Federal government financial statements

EXTRACTS FROM THE GOVERNMENT FINANCIAL STATEMENTS

http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2015/pdf/v1s02-eng.pdf (p.20 /41)

Defines the main pension plans covered by the Government Financial statements – covers among other the Public Service pension plan (main government plan)

(a) Pension benefits

The Government sponsors a number of defined benefit pension plans covering substantially all the employees of the federal public service, as well as certain Public Service corporations as defined in the *Public Service Superannuation Act*, territorial governments, members of the Canadian Forces including the Reserve Force, members of the Royal Canadian Mounted Police, federally appointed judges and Members of Parliament, including Senators. The public service, Canadian Forces – Regular Force and Royal Canadian Mounted Police pension plans represent the three main public sector pension plans sponsored by the Government. In addition, some of the consolidated Crown corporations and other entities maintain their own defined benefit pension plans covering substantially all of their employees. In this note, the term "employees" is used in a general manner to apply to plan members of the different groups.

The defined benefit pension plans are designed to provide employees with a retirement income during their lifetime and, in the case of Government sponsored plans, are indexed to inflation. The indexation for Crown corporation and other entity pension plans varies depending on the specific plan. In the event of death, the pension plans also provide an income for a plan member's eligible survivors and dependants.

Pension benefits generally accrue as follows:

For the three main public sector pension plans, pension benefits generally accrue based on a member's average earnings during the best five consecutive years of earnings and years of pensionable service. Plan members can accumulate up to a maximum of 35 years at a rate of two percent per year of pensionable service. Pension benefits are coordinated with the Canada and the Quebec Pension Plan benefits.

For the Canadian Forces – Reserve Force pension plan, pension benefits accrue based on total pensionable service and pensionable earnings over the service period.

For the Members of Parliament retiring allowance plan, basic allowances accrue at a rate of three percent per year of pensionable service multiplied by the average of the best five years of sessional indemnity up to a maximum of 75 percent of the plan member's average sessional indemnity. Retiring allowance benefits are coordinated with the Canada and the Quebec Pension Plan benefits at age 60. Members of Parliament are entitled to benefits after they have contributed to the plan for at least six years.

For federally appointed judges, pension benefits do not have an explicit accrual rate. Instead, federally appointed judges may retire with a pension equivalent to two-thirds of the salary annexed to their office, once the member has completed 15 years of pensionable service and the sum of the member's age and years of service equals 80 or more.

For the consolidated Crown corporation and other entity pension plans, pension benefits vary depending on the terms of the plans. Some plans are closed to new entrants.

http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2015/pdf/v1s02-eng.pdf (p.21 /41)

Identifies that funding is using actuary best estimate assumptions and accounting is using Government best estimate assumptions. So these 2 serve different purposes.

iii. Actuarial valuations

(a) For funding purposes

Pursuant to the *Public Pensions Reporting Act*, actuarial valuations of the pension plans sponsored by the Government are performed at least every three years to determine the state of the pension plans, as well as to assist in making informed decisions regarding the financing of the Government's pension benefit obligations. The actuarial assumptions underlying the valuations are based on the actuary's best estimates.

The most recent triennial actuarial valuations were conducted as at March 31, 2013 for the Canadian Forces – Regular Force, Canadian Forces – Reserve Force, the Members of Parliament and the federally appointed judges pension plans; as at March 31, 2012 for the Royal Canadian Mounted Police pension plan; and as at March 31, 2014 for the public service pension plan, for which the valuation is currently in-progress.

(b) For accounting purposes

Actuarial valuations of the public sector pension and other employee and veteran future benefit plans are performed every year to measure and report the obligations and to attribute the costs of the benefits to the period. Actuarial valuations are conducted as at March 31, except for some of the consolidated Crown corporations and other entities for which the actuarial valuations are conducted as at December 31. The actuarial valuations are based on the most recent or any in-progress actuarial valuation for funding purposes, as applicable, in regards to the majority of the demographic assumptions. The other assumptions underlying the valuations are based on best estimates of the Government or of management of the consolidated Crown corporation and other entities.

http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2015/pdf/v1s02-eng.pdf (p.24 /41)

Clearly indicates that for funded pension plans, the discount rate is the expected return on plan assets vs other types of plans (unfunded and other future benefits – which are unfunded) are using the borrowing rate identified as the Government of Canada long-term bonds.

vii. Actuarial assumptions

The assumptions used in the actuarial valuations for accounting purposes are based on the Government's or the consolidated Crown corporations and other entities management's best estimates of expected long-term experience and short-term forecasts, as well as the majority of the demographic assumptions underlying the most recent or any in-progress actuarial valuations for funding purposes. The assumptions include estimates of future inflation, interest rates, returns on investments, general wage increases, workforce composition, retirement rates and mortality rates.

