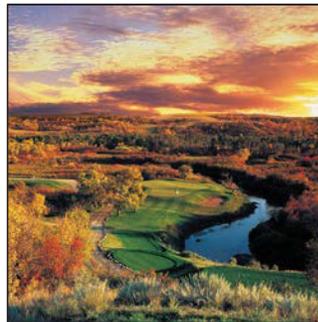


Saskatchewan Pension Annuity Fund



Annual Report for 2021-2022

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This annual report is available in electronic format at www.peba.gov.sk.ca

Letters of Transmittal



His Honour the Honourable Russ Mirasty, S.O.M., M.S.M.,
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Saskatchewan Pension Annuity Fund
for the fiscal year ending March 31, 2022.

A handwritten signature in cursive script that reads "Donna Harpauer".

Donna Harpauer
Minister of Finance

The Honourable Donna Harpauer
Minister of Finance

Madam:

On behalf of the Saskatchewan Pension Annuity Fund Board, I have the honour to
present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for
the fiscal year ending March 31, 2022.

A handwritten signature in cursive script that reads "J Phillips".

Jeremy Phillips
Chair

Introduction

The Saskatchewan Pension Annuity Fund (SPAF) was created for members of the Public Employees Pension Plan (PEPP) who want to purchase an annuity as their source of retirement income. *The Saskatchewan Pension Annuity Fund Act* governs SPAF.

The Fund provides members of PEPP with a life annuity paid for the life of the annuitant based on the:

- market conditions at the time the annuity is purchased;
- amount used to purchase the annuity;
- annuitant's and annuitant's spouse's age;
- guarantee period; and
- survivor benefit.

Once an annuity has been issued, neither the annuitant nor the Plan can change the terms of the agreement.

Any deficiencies in the Plan are paid out of the General Revenue Fund (GRF) and are the responsibility of the Government of Saskatchewan.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency (PEBA) Revolving Fund and are charged to SPAF.

Saskatchewan Pension Annuity Fund Board

Effective April 1, 2005, the Saskatchewan Pension Annuity Fund Board (the Board) was established to administer the Fund. The Board, which consists of three members appointed by the Minister of Finance, is responsible for the administration of *The Saskatchewan Pension Annuity Fund Act*.

At March 31, 2022, the Board was composed of the members listed in *Table 1.1*.

| Saskatchewan Pension Annuity Fund Board Members | |
|---|--------|
| Jeremy Phillips | Chair |
| Kevin Banman | Member |
| Amy Gates | Member |

Table 1.1

Members of the Board receive no compensation for the performance of their roles as Board members. They are remunerated for reasonable expenses for attending Board meetings and other functions in their capacity as Board members.

Contracted Services

The Board is ultimately responsible for the Fund's administration, communication and investment activities. To discharge these responsibilities, the Board uses the services of various organizations.

Under agreement with the Board, PEBA provides administrative services for the Fund. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefit plans.

Under the agreement, PEBA:

- provides annuity estimates;
- calculates annuity and death benefits;
- prepares statements upon a member's death;
- accounts for all investment transactions;
- payment to annuitants; and
- provides executive management services to the Board.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Saskatchewan Pension Annuity Fund Act*, *The Pension Benefits Act, 1992*, and their related regulations.

The Board retains CIBC Mellon Trust Company as the Fund's custodian. The Board also retains TD Asset Management Inc. as the investment manager and LifeWorks as the actuary.

Purpose

The purpose of the Fund is to provide annuity payments to pensioners who have chosen to purchase annuities through the Fund.

Mission

The Board's mission as the Fund's trustee is to manage the assets and expenses solely in the best interests of the pensioners and their beneficiaries.

Operational Goals and Objectives for the Administration of the Fund

At its meeting of June 24, 2021, the Board approved operational goals and objectives for the administration of the Fund for the year ending March 31, 2022. The operational goals and objectives are aligned with the Board's core functions of overseeing the administration of the Fund and providing excellent service to annuitants and their beneficiaries.

The initiatives used to support these goals and objectives are not generally time-bound. Rather, they are initiatives that are required to be undertaken on an ongoing basis.

