Treasury Board of Canada Secretariat
Secrétariat du Conseil du Trésor du Canada

Canada

Report on the Public Service Pension Plan

for the fiscal year ended March 31, 2016

ANNUAL REPORT

Erratum

Subsequent to its tabling in Parliament and online publication, the following corrections were made to the Report on the Public Service Pension Plan for Fiscal Year Ended March 31, 2016:

- In the “Table 1. Comparison of membership distribution in 2007 and 2016 (year ended March 31)”, page 6, the number of active members in 2007 has been modified from 282,764 to 282,763. The total number of members in 2007 has therefore been modified from 514,880 to 514,879.
- In the table “Statement of changes in pension obligations” of the Financial statements, page 48, the title of line “Changes in actuarial assumptions: losses (Note 13)” has been modified to “Changes in actuarial assumptions: losses/gains (Note 13)”.
- In the table “Level 3 reconciliation” of the Note 5 C) IV) of the Financial statements, page 75, the column “Realized gains” has been modified to “Realized gains (losses)”.

These changes do not affect the rest of the information contained in the report.

Catalogue No. BT1-13E-PDF
ISSN: 2291-4285

This document is available on the Government of Canada website at www.canada.ca/pension-benefits

His Excellency the Right Honourable David Johnston, C.C., C.M.M., C.O.M., C.D.,
Governor General of Canada

Excellency:

I have the honour to submit to Your Excellency the Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2016.

Respectfully submitted,

Original signed by

The Honourable Scott Brison, P.C., M.P.
President of the Treasury Board

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Message from the President of the Treasury Board

The Honourable Scott Brison
President of the Treasury Board

It is my pleasure to table the annual Report on the Public Service Pension Plan for the fiscal year ended March 31, 2016. This report provides the public, plan members, and parliamentarians with an overview of how the Government of Canada has managed this plan over the last fiscal year.

A robust pension plan is a strong incentive for those contemplating a career in the public service and is key to retaining the skilled and professional employees who serve our country every day. Our government is committed to ensuring that the Public Service Pension Plan continues to provide fair, appropriate and affordable benefits to plan members, and that it demonstrates sound stewardship of public funds.

We remain committed to making government and its information open by default. In fiscal year 2015 to 2016, we made improvements to the Open Government portal to build a solid foundation for a better user experience, with improved access to high-quality information. This information now includes data from the Report on the Public Service Pension Plan for fiscal year 2014 to 2015, which closed on March 31, 2015. Data from previous annual reports will be added soon.

My sincere thanks go out to our public servants for their efforts to deliver results for Canadians, as well as to those who work to ensure that the Public Service Pension Plan supports our world-class institution.

Original signed by

The Honourable Scott Brison, P.C., M.P.
President of the Treasury Board

Message from the Chief Human Resources Officer

I am pleased to present the Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2016.

The Treasury Board of Canada Secretariat supports the Treasury Board in its role as the employer, and as plan sponsor of the public service pension plan on behalf of the Government of Canada. As part of this role, we strive to ensure that information about the plan is provided to members in a timely, consistent and accurate manner.

In 2015, online information about the plan was merged into a single entry point on Canada.ca. This web content is some of the most popular on Canada.ca, with over 850,000 visits and more than 2.9 million page views, as of March 31, 2016.

In addition to improving the availability of plan information, the Treasury Board of Canada Secretariat continues its work in response to the recommendations made in the Auditor General of Canada's spring 2014 report on public sector pensions. As part of his report, the Auditor General recommended that the Treasury Board of Canada Secretariat, in collaboration with the Royal Canadian Mounted Police and the Department of National Defence, evaluate the federal public sector pension plans' governance practices. As a result, the Office of the Chief Human Resources Officer has been working closely with our partners to benchmark the governance practices of the major pension plans against comparable domestic and international public and private sector pension plans. A governance review will then assess the federal public sector pension plans' existing structures, policies and procedures to ensure clarity around the roles and responsibilities of the various organizations involved in managing the pension plans.

Original signed by

Anne Marie Smart
Chief Human Resources Officer
Treasury Board of Canada Secretariat

Public service pension plan: year at a glance

Plan membership

592,166*	**296,271**	**218,028**
Total members	**Active members**	**Retired members**
4.1% increase	1.9% increase	2.3% increase

*This number includes survivors (60,406) and deferred annuitants (17,461).

Contributions

$4.4 billion

Employer and employee cash contributions

Benefit payments

$6.9 billion

Total benefit payments to eligible pension plan members and survivors

Investments

$84.7 billion

Net value of public service pension plan assets held by Public Sector Pension Investment Board (PSPIB)[1]

$580 million

Net investment income[2]

Investment return of 1%

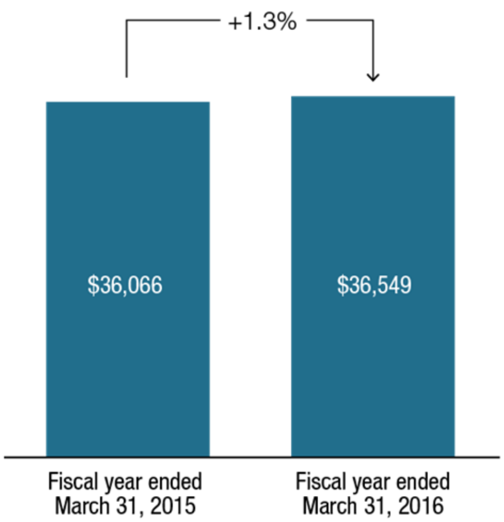
$2.8 billion

Net amount transferred to PSPIB

Pensions

Average annual pension paid

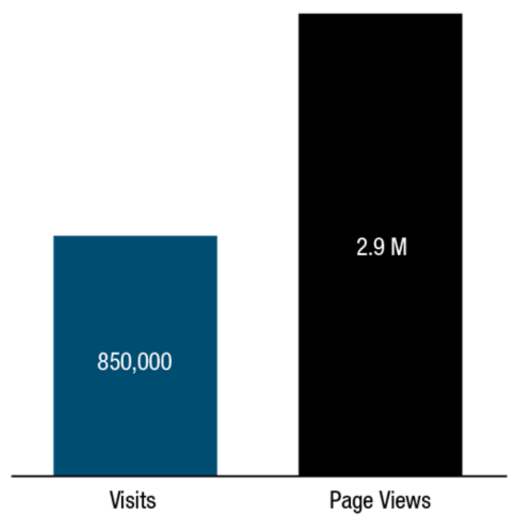
to new retired members



Pension and benefits content on Canada.ca

Number of visits[3] and page views[4]

As at March 31, 2016



1. The Public Sector Pension Investment Board operates under the commercial name of PSP Investments. For information on the Public Sector Pension Investment Board, refer to the “Roles and responsibilities” section.
2. Net investment income is calculated after operational and investment expenses.
3. A **visit** is counted when an individual consults pension and benefits content on Canada.ca, regardless of how many pages are viewed.
4. A **page view** is counted for every pension and benefits web page consulted by an individual.

Introduction to the public service pension plan

The public service pension plan is a contributory defined benefit plan that serves more than 592,166 active and retired members, survivors and deferred annuitants. The plan is the largest of its kind in Canada in terms of total membership, covering substantially all employees of the Government of Canada. Members include employees of departments and agencies in the federal public service, certain Crown corporations and the territorial governments. The Government of Canada has a legal obligation to pay pension benefits. The public service pension plan has been governed by the Public Service Superannuation Act since 1954.

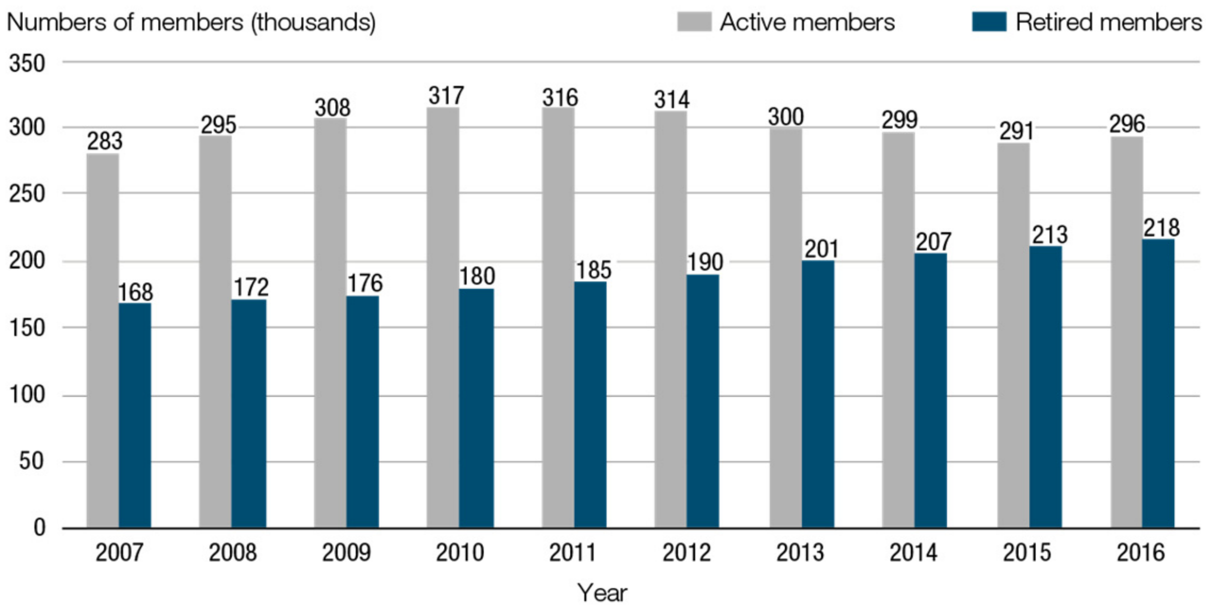
Highlights for fiscal year ended March 31, 2016

- To ensure the sustainability of the public service pension plan, employee pension contribution rates continued to increase, in keeping with the Government of Canada's movement toward an employer-employee cost-sharing ratio of 50:50 by 2017.
- In collaboration with key partners, the Treasury Board of Canada Secretariat has made significant progress in responding to the recommendations made in the 2014 Spring Report of the Auditor General of Canada on the public sector pension plans. For example, the Secretariat, in collaboration with the Royal Canadian Mounted Police and the Department of National Defence, benchmarked the governance practices of the major public sector pension plans against similar domestic and international public and private sector pension plans. In addition, a new Report on Public Sector Pension Plans was published on Canada.ca that provides readers with a single easy-to-read source of information on most aspects of the Government of Canada's four main pension plans.
- In 2015, online information about the public service pension plan was merged into a single entry point on Canada.ca. As at March 31, 2016, Canada.ca/pension-benefits had been visited over 850,000 times and had over 2.9 million page views, making pension and benefits information some of the most popular content on Canada.ca.
- The Open Government portal was launched to provide Canadians access to government data. Datasets from last year's report on the public service pension plan were published to the portal in 2016. Data from this year's report and previous annual reports will be added soon.

Demographic highlights

Figure 1. Active members and retired members from 2007 to 2016 (year ended March 31)

Figure 1 shows the number of active members relative to the number of retired members over the last 10 years.

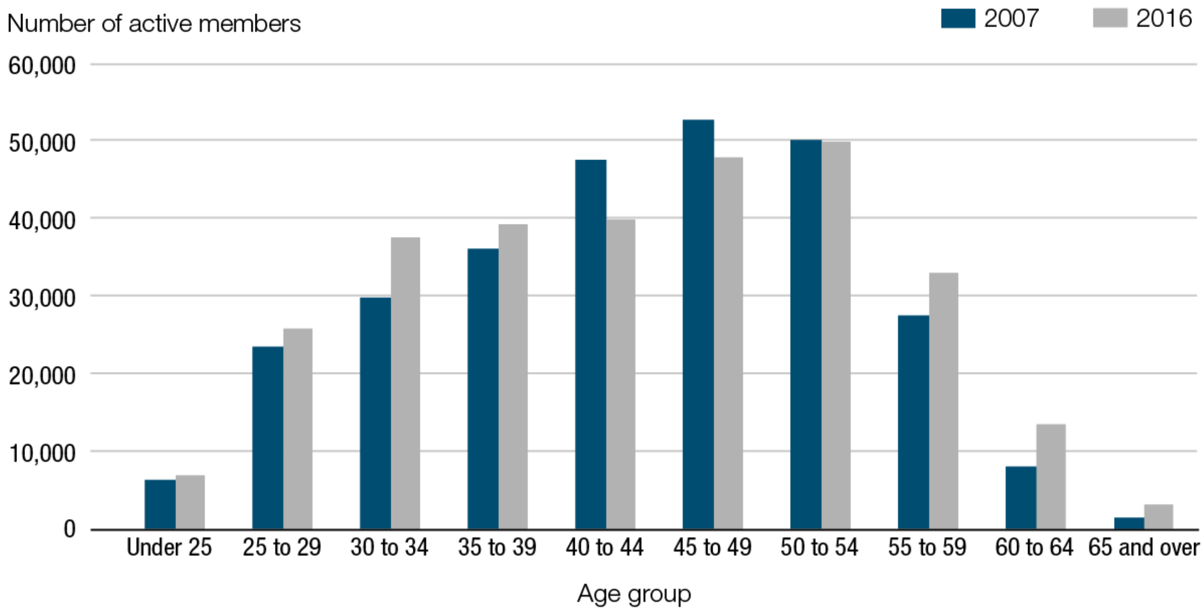


The 10-year annual average growth rate for active members was 0.7% (0.7% in 2015) compared with 2.9% for retired members (2.8% in 2015).[5]

5. The average annual growth rate throughout this report is the compounded growth rate or geometric mean, unless otherwise specified.

Figure 2. Active members by age group in 2007 and 2016 (year ended March 31)

Figure 2 shows the number of active members by age group in 2016 relative to the number of active members in 2007.



Note: The distribution of members by age group was estimated by applying a pro rata methodology using data from the Actuarial Report on the Pension Plan for the Public Service of Canada. Data for 2007 was obtained from the actuarial report as at March 31, 2005, and data for 2016 was obtained from the actuarial report as at March 31, 2014.

Table 1. Comparison of membership distribution in 2007 and 2016 (year ended March 31)

Membership type	Number of members 2007	Number of members 2016
Active members	282,763	296,271
Retired members	167,693	218,028
Survivors	58,732	60,406
Deferred annuitants*	5,691	17,461
Total	**514,879**	**592,166**

* The figure for 2007 represents the number of **new** deferred annuitants only; these are plan members who left the public service and opted for a deferred annuity during the previous fiscal year. The figure for 2016 represents the total number of deferred annuitants.

From 2007 to 2016, the ratio of active to retired members (including survivors and deferred annuitants) in the public service pension plan declined. In 2007, the ratio was 1.2 active members to 1 retired member, while in 2016, it was 1.0 active member to 1 retired member. From 2007 to

2016, the number of active members increased by 4.8%, while the number of retired members increased by 30.0%. Over the same period, the number of survivors increased by 2.9%.

Financial overview

Contributions

To ensure the sustainability of the public service pension plan, employee pension contribution rates are continuing to increase, in keeping with the Government of Canada's movement toward an employer-employee cost-sharing ratio of 50:50 by 2017.

Generally, if an employee was participating in the plan on or before December 31, 2012, the contribution rates for Group 1 (members with a normal retirement age of 60) are applied. If an employee began participating in the plan on or after January 1, 2013, contribution rates for Group 2 (members with a normal retirement age of 65) are applied.

As illustrated in Table 2, Group 2 plan members pay lower contribution rates than Group 1 members because they are eligible to receive a pension benefit five years later than Group 1 members. Since Group 2 members receive a benefit that has a lower overall cost, they pay less than those who are eligible for an unreduced pension at age 60.

