

PROVINCE OF SASKATCHEWAN



2012

ANNUAL REPORT

SASKENERGY RETIRING
ALLOWANCE PLAN

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Letters of Transmittal



Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the Annual Report of the SaskEnergy Retiring Allowance Plan for the year ending December 31, 2012.

A handwritten signature in black ink, appearing to read "Ken Krawetz". The signature is fluid and cursive.

Ken Krawetz
Minister of Finance

The Honourable Ken Krawetz
Minister of Finance

Sir:

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the Annual Report of the SaskEnergy Retiring Allowance Plan for the year ending December 31, 2012.

A handwritten signature in black ink, appearing to read "Brian Smith". The signature is fluid and cursive.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

SaskEnergy Retiring Allowance Plan

Introduction

The SaskEnergy Retiring Allowance Plan is a benefit plan that was carried forward from SaskPower when SaskEnergy was created on June 1, 1988.

The purpose of the SaskEnergy Retiring Allowance Plan is to provide retirement benefits to SaskEnergy and its wholly-owned subsidiary corporations' employees.

SaskEnergy has not established a trust nor does it hold property for the specific purpose of providing benefits to the employees. Benefits are funded out of current operations of SaskEnergy.

SaskEnergy was the administrator of the Plan from June 1, 1988 to January 13, 2004. On January 13, 2004, an Order in Council designated the Public Employees Benefits Agency (PEBA) as the administrator of the Plan.

Effective July 14, 2005 the Retiring Allowance was converted to an annual contribution registered savings plan for employees who are members of the Communications, Energy and Paperworkers Union of Canada, Local 649 (in-scope employees). For in-scope employees, the years of service is the time earned up to and including December 31, 2004.

Effective January 1, 2008, the years of service time is reduced by up to 2.5 days annually for contributions to the registered savings plan for in-scope employees. In addition, the years of service are reduced by up to 10 days annually for conversion into credits to the In-scope Flexible Spending Account for those in-scope employees with 30 years of company service.

Effective June 13, 2006 the Retiring Allowance was converted to an annual contribution registered savings plan for management employees, other than designated executive employees. For management employees, the years of service is the time earned up to and including December 31, 2005.

For designated executive members, benefits under the plan continue to accrue within the plan, with benefits for service time earned prior to December 31, 2005 payable at retirement, and benefits for service time earned subsequent to December 31, 2005 payable upon termination of the executive member.

Eligibility

SaskEnergy currently provides a Retiring Allowance to eligible employees upon retirement from SaskEnergy. To be eligible for the Retiring Allowance an employee must be eligible to retire from the Power Corporation Superannuation Plan or the Public Employees Pension Plan.

For executive members, benefits which have accrued prior to December 31, 2005 are eligible to be paid out upon retirement from SaskEnergy. To be eligible for the Retiring Allowance an executive employee must be eligible to retire from the Power Corporation Superannuation Plan, or the Public Employees Pension Plan. With respect to benefits which accrue subsequent to December 31, 2005, executive employees, who terminate employment with SaskEnergy prior to retirement, are eligible to receive payment for service time earned after December 31, 2005.

As of December 31, 2012, there were 623 (2011 - 670) eligible employees and 37 (2011 - 38) retired employees who received benefits from the Plan during the year.

Benefits

The Retiring Allowance is calculated as:

- Four days pay per year of company service for the first 35 years if the employee reached 35 years company service on or prior to January 31, 2000.

-
- If the employee did not reach 35 years company service before January 31, 2000, then five days pay per year of company service up to 35 years.
 - Two days pay per year of service for any company service over 35 years.

For in-scope employees, the years of service is the time earned up to and including December 31, 2004 less service time converted to other employee benefits. For management

employees, the years of service is the time earned up to and including December 31, 2005.

Designated executive employees, with service time subsequent to December 31, 2005, who terminate employment prior to retirement, are also eligible to receive five days pay at their termination rate for years of service earned after December 31, 2005.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As administrators of the SaskEnergy Retiring Allowance Plan, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

We believe the SaskEnergy Retiring Allowance Plan has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian generally accepted accounting principles.

I enclose the financial statements of the SaskEnergy Retiring Allowance Plan for the year ended December 31, 2012 and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan
April 2, 2013



Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Actuaries' Opinion

Aon Hewitt was retained by SaskEnergy to perform an actuarial valuation of the SaskEnergy Retirement Allowance Plan's financial status as of December 31, 2012. This valuation has been prepared for the purpose of determining the actuarial information to be included in the Plan's financial statements as of December 31, 2012.

In my opinion, for the purpose of this actuarial valuation:

- The data on which this valuation is based is sufficient and reliable;
- The assumptions have been adopted as management's best estimates for accounting purposes and consequently I have not rendered an opinion on them; however, the assumptions are, in aggregate not unreasonable, when considering the circumstances of the plan and the purpose of the valuation;
- The actuarial cost method employed is appropriate; and
- The valuation conforms to the requirements of the International Financial Reporting Standards, IAS 19.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses that will be revealed in subsequent valuations.