The following section provides information on activities planned and accomplished during the year ended March 31, 2022, in support of the Board's operational goals and objectives.

Operational Goals and Objectives for the Administration of the Fund

Goal 1: Financial Management

The Board provides sound financial management of the Fund.

Objectives

- The Board ensures the assets of the Fund are invested appropriately by reviewing the Fund's Statement of Investment Policies and Goals (SIP&G) annually.
 - The Board reviewed and approved the Fund's SIP&G on June 24, 2021.
- The Board carries out an actuarial valuation of the Fund at least every three years.
 - The Board reviewed the actuarial valuation of the Fund as at March 31, 2021, on June 24, 2021.
- The Board annually reviews and approves the operating budget for the Fund and monitors it quarterly.
 - The Board received quarterly budget updates throughout 2021-2022.
 - The Board approved the administration budget for the Fund for the year ending March 31, 2023, on March 30, 2022.

Goal 2: Service Delivery and Communications

The Board provides excellent service to the annuitants of the Saskatchewan Pension Annuity Fund.

Objectives

- The Board administers the Fund in compliance with *The Saskatchewan Pension Annuity Fund Act* and the *Income Tax Act* (Canada).
 - The Board reviewed the audit of the Fund for the 2020-2021 year provided by the Provincial Auditor of Saskatchewan (PAS) on June 24, 2021.
 - The PAS issued an opinion indicating that they found that the financial statements were reliable, the PAS also noted that the financial-related controls to safeguard public resources, prepare reliable financial statements, and conduct affairs following financial-related laws were effective, and the Board complied with the authorities governing the Fund's activities.
- The Board's administrator ensures compliance with *The Saskatchewan Pension Annuity Fund Act* and the *Income Tax Act* (Canada) by monitoring legislative and regulatory developments and keeping the Board informed of any developments requiring the Board's attention.
- Annuitants have access to the information they require.
 - Annuitants have access to a comprehensive range of information about the Fund, the Board, Fund governance, Fund provisions, and investments on the SPAF website.
 - The Plan's website is reviewed regularly and items are added or amended as required.
 - Annuitants can call to speak with SPAF administration to receive answers to any questions they have.
- The Board tables an annual report for the Fund in accordance with *The Executive Government Administration Act*.
 - The SPAF Annual Report for the year ended March 31, 2021, was tabled in the Legislative Assembly on July 29, 2021.

Goal 3: Performance Measurement

The Board evaluates the performance of the Plan's service providers.

Objectives

- The Board reviews the performance of the Fund's investment manager two times a year, including compliance with the Fund's SIP&G.
 - The Board received the investment performance review and investment manager evaluation on June 24, 2021, and December 1, 2021.
- The Board evaluates the performance of the Fund's actuary and custodian.
 - The Board received an evaluation of the performance of the actuary on December 1, 2021; and
 - The Board received an evaluation of the performance of the custodian on March 30, 2022.
- Administration performance is reported to the Board on a quarterly basis.
 - The Board received reports on the administration of the Plan on a quarterly basis throughout 2021-2022.

Risk Management

Within its mandate, the Board is responsible for identifying risks that could negatively affect the operation of SPAF, the Fund's annuitants, and their beneficiaries.

Annually, the Board conducts a review to identify potential events and trends that may positively or negatively affect the Board's ability to achieve its operational goals or maintain its operations. These events and trends are defined as risks.

Risk

The potential events and trends that may positively or negatively affect the operation of the Plan, the members or other stakeholders of the Plan or the attainment of operational goals.

The Risk Management Plan and its annual review ensure that a regular, documented process is in place for the management of the Fund's foreseeable risks. Documenting the rationale for arriving at decisions strengthens accountability and demonstrates due diligence.

Risk Management Philosophy:

The Board is committed to creating and maintaining value for the stakeholders of the Fund. The Fund faces risks as the Board fulfills this commitment. Therefore, the Board is responsible for managing all foreseeable risks that could affect the operation of the Fund and its stakeholders. Through its risk management process, the Board identifies, measures, monitors and manages these risks in a manner that is consistent with its mandate to administer the Fund.