Table 2. Employee contribution rates

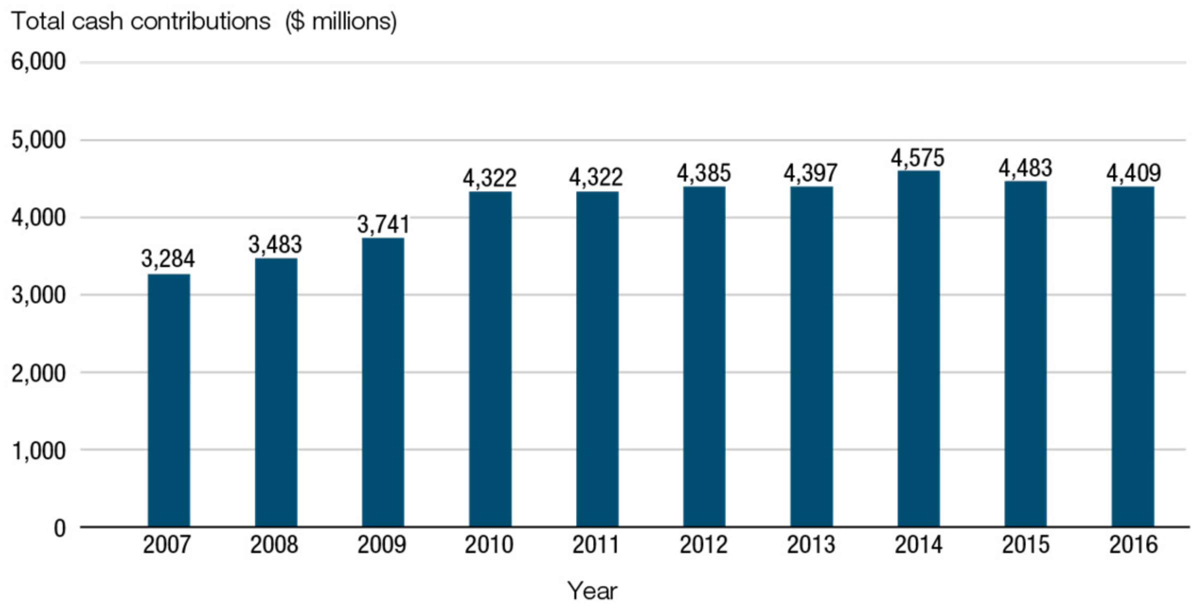
	2016	2015
Members who were participating in the plan on or before December 31, 2012 (Group 1)		
On salary* up to the year's maximum pensionable earnings	9.05%	8.15%
On salary over the year's maximum pensionable earnings	11.04%	10.40%
Members who began participating in the plan on or after January 1, 2013 (Group 2)		
On salary up to the year's maximum pensionable earnings	7.86%	7.05%
On salary over the year's maximum pensionable earnings	9.39%	8.54%

* For pension purposes, salary is the basic pay received for the performance of regular duties. It does not include overtime pay and most lump-sum payments.

The yearly maximum pensionable earnings in 2016 was $54,900 ($53,600 in 2015).

Figure 3. Total cash contributions from employer and plan members from 2007 to 2016 (year ended March 31)

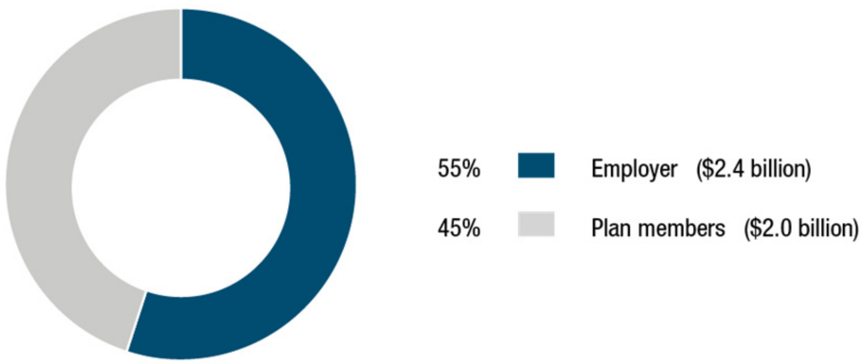
Figure 3 shows total cash contributions from both the employer and plan members from 2007 to 2016.



The annual growth rate in cash contributions from both the employer and plan members over the past 10 years averaged 2.9%. The contributions do not include the year-end accrual adjustments, which are reported in the financial statements of this report.

Figure 4. Share of cash contributions by employer and by plan members[6] (year ended March 31, 2016)

Figure 4 shows the share of cash contributions by the employer and by plan members as at March 31, 2016.



Public service pension plan benefits are funded through compulsory contributions from the employer and plan members, as well as from investment earnings. Cash contributions received in fiscal year ended March 31, 2016, totalled $4.4 billion ($4.5 billion in fiscal year ended March 31, 2015), excluding year-end accrual adjustments. The employer contributed $2.4 billion ($2.6 billion in fiscal year ended March 31, 2015), and plan members contributed $2.0 billion ($1.9 billion in fiscal year ended March 31, 2015).

As shown in Figure 4, the employer paid approximately 55% of total contributions during fiscal year ended March 31, 2016 (58% in fiscal year ended March 31, 2015); plan members paid approximately 45% (42% in fiscal year ended March 31, 2015). Cash contributions in Figure 4 include both current service and past service (for example, service buybacks, pension transfers). The contributions presented in the financial statements of this report include year-end accrual adjustments.

Benefits

In fiscal year ended March 31, 2016, the public service pension plan paid out $6.9 billion in benefits, which represents an increase of $300 million over the previous year. Benefits were paid to 278,434 retired members and survivors, compared with 273,896 members in fiscal year ended March 31, 2015.

6. Figures have been rounded.

Of the 9,760 members who retired in fiscal year ended March 31, 2016,

- 7,047 were entitled to immediate annuities (6,953 in fiscal year ended March 31, 2015)
- 1,572 received annual allowances (1,615 in fiscal year ended March 31, 2015)
- 652 were eligible to receive disability retirement benefits (638 in fiscal year ended March 31, 2015)
- 489 were entitled to deferred annuities (461 in fiscal year ended March 31, 2015)

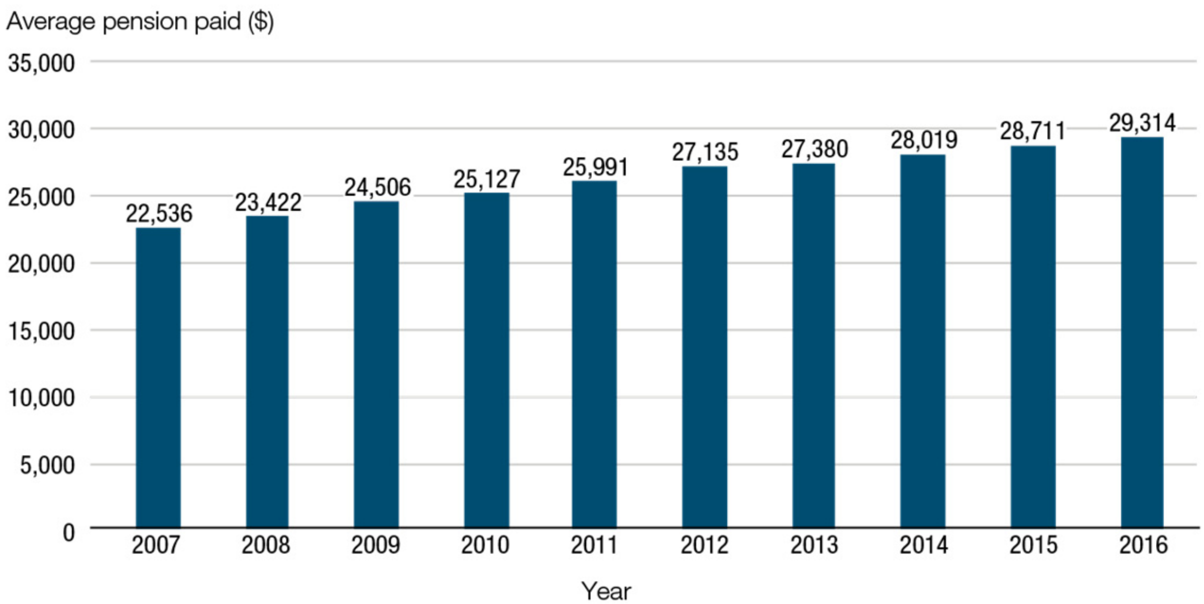
In fiscal year ended March 31, 2016, a total of 1,978 plan members left the public service before the age of 50 (2,091 in fiscal year ended March 31, 2015) and withdrew approximately $347 million ($315 million in fiscal year ended March 31, 2015) in lump-sum amounts (in other words, the present value of their future benefits), excluding return of contributions for non-vested members.[7] These sums were transferred to other pension plans or to locked-in retirement vehicles.

The average annual pension for members who retired in fiscal year ended March 31, 2016, was $36,549, compared with $36,066 in fiscal year ended March 31, 2015. This represents an increase of 1.3%. The average pension paid to all retired members was $29,314 in fiscal year ended March 31, 2016 ($28,711 in fiscal year ended March 31, 2015), an increase of 2.1% over fiscal year ended March 31, 2015.

7. Members who do not have at least two years of pensionable service.

Figure 5. Average pension paid to retired members from 2007 to 2016 (year ended March 31)

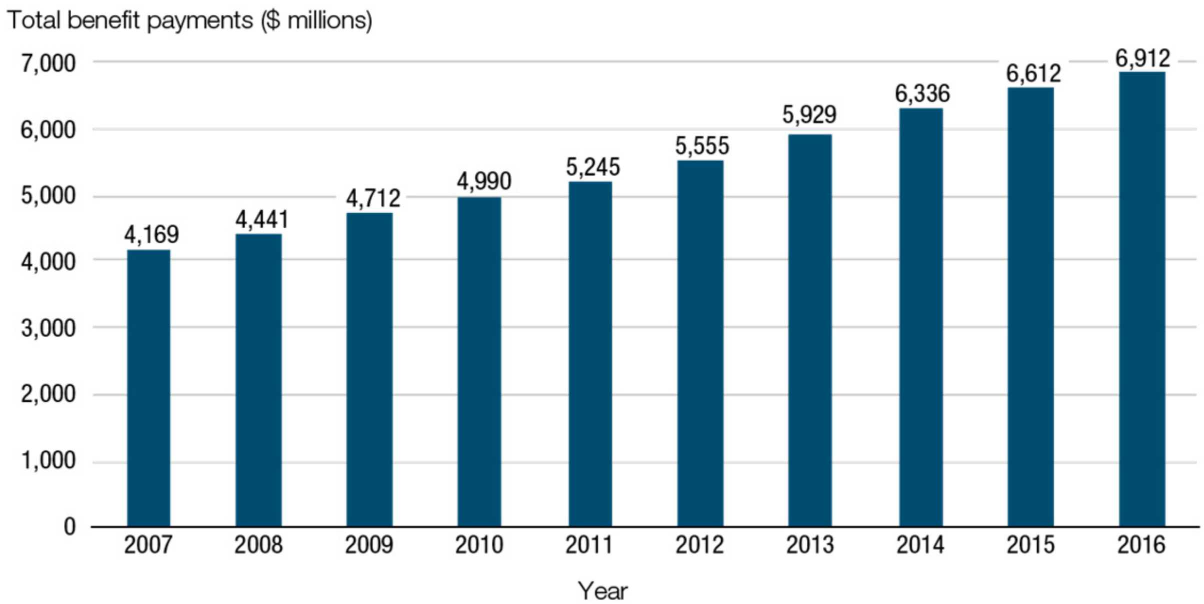
Figure 5 presents the average pension paid to retired members from 2007 to 2016.



Pensions under the public service pension plan are indexed annually to take into account the cost of living, which is based on increases in the Consumer Price Index. In 2016, the indexation rate was 1.3% (1.7% in 2015).

Figure 6. Total benefit payments to plan members and survivors from 2007 to 2016 (year ended March 31)

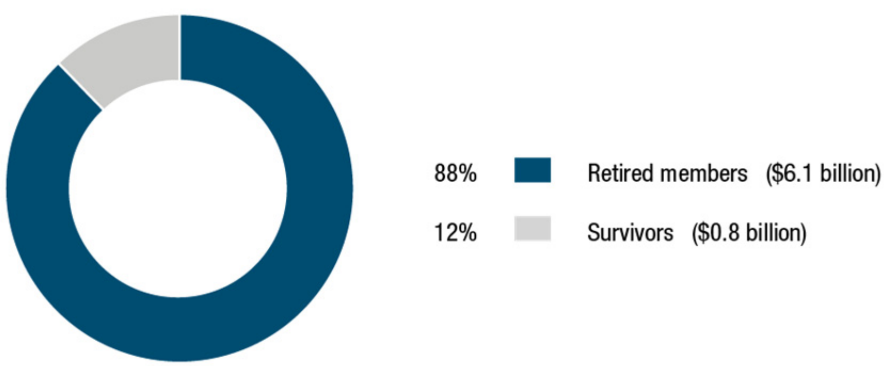
Figure 6 presents the total amount of benefits paid to plan members and survivors each year from 2007 to 2016.



Benefit payments have increased on average by 5.8% annually over the past 10 years. Further information can be found in the "Summary of plan benefits" section.

Figure 7. Benefit payments to retired members and to survivors (year ended March 31, 2016)

Figure 7 presents the share of benefits paid to retired members and to survivors.



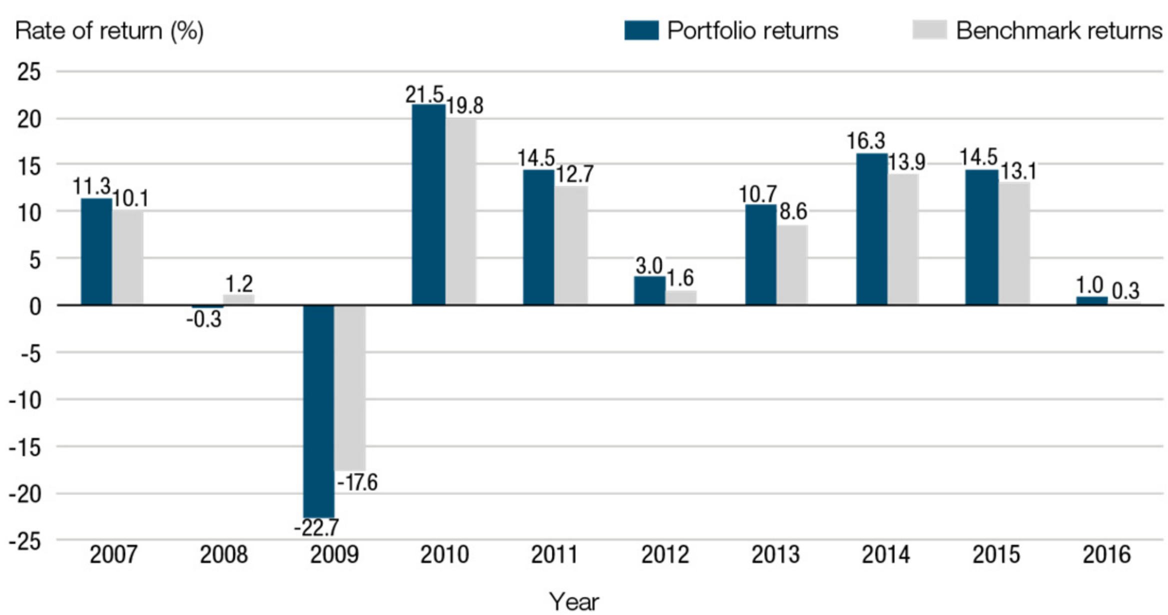
Benefits paid to retired members in fiscal year ended March 31, 2016, totalled $6.1 billion ($5.8 billion in fiscal year ended March 31, 2015), which include benefits paid to plan members who retired on grounds of disability. This amount represents 88% of fiscal year ended March 31, 2016, pension payments. In fiscal year ended March 31, 2016, benefits paid to survivors totalled $0.8 billion ($0.8 billion in fiscal year ended March 31, 2015), which represents 12% of pension payments.