This actuarial valuation has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice.



Troy Milnthorp, FSA, FCIA
Vice President



Jacob Schwartz, ASA, ACIA
Senior Associate

January 17, 2013

SaskEnergy Retiring Allowance Plan

Financial Statements

Year Ended December 31, 2012



Independent Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the SaskEnergy Retiring Allowance Plan, which comprise the statement of financial position as at December 31, 2012, and the statements of changes in net assets available for benefits and changes in accrued benefit obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the SaskEnergy Retiring Allowance Plan as at December 31, 2012, and the changes in net assets available for benefits and accrued benefit obligations for the year then ended in accordance with Canadian accounting principles for pension plans.

Regina, Saskatchewan
April 2, 2013

Bonnie Lysyk, MBA, CA
Provincial Auditor

**SaskEnergy Retiring Allowance Plan
Statement of Financial Position**

Statement 1

As at December 31

	<u>2012</u>	<u>2011</u>
	(000's)	
ASSETS		
Contribution Receivable	<u>\$12,215</u>	<u>\$13,180</u>
Total Assets	<u>12,215</u>	<u>13,180</u>
NET ASSETS AVAILABLE FOR BENEFITS	12,215	13,180
Accrued benefit obligation (Note 3)	(12,215)	(13,180)
SURPLUS	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes to the financial statements)

**SaskEnergy Retiring Allowance Plan
Statement of Changes in Net Assets Available for Benefits**

Statement 2

Years Ended December 31

	<u>2012</u>	<u>2011</u>
	(000's)	
INCREASE IN ASSETS		
Contribution receivable	<u>\$788</u>	<u>\$1,319</u>
Total increase in assets	<u>788</u>	<u>1,319</u>
DECREASE IN ASSETS		
Eligible employee terminations	<u>(1,164)</u>	<u>(1,384)</u>
Other benefit payments	<u>(589)</u>	<u>(608)</u>
Total decrease in assets	<u>(1,753)</u>	<u>(1,992)</u>
Decrease in net assets	<u>(965)</u>	<u>(673)</u>
Net Assets Available for Benefits, beginning of the year	<u>13,180</u>	<u>13,853</u>
Net Assets Available for Benefits, end of the year	<u>\$12,215</u>	<u>\$13,180</u>

(See accompanying notes to the financial statements)

**SaskEnergy Retiring Allowance Plan
Statement of Changes in Accrued Benefit Obligations**

Statement 3

Years Ended December 31

	<u>2012</u>	(000's)	<u>2011</u>
Accrued benefits obligation, beginning of the year	\$13,180		\$13,853
INCREASE IN ACCRUED BENEFITS OBLIGATION:			
Experience loss	30		365
Interest on accrued obligation	444		542
Assumption change – Discount rate	277		372
Benefits accrued	<u>37</u>		<u>40</u>
	<u>788</u>		<u>1,319</u>
DECREASE IN ACCRUED BENEFITS OBLIGATION:			
Eligible employee terminations	(1,164)		(1,384)
Other benefit payments	<u>(589)</u>		<u>(608)</u>
	<u>(1,753)</u>		<u>(1,992)</u>
Accrued benefits obligation, end of year	<u>\$12,215</u>		<u>\$13,180</u>

(See accompanying notes to the financial statements)

SaskEnergy Retiring Allowance Plan Notes to the Financial Statements

December 31, 2012

1. Description of the Plan

The SaskEnergy Retiring Allowance Plan is a benefit plan that was carried forward from the Saskatchewan Power Corporation when SaskEnergy Incorporated (SaskEnergy) was created on June 1, 1988. The purpose of the SaskEnergy Retiring Allowance Plan is to provide retirement benefits to SaskEnergy and its subsidiary corporations' employees (the Participants).

SaskEnergy has not established a trust nor does it hold property for the specific purpose of providing benefits to the Participants. Benefits are funded out of current operations of SaskEnergy.

For employees who are members of the Communications, Energy and Paperworkers Union of Canada, Local 649 (in-scope employees), the years of service is the time earned up to and including December 31, 2004. Effective July 14, 2005 the retiring allowance was converted, for service time earned subsequent to December 31, 2004, to an annual contribution to a registered savings plan for those employees. Effective January 1, 2008, the Retiring Allowance Bank days are reduced by up to 2.5 days annually for contributions to the registered savings plan for in-scope employees. In addition, the Retiring Allowance Bank days are reduced by up to 10 days annually for conversion to the In-scope Flexible Spending Account for in-scope employees with 30 years of company service.

For management employees, the years of service is the time earned up to and including December 31, 2005. Effective June 13, 2006 the retiring allowance was converted, for service time earned subsequent to December 31, 2005 to an annual contribution to a registered savings plan for those employees, other than designated executive employees. For designated executive employees, for service time earned subsequent to December 31, 2005, the retirement benefit will continue to accrue within the plan.