In order to assist in the identification and assessment all foreseeable risks to the Fund, the Board has identified the following key broad-based risks to the Fund:

- **Strategic Risk** is the risk of failing to meet obligations in the administration of the Fund and/or the risk of annuitants not knowing or understanding their rights and responsibilities.
- **Financial Risk** derives from the investment of the Fund's assets, Fund costs, or from fraudulent activity on the part of the Board or its service providers.
- **Operational Risk** is related to the performance of the Board's service providers in the operation of the Fund.
- **Regulatory Risk** arises from non-compliance with legislation, fiduciary obligations and the legal requirements of the Fund's management.

The Board believes that these broad-based risks are interrelated. The Board thus recognizes that it must retain a balanced approach in the management of all four types of risk.

Risk Management

The Board manages the identified risks to the Fund by employing a number of strategies.

These strategies include the following:

- Annually reviewing the Fund's Statement of Investment Policies and Goals (SIP&G);
- Establishing and monitoring performance measures and benchmarks for investment and administration service providers;
- Setting and monitoring annual budgets for the administration of the Fund;
- Annually reviewing the performance of all service providers;
- Ensuring that all service providers maintain business continuation plans to ensure the continuation of service to annuitants in the event of a disaster;
- Maintaining a training and development policy for Board members; and
- Retaining service providers who are experts in the responsibilities to which they are assigned with respect to the Fund.

The Risk Management Plan is a systematic and integrated approach to risk management. It focuses on the importance of risk communication and risk tolerance. It emphasizes the importance of people and leadership and the need to consider risk management at every level of operation.

As it is important to monitor and reassess the risks of the Fund regularly, the Board approved the 2021-2022 Risk Management Plan on June 24, 2021.

Annuity Fund

Investment of Funds

The Board is responsible for holding in trust and investing the monies in the Fund. The Board has retained TD Asset Management Inc. as its investment manager.

TD Asset Management Inc. continues to manage an immunized bond portfolio (see objectives below).

The investment manager makes day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment objectives set by the Board. It is these long-term investment objectives that the Board uses to assess the performance of the investment managers.

The investment objectives are:

- to immunize the Fund's net position from changes in interest rates, through the structuring of the investment portfolio;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve those objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -0.5 to +0.5 years of the duration target;
- the portfolio includes sufficient short-term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Board has retained CIBC Mellon Trust Company as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (i.e., dividends, interest) is collected and provides financial information for all investment transactions.

Monitoring of the investments is provided by the Public Employees Benefits Agency.

Fund Administration

The Board has delegated the day-to-day administration of the Fund and management of its assets to PEBA. The cost for this is charged to the Fund.

PEBA is a branch of the Ministry of Finance.

PEBA administers a wide range of pension and benefit plans.

Under agreement with the Board, PEBA provides all services required to operate, administer and manage the Fund in a manner consistent with and according to all statutory provisions and regulations that apply to the Fund. PEBA reports measurement against standards to the Board quarterly.

Table 1.2 provides measurement results for the 2021-2022 year.

PEBA also provides Senior Executive Officer services and executive secretary services to the Board.

In 2021-2022, the Board paid PEBA \$258,000 for administrative services.

Annuities

During the 2021-2022 fiscal year the Fund paid a total of \$13,809,000 in annuities.

Figure 1.1 shows the number of annuitants and beneficiaries receiving survivor benefits in the Fund as of the current year-end.