Investment returns

The Public Sector Pension Investment Board has generated above-benchmark returns in eight of the past ten years. It has accomplished this by increasing the internal active management of its investments and by diversifying its asset classes. The internal active management of assets allows for better control in terms of investment risks and costs. Eleven of the thirteen asset classes met or exceeded their benchmark returns in fiscal year ended March 31, 2016, with the overall portfolio being driven primarily by real return assets (for example, real estate, infrastructure and natural resources portfolios).

Figure 8. Rate of return on assets held by the Public Sector Pension Investment Board from 2007 to 2016 (year ended March 31)

Figure 8 shows the rate of return on the assets held by the Public Sector Pension Investment Board against its comparative benchmark.

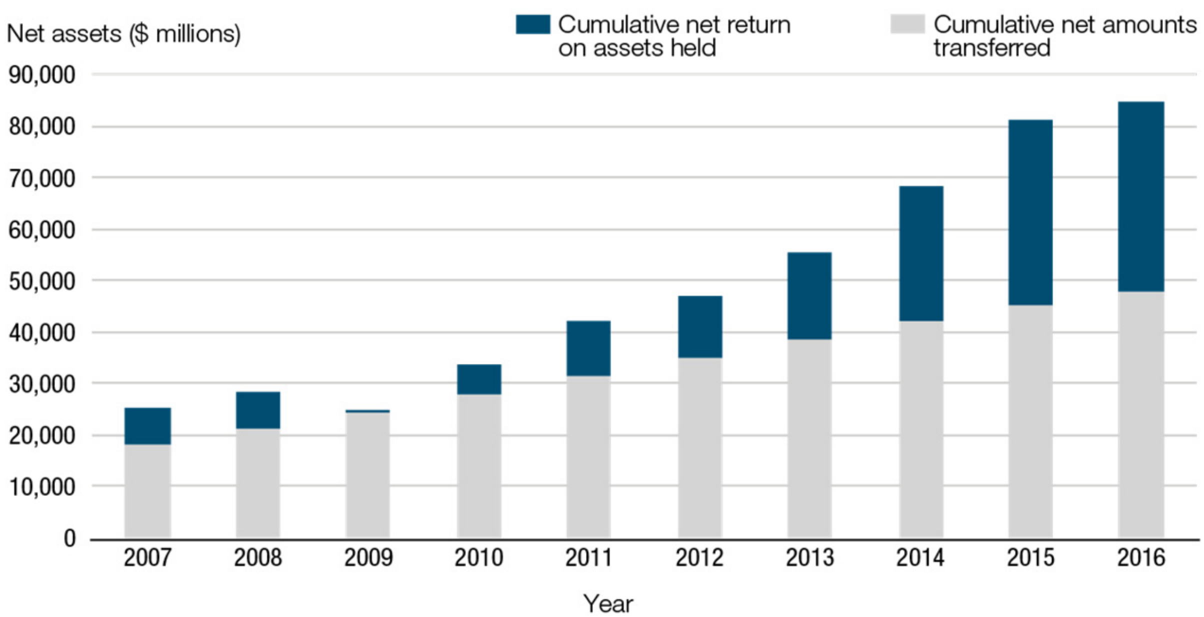


The Public Sector Pension Investment Board reported a rate of return of 1.0% for fiscal year ended March 31, 2016 (14.5% in fiscal year ended March 31, 2015), compared with the benchmark rate of return of 0.3% (13.1% in fiscal year ended March 31, 2015). Over the past 10 years, the Public Sector Pension Investment Board has recorded an annualized rate of return of 6.2%, compared with the policy benchmark rate of return of 5.8% over the same period.[8]

Additional information concerning the rate of return on assets held by the Public Sector Pension Investment Board and comparative benchmarks is available on the PSP Investments website.[i]

Figure 9. Net assets held by the Public Sector Pension Investment Board from 2007 to 2016 (year ended March 31)

Figure 9 presents the net value of public service pension plan assets held by the Public Sector Pension Investment Board each year over the last 10 years for years ended March 31.



In 2016, the net value of assets reached $84.7 billion. This amount represents the cumulative net amount transferred from the Government of Canada to the Public Sector Pension Investment Board since its inception in 2000, which is $48.0 billion (56.7%), and the cumulative net return on assets held, which is $36.7 billion (43.3%).

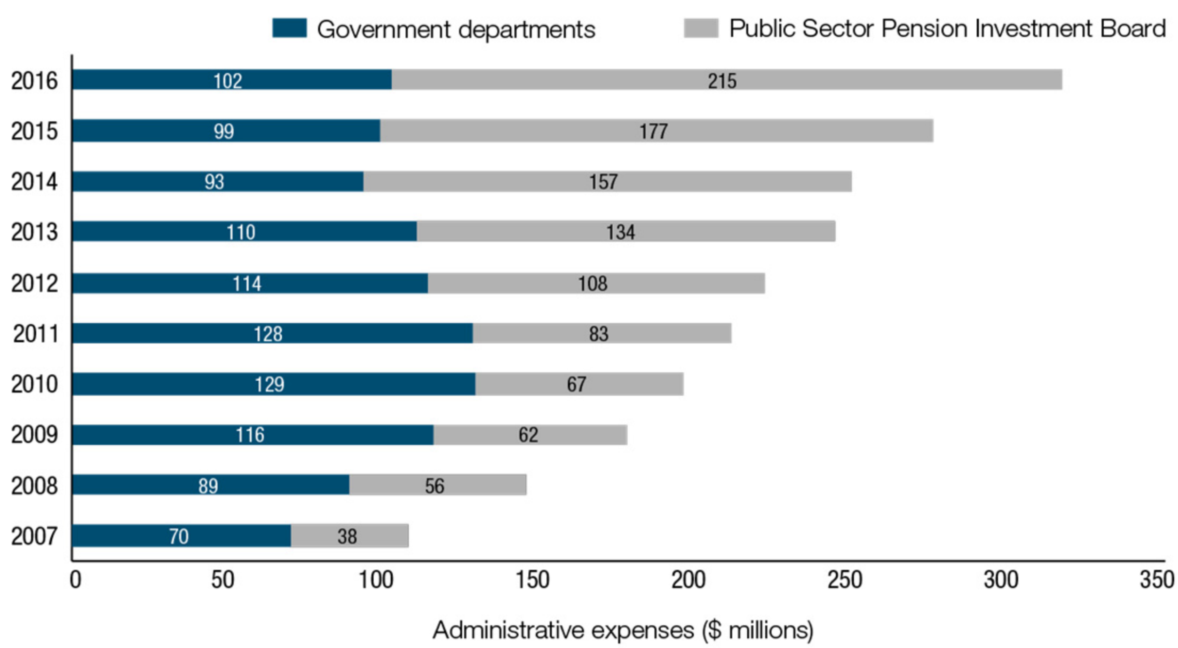
8. The rate of return of 6.2% and the policy benchmark rate of 5.8% represent nominal annualized returns for the past 10 years. They are different from the 10-year annualized net return of 5.9% and the net policy benchmark rate of return of 5.8% from the Public Sector Pension Investment Board's 2016 Annual Report. The rate of return is net of all expenses and fees, and the benchmark rate of return is net of inflation.

Administrative expenses

The legislation provides for the pension-related administrative expenses of certain government organizations to be charged to the public service pension plan. These organizations are the Treasury Board of Canada Secretariat, Public Services and Procurement Canada, Health Canada and the Office of the Chief Actuary. Administrative expenses also include Public Sector Pension Investment Board operating expenses.

Figure 10. Administrative expenses from 2007 to 2016 (year ended March 31)

Figure 10 presents the administrative expenses charged to the public service pension plan each year from 2007 to 2016, as shared between government departments and the Public Sector Pension Investment Board.



The increase in administrative expenses for government departments from 2008 to 2010 was due in large part to the capital expenditure requirements related to the pension modernization project that started in fiscal year ended March 31, 2008. This project was completed in January 2013. The decrease in administrative expenses for government departments from 2011 to 2014 was due to the completion of the centralization of pension services that started in fiscal year ended March 31, 2007. The increase in administrative expenses in 2015 and 2016 was due to system maintenance costs.

The Public Sector Pension Investment Board's increase in expenses from 2011 to 2016 was due in part to the growth in assets under its management, and in part to its strategy to increasingly manage its investment portfolio internally. Managing assets internally increases operating expenses; however, it also reduces external management expenses. The increase in operating expenses for fiscal year ended March 31, 2016, was also due to increased headcount and to costs associated with the opening of international offices.

In fiscal year ended March 31, 2016, the Public Sector Pension Investment Board's cost ratio (operating expenses plus asset management expenses as a percentage of average net investment assets) increased to 63.0 cents per $100 of average net investment assets, from 58.8 cents in fiscal year ended March 31, 2015. Asset management expenses include management fees paid to external asset managers and transaction costs. The increase in the cost ratio is due to the operating expenses noted above, as well as increased management fees related to private market investments and foreign exchange impacts caused by the devaluation of the Canadian dollar.

Refer to Note 20 of the financial statements for more details on the administrative expenses.

Pension objective

The objective of the Public Service Superannuation Act and related statutes is to provide a source of lifetime retirement income for retired and disabled public service pension plan members. Upon a plan member's death, the pension plan provides an income for eligible survivors and dependants. Pension benefits are based on a plan member's salary and public service pensionable service.

History of the public service pension plan

1870	The first act entitling certain public service employees to retirement income came into effect.
1954	The public service pension plan took many forms until the Public Service Superannuation Act came into effect on January 1, 1954. It broadened pension coverage to include substantially all public service employees.
1966	The Canada Pension Plan and the Québec Pension Plan were introduced, leading to major amendments to the Public Service Superannuation Act to coordinate public service pension plan contribution rates and benefits with those of the two new plans.
1999 to 2000	Amendments were made to the Public Service Superannuation Act, including changes aimed at improving plan management and introducing the Public Sector Pension Investment Board Act. This act provided for the creation of the Public Sector Pension Investment Board in April 2000. Prior to that year, employer and member contributions to the plan had been credited to an account that was part of the Public Accounts of Canada; these contributions were not invested in capital markets (for example, in bonds and stocks). In April 2000, the government began transferring to the Public Sector Pension Investment Board amounts equal to pension contributions net of benefit payments and departmental administrative expenses for the plan.
2006	The Public Service Superannuation Act was amended to lower the factor used in the Canada Pension Plan or Québec Pension Plan coordination formula to calculate a pension at age 65. This change increased public service pension benefits for members reaching age 65 in 2008 or later.
2010 to 2011	Amendments to the Income Tax Act increased the maximum age to accrue pension benefits under a registered pension plan. As a result, the Public Service Superannuation Regulations were amended to allow members of the public service pension plan who reached age 70 or 71 in 2007 to buy back up to two years of pensionable service and to increase their annual pension upon retirement.
2012	Further amendments were made to the Public Service Superannuation Act to allow pension plan member contribution rates to be gradually increased to reach an employer-employee cost-sharing ratio of 50:50. Also, the age of eligibility for an unreduced pension benefit was increased from 60 to 65 for new public service employees who began participating in the plan on or after January 1, 2013.

Roles and responsibilities

On behalf of the Government of Canada, the overall responsibility for the public service pension plan lies with the President of the Treasury Board, supported by the Treasury Board of Canada Secretariat as the administrative arm of the Treasury Board and by Public Services and Procurement Canada as the day-to-day administrator of the plan.

The President of the Treasury Board is also responsible for ensuring that the plan is adequately funded to fully cover member benefits. To determine the plan's funding requirements, the President enlists the help of the Office of the Chief Actuary, to provide advice and a range of actuarial services, as well as the Public Sector Pension Investment Board, to manage the pension assets for the public sector pension plans. The Public Service Pension Advisory Committee advises the President on the administration, design and funding of the benefits and on other pension-related matters referred to it by the President.

The roles and responsibilities of each organization are as follows.

Treasury Board of Canada Secretariat

The President of the Treasury Board is responsible for the overall management of the public service pension plan on behalf of the Government of Canada, the plan sponsor. The Secretariat supports the Treasury Board's role as the employer of the public service by developing policy for the funding, design and governance of the plan and of other retirement programs and arrangements. In addition, the Secretariat provides strategic direction, program advice and interpretation; develops legislation; liaises with stakeholders; communicates with plan members; and prepares the annual Report on the Public Service Pension Plan.

Public Services and Procurement Canada

Public Services and Procurement Canada is responsible for the day-to-day administration of the public service pension plan. This includes developing and maintaining the public service pension systems, books of accounts, records, and internal controls, as well as preparing the account transaction statements for reporting in the Public Accounts of Canada.

In addition, Public Services and Procurement Canada processes payments and carries out all accounting and financial administrative functions. Through its pay and pension services, Public Services and Procurement Canada's Pay and Pension Services for Government Employees[ii] ensures that federal government employees receive their pay and that retired pension plan members receive their pension benefits payments accurately and on time. In total, this involves payments of approximately $27 billion annually.

Public Sector Pension Investment Board

The Public Sector Pension Investment Board is a Crown corporation established by the Public Sector Pension Investment Board Act. It is governed by an 11-member board of directors and is accountable to Parliament through the President of the Treasury Board.

In accordance with its mandate, the Public Sector Pension Investment Board's statutory objectives are to manage the funds transferred to it in the best interests of the contributors and beneficiaries, and to invest its assets with a view to achieving a maximum rate of return without undue risk of loss, having regard to the funding, policies and requirements of the pension plan.

Since April 1, 2000, the Public Sector Pension Investment Board has been investing, on behalf of the public sector pension plans, the amounts transferred to it by the Government of Canada. The relevant financial results of the Public Sector Pension Investment Board are included in the pension plan's financial statements.

Office of the Chief Actuary

The Office of the Chief Actuary,[iii] an independent unit within the Office of the Superintendent of Financial Institutions Canada, provides a range of actuarial services and advice to the Government of Canada on the public service pension plan. The Office of the Chief Actuary is responsible for conducting a statutory valuation of the pension plan for funding purposes at least every three years, and an annual valuation for accounting purposes. Further details can be found in the "Financial statements content overview" section.

Public Service Pension Advisory Committee

The Public Service Pension Advisory Committee, established under the Public Service Superannuation Act, provides advice to the President of the Treasury Board on matters relating to the administration of the public service pension plan, the design of the benefit plan, and the funding of benefits.

The Committee is composed of 13 members: one pensioner representative, appointed by the public servant pensioner association; six employee representatives, appointed by the National Joint Council of the Public Service of Canada; and six members nominated by the President of the Treasury Board, traditionally chosen from the executive ranks of the public service. All members are appointed by the Governor in Council to hold office for a term not exceeding three years, and they are eligible for reappointment for one or more additional terms.

Summary of plan benefits

The following is an overview of the main benefits offered under the public service pension plan as at March 31, 2016. If there is a discrepancy between this information and information contained in the Public Service Superannuation Act,[iv] the Public Service Superannuation Regulations[v] or other applicable laws, the legislation prevails at all times.

Types of pension benefits

The benefits that pension plan members are entitled to when they leave the public service depend on their age and the number of years of pensionable service to their credit (see Tables 3 and 4).

