Saskatchewan Government Insurance Service Recognition Plan




Annual Report for 2018

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Government of Saskatchewan

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Letters of Transmittal

His Honour, The Honourable W. Thomas Molloy
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the Annual Report of the Saskatchewan Government Insurance Service Recognition Plan for the year ending December 31, 2018.

Donna Harpauer
Minister of Finance

The Honourable Donna Harpauer
Minister of Finance

Madam:

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the Annual Report of the Saskatchewan Government Insurance Service Recognition Plan for the year ending December 31, 2018.

Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency
Ministry of Finance

Saskatchewan Government Insurance Service Recognition Plan

Introduction

Saskatchewan Government Insurance (SGI) established the SGI Service Recognition Plan (the Plan) effective January 1, 1999, for the payment of retirement benefits to certain employees.

The Plan is not registered under the *Income Tax Act* (Canada). SGI has not established a trust nor does it hold property for the specific purpose of providing benefits to participants of the Plan. Benefits are funded out of current operations of SGI.

SGI was the administrator of the Plan from January 1, 1999 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 pursuant to *The Financial Administration Act, 1993*.

Enrolment

SGI out-of-scope employees receive benefits from the Plan, provided they meet eligibility requirements. At December 31, 2018, there were 225 (2017 – 237) participants in the Plan and 20 (2017 – 10) terminated participants who received benefits from the Plan during the year.

Benefits

Participants in the Plan are eligible for benefits upon termination of employment, without cause, provided they meet eligibility requirement of the earlier of the employee attaining age 50 or the sum of the employee's age and years of service is at least 75. Employees meeting either criterion receive a lump sum payment of five days salary, based on the termination salary rate, for each year of service with SGI.

A participant in the Plan who dies while a member of the Plan is deemed to satisfy the eligibility requirements. The member's beneficiary or estate will receive the same benefit as at termination or retirement based on the formula identified above.

The benefit received is considered a retiring allowance under the *Income Tax Act* (Canada) and is taxable in the hands of the member. A member who has years of service earned prior to 1996, is eligible for a portion of this payment to be a tax-free direct transfer to their RRSP.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As administrators of the Saskatchewan Government Insurance Service Recognition Plan, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian public sector accounting standards.

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

We believe the Saskatchewan Government Insurance Service Recognition Plan has a system of internal controls 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 public sector accounting standards.

The accrued benefits obligation is determined by an actuarial valuation. Actuarial valuation reports require management's best estimate assumptions about future events.

Enclosed are the financial statements of the Saskatchewan Government Insurance Service Recognition Plan for the year ended December 31, 2018, and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan
March 26, 2019

Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency
Ministry of Finance

Actuarial Opinion

With respect to the Saskatchewan Government Insurance Service Recognition Plan (the "plan"), I have prepared an actuarial valuation of the plan as at December 31, 2018 for the purpose of determining the necessary actuarial information for financial statement reporting in accordance with Section 3255 of the CPA Canada Public Sector Handbook (PS 3255).

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

- The data on which this valuation is based are sufficient and reliable.
- Where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and, in my opinion, the assumptions are appropriate for the purpose of the valuation.
- The actuarial cost methods and asset valuation methods employed are appropriate.
- The valuation conforms to the requirements of PS 3255.

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

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

Johanan Schmuecker
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

January 16, 2019

Saskatchewan Government Insurance Service Recognition Plan

Financial Statements

Year Ended December 31, 2018

PROVINCIAL AUDITOR
of Saskatchewan

INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

Opinion

We have audited the financial statements of the Saskatchewan Government Insurance Service Recognition Plan, which comprise the statement of financial position as at December 31, 2018, and the statement of operations and net financial assets and the statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Saskatchewan Government Insurance Service Recognition Plan as at December 31, 2018, and the results of its operations and changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards.
Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Saskatchewan Government Insurance Service Recognition Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards 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.

In preparing the financial statements, management is responsible for assessing Saskatchewan Government Insurance Service Recognition Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Saskatchewan Government Insurance Service Recognition Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Saskatchewan Government Insurance Service Recognition Plan's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Saskatchewan Government Insurance Service Recognition Plan's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Saskatchewan Government Insurance Service Recognition Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Saskatchewan Government Insurance Service Recognition Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during the audit.