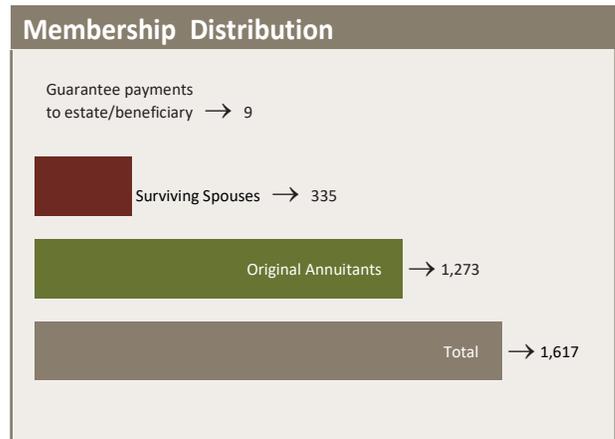


Figure 1.1

PEBA Service Standards April 1, 2021 to March 31, 2022

| Task | Completed | Number that Meet or Exceed Standard | % that Meet or Exceed Standard | Standard* (Days) | Statutory Requirement** (Days) |
|------------------------------------|--------------|-------------------------------------|--------------------------------|------------------|--------------------------------|
| Statement on Retirement | 8 | 7 | 87.5 | 5 | 90 |
| Statement on Death | 98 | 92 | 93.9 | 5 | 90 |
| Payment of Death Benefits | - | - | N/A | 5 | - |
| Annuity Estimates for PEPP Members | 2,038 | 1,886 | 92.5 | 5 | - |
| Spousal Break Down Calculations | - | - | N/A | 5 | - |
| Written Correspondence *** | Not measured | Not measured | N/A | 5 | - |
| Total | 2,144 | 1,985 | 92.6 | - | - |

* Standard is set within "Schedule A" of the agreement between the Board and PEBA.

** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992 and Regulations, 1993*.

*** The majority of written correspondence is received by Inquiry e-mail. The Inquiry e-mail receipts and responses are monitored daily.

Table 1.2

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

The Saskatchewan Pension Annuity Fund Board consists of three people, a chairperson and two other members, each appointed by the Minister. The Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements which follow have been prepared by management in conformity with Canadian accounting standards for pension plans as outlined in the CPA Canada Handbook Section 4600, Pension Plans. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events, which require approval by management.

The financial statements have been audited by the Provincial Auditor whose report follows.



Jeremy Phillips
Assistant Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
June 23, 2022

Actuarial Opinion

This opinion is given with respect to the Saskatchewan Pension Annuity Fund (the “Plan”).

We performed a valuation based on the Plan provisions and assumptions as at March 31, 2022. The membership data was determined as at March 31, 2022. The valuation was prepared to provide the 2022 yearend information for financial statement reporting in accordance with Public Sector 3250 (“PS 3250”) and Section 4600 of the Chartered Professional Accountants Canada Handbook – Accounting (“CPA 4600”).

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

- The membership data on which the valuation is based is sufficient and reliable for the purposes of the valuation.
- The assumptions are appropriate for the purposes of the valuation.
- The calculations have been made in accordance with our understanding of the requirements of PS 3250 and CPA 4600.

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

Actuarial valuation results are only estimates. Actuarial valuations are performed based on assumptions and methods that are in accordance with sound actuarial principles. Emerging experience differing from these assumptions may result in gains or losses. These gains or losses will be revealed in future actuarial valuations.



Amy Pun
Fellow, Canadian Institute of Actuaries
LifeWorks Canada Ltd.

April 22, 2022

Saskatchewan Pension Annuity Fund

**Financial Statements
Year Ended March 31, 2022**

INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

Opinion

We have audited the financial statements of the Saskatchewan Pension Annuity Fund, which comprise the statement of financial position as at March 31, 2022, and the statements of changes in net assets available for benefits and changes in provision for annuity obligations 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 Pension Annuity Fund as at March 31, 2022, and changes in its net assets available for benefits and changes in its provision for annuity obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

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 Pension Annuity Fund 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the *Saskatchewan Pension Annuity Fund Annual Report for 2021-22*, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or any knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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 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.

In preparing the financial statements, management is responsible for assessing the Saskatchewan Pension Annuity Fund'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 Pension Annuity Fund or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Saskatchewan Pension Annuity Fund'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 Pension Annuity Fund'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 Pension Annuity Fund'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 Pension Annuity Fund 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.