Table 3. Members who were participating in the plan on or before December 31, 2012 (Group 1)

If a member is…	and leaves the public service with pensionable service of…	the member would be entitled to…
Age 60 or over	At least 2 years	An immediate annuity
Age 55 or over	At least 30 years	An immediate annuity
Age 50 up to age 60	At least 2 years	A deferred annuity payable at age 60; or An annual allowance payable as early as age 50
Under age 50	At least 2 years	A deferred annuity payable at age 60; or An annual allowance payable as early as age 50; or A transfer value
Under age 60	At least 2 years and retiring because of disability	An immediate annuity
Any age	Less than 2 years	A return of contributions with interest

Table 4. Members who were participating in the plan on or after January 1, 2013 (Group 2)

If a member is…	and leaves the public service with pensionable service of…	the member would be entitled to…
Age 65 or over	At least 2 years	An immediate annuity
Age 60 or over	At least 30 years	An immediate annuity
Age 55 up to age 65	At least 2 years	A deferred annuity payable at age 65; or An annual allowance payable as early as age 55
Under age 55	At least 2 years	A deferred annuity payable at age 65; or An annual allowance payable as early as age 55; or A transfer value
Under age 65	At least 2 years and retiring because of disability	An immediate annuity
Any age	Less than 2 years	A return of contributions with interest

Protection from inflation

Pensions under the public service pension plan are indexed annually to take into account the cost of living, which is based on increases in the Consumer Price Index. In 2016, the indexation rate was 1.3% (1.7% in 2015).

Survivor benefits

If a member is vested (has at least two years of pensionable service) when they die, their eligible survivor and children are entitled to the following:

- **Survivor benefit:** A monthly allowance equal to half of the member's unreduced pension, payable immediately to the eligible survivor for the rest of the survivor's life.
- **Child allowance:** A monthly allowance equal to 10% of the member's unreduced pension (20% of the member's unreduced pension if the member has no eligible survivor). The amount is payable until age 18, or until age 25 if the child is a full-time student. If there are more than four children, the maximum allowance payable would be equally split among all eligible children. The maximum allowance for all children is 40% of the member's pension, or 80% if there are dependent children but no spouse eligible for a survivor benefit.
- **Supplementary death benefit:** A lump-sum benefit equal to twice the member's annual salary, payable to the designated beneficiary or to the estate. Coverage decreases by 10% each year starting at age 66 to a minimum of $10,000 by age 75. If the member is still employed in the public service after age 65, minimum coverage is the greater of $10,000 or one third of their annual salary.

If the member has no eligible survivor or children, the designated beneficiary of the supplementary death benefit or the estate will receive an amount equal to the greater of the return of contributions with interest or five years of pension payments less any payments already received.

If a member dies before they become vested (in other words, completing two years of pensionable service), contributions with interest are refunded to any eligible survivor or children, or to the designated beneficiary or the estate if the member has no eligible survivors.

Communications with plan members

The Government of Canada recognizes that the public service pension plan is an integral part of the public service workforce recruitment, retention and renewal strategy, and it is committed to providing timely and accurate information about the plan to members. To fulfill this commitment, the government has focused on a number of initiatives designed to raise awareness and to educate plan members. These initiatives include providing tailored and personalized information through print publications; increasing outreach efforts; and expanding online information, via Canada.ca/pension-benefits.[vi]

Financial statements content overview

Financial and performance audits

The Office of the Auditor General of Canada 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 of Canada is responsible for conducting performance audits and studies of federal departments and agencies. It conducts financial audits of the Public Accounts of Canada (the government's financial statements) 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 of Canada acts as the independent auditor.

Actuarial valuation

Pursuant to the Public Pensions Reporting Act, the President of Treasury Board directs the Chief Actuary of Canada to conduct an actuarial valuation for funding purposes at least every three years. The purpose of the actuarial review is to determine the state of the pension account and pension fund, as well as to assist the President of the Treasury Board in making informed decisions regarding the financing of the government's pension obligations. The last funding valuation was conducted as at March 31, 2014.

In addition, the Office of the Chief Actuary performs an annual actuarial valuation for accounting purposes, which serves as the basis for determining the government's pension obligations and expenses reported in the Public Accounts of Canada and in the public service pension plan's financial statements included in this annual report. The economic assumptions used in the annual actuarial valuation represent management's best estimate.

Net assets available for benefits

The Statement of Financial Position shows that as at March 31, 2016, net assets were $86.2 billion compared with $82.9 billion last year. The net assets mainly consist of the assets managed by the Public Sector Pension Investment Board on behalf of the pension plan and contributions receivable for past service elections.

The Statement of Changes in Net Assets Available for Benefits shows that credits come from a number of different sources, including the following:

- contributions from pension plan members and employers
- income from investments
- transfers to the public service pension plan from other pension plans when employees leave an outside organization and join an employer covered under the Public Service Superannuation Act[vii]

Amounts are debited from the public service pension plan to cover the following:

- benefits
- administrative expenses
- transfers or refunds from the public service pension plan to other registered pension plans

Detailed information can be found in the financial statements.

Investment management

Contributions relating to service since April 1, 2000, are recorded in the Public Service Pension Fund in the Public Accounts of Canada. An amount equal to contributions net of benefit payments and government departments' administration expenses is transferred regularly to the Public Sector Pension Investment Board and is invested in capital markets.

The Public Sector Pension Investment Board's board of directors has established an investment policy whereby the expected real rate of return is at least equal to the long-term valuation discount rate assumption. This rate is the same as that used in the most recently tabled actuarial valuation for funding purposes of the public service pension plan (4.1% as reported in the Actuarial Report on the Pension Plan for the Public Service of Canada as at March 31, 2014).

As noted in the Public Sector Pension Investment Board's 2016 Annual Report, the investments allocated to the public service pension plan during the year ended March 31, 2016, were in compliance with the Public Sector Pension Investment Board Act and the statement of investment policies, standards and procedures approved by its board of directors.

Pension obligations

The Statement of Changes in Pension Obligations shows the present value of benefits earned for service to date that will be payable in the future. For fiscal year ended March 31, 2016, the value of pension obligations was $176.5 billion ($169.6 billion in fiscal year ended March 31, 2015), an increase of $6.9 billion from the previous fiscal year. The increase is due primarily to an increase in accrued pension benefits.

Rate of return on assets held by the Public Sector Pension Investment Board

In fiscal year ended March 31, 2016, the assets held by the Public Sector Pension Investment Board earned a rate of return of 1.0% (14.5% in fiscal year ended March 31, 2015), compared with the benchmark rate of return of 0.3% (13.1% in fiscal year ended March 31, 2015). In accordance with the investment policy, assets are invested with a long-term target weight of 47.0% in equities, 35.0% in real return assets, and 18.0% in nominal fixed income. Refer to Note 5 of the financial statements or to the PSP Investments website[viii] for more details.

Interest credited to the Public Service Superannuation Account

The Public Service Superannuation Account is credited quarterly with interest at rates calculated as though amounts recorded in this account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity. No formal debt instrument is issued to this account by the government in recognition of the amounts in it. The reduction in interest credited to the account relates to declining bond interest rates. The interest credited to the Public Service Superannuation Account is no longer recognized as “interest income” in the Statement of Changes in Net Assets Available for Benefits and is only reported in the “Account transaction statements” section of this report.

Table 5 shows the annualized interest rate credited.

Table 5. Annualized interest rate credited to the superannuation account (year ended March 31)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Interest rate on account (%)	7.5	7.3	7.0	6.7	6.5	6.0	5.6	5.4	5.1	**4.7**

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

Administrative expenses

Pension-related administrative expenses of government organizations, specifically those of the Treasury Board of Canada Secretariat, Public Services and Procurement Canada, Health Canada and the Office of the Chief Actuary, are charged to the public service pension plan. Administrative expenses also include Public Sector Pension Investment Board (PSPIB) operating expenses. Investment management fees are paid either directly by PSPIB or are offset against distributions received from the investments. In fiscal year ended March 31, 2016, total expenses recorded by the pension plan were $102 million ($99 million in fiscal year ended March 31, 2015) for government departments and $215 million ($177 million in fiscal year ended March 31, 2015) for PSPIB. PSPIB's increase in operating expenses for fiscal year ended March 31, 2016, was due to increased headcount and to costs associated with the opening of international offices.

Transfer agreements

The public service pension plan has transfer agreements with other levels of government, universities and private sector employers. In fiscal year ended March 31, 2016, $33 million ($30 million in fiscal year ended March 31, 2015) was transferred into the plan, and $47 million ($52 million in fiscal year ended March 31, 2015) was transferred out of the plan under these agreements.

Retirement compensation arrangements

Under the authority of the Special Retirement Arrangements Act, separate Retirement Compensation Arrangements No. 1 and No. 2 have been established to provide supplementary benefits to some employees. Since these arrangements are covered by separate legislation, the balance and corresponding value of their accrued pension benefits is not consolidated in the public service pension plan's financial statements. A summary of these arrangements is provided in the notes to the financial statements.

Retirement Compensation Arrangement No. 1 provides for benefits in excess of those permitted under the Income Tax Act for registered pension plans. In 2016, this primarily included benefits on salaries over $161,700 ($157,700 in 2015) plus some survivor benefits.

Retirement Compensation Arrangement No. 2 provides for pension benefits to public service employees declared surplus as a result of the three-year Early Retirement Incentive Program that ended on March 31, 1998, which allowed eligible employees to retire with an unreduced pension.

Contributions and benefit payments in excess of limits permitted under the Income Tax Act for registered pension plans are recorded in the Retirement Compensation Arrangements Account in the Public Accounts of Canada. The balance in the Retirement Compensation Arrangements Account is credited with interest at the same rate as that of the Public Service Superannuation Account.

Further information

Additional information concerning the public service pension plan is available at the following sites:

- Canada.ca/pension-benefits[ix]
- Public Services and Procurement Canada, Pay and Pension Services for Government Employees[x]
- Public Service Superannuation Act[xi]
- PSP Investments[xii]
- Office of the Chief Actuary[xiii]

Account transaction statements

Public Service Superannuation Account and Public Service Pension Fund Account

Prior to April 2000, all pension transactions accumulated in relation to the pension plan were accounted for, and recorded in, the Public Service Superannuation Account in the Public Accounts of Canada (to the extent that any funds held in the Consolidated Revenue Fund have been earmarked specifically for the pension plan). The Superannuation Account does not consist of cash or marketable securities. The account is used to record transactions, such as contributions, benefit payments, interest, administrative expenses and other charges, which pertain to service prior to April 1, 2000. The interest is credited quarterly at rates calculated as though the amounts recorded in the account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity.

All pension transactions related to service accrued since April 1, 2000, are recorded in the Public Service Pension Fund Account in the Public Accounts of Canada. An amount equal to contributions in excess of benefit payments and government organizations' administrative expenses is transferred regularly to the Public Sector Pension Investment Board and invested in capital markets. The balance in the Public Service Pension Fund Account at year-end represents amounts awaiting imminent transfer to the Public Sector Pension Investment Board.

The treatment of any actuarial excess or surplus and shortfall or deficit for both the Superannuation Account and the Pension Fund Account is outlined in the financial statements of the Public Service Pension Plan for the Fiscal Year Ended March 31, 2016.

As a result of the latest actuarial valuation as at March 31, 2014, a credit adjustment of $681 million was made during fiscal year ended March 31, 2016, to cover an actuarial deficit in the Superannuation Account (nil in fiscal year ended March 31, 2015). Starting in fiscal year ended March 31, 2016, an annual adjustment of $340 million is being made to the Public Service Pension Fund Account for a period of 15 years. The Public Service Superannuation Act requires that any actuarial deficit be dealt with by transferring equal instalments to the Pension Fund Account over a period of up to 15 years, commencing in the year in which the actuarial report is tabled in Parliament.

Public Service Superannuation Account statement

Year ended March 31

	2016	2015
Opening balance (A)	**$95,875,945,459**	$96,423,778,971
Receipts and other credits		
Employee contributions		
Government employees	**2,066,031**	2,613,255
Retired employees	**11,616,885**	14,933,383
Public service corporation employees	**102,705**	196,820
Employer contributions		
Government	**11,189,841**	14,472,374
Public service corporations	**61,360**	112,735
Actuarial liability adjustment	**681,000,000**	0
Transfers from other pension funds	**6,789**	0
Interest	**4,443,345,828**	4,797,893,981
Total receipts and other credits (B)	**$5,149,389,439**	$4,830,222,550
Payments and other charges		
Annuities	**$5,328,099,116**	$5,240,665,149
Minimum benefits	**12,803,758**	16,184,060
Pension division payments	**22,922,806**	18,100,278
Pension transfer value payments	**29,994,197**	34,531,513
Returns of contributions		
Government employees	**38,788**	721,889
Public service corporation employees	**41,606**	31,857
Transfers to other pension funds	**5,416,461**	9,343,265
Administrative expenses	**59,769,165**	58,478,052
Total payments and other charges (C)	**$5,459,085,897**	$5,378,056,061
Receipts less payments (B - C) = (D)	**$(309,696,458)**	$(547,833,511)
Closing balance (A + D)	**$95,566,249,001**	$95,875,945,459

The above account transaction statement is unaudited.

Public Service Pension Fund Account statement

Year ended March 31

	2016	2015
Opening balance (A)	**$402,290,387**	$499,943,338
Receipts and other credits		
Employee contributions		
Government employees	**1,773,737,501**	1,667,207,395
Retired employees	**41,559,748**	38,077,475
Public service corporation employees	**168,640,289**	157,358,746
Employer contributions		
Government	**2,205,355,883**	2,342,382,010
Public service corporations	**206,059,867**	218,193,084
Actuarial liability adjustment	**340,000,000**	435,000,000
Transfers from other pension funds	**29,988,609**	25,218,640
Transfer value election	**3,361,626**	4,400,704
Total receipts and other credits (B)	**$4,768,703,523**	$4,887,838,055
Payments and other charges		
Annuities	**$1,558,724,353**	$1,343,904,637
Minimum benefits	**12,641,148**	11,322,140
Pension division payments	**30,273,474**	26,204,917
Pension transfer value payments	**316,963,114**	279,072,403
Returns of contributions		
Government employees	**10,507,898**	7,572,183
Public service corporation employees	**4,837,063**	3,533,887
Transfers to other pension funds	**47,446,792**	52,019,965
Administrative expenses	**42,400,198**	41,056,226
Total payments and other charges (C)	**$2,023,794,040**	$1,764,686,356
Receipts less payments (B - C)	**$2,744,909,483**	$3,123,151,699
Transfers to Public Sector Pension Investment Board (D)	**$(2,792,147,670)**	$(3,220,804,650)
Closing balance (A + B - C + D)	**$355,052,200**	**$402,290,387**

The above account transaction statement is unaudited.

Retirement Compensation Arrangements

Supplementary benefits for certain federal public service employees are provided under the Retirement Compensation Arrangements Regulations, No. 1, Parts I and II (public service portion), and the Retirement Compensation Arrangements Regulations, No. 2 (Early Retirement Incentive Program). The Special Retirement Arrangements Act authorized these regulations and established the Retirement Compensation Arrangements for the payment of benefits.

Transactions pertaining to Retirement Compensation Arrangement No. 1 and Retirement Compensation Arrangement No. 2, such as contributions, benefits and interest credits, are recorded in the Retirement Compensation Arrangements Account in the Public Accounts of Canada. The Retirement Compensation Arrangements Account earns interest quarterly at the same rate as that credited to the Public Service Superannuation Account. The Retirement Compensation Arrangements Account is registered with the Canada Revenue Agency, and a transfer debit or credit is made annually between the Retirement Compensation Arrangements Account and the Canada Revenue Agency either to remit a 50% refundable tax for the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments.

Actuarial shortfalls found between the balance in the Retirement Compensation Arrangements Account and the actuarial liabilities are credited to the Retirement Compensation Arrangements Account in equal instalments over a period of up to 15 years. As a result of the triennial valuation of March 31, 2014, a credit adjustment of $12 million was made to cover an actuarial deficit in Retirement Compensation Arrangement No. 1 (nil in fiscal year ended March 31, 2015), and a credit adjustment of $129 million was made to cover an actuarial deficit in Retirement Compensation Arrangement No. 2 ($8 million in fiscal year ended March 31, 2015).

