefit available to contributors who leave the Public Service before age 50 with at least two years of pensionable service; this benefit is a lump sum and represents the value of the plan member's future pension benefits; it must be transferred to another registered pension plan, to a retirement savings vehicle, or to a financial institution to purchase an annuity

Y

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