Regina, Saskatchewan
June 23, 2022

1500-1920 Broad Street, Regina, SK S4P 3V2
t 306.787.6398 f 306.787.6383 e info@auditor.sk.ca
www.auditor.sk.ca

Tara Clemett, CPA, CA, CISA
Provincial Auditor
Office of the Provincial Auditor

**Saskatchewan Pension Annuity Fund
Statement of Financial Position**

Statement 1

As At March 31

| | (in thousands) | |
|---|-----------------|-----------------|
| | <u>2022</u> | <u>2021</u> |
| Assets | | |
| Investments (Note 4) | | |
| Bonds and Debentures | \$ 142,574 | \$ 169,895 |
| Investments Under Securities Lending Program | 16,791 | 8,522 |
| | <u>159,365</u> | <u>178,417</u> |
| Receivables | | |
| Accrued Investment Income | 1,386 | 1,587 |
| Other Receivables | 36 | 34 |
| | <u>1,422</u> | <u>1,621</u> |
| Due from General Revenue Fund (Note 5) | 174 | 136 |
| Cash | <u>66</u> | <u>23</u> |
| Total Assets | <u>161,027</u> | <u>180,197</u> |
| Liabilities | | |
| Accounts Payable and Accrued Liabilities | <u>270</u> | <u>256</u> |
| Total Liabilities | <u>270</u> | <u>256</u> |
| Net Assets Available for Benefits (Statement 2) | 160,757 | 179,941 |
| Provision for Annuity Obligations (Statement 3, Note 6) | <u>152,179</u> | <u>172,231</u> |
| Surplus | <u>\$ 8,578</u> | <u>\$ 7,710</u> |

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Statement of Changes in Net Assets Available for Benefits

Statement 2

Year Ended March 31

| | (in thousands) | |
|---|-------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Increase in Assets | | |
| Transfers from Designated Plan | \$ 1,969 | \$ 158 |
| Interest Income | <u>5,161</u> | <u>5,769</u> |
| Total Increase in Assets | <u>7,130</u> | <u>5,927</u> |
| Decrease in Assets | | |
| Annuities | 13,809 | 14,094 |
| Administration (Note 7) | 424 | 424 |
| Change in Fair Value of Investments | <u>12,081</u> | <u>4,581</u> |
| Total Decrease in Assets | <u>26,314</u> | <u>19,099</u> |
| Decrease in Net Assets | (19,184) | (13,172) |
| Net Assets Available for Benefits, Beginning of Year | <u>179,941</u> | <u>193,113</u> |
| Net Assets Available for Benefits, End of Year (Statement 1) | <u>\$ 160,757</u> | <u>\$ 179,941</u> |

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Statement of Changes in Provision for Annuity Obligations

Statement 3

Year Ended March 31

| | (in thousands) | |
|---|-------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Provision for Annuity Obligations, Beginning of Year | \$ 172,231 | \$ 183,830 |
| Increase in Provision for Annuity Obligations: | | |
| Interest on Previous Liabilities and Payments | 3,799 | 3,885 |
| Liability for New Annuities Purchased | 1,866 | 473 |
| Fund Experience Loss | - | 141 |
| Loss from other items | 59 | - |
| | <u>5,724</u> | <u>4,499</u> |
| Decrease in Provision for Annuity Obligations: | | |
| Annuity Payments Made | 13,808 | 14,161 |
| Fund Expenses Paid | 345 | 354 |
| Fund Experience Gain | 1,196 | - |
| Change in Discount Rate Assumption | 10,427 | 1,508 |
| Gain from other items | - | 75 |
| | <u>25,776</u> | <u>16,098</u> |
| Provision for Annuity Obligations, End of Year (Statement 1, Note 6) | <u>\$ 152,179</u> | <u>\$ 172,231</u> |

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund

Notes to the Financial Statements

March 31, 2022

1. Description of Fund

The Saskatchewan Pension Annuity Fund (the Fund) is established under *The Saskatchewan Pension Annuity Fund Act (Act)*. The Act establishes the Saskatchewan Pension Annuity Fund Board (the Board) to administer the Fund. The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA).