Retirement Compensation Arrangement No. 1

For tax purposes, financial transactions related to pension plan members' pensionable earnings over $161,700 in 2016 are recorded separately. As at March 31, 2016, there were 4,615 public service employees (5,256 in 2015) and 13,019 retired members and dependants (11,398 in 2015) in this category.

Year ended March 31

	2016	2015
Opening balance (A)	**$1,104,326,126**	$1,040,164,699
Receipts and other credits		
Employee contributions		
Government employees	**8,426,624**	10,065,769
Retired employees	**448,109**	420,128
Public service corporation employees	**2,349,289**	2,006,026
Employer contributions		
Government	**60,783,610**	75,678,400
Public service corporations	**16,570,859**	14,750,273
Actuarial liability adjustment	**12,000,000**	0
Interest	**53,426,014**	54,330,519
Transfer from other pension funds	**1,560**	696,843
Transfer value election		(712)
Total receipts and other credits (B)	**$154,006,065**	$157,947,246
Payments and other charges		
Annuities	**$35,959,883**	$30,744,211
Minimum benefits	**181,518**	165,375
Pension division payments	**1,263,060**	737,864
Pension transfer value payments	**587,002**	548,456
Returns of contributions		
Government employees	**11,141**	6,225
Public service corporation employees	**9,896**	55,168
Transfers to other pension plans	**174,463**	267,634
Refundable tax	**57,017,923**	61,260,886
Total payments and other charges (C)	**$95,204,886**	$93,785,819
Receipts less payments (B - C) = (D)	**$58,801,179**	$64,161,427
Closing balance (A + D)	**$1,163,127,305**	$1,104,326,126

The above account transaction statement is unaudited.

Retirement Compensation Arrangement No. 2

During the three-year period starting April 1, 1995, a number of employees between the ages of 50 and 54 left the public service under the Early Retirement Incentive Program, which waived the pension reduction under the Public Service Superannuation Act for employees who were declared surplus.

Year ended March 31

	2016	2015
Opening balance (A)	**$708,848,795**	$729,836,159
Receipts and other credits		
Government interest	**32,077,055**	35,493,565
Actuarial liability adjustment	**129,000,000**	8,000,000
Total receipts and other credits (B)	**161,077,055**	43,493,565
Payments and other charges		
Annuities	**84,806,709**	84,608,122
Refundable tax	**(21,937,738)**	(20,127,193)
Total payments and other charges (C)	**62,868,971**	64,480,928
Receipts less payments (B - C) = (D)	**$98,208,084**	$(20,987,364)
Closing balance (A + D)	**$807,056,879**	$708,848,795

The above account transaction statement is unaudited.

Supplementary death benefit

As at March 31, 2016, there were 285,956 active participants (285,140 in 2015) and 177,799 retired elective participants (172,545 in 2015) entitled to a supplementary death benefit under Part II of the Public Service Superannuation Act. In fiscal year ended March 31, 2016, a total of 2,854 claims (3,001 in 2015) for supplementary death benefits were paid.

Year ended March 31

	2016	2015
Opening balance (A)	**$3,424,084,798**	$3,310,011,661
Receipts and other credits		
Contributions		
Employees (government and public service corporation)	**100,329,881**	98,686,886
Government		
General	**10,859,808**	10,906,651
Single premium for $10,000 benefit	**2,936,566**	2,769,441
Public service corporations	**1,427,565**	1,376,392
Interest	**160,841,600**	167,169,944
Total receipts and other credits (B)	**$276,395,420**	$280,909,314
Payments and other charges		
Benefit payments		
General[1]	**$130,008,537**	$130,506,738
$10,000 benefit[2]	**43,610,580**	35,956,362
Other death benefit payments	**309,163**	373,077
Total payments and other charges (C)	**$173,928,280**	$166,836,177
Receipts less payments (B - C) = (D)	**$102,467,140**	$114,073,137
Closing balance (A + D)	**$3,526,551,938**	$3,424,084,798

The above account transaction statement is unaudited.

Notes:

1. Benefits paid in respect of participants who, at the time of death, were employed in the public service or in receipt of an immediate Public Service Superannuation Act pension.
2. Benefits of $10,000 paid in respect of participants who, at the time of death, were employed in the public service or in receipt of an immediate annuity under the Public Service Superannuation Act and on whose behalf a single premium for $10,000 of death-benefit coverage for life has been made.

Statistical tables

Statistical table 1. Pensions in pay

Statistical table 1.1. Number of pensions and survivor pensions in pay (year ended March 31)

Year	Pensions[1]	Survivor pensions[2]	Total
2016	**218,028**	**60,406**	**278,434**
2015	213,203	60,693	273,896
2014	207,495	59,331	266,826

Statistical table 1.2. Average annual amount of pensions and survivor pensions in pay[3] (year ended March 31)

		Pensions[1]			Survivor pensions		
Year		Men	Women	Total	Spouse / common-law partner	Children	Students
2016	**Average annual amount**	**$33,254**	**$24,517**	**$29,314**	**$14,145**	**$2,127**	**$3,686**
	Average age	**71.6**	**68.7**	**70.3**	**82.0**	**n/a**	**n/a**
	Average pensionable service (years)	**25.4**	**22.9**	**24.3**	**22.9**	**n/a**	**n/a**
2015	Average annual amount	$32,617	$23,783	$28,711	$13,394	$2,111	$3,480
	Average age	71.5	68.6	70.2	80.5	n/a	n/a
	Average pensionable service (years)	25.3	22.8	24.2	22.3	n/a	n/a
2014	Average annual amount	$31,882	$22,974	$28,019	$13,031	$2,038	$3,471
	Average age	71.3	68.5	70.1	80.1	n/a	n/a
	Average pensionable service (years)	25.4	22.7	24.2	22.3	n/a	n/a

Notes:

1. Includes immediate annuities, disability retirement benefits and annual allowances payable to former contributors only.
2. Includes spouse or common-law partner, children and students.
3. Amounts include indexation.

Statistical table 2. Pensions that became payable

Statistical table 2.1. Pensions that became payable to members[1, 2] (year ended March 31)

Year	Men	Women	Total	Total amount paid	Average pension
2016	**4,323**	**5,437**	**9,760**	**$356,718,556**	**$36,549**
2015	4,433	5,234	9,667	$348,650,269	$36,066
2014	4,811	6,028	10,839	$385,271,381	$35,548

Statistical table 2.2. Pensions that became payable to survivors[2] (year ended March 31)

Year	Spouse / common-law partner	Children and students	Total	Total amount paid	Average pension Spouse / common-law partner	Average pension Children and students
2016	**2,091**	**578**	**2,669**	**$34,784,709**	**$16,556**	**$3,430**
2015	2,258	602	2,860	$37,929,875	$15,939	$3,330
2014	2,285	628	2,913	$36,505,401	$15,091	$3,349

Notes:

1. In 2016, the pensions that became payable included immediate annuities (7,047), deferred annuities (489), annual allowances payable to former contributors only (1,572) and disability retirement benefits (652).
2. These amounts include indexation.

Statistical table 3. Unreduced pensions, immediate annuities[1] (year ended March 31)

Number of pensions at age at retirement															
Year	50 to 54[2]	55	56	57	58	59	60[3]	61	62	63	64	65	66 and over	Total	Average age[4]	Average unreduced pension[5]
2016	**50**	**1,293**	**510**	**382**	**327**	**333**	**1,159**	**514**	**450**	**381**	**350**	**457**	**841**	**7,047**	**60**	**$41,072**
2015	81	1,218	454	419	370	314	1,113	570	491	358	341	440	784	6,953	60	$40,633
2014	69	1,521	614	563	478	451	1,227	576	494	435	397	486	767	8,078	60	$39,273

Notes:

1. Excludes immediate annuities resulting from disability retirement benefits (652 in 2016).
2. Includes only eligible Correctional Service Canada operational employees who qualify for an unreduced pension.
3. Excludes deferred annuities that became payable at age 60. In 2016, there were 489 deferred annuities (202 men, 287 women) that became payable at age 60.
4. In 2016, the average retirement age was 60.70 for men and 59.92 for women.
5. In 2016, the average unreduced pension was $40,569 for men and $41,520 for women.

Statistical table 4. Reduced pensions (annual allowances) and lump-sum payments that became payable (year ended March 31)

Reduced pensions[1]					Lump-sum payments[2]	
Year	Number for men	Number for women	Total number	Average allowance	Number	Amount
2016	**575**	**997**	**1,572**	**$30,330**	**12,230**	**$468,442,200**
2015	615	1,000	1,615	$28,923	7,584	$431,132,155
2014	592	1,065	1,657	$29,536	9,071	$478,127,833

Notes:

1. Includes deferred annual allowances. A deferred annual allowance is a deferred annuity that is reduced because of early payment.
2. Includes transfer values, returns of contributions, amounts transferred to other pension plans under pension transfer agreements and amounts transferred under the Pension Benefits Division Act.

Statistical table 5. Changes in number of active members, retired members and survivors on pension

Statistical table 5.1. Changes in number of active members (year ended March 31, 2016)

	Men	Women	Total
Number of active members, March 31, 2015	128,889	161,764	290,653
Additions	11,235	15,716	26,951
Deletions[1]	10,729	14,624	25,353
Adjustments[2]	1,747	2,273	4,020
Number of active members, March 31, 2016	**131,142**	**165,129**	**296,271**

Notes:

1. Includes full return of contributions, immediate annuities, annual allowances paid, transfer values, deferred annuities chosen, deferred annuities locked in (if applicable), transfers out and deaths in service.
2. Adjustments for transactions completed after year-end with an effective date before March 31.

Statistical table 5.2. Changes in number of retired members[1] (year ended March 31, 2016)

	Total
Number of retired members, March 31, 2015	213,203
Additions	9,760
Deletions	3,307
Adjustments[2]	(1,628)
Number of retired members, March 31, 2016	218,028

Notes:

1. Does not include 4,193 members who elected to become deferred annuitants during the year ending March 31, 2016.
2. Adjustments for transactions completed after year-end with an effective date before March 31.

Statistical table 5.3. Changes in number of survivors on pensions (year ended March 31, 2016)

	Total
Number of survivors on pension, March 31, 2015	59,373
Additions	2,091
Deletions	585
Adjustments[1]	(473)
Number of survivors on pension, March 31, 2016	**60,406**

Note:

1. Adjustments for transactions completed after year-end with an effective date before March 31.

Statistical table 5.4. Changes in number of children and students on pensions (year ended March 31, 2016)

	Total
Number of children and students on pension, March 31, 2015	1,320
Additions	578
Deletions	195
Adjustments[1]	(393)
Number of children and students on pension, March 31, 2016	**1,310**

Note:

1. Adjustments for transactions completed after year-end with an effective date before March 31.

Statistical table 6. Number of transfer-value payments by years of pensionable service and age at termination (year ended March 31, 2016)

	Age at termination						
Years of pensionable service	**Under 30**	**30 to 34**	**35 to 39**	**40 to 44**	**45 to 49**	**Total**	**Total ($)**
Under 5	333	247	140	133	137	990	n/a
5 to 9	53	126	126	89	84	478	n/a
10 to 14	1	31	81	94	95	302	n/a
15 to 19	0	0	9	39	59	107	n/a
20 to 24	0	0	1	20	60	81	n/a
25 to 29	0	0	0	0	14	14	n/a
30 to 35	0	0	0	0	6	6	n/a
Overall total	**387**	**404**	**357**	**375**	**455**	**1,978**	**$346,957,312**
Total women	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**1,155**	**n/a**
Total men	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**823**	**n/a**

Statistical table 7. Supplementary death benefit: Number of participants and number of benefits paid (year ended March 31)

	Active participants[1]			Retired participants[2]			Death benefits paid			
Year	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Amount paid**
2016	**125,472**	**160,484**	**285,956**	**97,479**	**80,320**	**177,999**	**2,063**	**791**	**2,854**	**$173,928,280**
2015	125,175	159,965	285,140	96,222	76,323	172,545	2,181	820	3,001	$166,836,177
2014	126,151	161,412	287,563	94,655	72,172	166,827	2,358	905	3,263	$180,587,713

Notes:

1. Certain Crown corporations do not offer the supplementary death benefit.
2. The supplementary death benefit is optional for retirees.

Financial statements of the public service pension plan for the fiscal year ended March 31, 2016

Statement of responsibility

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, 2016, 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.

To fulfill its accounting and reporting responsibilities, PSPC has developed and maintains books, records, internal controls, and management practices designed to provide reasonable assurance as to the reliability of the financial information and to ensure that transactions are in accordance with the Public Service Superannuation Act (PSSA) and regulations, as well as the Financial Administration Act (FAA) and regulations.

Additional information, as required, is obtained from the Public Sector Pension Investment Board (PSPIB). PSPIB maintains its own records and systems of internal control to account for the funds managed on behalf of the pension plan in accordance with the Public Sector Pension Investment Board Act, regulations and by-laws.

These statements have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Approved by:

Marie Lemay
Deputy Minister and Deputy Receiver
General for Canada
Public Services and Procurement Canada

Original signed
January 13, 2017

Yaprak Baltacıoğlu
Secretary of the Treasury Board
Treasury Board of Canada Secretariat

Original signed
January 13, 2017

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the President of the Treasury Board and the Minister of Public Services and Procurement

Report on the Financial Statements

I have audited the accompanying financial statements of the public service pension plan, which comprise the statement of financial position as at 31 March 2016, and the statement of changes in net assets available for benefits and statement of changes in pension 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 the stated accounting policies set out in Note 2 of the financial statements, which are based on Canadian accounting standards for pension plans, 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 public service pension plan as at 31 March 2016, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the public service pension plan that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Service Superannuation Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board.

Margaret Haire

Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

13 January 2017
Ottawa, Canada

Financial statements[9]

Statement of financial position
(Canadian $ millions)

	As at March 31, 2016	As at March 31, 2015
Assets		
Public Service Pension Fund (Note 4)	**$355**	$402
Investments (Note 5)	**95,400**	90,426
Contributions receivable		
From plan members (Note 8)	**$555**	541
From employers (Note 8)	**$510**	568
Other assets (Note 9)	**131**	127
Total assets	**$96,951**	$92,064
Liabilities		
Investment-related liabilities (Note 5)	**$4,251**	$3,678
Accounts payable and other liabilities	**128**	131
Borrowings (Note 5 and Note 10)	**6,421**	5,384
Net assets available for benefits	**$86,151**	$82,871
Pension obligations		
Unfunded (Note 13 and Note 21)	**$97,027**	$95,999
Funded (Note 13)	**79,469**	73,581
Total pension obligations	**$176,496**	$169,580
Deficit to be financed by the Government of Canada (Note 14)	**$(90,345)**	$(86,709)

Commitments (Note 24)

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

9. The formatting of the financial statements has been modified to meet web accessibility guidelines.

Financial statements (continued)

Statement of changes in net assets available for benefits

Year ended March 31 (Canadian $ millions)

	2016	2015
Net assets available for benefits, beginning of year	**$82,871**	$69,577
Increase in net assets available for benefits		
Investment income, excluding changes in fair values of investment assets and investment liabilities (Note 15)	**2,106**	2,001
Changes in fair values of investment assets and investment liabilities, realized and unrealized gains and losses (Note 15)	**(1,115)**	8,371
Contributions		
From plan members (Note 16)	**1,997**	1,963
From employers (Note 16)	**2,353**	2,660
Actuarial adjustment (Note 17)	**340**	435
Transfers from other pension plans	**33**	30
Total increase in net assets available for benefits	**5,714**	$15,460
Decrease in net assets available for benefits		
Benefits paid with respect to service after March 31, 2000 (Note 18)	**$1,571**	$1,355
Refunds and transfers (Note 18)	**410**	368
Investment-related expenses (Note 19)	**196**	225
Administrative expenses (Note 20)	**257**	218
Total decrease in net assets available for benefits	**$2,434**	$2,166
Net increase in net assets available for benefits	**$3,280**	$13,294
Net assets available for benefits, end of year	**$86,151**	$82,871

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

Financial statements (continued)

Statement of changes in pension obligations

Year ended March 31 (Canadian $ millions)

	2016 Funded	2016 Unfunded	2016 Total	2015 Funded	2015 Unfunded	2015 Total
Pension obligations, beginning of year	**$73,581**	**$95,999**	**$169,580**	$65,522	$92,064	$157,586
Increase in pension obligations						
Interest on pension obligations	**3,144**	**4,477**	**7,621**	3,278	4,558	7,836
Benefits earned	**4,590**	**0**	**4,590**	4,494	0	4,494
Changes in actuarial assumptions: losses/gains (Note 13)	**1,066**	**2,662**	**3,728**	2,007	3,576	5,583
Transfers from other pension plans	**33**	**0**	**33**	30	0	30
Total increase in pension obligations	**$8,833**	**$7,139**	**$15,972**	$9,809	$8,134	$17,943
Decrease in pension obligations						
Benefits paid (Note 18)	**$1,571**	**$5,341**	**$6,912**	$1,355	$5,257	$6,612
Experience gains / (losses) (Note 13)	**922**	**652**	**1,574**	(54)	(1,187)	(1,241)
Refunds and transfers (Note 18)	**410**	**58**	**468**	368	63	431
Administrative expenses included in the service cost (Note 20 and Note 21)	**42**	**60**	**102**	41	58	99
Plan curtailments (Note 13)	**0**	**0**	**0**	40	8	48
Total decrease in pension obligations	**$2,945**	**$6,111**	**$9,056**	$1,750	$4,199	$5,949
Net increase (decrease) in pension obligations	**$5,888**	**$1,028**	**$6,916**	$8,059	$3,935	$11,994
Pension obligations, end of year	**$79,469**	**$97,027**	**$176,496**	$73,581	$95,999	$169,580

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

1. Description of the public service pension plan

The public service pension plan (the pension plan), governed by the Public Service Superannuation Act (PSSA), provides pension benefits for federal public service employees. While the PSSA has been in effect since January 1, 1954, federal legislation has been providing pensions for public servants since 1870.