The discount rates used to measure the present value of the accrued benefit obligations, as well as the costs of benefits earned, plan amendments, plan curtailments, plan settlements and the interest expense, for public sector pensions and other employee and veteran future benefits sponsored by the Government are as follows:

for funded pension benefits, the streamed expected rates of return on invested funds;

for unfunded pension benefits, the streamed weighted average of Government of Canada long-term bond rates; and

for other future benefits, the expected Government of Canada long-term bond rate at the valuation date.

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

http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2015/pdf/v1s02-eng.pdf (p.25 /41)

The following table identifies the discount rate used by the Government. We can derive from it that the Government uses an expected return on plan assets for discount rate in the funded pension plans and that the initial rate is 4.9% (the benefit and interest column) increasing to 6.1% in year 2022, giving a weighted average of 5.8% which is shown in the accrued benefit obligation column.

The principal actuarial assumptions used in measuring the accrued benefit obligations as at March 31 for Government sponsored plans, as well as the related future benefit and interest expenses for the year, were as follows:

	2015		2014	
	Accrued benefit obligations	Benefit and interest expenses	Accrued benefit obligations	Benefit and interest expenses
Discount rates [(1)] —				
Funded pension benefits	5.8 %	4.9 %	5.9 %	4.7 %
Unfunded pension benefits	4.2 %	5.1 %	4.6 %	5.4 %
Other employee and veteran future benefits	2.4 %	3.5 %	3.5 %	2.7 %
Expected rate of return on investments		4.9 %		4.7 %
Long-term rate of inflation	2.0 %	2.0 %	2.0 %	2.0 %
Long-term general wage increase	2.6 %	2.6 %	2.6 %	2.6 %
Assumed health care cost trend rates —				
Initial health care cost trend rate	4.5 %	4.6 %	4.6 %	3.8 %
Cost trend rate is expected to stabilize at	4.8 %	4.8 %	4.8 %	4.8 %
Year that the rate is expected to stabilize	2024	2023	2023	2022

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

The discount rates used by the consolidated Crown corporations and other entities to measure their accrued benefit obligations range from 4.8 percent to 6.3 percent (5.7 to 6.3 percent in 2014) for the funded pension benefits, from 2.2 percent to 3.5 percent (3.1 to 4.3 percent in 2014) for the unfunded pension benefits, and from 2.2 percent to 4.0 percent (2.8 to 4.8 percent in 2014) for the other employee future benefits.

EXTRACTS FROM THE PUBLIC SERVICE PENSION PLAN FINANCIAL STATEMENTS

http://www.tbs-sct.gc.ca/psm-fpfm/pensions/publications/reports-rapports/pspp-rrfp/2015/rpspp-rrrfp-eng.pdf (page 27 /111)

It identifies that the OAG audits the Government Financial statements but also performs the audit in respect of the public service pension plan.

Financial and performance audits

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

http://www.tbs-sct.gc.ca/psm-fpfm/pensions/publications/reports-rapports/pspp-rrfp/2015/rpspp-rrrfp-eng.pdf (page 47 /111)

It identifies that PSPC and Treasury Board as responsible for the FS of the plan. Hence the decision makers of best estimate assumptions to be used.

Responsibility for the integrity and fairness of the financial statements of the public service pension plan (the pension plan) rests with Public Services and Procurement Canada (PSPC) and the Treasury Board of Canada Secretariat (the Secretariat). The Secretariat carries out responsibilities in respect of the overall management of the pension plan, while PSPC is responsible for the day-to-day administration of the pension plan and for maintaining the books of accounts.

The financial statements of the pension plan for the year ended March 31, 2015, have been prepared in accordance with the stated accounting policies set out in Note 2 of the financial statements, which are based on Canadian accounting standards for pension plans. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian accounting standards for pension plans. The financial statements include management's best estimates and judgments where appropriate.

http://www.tbs-sct.gc.ca/psm-fpfm/pensions/publications/reports-rapports/pspp-rrfp/2015/rpspp-rrrfp-eng.pdf (page 55 /111)

It indicates that Section 4600 is used in preparing the plan FS.

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

http://www.tbs-sct.gc.ca/psm-fpfm/pensions/publications/reports-rapports/pspp-rrfp/2015/rpspp-rrrfp-eng.pdf

It provides the assumptions used in the pension plan financial statements. Those are aligned with the Government FS, representing the long term expected rate of return on plan assets. The fact that the entities preparing the plan FS are government entities and the use of similar assumptions fully makes sense.

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

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

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

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

Quebec government financial statements

EXTRACTS FROM THE GOVERNMENT FINANCIAL STATEMENTS

http://www.finances.gouv.qc.ca/documents/Comptespublics/en/CPTEN_vol1-2014-2015.pdf (page 95/192)

It indicates that the best estimate assumptions of the Government are used.

Pension plans and other employee future benefits

Obligations relating to the pension plans and other employee future benefits

Obligations relating to defined-benefit pension plans and employee future benefit programs are evaluated using the projected benefit method prorated on years of service and the most probable assumptions set by the Government.

http://www.finances.gouv.qc.ca/documents/Comptespublics/en/CPTEN_vol1-2014-2015.pdf (page 116/192)

It indicates that most significant plan is the Government and Public employees retirement plan (RREGOP).