The purpose of the Fund is to provide annuities to members of designated pension plans. Currently, the only designated pension plan is the Public Employees Pension Plan (PEPP). Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund (the GRF). As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the GRF.

2. Basis of Preparation

a) Statement of Compliance

The financial statements for the year ended March 31, 2022, have been prepared in accordance with Canadian Accounting Standards for Pension Plans as outlined in the CPA Canada Handbook Section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed.

These financial statements were authorized by the Board for issuance on June 23, 2022.

b) Basis of Measurement

These financial statements have been prepared using the historical cost basis except for the following:

- Investments, which are measured at fair value; and
- Provision for annuity obligations, which are measured at the present value.

The fair values of investments are considered to be market value with all gains and losses being recognized through change in fair value. The calculation of fair value is detailed in Note 4.

c) Functional and Presentation Currency

These financial statements are presented in Canadian Dollars, which is the Fund's functional currency, and are rounded to the nearest thousand dollars unless otherwise stated.

3. Significant Accounting Policies

The accounting policies considered significant are as follows:

a) Basis of Accounting

These financial statements are prepared on the going-concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity independent of the sponsor and Fund members. They are prepared to assist Fund members and others in reviewing the activities of the Fund for the fiscal period but they do not portray the funding requirements of the Fund or the benefit security of individual Fund members.

b) Transfers from Designated Plan

Transfers from designated plan are recorded as revenue when the transfer is authorized.

c) Investments

Investments are stated at fair value. The change in the fair value of investments at the beginning and end of each year is reflected in the Statement of Changes in Net Assets Available for Benefits as change in fair value of investments.

Fair value of investments is determined as follows:

- Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.
- Bonds and debentures are valued at year-end quoted prices from recognized security dealers.

d) Investment Income and Investment Transactions

Investment income is recorded when earned. Investment transactions are recorded on the trade date.

e) Provision for Annuity Obligations

The provision for annuity obligations represents the present value of the annuities underwritten and is determined pursuant to an annual actuarial valuation.

Any resulting change in the provision for annuity obligations pursuant to the valuation is recognized in the Statement of Changes in Provision for Annuity Obligations.

f) Use of Estimates

The preparation of financial statements in accordance with Canadian Accounting Standards for Pension Plans 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 provision for annuity obligations (Note 6).

g) Other Financial Instruments

Accounts receivable, Due from General Revenue Fund and accounts payable are classified and measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

4. Investments

The carrying values of the Fund's investments are as follows:

| | (in thousands) | |
|--|-------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Bonds and Debentures | \$ 142,574 | \$ 169,895 |
| Investments Under Securities Lending: | | |
| Bonds and Debentures | <u>16,791</u> | <u>8,522</u> |
| | <u>\$ 159,365</u> | <u>\$ 178,417</u> |

Security Lending Program

Through its custodian, the Fund participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 102 per cent of the market value of the loaned securities is retained by the Fund until the loaned securities have been returned (see Securities Collateral in Note 8). The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates.

In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or repledged by such counterparties. As at March 31, 2022, investments under the security lending program was \$16.8 million (2021 - \$8.5 million).

Short-term Investments

As at March 31, 2022 and 2021, the Fund did not hold any short-term investments. All short-term investments held throughout the year matured prior to year end. The Fund's investment policy states that short-term investments must meet a minimum investment standard of "R1" as rated by a recognized bond rating agency.

Bonds and Debentures

The Fund's investment policy states that federal and provincial government bonds and debentures must meet a minimum quality standard of BBB as rated by a recognized bond rating agency. No more than 15 per cent of the market value of the bond portfolio may be invested in BBB rated bonds. No more than 10 per cent of the market value of the bond portfolio may be invested in corporate bonds.

At March 31, 2022, the Fund held 2.64 per cent (2021 – 3.10 per cent) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service. See note 8 for information on credit ratings for bonds and debentures held.