The main provisions of the pension plan are summarized below.

(A) General

The pension plan is a contributory defined benefit plan covering substantially all of the full-time and part-time employees of the Government of Canada (the Government), Public Service corporations as defined in the PSSA, and territorial governments. Membership in the pension plan is compulsory for all eligible employees.

The Government is the sole sponsor of the pension plan. The President of the Treasury Board is the Minister responsible for the PSSA. The Treasury Board of Canada Secretariat (the Secretariat) is responsible for the management of the pension plan while Public Services and Procurement Canada (PSPC) provides the day-to-day administration of the pension plan and maintains the books of accounts. The Office of the Chief Actuary (OCA), an independent unit within the Office of the Superintendent of Financial Institutions (OSFI) performs periodic actuarial valuations of the pension plan.

Until April 1, 2000, separate market-invested funds were not set aside to provide for payment of pension benefits. Instead, transactions relating to the pension plan were recorded in a Public Service Superannuation Account (superannuation account) created by legislation in the accounts of Canada. Pursuant to the PSSA, as amended by the Public Sector Pension Investment Board Act, transactions relating to service since April 1, 2000, are now recorded in the Public Service Pension Fund (Pension Fund). An amount equal to contributions in excess of benefit payments and administrative costs is transferred regularly to the Public Sector Pension Investment Board (PSPIB) and invested in capital markets. PSPIB is a Crown corporation whose statutory objectives are to manage the funds transferred to it for investment and to maximize investment returns without undue risk of loss, having regard to the funding, policies and requirements of the three main public sector pension plans (public service, Royal Canadian Mounted Police (RCMP) and Canadian Forces).

(B) Funding policy

The pension plan is funded from plan member and employer contributions, and investment earnings. For the fiscal year, public service employees who were members of the pension plan on or before December 31, 2012 (Group 1) contributed 8.15% (7.50% in 2015) for the first nine months; and 9.05% (8.15% in 2015) for the last three months of pensionable earnings up to the maximum covered by the Canada Pension Plan (CPP) or Québec Pension Plan (QPP); and 10.40% (9.80% in 2015) for the first nine months and 11.04% for the last three months (10.40% in 2015) of pensionable earnings above that maximum.

The contribution rates for public service employees joining the pension plan on or after January 1, 2013 (Group 2) was set at 7.05% (6.62% in 2015) for the first nine months and 7.86% (7.05% in 2015) for the last three months of pensionable earnings up to the maximum covered by the CPP and QPP, and 8.54% (7.89% in 2015) for the first nine months; and 9.39% (8.54% in 2015) for the last three months of pensionable earnings above that maximum. The Government's contribution is made monthly to provide for the cost (net of plan member contributions) of the benefits that have accrued in respect of that month at a rate determined by the President of the Treasury Board. The contribution rates are determined based on actuarial valuations, which are performed triennially.

The PSSA provides that all pension obligations arising from the pension plan be met by the Government. The PSSA requires that any actuarial deficit in the Pension Fund be dealt with by transferring equal instalments to the Pension Fund over a period of up to 15 years, commencing in the year in which the actuarial report is tabled in Parliament. PSSA also allows any surplus to be lowered by reducing Government and pension plan member contributions. In addition, if there is an amount considered to be non-permitted surplus (refer to PSSA section 44.4(5) for definition of non-permitted surplus) related to the Pension Fund, no further Government pension contributions are permitted while pension plan member contributions under the Pension Fund may be reduced and amounts from PSPIB may be transferred to the Government's Consolidated Revenue Fund (CRF).

(C) Benefits

The pension plan provides pension benefits based on the number of years of pensionable service up to a maximum of 35 years. Benefits are determined by a formula set out in the legislation; they are not based on the financial status of the pension plan. The basic benefit formula is 2% per year of pensionable service multiplied by the average of the five consecutive years of highest paid service. To reflect the Income Tax Act restrictions on registered pension plan benefits, separate retirement compensation arrangements (RCAs) have been implemented to provide benefits that exceed the limits established in the Income Tax Act. Since the RCAs are covered by separate legislation, their account balances in the accounts of Canada are not consolidated in these financial statements; however, condensed information is presented in Note 22.

Pension benefits are coordinated with the CPP and QPP, and the resulting pension reduction factor for pension plan members reaching age 65, or earlier if totally and permanently disabled, has been lowered from a level of 0.7% for those turning age 65 in calendar year 2007 or earlier to 0.625% for those turning age 65 in calendar year 2012 and later. Also, benefits are fully indexed to the increase in the Consumer Price Index.

Other benefits include survivor pensions, minimum benefits in the event of death, unreduced early retirement pensions, and disability pensions.

2. Significant accounting policies

The significant accounting policies that have been applied in the preparation of these financial statements are summarized below.

(A) Basis of presentation

These financial statements present information on the pension plan on a going-concern basis. They are prepared to assist plan members and others in reviewing the activities of the pension plan for the year, not to portray the funding requirements of the pension plan.

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.

PSPIB is a Crown corporation whose statutory objectives are to manage the funds transferred to it for investment. The PSPIB forms part of the pension plan reporting entity. PSPIB's subsidiaries, other than those that solely provide PSPIB with services that relate to its investment activities, are not consolidated since PSPIB activities qualify as those undertaken by an investment entity as defined under IFRS 10, Consolidated Financial Statements. PSPIB's investments in subsidiaries are measured at fair value through profit or loss (FVTPL) in accordance with IFRS 9, Financial Instruments, including those that are formed by PSPIB and that qualify as investment entities (investment entity subsidiaries). PSPIB's investments in associates, joint ventures and financial assets and financial liabilities are measured at FVTPL in accordance with IAS 28, Investments in Associates and Joint Ventures and IFRS 9.

The financial statements for the year ended March 31, 2016 were authorized for issue by the signatories on January 13, 2017.

(B) Interests in other entities

Management, through the activities of PSPIB, assesses control, joint control and significant influence with respect to the investees disclosed in Note 6 as follows:

(I) Control and significant influence

It is determined that PSPIB has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSPIB does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSPIB determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSPIB's ownership interest, other contractual arrangements, or a combination thereof.

(II) Joint control

It is determined that PSPIB is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

(C) Financial instruments

(I) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 5.

Borrowings under the capital market debt financing program, as described under Note 10, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(II) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSPIB becomes a party to the associated contractual provisions. Purchases and sales are recorded as of the trade date.

(III) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statement of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statement of Changes in Net Assets Available for Benefits.

(IV) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired; or
- PSPIB has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party.
  and
- PSPIB has transferred substantially all the risks and rewards of the asset; or
- In cases where PSPIB has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

(D) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSPIB evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in real estate, private equity, infrastructure and natural resources, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 5.

(E) Foreign currency translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses are translated at the rate of exchange prevailing on the date of the transaction.

Financial assets and financial liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains or losses on all financial instruments are included in investment income (loss).

(F) Securities lending and securities borrowing and related collateral

PSPIB participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSPIB does not derecognize securities lent or recognize securities borrowed.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standards securities lending and borrowing programs. PSPIB and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

(G) Securities sold under repurchase agreements and purchased under reverse repurchase agreements and related collateral

PSPIB is party to repurchase and reverse repurchase agreements. Such agreements involve the sale of securities by one counterparty with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSPIB is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income (loss), as detailed in Note 15, and obligations to repurchase the securities sold are accounted for as investment-related liabilities.

The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense. In the case where PSPIB is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income (loss).

Transactions under repurchase agreements and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

(H) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statement of Financial Position only if PSPIB has a current enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(I) Pension obligations

The present value of accrued pension benefits is calculated by using the projected benefit method prorated on service, based on management's best estimate assumptions.

(J) Investment income

The investment income (loss) has been allocated proportionately by PSPIB based on the asset value held by the pension plan and is detailed in Note 15.

Investment income (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized, on a consistent basis, using prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

(K) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service that are receivable over a period in excess of one year are recorded at the estimated net present value of the contributions to be received.

(L) Benefits earned, benefits paid, and refunds and transfers

Benefits earned are accrued as pensionable service accumulates. Benefits paid are recognized as a reduction of pension obligations, and of net assets available for benefits when the payments are made.

Benefit payments, refunds to former members and transfer payments to other plans are recorded in the period in which they are paid.

(M) Investment-related expenses

Investment-related expenses are made up of interest expense, as described in Note 5 (A) (VI), transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSPIB. These fees are paid directly by PSPIB and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSPIB for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 19.

(N) Significant accounting judgments, estimates and assumptions

In preparing the financial statements, management makes certain judgments, estimates and assumptions which can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2(A).

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets, certain fixed income securities and the pension obligations. The main assumptions made regarding measurement of financial instruments are outlined in Note 5, those regarding the assessment of risk are outlined in Note 7, and those regarding actuarial assumptions used in determining the pension obligations as described in Note 13.

Although estimates and assumptions reflect management’s best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

3. Current accounting standards adopted before the effective date and future changes in accounting standards

(A) Current accounting standards adopted before the effective date

In 2014, the International Accounting Standards Board (IASB) completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement with IFRS 9: Financial Instruments. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. IFRS 9 was initially adopted for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described in Notes 2 (C) and 5.

(B) Future changes in accounting standards

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of the pension plan's significant accounting policies or disclosures:

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective for annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 Business Combinations, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. Management has determined that the impact of this amendment is not significant.

4. Public Service Pension Fund

The Government has a statutory obligation to pay benefits relating to the pension plan. This pension obligation is to plan members and their beneficiaries. In order for the Government to track the transactions related to contributions, benefit payments, interest and transfers, the Government established the Pension Fund in the accounts of Canada. The accounts have no capacity to pay pensions. All cash receipts and disbursements go to or come from the CRF.

In 1999, the pension legislation was amended to allow the Government to invest funds in capital markets in order to provide for the pension obligations. This legislation created the PSPIB to manage and invest amounts that are transferred regularly to it from the CRF related to service since April 1, 2000. The transactions are recorded in the Pension Fund. The Pension Fund is merely a flow through account. At year-end, the balance in the Pension Fund represents net contributions transferable to PSPIB. PSPIB investment assets and investment-related liabilities are reflected directly in the pension plan's financial statements.

5. Financial assets and financial liabilities

(A) Classes of financial assets and financial liabilities

Financial assets and financial liabilities are aggregated in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values as at March 31 were as follows ($ millions):

	2016	2015
Investments		
Public markets		
Canadian equity	**$4,620**	$6,009
Foreign equity	**18,874**	24,203
Private markets		
Real estate	**16,306**	12,355
Private equity	**8,160**	7,276
Infrastructure[1]	**6,893**	5,429
Natural resources[1]	**2,200**	1,865
Fixed income		
Cash and money market securities	**4,293**	2,826
Government and corporate bonds	**14,466**	13,240
Inflation-linked bonds	**5,372**	4,670
Other fixed income securities	**5,759**	5,586
Alternative investments	**4,807**	4,004
Total investments	**$91,750**	$87,463
Investment-related assets		
Amounts receivable from pending trades	**$320**	$1,462
Interest receivable	**162**	154
Dividends receivable	**75**	71
Securities purchased under reverse repurchase agreements	**777**	0
Derivative-related assets	**2,316**	1,276
Total investment-related assets	**3,650**	$2,963
Investments representing financial assets at FVTPL	**$95,400**	$90,426

1. During the year ended March 31, 2016, certain investments were transferred from the infrastructure to the natural resources asset class to reflect a change in the scope of the asset classes. In order to present such investments on a comparable basis, corresponding comparative balances of $202 million were reclassified accordingly.

	2016	2015
Investment-related liabilities		
Amounts payable from pending trades	**$(418)**	$(1,165)
Interest payable	**(19)**	(24)
Securities sold short	**(1,930)**	(387)
Securities sold under repurchase agreements	**(1,043)**	0
Derivative-related liabilities	**(841)**	(2,102)
Investment-related liabilities representing financial liabilities at FVTPL	**$(4,251)**	$(3,678)
Borrowings		
Capital market debt financing	**$(6,421)**	$(5,384)
Borrowings representing financial liabilities designated at FVTPL	**$(6,421)**	$(5,384)
Net investments	**$84,728**	$81,364

(I) Public markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Valuation techniques

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. PSPIB reviews the fair value received to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

(II) Private markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financings. As at March 31, 2016, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSPIB was $4,560 million ($3,974 million as at March 31, 2015).

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2016, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSPIB for the pension plan, was $1,156 million ($1,043 million as at March 31, 2015).

Natural resources investments are comprised of direct equity positions, fund investments and partnerships. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas.

Valuation techniques

The process of fair value measurement of private markets investments is described in Note 5(C) (II) and the valuation techniques together with the significant inputs used are described in Note 5(C) (III).

(III) Fixed income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and other fixed income securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Other fixed income securities consist of asset-backed securities, floating rate notes as well as private debt investments.

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 23.

Private debt investments are mainly in the real estate sector in the form of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products. They also include real estate debt funds where significant portions of the value are attributed to the underlying real estate assets.

Private debt investments also include debt securities of private companies or other entities such as venture capital organizations, held mainly through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt.

Valuation techniques

Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Fair values of government and corporate bonds, inflation-linked bonds, floating rate notes and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5(C) (III).

The fair value measurement of fund investments included as part of private debt investments is described in Note 5(C) (II).

(IV) Alternative investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds.

Valuation techniques

The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. PSPIB reviews the fair value received to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

(V) Amounts receivable and payable from pending trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Valuation techniques

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

(VI) Interest and dividends receivable

Interest and dividends are recorded at the amounts expected to be received as at the end of the reporting period, which approximates fair value.