The Plan is not registered under the *Income Tax Act* (Canada).

SaskEnergy managed the Plan from June 1, 1988 to January 13, 2004. On January 13, 2004, an Order in Council designated the Plan as a benefit program to be established, operated, administered and managed by the Public Employees Benefits Agency (PEBA). PEBA has an agreement with SaskEnergy setting out specific administration services that SaskEnergy will provide.

The following description is a summary of the contents of the Plan. For more complete information, reference should be made to the Plan document.

Eligibility

Under the Plan, SaskEnergy's permanent employees are eligible to receive benefits from the Plan upon termination of employment with SaskEnergy if they reach their benefit eligibility date prior to termination. The benefit eligibility date is the date when an employee becomes eligible to retire. If an active employee dies prior to retirement, the retiring allowance is paid to the employee's estate as a death benefit. Employees who are terminated for cause are not eligible.

For designated executive members, benefits which have accrued prior to December 31, 2005 are eligible to be paid out upon termination of employment with SaskEnergy if they reach their benefit eligibility date prior to termination. The benefit eligibility date is the date when an executive becomes eligible to retire. If an active executive dies prior to retirement, the retiring allowance is paid to the employee's estate as a death benefit. With respect to benefits which accrue subsequent to December 31, 2005, executive employees, who terminate employment with SaskEnergy prior to retirement, are eligible to receive payment for service time earned after December 31, 2005.

As of December 31, 2012, there were 623 (2011 – 670) participants in the Plan and 37 (2011 – 38) terminated participants who received benefits from the Plan during the year.

Benefits

Employees meeting the eligibility criteria receive a lump sum payment equal to:

- a) four days pay at their retirement salary rate multiplied by the first 35 years of service if 35 years of service was reached prior to January 31, 2000, or
- b) five days pay at their retirement salary rate multiplied by years of service to a maximum of 35 years, if 35 years was not reached prior to January 31, 2000, and
- c) two days pay multiplied by years of service for greater than 35 years (as defined in the Plan document).

For in-scope employees, the years of service is the time earned up to and including December 31, 2004 less service time converted to other employee benefits. For management employees, the years of service is the time earned up to and including December 31, 2005.

Designated executive employees, with service time subsequent to December 31, 2005, who terminate employment prior to retirement, are also eligible to receive five days pay at their termination rate for years of service earned after December 31, 2005.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the Canadian Institute of Chartered Accountants Handbook section 4600, Pension Plans. For matters not addressed in section 4600, International Financial Reporting Standards (IFRS) have been followed.

3. Accrued Benefits Obligation

The accrued benefits obligation of the Plan is receivable from SaskEnergy. The present value of the accrued benefits obligation was determined using the projected benefits method prorated on years of service and the best estimate assumptions of SaskEnergy's management. Experience losses result from actual experience differing from that expected and are recognized as an increase in the accrued benefits obligation.

An actuarial valuation was performed by Aon Hewitt as at December 31, 2012 to determine the actuarial present value of the accrued benefits obligation.

The accrued benefits obligation is based on certain assumptions about future events. Actual experience may vary significantly from the long-term assumptions used. The actuarial valuation is based on the following assumptions:

	<u>2012</u>	<u>2011</u>
Discount Rate	3.1%	3.6%
Inflation Rate	2.5%	2.5%
Salary Increase Rate	3.0%	3.0%
Termination Rate up to age 50	3.0%	3.0%

- Retirement - Members of the Power Corporation Superannuation Plan – Earlier of age 62 or when 37 years of service is attained
 - Members of the Public Employees Pension Plan – Age 58

The following illustrates the effect of changes in these assumptions on the accrued benefits obligation:

Assumption	Change Made	Change in Obligation at December 31, 2012 (000's)	Percentage change in Obligation
Termination Rate up to age 50	Plus 0.5%	(56)	(0.5%)
	Minus 0.5%	58	0.5%
Discount Rate	Plus 0.5%	(227)	(2.3%)
	Minus 0.5%	291	2.4%
Salary Increase Rate	Plus 0.5%	271	2.2%
	Minus 0.5%	(262)	(2.1%)

The actuarial present value of the accrued benefits obligation is long-term in nature and there is no market for settling this obligation. Therefore, determination of the fair value is subject to measurement uncertainty and is not practicable.

4. Financial Risk Management

The nature of the Plan's operations result in a statement of net assets available for benefits, accrued pension benefits and surplus that consists entirely of financial assets and liabilities. As benefits are funded out of current operations of SaskEnergy, the Plan's financial risks relate primarily to credit risk. The maximum credit risk to which it is exposed at December 31, 2012 is limited to the carrying value of its contributions receivable from SaskEnergy.

5. Related Parties

Included in these financial statements are transactions with SaskEnergy who is related to the Plan by virtue of common control by the Government of Saskatchewan.

The Plan has received the use of office space and administrative services from SaskEnergy at no charge. Additionally, PEBA provides administrative services to the Plan for an administration fee which is paid by SaskEnergy.