(in thousands)

| 2022 | | | | | | |
|---------------------|------------------|-------------------|-----------------|--------------------|---------------|-------------------------|
| Years to Maturity | Federal | Provincial | Corporate | Total Market Value | Coupon Rate | Effective Interest Rate |
| Under 1 | \$ 1,242 | \$ 7,788 | \$ 1,512 | \$ 10,542 | 0.00% - 9.92% | 3.68% |
| 1 to 5 | 3,998 | 32,646 | 1,789 | 38,433 | 0.00% - 9.00% | 4.61% |
| 5 to 10 | 7,566 | 36,375 | 907 | 44,848 | 0.00% - 8.00% | 3.25% |
| Over 10 | 3,351 | 62,191 | - | 65,542 | 0.00% - 6.25% | 2.21% |
| Market Value | <u>\$ 16,157</u> | <u>\$ 139,000</u> | <u>\$ 4,208</u> | <u>\$ 159,365</u> | | |

(in thousands)

| 2021 | | | | | | |
|---------------------|------------------|-------------------|-----------------|--------------------|---------------|-------------------------|
| Years to Maturity | Federal | Provincial | Corporate | Total Market Value | Coupon Rate | Effective Interest Rate |
| Under 1 | \$ 6,588 | \$ 1,458 | \$ 1,037 | \$ 9,083 | 0.00% - 9.75% | 7.38% |
| 1 to 5 | 5,653 | 32,460 | 3,501 | 41,614 | 0.00% - 9.92% | 3.79% |
| 5 to 10 | 8,346 | 42,061 | 988 | 51,395 | 0.00% - 8.00% | 3.77% |
| Over 10 | 3,654 | 72,671 | - | 76,325 | 0.00% - 6.35% | 1.95% |
| Market Value | <u>\$ 24,241</u> | <u>\$ 148,650</u> | <u>\$ 5,526</u> | <u>\$ 178,417</u> | | |

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Fair Value

The Fund has classified its required fair-valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The Fund presently holds only financial instruments that are classified as Level 2. During the year no investments were transferred between levels.

5. Due from General Revenue Fund

The Plan's bank account is included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

Effective April 1, 2021 the Plan's bank account was classified as a transfer account, making it no longer eligible to earn COBC interest. Prior to this date, the Plan's earned interest was calculated and paid by the General Revenue Fund on a quarterly basis into the Plan's bank account using the Government's thirty-day borrowing rate, and the Plan's average daily bank account balance. The Government's average thirty-day borrowing rate for the year ended March 31, 2021 was 0.19 per cent.

6. Provision for Annuity Obligations

The actuarial present value of the provision for annuity obligations was determined using the administrator's best estimate of future investment performance and inflation. An actuarial valuation was performed as at March 31, 2022, by Life Works (the next valuation will be required effective March 31, 2023). The assumptions used in determining the actuarial present value of annuities payable were:

| | 2022 | 2021 |
|-------------------|---|---|
| Discount Rate | 3.10% | 2.30% |
| Mortality Table | Males: 105.8% of 2014 CPM Private Females: 102.6% of 2014 CPM Private Both combined with the CPM-B Improvement Scale | Males: 105.8% of 2014 CPM Private Females: 102.6% of 2014 CPM Private Both combined with the CPM-B Improvement Scale |
| Expense Allowance | 2.50% of Liabilities | 2.50% of Liabilities |

Actual results may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that change in future conditions in the near term could require a material change in the annuity obligations. A one per cent increase in the discount rate would decrease the obligations \$11.5 million (2021 - \$13.9 million) and a one per cent decrease in the discount rate would increase the obligations \$13.2 million (2021 - \$16.2 million).

The expected cash inflows from investment income and disposal of investments at maturity and the expected cash outflows to pay the annuities and administration expenses are calculated using the previously referenced assumptions. The expected net cash flows are based on actual dollar forecasts without any provision for inflation and they do not allow for future annuitants. The estimated net cash inflows for the next five years are \$6.6 million, for the next 10 years \$8.4 million and for the next 30 years \$13.0 million. The expected duration for investments is 8.44 years and for the provision for annuity obligations is 8.15 years.