(VII) Interest payable

With respect to the borrowings described in Note 5 (A) (X), interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

(VIII) Securities sold short

Securities sold short reflect PSPIB's obligation to purchase securities pursuant to short selling transactions. In such transactions, PSPIB sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Valuation techniques

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

(IX) Securities sold under repurchase agreements and purchased under reverse repurchase agreements

As described in Note 2 (G), PSPIB is party to repurchase and reverse repurchase agreements.

Valuation techniques

Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which approximates fair value.

(X) Borrowings under the capital market debt program

PSPIB's capital market debt program is described in Note 10. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSPIB's medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSPIB's credit quality.

(B) Derivative-related assets and liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSPIB uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSPIB uses the following types of derivative financial instruments:

(I) Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

(II) Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

(III) Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

(IV) Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

(V) Warrants and rights

Warrants are options to purchase an underlying asset, which is in the form of a transferable security and which can be listed on an exchange.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

(VI) Collateralized debt obligations

Collateralized debt obligations are a type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

(VII) Determination of fair value of derivative financial instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

The fair value of credit derivatives is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 5 (C) (III).

(VIII) Notional values and fair values of derivative-related assets and liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

The following table summarizes the derivatives portfolio as at March 31 ($ millions):

	2016			2015		
		Fair value			Fair value	
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
Equity and commodity derivatives						
Listed: Futures	$486	$0	$0	$494	$0	$0
Listed: Warrants and rights	2	3	0	1	5	0
Listed: Options: Purchased	1,092	14	0	401	13	0
Written	1,013	0	(17)	388	0	(6)
OTC						
Forwards	0	0	0	277	22	(43)
Total return swaps	15,146	687	(24)	11,949	189	(46)
Options: Purchased	4,223	48	0	3,091	134	0
Written	4,263	0	(39)	3,131	0	(128)
Currency derivatives						
Listed: Futures	127	0	0	113	0	0
OTC						
Forwards	31,556	1,229	(170)	32,209	352	(1,066)
Swaps	2,359	14	(229)	2,307	18	(236)
Options: Purchased	6,371	75	0	8,404	297	0
Written	7,794	0	(63)	8,522	0	(286)
Interest rate derivatives						
Listed: Futures	5,421	0	0	5,629	0	0
Listed: Options: Purchased	1,721	1	0	35,088	10	0
Written	14,849	0	(2)	36,163	0	(6)
OTC						
Bond forwards	236	1	0	2,092	0	(4)
Interest rate swaps	8,146	117	(144)	6,007	97	(119)
Inflation swaps	394	3	(4)	0	0	0
Swaptions	21,117	110	(110)	33,713	132	(137)
Options: Purchased	6,139	7	0	4,035	3	0
Written	9,161	0	(9)	1,308	0	(2)
OTC-cleared: Interest rate swaps	5,766	0	0	9,358	0	0
Credit derivatives[1]						
OTC: Purchased	1,301	5	(16)	913	0	(16)
OTC: Sold	373	2	(14)	435	4	(7)
OTC-cleared: Purchased	455	0	0	446	0	0
OTC-cleared: Sold	1,046	0	0	842	0	0
Total		$2,316	$(841)		$1,276	$(2,102)

1. Credit derivatives include credit default swaps and collateralized debt obligations. PSPIB, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

Total derivative-related assets and liabilities as at March 31 are comprised of ($ millions):

	2016			2015		
		Fair value			Fair value	
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
Listed derivatives	**$24,711**	**$18**	**$(19)**	$78,277	$28	$(12)
OTC derivatives	**118,579**	**2,298**	**(822)**	118,393	1,248	(2,090)
OTC-cleared derivatives	**7,267**	**0**	**0**	10,646	0	0
Total		**$2,316**	**$(841)**		$1,276	$(2,102)

The term to maturity based on the notional value for the derivatives was as follows as at March 31 ($ millions):

	2016
Less than 3 Months	**$69,595**
3 to 12 Months	**40,780**
Over 1 Year	**40,182**

(C) Fair value hierarchy

(I) Classification

Financial assets and financial liabilities described under Note 5 (A) are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSPIB can access at the end of the reporting period.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:

(i) Quoted prices for similar assets or liabilities in active markets

(ii) Quoted prices for identical or similar assets or liabilities in markets that are not active

(iii) Inputs other than quoted prices that are observable for the asset or liability

(iv) Market-corroborated inputs

Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect PSPIB's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSPIB determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2016, classified within the fair value hierarchy ($ millions):

	Level 1	Level 2	Level 3	Total fair value
Investments				
Public markets				
Canadian equity	**$4,094**	**$526**	**$0**	**$4,620**
Foreign equity	**15,521**	**3,353**	**0**	**18,874**
Private markets				
Real estate	**0**	**0**	**16,306**	**16,306**
Private equity	**0**	**0**	**8,160**	**8,160**
Infrastructure	**0**	**0**	**6,893**	**6,893**
Natural resources	**0**	**0**	**2,200**	**2,200**
Fixed income				
Cash and money market securities	**0**	**4,293**	**0**	**4,293**
Government and corporate bonds	**0**	**14,261**	**205**	**14,466**
Inflation-linked bonds	**0**	**5,372**	**0**	**5,372**
Other fixed income securities	**0**	**1,404**	**4,355**	**5,759**
Alternative investments	**0**	**891**	**3,916**	**4,807**
Total investments	**$19,615**	**$30,100**	**$42,035**	**$91,750**
Investment-related assets				
Amounts receivable from pending trades	**$0**	**$320**	**$0**	**$320**
Interest receivable	**0**	**162**	**0**	**162**
Dividends receivable	**0**	**75**	**0**	**75**
Securities purchased under reverse repurchase agreements	**0**	**777**	**0**	**777**
Derivative-related assets	**18**	**2,298**	**0**	**2,316**
Total investment-related assets	**$18**	**$3,632**	**$0**	**$3,650**
Investments representing financial assets at FVTPL	**$19,633**	**$33,732**	**$42,035**	**$95,400**
Investment-related liabilities				
Amounts payable from pending trades	**$0**	**$(418)**	**$0**	**$(418)**
Interest payable	**0**	**(19)**	**0**	**(19)**
Securities sold short	**(1,600)**	**(330)**	**0**	**(1,930)**
Securities sold under repurchase agreements	**0**	**(1,043)**	**0**	**(1,043)**
Derivative-related liabilities	**(19)**	**(822)**	**0**	**(841)**
Investment-related liabilities representing financial liabilities at FVTPL	**$(1,619)**	**(2,632)**	**$0**	**$(4,251)**
Borrowings				
Capital market debt financing	**$0**	**$(6,421)**	**$0**	**$(6,421)**
Borrowings representing financial liabilities designated at FVTPL	**0**	**$(6,421)**	**$0**	**$(6,421)**
Net investments	**$18,014**	**$24,679**	**$42,035**	**$84,728**

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2015, classified within the fair value hierarchy ($ millions):

	Level 1	Level 2	Level 3	Total fair value
Investments				
Public markets				
Canadian equity	$5,471	$538	$0	$6,009
Foreign equity	20,313	3,890	0	24,203
Private markets				
Real estate	0	0	12,355	12,355
Private equity	0	0	7,276	7,276
Infrastructure	0	0	5,429	5,429
Natural resources	0	0	1,865	1,865
Fixed income				
Cash and money market securities[1]	0	2,826	0	2,826
Government and corporate bonds	0	13,043	197	13,240
Inflation-linked bonds	0	4,670	0	4,670
Other fixed income securities	0	1,740	3,846	5,586
Alternative investments	0	1,024	2,980	4,004
Total investments	$25,784	$27,731	$33,948	$87,463
Investment-related assets				
Amounts receivable from pending trades[1]	$0	$1,462	$0	$1,462
Interest receivable[1]	0	154	0	154
Dividends receivable[1]	0	71	0	71
Derivative-related assets	28	1,248	0	1,276
Total investment-related assets	$28	$2,935	$0	$2,963
Investments representing financial assets at FVTPL	$25,812	$30,666	$33,948	$90,426
Investment-related liabilities				
Amounts payable from pending trades[1]	$0	$(1,165)	$0	$(1,165)
Interest payable[1]	0	(24)	0	(24)
Securities sold short	(387)	0	0	(387)
Derivative-related liabilities	(12)	(2,084)	(6)	(2,102)
Investment-related liabilities representing financial liabilities at FVTPL	$(399)	$(3,273)	$(6)	$(3,678)
Borrowings				
Capital market debt financing	$0	$(5,384)	$0	$(5,384)
Borrowings representing financial liabilities designated at FVTPL	$0	$(5,384)	$0	$(5,384)
Net investments	$25,413	$22,009	$33,942	$81,364

1. As at March 31, 2015, short-term balances for which cost approximated fair value were not classified in the fair value hierarchy. In order to be consistent with the classification of other financial instruments, they have been included in Level 2 in the current year. The comparative figures were reclassified in Level 2 to conform to the current year presentation. As a result, investments representing financial assets at FVTPL of $2,764 million and investment-related liabilities representing financial liabilities at FVTPL of $1,189 million are now disclosed as Level 2.

There were no transfers between Level 1 and Level 2 during the year ended March 31, 2016.

During the year ended March 31, 2015, listed foreign equity securities with a fair value of $351 million, held by a non-listed fund and classified as Level 2 as at March 31, 2014, were transferred to PSPIB and classified as Level 1 as at March 31, 2015.

(II) Process for level 3 fair value determination

The valuation process is monitored and governed by an internal valuation committee (VC).This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the International Private Equity and Venture Capital Valuation Guidelines, the Canadian Uniform Standards of Professional Appraisal Practice and the Uniform Standards of Professional Appraisal Practice in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, PSPIB ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, PSPIB ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund’s general partner. In certain cases fair value is obtained from information provided by the fund’s administrators and is reviewed by PSPIB to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

(III) Level 3 significant inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2016:

Financial assets and financial liabilities	Type of investment	Fair value ($ millions)	Significant valuation techniques	Significant unobservable inputs	Range (weighted average)
Private markets					
Real estate	Direct and co-investments	**$15,258**	Discounted cash flow (DCF)	Discount rate[1, 2]	5.25% to 25.00% (8.27%)
				Terminal capitalization rate[1, 2]	4.25% to 14.00% (6.29%)
			Direct capitalization	Capitalization rate[1, 3]	3.25% to 7.5% (5.91%)
				Stabilized occupancy rate[3, 4]	93.0% to 100.0% (96.84%)
			Sales comparison approach	Price per square foot[3, 4]	$25.00 to $665.89 ($170.43)
			Net asset value method (NAV)[5]	n/a	n/a
			Transaction price	n/a	n/a
	Fund investments	**$1,048**	NAV[5]	n/a	n/a
Other private markets	Direct and co-investments	**$11,664**	DCF	Discount rate[1]	5.20% to 12.50% (9.70%)
			Market comparables	n/a	n/a
			NAV[5]	n/a	n/a
			Transaction price	n/a	n/a
	Fund investments	**$5,589**	NAV[5]	n/a	n/a
Fixed income	Convertible bonds	**$205**	DCF	Discount rate[1]	3.70% to 13.50% (6.30%)
Asset-backed securities	Term notes and mortgage-backed securities	**$509**	Third-party pricing[5]	n/a	n/a
Other fixed income securities	Direct and co-investments	**$1,315**	DCF	Discount rate[1]	8.00% to 13.50% (11.09%)
			NAV[5]	n/a	n/a
			Transaction price	n/a	n/a
	Fund investments	**$2,531**	NAV[5]	n/a	n/a
Alternative investments	Fund investments	**$3,916**	NAV[5]	n/a	n/a
Total		**$42,035**			

1. An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
2. An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
3. There is no predictable direct relationship between this input and any other significant unobservable input.
4. An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.
5. In certain cases, fair value is determined by third parties where valuation information is not available to PSPIB.

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2015:

Financial assets and financial liabilities	Type of investment	Fair value ($ millions)	Significant valuation techniques	Significant unobservable inputs	Range (weighted average)
Private markets					
Real estate	Direct and co-investments	$11,230	Discounted cash flow (DCF)	Discount rate[1, 2]	6.00% to 26.00% (8.21%)
				Terminal capitalization rate[1, 2]	4.00% to 12.00% (6.36%)
			Direct capitalization	Capitalization rate[1, 3]	3.25% to 9.25% (6.72%)
				Stabilized occupancy rate[3, 4]	93.00% to 98.50% (96.49%)
			NAV[5]	n/a	n/a
			Transaction price	n/a	n/a
	Fund investments	$1,125	NAV[5]	n/a	n/a
Other private markets	Direct and co-investments	$9,446	DCF	Discount rate[1]	5.69% to 13.40% (9.49%)
			Market comparables	n/a	n/a
			NAV[5]	n/a	n/a
			Transaction price	n/a	n/a
	Fund investments	$5,124	NAV[5]	n/a	n/a
Fixed income					
Corporate bonds	Convertible bonds	$197	DCF	Discount rate[1]	3.87% to 14.02% (5.21%)
Asset-backed securities	Term notes and mortgage-backed securities	$1,010	Third-party pricing[5]	n/a	n/a
Other fixed income securities	Direct and co-investments	$753	DCF	Discount rate[1]	9.50% to 13.40% (11.22%)
			NAV[5]	n/a	n/a
			Transaction price	n/a	n/a
	Fund investments	$2,083	NAV[5]	n/a	n/a
Alternative investments	Fund investments	$2,980	NAV[5]	n/a	n/a
Derivative-related instruments	Credit derivatives	$(6)	Third-party pricing[5]	n/a	n/a
Total	**$33,942**				

1. An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
2. An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
3. There is no predictable direct relationship between this input and any other significant unobservable input.
4. An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.
5. In certain cases, fair value is determined by third parties where valuation information is not available to PSPIB.

(IV) Level 3 reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2016 ($ millions):

	Opening balance	Purchases	Sales	Settlements	Realized gains (losses)	Unrealized gains (losses)[1]	Transfer	Closing balance
Private markets	**$26,925**	**$6,933**	**$(2,739)**	**$0**	**$685**	**$1,755**	**$0**	**$33,559**
Fixed income	**4,043**	**1,506**	**(375)**	**(504)**	**305**	**(415)**	**0**	**4,560**
Alternative investments	**2,980**	**1,192**	**(319)**	**0**	**47**	**16**	**0**	**3,916**
Derivative-related assets/ liabilities (net)	**(6)**	**0**	**0**	**(2)**	**2**	**6**	**0**	**0**
Total	**$33,942**	**$9,631**	**$(3,433)**	**$(506)**	**$1,039**	**$1,362**	**$0**	**$42,035**

1. Includes pension plan allocation adjustments.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2015 ($ millions):

	Opening balance	Purchases	Sales	Settlements	Realized gains (losses)	Unrealized gains (losses)[1]	Transfer out	Closing balance
Private markets	$20,628	$5,608	$(1,994)	$0	$350	$2,561	$(228)	$26,925
Fixed income	3,290	1,352	(805)	(105)	75	236	0	4,043
Alternative investments	1,373	1,661	(424)	0	(33)	403	0	2,980
Derivative-related assets/ liabilities (net)	0	0	0	(2)	1	(5)	0	(6)
Total	$25,291	$8,621	$(3,223)	$(107)	$393	$3,195	$(228)	$33,942

1. Includes pension plan allocation adjustments.

During the year ended March 31, 2015, a private markets investment classified under Level 3 as at March 31, 2014, was transferred to Level 1when the underlying investee became publicly traded.

(V) Level 3 sensitivity analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 5 (C) (III). Although such assumptions reflect PSPIB's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2016 (4% increase and 3% decrease as at March 31, 2015) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSPIB. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. PSPIB ensures the appropriateness of the work performed by third-party appraisers. PSPIB ensures the appropriateness of the work performed by third-party appraisers as described in Note 5 (C) (II). In the case of fund investments, the fair value is determined as indicated in Note 5(C) (II).