Judy Ferguson

Regina, Saskatchewan
March 26, 2019

Judy Ferguson, FCPA, FCA
Provincial Auditor

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Saskatchewan Government Insurance Service Recognition Plan **Statement 1**
Statement of Financial Position

As at December 31

	(in thousands)	
	2018	**2017**
Financial Assets		
SGI Contributions Receivable (Note 3)	$ 7,421	$ 8,423
	7,421	8,423
Liabilities		
Benefits Liability (Note 3)	7,421	8,423
	7,421	8,423
Net Financial Assets and Accumulated Surplus (Statement 2)	$ -	$ -

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

Saskatchewan Government Insurance Service Recognition Plan **Statement 2**
Statement of Operations and Net Financial Assets

Year ended December 31

	(in thousands)	
	2018	**2017**
Revenues		
Contributions from SGI	$ 592	$ 632
	592	632
Expenses		
Benefits Expense	320	348
Interest	231	272
Amortization of Actuarial Losses	41	12
	592	632
Surplus (Deficit) for the year	-	-
Net Financial Assets, Beginning of Year	-	-
Net Financial Assets, End of Year (Statement 1)	$ -	$ -

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

Saskatchewan Government Insurance Service Recognition Plan **Statement 3**
Statement of Cash Flow

Year ended December 31

	(in thousands)	
	2018	**2017**
Operating Activities		
Contributions received from SGI	$ 1,594	$ 851
Benefits Paid	(1,594)	(851)
	-	-
Net Increase (Decrease) in Cash		
Cash, Beginning of Year	-	-
Cash, End of Year	$ -	$ -

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

1. Description of the Plan

Saskatchewan Government Insurance (SGI) established the SGI Service Recognition Plan (the Plan) on January 1, 1999 for the purpose of providing certain retirement benefits to SGI employees (the Participants).

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

SGI managed the Plan from January 1, 1999 to January 13, 2004. On January 13, 2004, an Order in Council designated the Plan as a benefit program to be operated, administered, and managed by the Public Employees Benefits Agency (PEBA). An agreement has been established between PEBA and SGI, which specifies the administrative services that SGI will provide.

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

Eligibility

Under the Plan, SGI out-of-scope employees are eligible for benefits upon termination of employment with SGI. Employees who are terminated for cause are not eligible. Employees must reach their benefit eligibility date prior to termination in order to receive benefits from the Plan. The benefit eligibility date is the earlier of:

a) Age plus service equal to or greater than 75; or
b) Age 50.

At December 31, 2018, there were 225 (2017 – 237) participants in the Plan. There were 20 (2017 – 10) terminated participants who received benefits from the Plan during the year, two (2017 – two) terminated participants who did not receive benefits from the Plan, 10 (2017 – 11) union employees that transferred into the Plan, and there were no (2017 – one) transfers out of the Plan and into the Union Plan.

Benefits

Employees meeting the eligibility criteria receive a lump sum payment of five days salary (salary rate being the salary paid at the time of cessation of active work) for each year of continuous service, less ineligible leave time and ineligible partial service time.

A participant in the Plan who dies while a member of the Plan is deemed to satisfy the eligibility requirements. The member’s beneficiary or estate will receive the same benefit payment based on the calculation identified above.

Plan Participation

Effective December 31, 2011, members in the Plan were given the option to either remain in the Plan and continue accruing benefits, or have their years of service and accrued benefit locked-in at December 31, 2011 and enter the new Management Employee Service Allowance (MESA) program effective January 1, 2012. The MESA provides for an annual payout to the employee, with no accrual of future benefits. The Plan is only open to existing union employees who promote into management, having their years of service locked in at the time of promotion, or to new executive employees of SGI.

2. Basis of Preparation and Significant Accounting Policies

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards. These statements do not present a statement of re-measurement gains and losses as the Plan has no re-measurement gains or losses. These statements also do not present a statement of changes in net financial assets as the Plan does not hold any non-financial assets. The following accounting policies are considered significant:

(a) Revenue recognition

Contributions are recognized as revenue when the benefit liability is incurred.