The Government's defined-benefit pension plans

Several defined-benefit pension plans have been put in place by the Government for its employees, for the Members of the National Assembly and for the judges of the Court of Québec. The Government and participants contribute to the funding of all of these plans. Most government employees participate in the Government and Public Employees Retirement Plan (RREGOP). The other plans are for specific categories of employees, such as management personnel and the employees of the Université du Québec and its constituent universities.

http://www.finances.gouv.qc.ca/documents/Comptespublics/en/CPTEN_vol1-2014-2015.pdf (page 118/192)

Types of pension plans

The Government's defined-benefit pension plans can be divided into two types: "cost-sharing" and "cost-balance". These two types of plans differ from one another in regard to the Government's responsibility for funding the cost of accrued benefits and to the obligations relating to the payment of benefits.

"Cost-sharing" plans

So-called "cost-sharing" pension plans are joint plans for which the Government's responsibility for payment of the benefits granted by the plan is limited to its share of the cost of benefits accrued by employees. Therefore, with this type of plan, the portion of obligations relating to accrued benefits for which the Government is responsible is taken into account in the pension plans liability presented in the Government's consolidated financial statements.

Regarding obligations relating to accrued benefits payable by participants and the net assets available for paying these benefits, the information is presented in the pension plans' financial statements published by the Commission administrative des régimes de retraite et d'assurances (CARRA).

"Cost-balance" plans

So-called "cost-balance" pension plans are plans for which the Government covers the total cost of accrued benefits, net of the contributions paid by employees and certain employers. Therefore, with this type of plan, all obligations relating to accrued benefits are taken into account in the pension plans liability presented in the Government's consolidated financial statements.

http://www.finances.gouv.qc.ca/documents/Comptespublics/en/CPTEN_vol1-2014-2015.pdf (page 123/192)

Main economic assumptions used
(in percent)

	Plans administered by CARRA		PPUQ	
	2015-2024	2025 and thereafter	2015-2024	2025 and thereafter
Yield, net of inflation	4.45	4.45	4.25	4.25
Inflation rate	2.05	2.50	2.05	2.50
Discount rate for obligations relating to accrued benefits	6.50	6.95	6.30	6.75
Salary escalation rate, net of inflation	0.59	0.50	0.50	0.50

Changes in the assumptions used in actuarial valuations may lead to an increase or decrease in the value of obligations relating to accrued benefits. The table presented below, which takes the main economic and demographic assumptions into account, shows the impact of a change of 0.25% in the value of obligations for the four main pension plans, i.e. RREGOP – regular service, the PPMP – regular service, the TPP and the CSSP. The table also shows the impact of a half-year difference in life expectancy. According to current assumptions for the RREGOP, the life expectancy of beneficiaries aged 60 is 25.2 years for a man and 28.4 years for a woman.

EXTRACTS FROM THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN (RREGOP) FINANCIAL STATEMENTS

http://www.carra.gouv.qc.ca/pdf/rapport_annuel_2015_partie3.pdf (page 13/246)

It indicates that the assumptions are best estimates as selected by the plan administrator. The pension plan is supported by a pension committee that delegates the administration to the CARRA.

Les obligations au titre des prestations de retraite sont déterminées selon la méthode de répartition des prestations au prorata des années de service et les hypothèses les plus probables retenues par l'administrateur du RREGOP. Les évaluations actuarielles réalisées pour les états financiers du RREGOP sont produites tous les trois ans. Pour les exercices compris entre deux évaluations, la valeur des obligations au titre des prestations de retraite est déterminée par extrapolation des résultats de l'évaluation actuarielle la plus récente. Chaque année, les actuaires signataires déterminent si un ajustement des obligations obtenues par extrapolation est requis pour tenir compte, le cas échéant, de changements apportés au régime, de modifications apportées aux hypothèses actuarielles et de changements touchant les participants au régime. Ces obligations représentent la valeur des prestations attribuables aux années de service accumulées jusqu'à la fin du présent exercice.

http://www.carra.gouv.qc.ca/pdf/rapport_annuel_2015_partie3.pdf (page 26/246)

This table shows the main assumptions used. Note that the assumptions are really close to the ones from the Government but 10 to 15 bps lower (6.4% and 6.8% vs 6.5% and 6.95%). This reflects the distinction that under PS3250 it is Government best estimate and under CICA 4600 this is the administrator best estimate which ends up being different entities.

Les principales hypothèses économiques utilisées pour déterminer les obligations au titre des prestations de retraite sont les suivantes :

	2015		2014	
	Années d'application			
	2012 à 2024	2025 et suivantes	2012 à 2024	2025 et suivantes
Taux d'inflation	2,10 %	2,50 %	2,10 %	2,50 %
Taux d'actualisation	6,40 %	6,80 %	6,40 %	6,80 %
Taux d'augmentation des salaires	2,50 %	3,00 %	2,50 %	3,00 %