7. Administration Expenses

| | (in thousands) | |
|----------------------------|----------------|---------------|
| | 2022 | 2021 |
| Administration Costs | \$ 258 | \$ 243 |
| Custodial Fees | 15 | 12 |
| Investment Management Fees | 151 | 169 |
| | <u>\$ 424</u> | <u>\$ 424</u> |

8. Financial Risk Management

The nature of the Fund's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (interest rate risk) and liquidity risk.

Significant financial risks are related to the Fund's investments. These financial risks are managed by having an investment policy, which is approved annually by the Board. The investment policy provides guidelines to the Fund's investment managers for the asset mix of the portfolio regarding quality and quantity of investments. The asset mix helps to reduce the impact of market-value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Board reviews regular compliance reports from its investment managers as to their compliance with the investment policy. The Board also reviews regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Fund's credit risk arises primarily from two distinct sources: accounts receivable and investments. The maximum credit risk to which it is exposed at March 31, 2022, is limited to the carrying value of the financial assets summarized as follows:

| | (in thousands) | |
|--------------|----------------|-------------|
| | <u>2022</u> | <u>2021</u> |
| Receivables | \$ 1,422 | \$ 1,621 |
| Investments | 159,365 | 178,417 |
| Due from GRF | 174 | 136 |
| Cash | 66 | 23 |

Accounts receivable are primarily made up of accrued investment income. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is related to bonds and debentures. It is managed through the investment policy that limits fixed-term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds and debentures are as follows:

| | (in thousands) | | | |
|----------------------|-------------------|--------------------------------|-------------------|--------------------------------|
| | <u>2022</u> | | <u>2021</u> | |
| <u>Credit Rating</u> | <u>Fair Value</u> | <u>Makeup of Portfolio (%)</u> | <u>Fair Value</u> | <u>Makeup of Portfolio (%)</u> |
| AAA | \$ 16,157 | 10.14% | \$ 38,420 | 21.53% |
| AA | 130,087 | 81.63% | 126,076 | 70.67% |
| A | 13,121 | 8.23% | 13,921 | 7.80% |
| | <u>\$ 159,365</u> | <u>100.00%</u> | <u>\$ 178,417</u> | <u>100.00%</u> |

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 0.66 per cent of the market value of the bonds and debentures portfolios. No one holding of a province is over 5.50 per cent of the market value of the bonds and debentures portfolios.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates and foreign exchange rates. Market risk primarily impacts the value of investments.

Interest rate risk

The Fund is exposed to changes in interest rates in its fixed income investments, consisting of bonds and debentures. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point change in interest rates would change net assets by \$12.9 million at March 31, 2022, (2021 - \$15.2 million); representing 8.09 per cent of the \$159.4 million fair value of fixed income investments.

Securities collateral

At March 31, 2022, no Fund assets have been deposited or pledged as collateral or margin. As part of the Fund's securities lending strategy, collateral has been pledged to the Fund by various counterparties for securities out on loan to the counterparties. At March 31, 2022, the total amount of collateral pledged to the Fund amounted to \$17.6 million (2021 - \$8.9 million).

Security lending obtains collateral of at least 102 per cent of the market value of the securities lent. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Fund is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

9. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the PEBA Revolving Fund.

Related party transactions with the Fund are in the normal course of operations and are recorded at exchange amounts agreed to by the parties to the transactions.

As at March 31, 2022, the Fund directly holds \$466,994 (2021 – nil) Province of Saskatchewan Bonds. Investment income on these bonds was \$5,759 (2021 – nil). Included within accrued investment receivable is \$3,787 (2021- nil) relating to Province of Saskatchewan Bonds.

At year-end, the Fund has an accounts payable to the PEBA Revolving Fund of \$48,900 (2021 – \$38,179).

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.

10. Capital Management

The Fund receives new capital from PEPP members transferring to the Fund. The Fund also benefits from income and market-value increase on its invested capital. As at March 31, 2022 the Fund's capital is invested in long-term bonds, however the Fund held short-term instruments throughout the year that matured prior to year end. The Minister has delegated the operational investment decisions to TD Asset Management Inc. as defined in the Fund's Statement of Investment Policy and Procedures.