(b) Financial instruments

All financial instruments are measured at fair value on initial recognition and recorded on the statement of financial position. Financial instruments classified as loans and receivables are subsequently measured at amortized cost. The SGI contributions receivable, a financial instrument, has been classified in the loans and receivable category. The fair value of this receivable is its carrying value.

(c) Accrued benefit obligation

The accrued benefit obligation and cost of service benefits are determined using the projected benefit method pro-rated on service.

(d) Measurement uncertainty

The preparation of financial statements in accordance with Public Sector Accounting Standards 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 revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the benefit liability.

(e) Accounting policy changes

Effective April 1, 2017, certain new standards, amendments to standards, and interpretations were adopted.

i) PS 2200 Related Party Disclosures, a new standard defining related parties and establishing disclosure requirements for related party transactions.
ii) PS 3210 Assets, a new standard providing guidance for applying the definition of assets and establishing disclosure standards for assets.
iii) PS 3320 Contingent Assets, a new standard defining and establishing disclosure standards on contingent assets.
iv) PS 3380 Contractual Rights, a new standard defining and establishing disclosure standards on contractual rights.
v) PS 3420 Inter-Entity Transactions, a new standard establishing guidance on accounting for, and reporting on transactions between entities that comprise a government's reporting entity.

The adoption of these new and amended standards had no impact on the financial statements.

3. Benefit Liability

The benefit liability of the Plan is receivable from SGI and will be funded by SGI as eligible employees terminate employment. The present value of the accrued benefit obligation was determined using the projected benefits method prorated on service and the best estimate assumptions of SGI's management. AON Hewitt Inc. performed the actuarial valuation for accounting purposes as at December 31, 2018. The effective date of the next required valuation is December 31, 2019.

The benefit liability as at December 31, 2019 and the principal components of the change in the benefit liability during the year were as follows:

	(thousands of $)	
	2018	2017
Accrued benefit obligation, beginning of the year	$ 8,899	$ 8,766
Current benefit cost	320	348
Interest cost	231	272
Benefits paid	(1,594)	(851)
Actuarial losses	(149)	364
Accrued benefit obligation, end of year	7,707	8,899
Unamortized actuarial losses	(286)	(476)
Benefit liability, end of year	$ 7,421	$ 8,423

The actuarial valuation is based on the following assumptions:

	2018	2017
Discount rate		
Beginning of year	2.80%	3.20%
End of year	3.00%	2.80%
Inflation Rate	2.00%	2.25%
General salary increase	3.70%	2.20%
Termination Rate	0.60%	0.50%
Expected average remaining service life (EARSL)	12 years	10 years

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

Assumption	Change Made	Change in Obligation at December 31, 2018 (000's)	Percentage change in Obligation
Total Discount Rate	Plus 1%	(460)	(5.97%)
	Minus 1%	532	6.90%
Inflation Rate	Plus 1%	(57)	(0.74%)
	Minus 1%	59	0.77%
General Salary Increase	Plus 1%	464	6.02%
	Minus 1%	(410)	(5.32%)
Termination Rate	Plus 1%	(480)	(6.23%)
	Minus 0.6%	319	4.14%

In assessing the change arising from a change in the inflation rate assumption, both the salary increase rate and the discount rate are changed, as they include inflation as a component.

Experience gains (losses) result from differences between actual and expected employee terminations, retirements, salary increases, deaths, and the addition of new plan members. These are recognized as an increase or a decrease in the accrued benefit obligation.

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

4. Financial Risk Management

The nature of the Plan's operations result in a statement of financial position that consists entirely of financial assets and liabilities. As benefits are funded out of current operations of SGI, the Plan's financial risks relate primarily to credit risk. The maximum credit risk to which it is exposed at December 31, 2018 is limited to the carrying value of its contributions receivable from SGI.

5. Related Party Transactions

Included in these financial statements are transactions with SGI, which 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 SGI at no charge. Additionally, PEBA provides administrative services to the Plan for a yearly administration fee of $1,000, which is paid by SGI.