(D) Collateral pledged and received

PSPIB is party to agreements that involve pledging and holding collateral, as outlined in Notes 2 (F), 2 (G) and 7 (B) (I). The following table illustrates the fair values of the pension plan's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase agreements as at March 31 ($ millions):

	2016	2015
Securities lending and borrowing		
Securities lent	**$6,647**	$9,658
Collateral held[1]	**7,096**	10,423
Securities borrowed	**1,661**	387
Collateral pledged[2]	**1,745**	408
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**1,047**	0
Collateral pledged	**1,043**	0
Securities purchased under reverse repurchase agreements	**777**	0
Collateral held[3]	**777**	0
Derivatives contracts		
Collateral pledged	**208**	1,021
Collateral held	**1,582**	124

1. The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $1,511 million for the pension plan as at March 31, 2016 ($1,947 million as at March 31, 2015) and securities amounted to $5,585 million as at March 31, 2016 ($8,476 million as at March 31, 2015). All cash collateral is re-invested.
2. The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.
3. The collateral received is in the form of securities of which $329 million as at March 31, 2016 (nil as at March 31, 2015) has been used in connection with short selling transactions.

6. Interest in other entities

(A) Subsidiaries, joint ventures and associates

As an investment entity, PSPIB does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSPIB measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2 (A).

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSPIB. As at March 31, 2016, 102 investment entity subsidiaries were incorporated in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (92 in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa as at March 31, 2015).

In addition, PSPIB controlled 73 investees directly or through its investment entity subsidiaries as at March 31, 2016 (68 investees as at March 31, 2015).

The following tables present, the most significant investees held directly or indirectly by PSPIB where it has control, joint control or significant influence.

As at March 31, 2016

Entity's name	Principal place of business	Ownership interest held by PSPIB	Relationship to PSPIB
Revera Inc.	North America	100%	Controlled investee
AviAlliance GmbH	Europe	100%	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56%	Jointly controlled investee
Telesat Holdings Inc.	North America	34%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Roccapina Fund, L.P.	North America	100%	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50%	Jointly controlled investee
Big Box Properties	North America	49%	Jointly controlled investee
Acelity Inc.	North America	21%	Associate
TDF S.A.S.	Europe	22%	Associate

As at March 31, 2015

Entity's name	Principal place of business	Ownership interest held by PSPIB	Relationship to PSPIB
Revera Inc.	North America	100%	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56%	Jointly controlled investee
Telesat Holdings Inc.	North America	34%	Associate
AviAlliance GmbH	Europe	100%	Controlled investee
Isolux Infrastructure Netherlands B.V.	Central and South America	22%	Jointly controlled investee
Acelity Inc.	North America	21%	Associate
TDF S.A.S.	Europe	25%	Associate
Roccapina Fund, L.P.	North America	100%	Controlled investee
Transelect S.A.	Central and South America	18%	Associate
SEGRO European Logistics Partnership S.a.r.l.	Europe	50%	Jointly controlled investee

In addition to the above, PSPIB controls and consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSPIB's capital market debt program described in Note 10.

(B) Structured entities

PSPIB holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSPIB to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 23 and commitments under Note 24.

7. Investment risk management

PSPIB has implemented an investment approach that aims to maximize rates of return without undue risk of loss. In pursuit of such an objective, PSPIB has developed an Investment Risk Management Policy (IRM Policy) to support the management of risks incurred through the investment processes. The IRM Policy, which supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), establishes the Investment Risk Management Framework (IRM Framework) with a goal of ensuring that all investments made by PSPIB or its investment entity subsidiaries respect the risk philosophy of PSPIB and are within the tolerances and limits of its risk appetite.

The IRM Framework requires reporting on risk to all levels of the organization. The PSPIB Board of Directors and its committees oversee all risk matters and receive reporting from senior management as well as PSPIB's independent internal auditor reporting directly to the Audit Committee.

The IRM Framework is designed to effectively manage all investment risks PSPIB is exposed to, which include market, credit and liquidity risks, related to the implementation of the Policy Portfolio and active management activities.

(A) Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive the value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

Market risk management focuses on the following two key components:

Policy portfolio

The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSPIB invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation report of the pension plan. In the absence of other factors affecting the funding of the pension plan or changes to pension benefits under the pension plan, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.

Active management

Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSPIB also takes into consideration the impact of the Policy Portfolio market risk on funding risk. Funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liabilities of the pension plan, which may require the contributions to the pension plan to be increased. The Policy Portfolio is reviewed by PSPIB at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSPIB's long-term expectations of market conditions and other factors that may affect the funding level of the pension plan.

Active risk refers to all market risk arising from active management activities. It is managed in accordance with the IRM Policy.

Measurement of market risk

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSPIB uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. For investments that are not actively traded, the calculation of VaR uses securities with similar risk attributes as a proxy.

In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR). Whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the Total VaR consisting of the Policy Portfolio VaR, the Active VaR and the diversification effect, calculated as a percentage of net investments, as at the end of the period. The diversification effect captures the impact of holding different types of assets which may react differently in various types of situations and thus reduces the total VaR. The information is presented as at March 31:

	2016	2015
Policy portfolio VaR	**21.5%**	20.6%
Active VaR	**3.6**	2.6
Total VaR (undiversified)	**25.1**	23.2
Diversification effect	**(1.5)**	(0.9)
Total VaR	**23.6%**	22.3%

Stress testing

Although VaR is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSPIB uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Stress testing and scenario analysis are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

(I) Interest rate risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the pension plan's net asset values.

The terms to maturity of the classes of financial instruments, outlined in Note 5 (A), with the most significant exposure to interest rate risk were as follows as at March 31, 2016 ($ millions):

	Less than 1 year	1 to 5 years	5 to 10 years	Over 10 years	Other	Total
Government bonds	**$487**	**$4,743**	**$2,382**	**$2,601**	**$0**	**$10,213**
Corporate bonds	**315**	**2,310**	**1,235**	**393**	**0**	**4,253**
Inflation-linked bonds	**18**	**1,197**	**1,788**	**2,369**	**0**	**5,372**
Asset-backed securities	**528**	**145**	**1**	**0**	**0**	**674**
Private debt investments:						
Directly held	**3**	**880**	**224**	**0**	**37**	**1,144**
Held through funds	**0**	**0**	**0**	**0**	**$2,702**[1]	**2,702**
Total investments with significant exposure to interest rate risk	**$1,351**	**$9,275**	**$5,630**	**$5,363**	**$2,739**	**$24,358**
Other investments	**$0**	**$0**	**$0**	**$0**	**$5,532**[2]	**$5,532**
Total fixed income	**$1,351**	**$9,275**	**$5,630**	**$5,363**	**$8,271**	**$29,890**

1. Due to their nature, information in connection with the terms to maturity of fund investments included in the private debt investments is not available.
2. Consists of $4,293 million in cash and money market securities and $1,239 million in floating rate notes which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSPIB's capital market debt financing are disclosed in Note 10.

Alternative investments, reverse repurchase agreements, as well as derivative contracts described in Notes 5 (A) (IV), 5 (A) (IX) and 5 (B), respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7 (A).

(II) Foreign currency risk

PSPIB is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSPIB may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. PSPIB's policy is to hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and natural resources. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the pension plan were as follows as at March 31 ($ millions):

	2016		2015	
Currency	**Fair value**	**Percentage of total**	Fair value	Percentage of total
US Dollar	**$21,998**	**60.3%**	$21,144	58.8%
Euro	**2,598**	**7.1**	2,611	7.3
South Korean Won	**1,557**	**4.3**	1,302	3.6
British Pound	**1,491**	**4.1**	1,606	4.5
Hong Kong Dollar	**1,304**	**3.6**	1,549	4.3
Japanese Yen	**1,234**	**3.4**	1,667	4.7
Brazilian Real	**1,128**	**3.1**	1,022	2.8
Indian Rupee	**723**	**2.0**	511	1.4
Swiss Franc	**720**	**2.0**	825	2.3
Taiwanese New Dollar	**659**	**1.8**	720	2.0
Mexican Peso	**470**	**1.3**	266	0.7
Australian Dollar	**452**	**1.2**	468	1.3
South African Rand	**388**	**1.1**	442	1.2
Others	**1,735**	**4.7**	1,801	5.1
Total	**$36,457**	**100.0%**	$35,934	100.0%

As at March 31, 2016, PSPIB and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $14,362 million for the pension plan (US$10,084 million, €667 million, £148 million, R132 million South African Rands, R$60 million Brazilian Reals, $14,084 million Colombian pesos and $284 million Mexican pesos) which were not included in the foreign currency exposure table above.

(B) Credit risk

PSPIB is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSPIB relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities sold under repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSPIB. To perform this evaluation, PSPIB relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated." If the agencies disagree as to a security's credit quality, PSPIB uses the lowest of the available ratings.

As at March 31, 2016, the pension plan's maximum exposure to credit risk amounted to approximately $26 billion (approximately $23 billion as at March 31, 2015). This amount excludes investments in distressed debt in the amount of approximately $2.0 billion as at March 31, 2016 (approximately $1.8 billion as at March 31, 2015). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 5 (B) and 5 (D) respectively, and the impact of guarantees and indemnities disclosed in Note 23.

As at March 31, 2016, the pension plan had no exposure to collateralized debt obligations ($46 million of net notional exposure to various tranches of collateralized debt obligations, of which approximately 45% of the underlying dollar exposure was rated "Investment Grade" as at March 31, 2015). Additionally, PSPIB had funding facilities, as described in Note 23, to support potential margin calls on the ABTNs.

To monitor the evolution of credit risk, PSPIB periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for private market investments.

PSPIB's concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the pension plan was as follows as at March 31:

Credit rating	2016	2015
Investment grade (AAA to BBB-)	**97.3%**	97.5%
Below investment grade (BB+ and below)	**0.8**	0.4
Not rated:		
Rated by a single credit rating agency	**0.8**	0.6
Not rated by credit rating agencies	**1.1**	1.5
Total	**100.0%**	100.0%

(I) Counterparty risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSPIB requires that counterparties provide adequate collateral and meet its credit rating requirements. PSPIB frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSPIB has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSPIB's policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSPIB to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSPIB to contribute further collateral when requested. All collateral transactions under the CSA are in high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSPIB does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2 (F) and 2 (G) describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSPIB and its counterparties is disclosed in Note 5(D).

In the case of the securities lending program, PSPIB's exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

PSPIB is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, PSPIB measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

(C) Liquidity risk

Liquidity risk corresponds to the risk that PSPIB will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSPIB's cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. PSPIB utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSPIB has the ability to raise additional capital through the use of its capital market debt program. This program allows PSPIB to issue short-term promissory notes and medium-term notes. Note 10 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 5 (B).

Financial liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2016, and excluding the impact of guarantees and indemnities disclosed in Note 23 ($ millions):

	Less than 3 months	3 to 12 months	Over 1 year	Total
Non-derivative-related financial liabilities[1]				
Amounts payable from pending trades	**$(418)**	**$0**	**$0**	**$(418)**
Interest payable	**(17)**	**(2)**	**0**	**(19)**
Securities sold short	**(1,930)**	**0**	**0**	**(1,930)**
Securities sold under repurchase agreements	**(1,043)**	**0**	**0**	**(1,043)**
Capital market debt financing	**(3,780)**	**(1,463)**	**(1,178)**	**(6,421)**
Trade payable and other liabilities	**(89)**	**(2)**	**(45)**	**(136)**
Total	**$(7,277)**	**$(1,467)**	**$(1,223)**	**$(9,967)**

	Less than 3 months	3 to 12 months	Over 1 year	Total
Derivative-related financial instruments				
Derivative-related assets	**$1,350**	**$572**	**$394**	**$2,316**
Derivative-related liabilities[1]	**(228)**	**(146)**	**(467)**	**(841)**
Total	**$1,122**	**$426**	**$(73)**	**$1,475**

1. Liabilities are presented in the earliest period in which the counterparty can request payment.

(D) Offsetting

PSPIB is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 7 (B) (I). Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statement of Financial Position. Securities repurchase and reverse repurchase agreements, described in Notes 2 (G) and 5 (D) are subject to similar arrangements although they are not offset.

The following tables present the financial assets and liabilities described above ($ millions):

Financial assets

	Gross amount of recognized financial assets	Less: gross amount of recognized financial liabilities set off	Net amount of financial assets presented in the statement of financial position	Less: related amounts not set off in the statement of financial position		Net
				Recognized financial liabilities	Collateral held and not recognized	
As at March 31, 2016						
OTC-derivatives	**$2,305**	**$7**	**$2,298**[1]	**$691**	**$1,524**	**$83**
Reverse repurchase agreements	**777**	**0**	**777**[2]	**0**	**777**	**0**
Total	**$3,082**	**$7**	**$3,075**	**$691**	**$2,301**	**$83**
As at March 31, 2015						
OTC-derivatives	$1,266	$18	$1,248[1]	$1,121	$83	$44
Total	$1,266	$18	$1,248	$1,121	$83	$44

1. As described in Note 5 (B).
2. As described in Note 5 (A).

Financial liabilities

	Gross amount of recognized financial liabilities	Less: gross amount of recognized financial assets set off	Net amount of financial liabilities presented in the statement of financial position	Less: related amounts not set off in the statement of financial position		Net
				Recognized financial assets	Collateral pledged and not derecognized	
As at March 31, 2016						
OTC-derivatives	**$829**	**$7**	**$822**[1]	**$691**	**$129**	**$2**
Repurchase agreements	**1,043**	**0**	**1,043**[2]	**0**	**1,043**	**0**
Total	**$1,872**	**$7**	**$1,865**	**$691**	**$1,172**	**$2**
As at March 31, 2015						
OTC-derivatives	$2,108	$18	$2,090[1]	$1,121	$888	$81
Total	$2,108	$18	$2,090	$1,121	$888	$81

1. As described in Note 5 (B).
2. As described in Note 5 (A).

8. Contributions receivable

The contributions receivable as at March 31 are as follows ($ millions):

	2016	2015
Plan member contributions for past service elections	**$440**	$451
Other plan member contributions receivable	**115**	90
Total contributions receivable from plan members	**$555**	$541
Employers' share of contributions for past service elections	**$376**	$450
Other employers contributions receivable	**134**	118
Total contributions receivable from employers	**$510**	$568
Total contributions receivable	**$1,065**	$1,109

9. Other assets

The costs of operation of PSPIB are charged to the four plans for which PSPIB provides investment services, namely, the public service pension plan, the Canadian Forces pension plan, the Reserve Force pension plan and the Royal Canadian Mounted Police pension plan. The direct costs of investment activities such as external investment management fees and custodial fees are allocated to each plan, and their operating expenses are allocated on a quarterly basis based upon the asset value of each plan's investments under management.

In 2016, 72.6% of the PSPIB operating expenses were allocated to the public service pension plan (72.7% in 2015) as disclosed in Note 20. PSPIB initially charges all expenses to the public service pension plan; they are reimbursed quarterly by the three other plans.

The other assets as at March 31 are as follows ($ millions):

	2016	2015
Share of expenses receivable from:		
Canadian Forces Pension Plan	**$17**	$16
Royal Canadian Mounted Police Pension Plan	**6**	6
Subtotal	**$23**	$22
Other	**108**	105
Total other assets	**$131**	$127

10. Capital market debt financing

PSPIB's capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly-owned subsidiary of PSPIB. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSPIB in accordance with its corporate leverage policy.

The maximum amount authorized by PSPIB's Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSPIB at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $3 billion for issuances in Canada and US $5 billion for issuances in the United States.

PSPIB's capital market debt financing was in compliance with the limits authorized by PSPIB's Board of Directors during the years ended March 31, 2016 and March 31, 2015.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program allocated to the pension plan as at March 31 ($ millions):

	2016		2015	
	Capital amounts payable at maturity	**Fair value**	Capital amounts payable at maturity	Fair value
Short-term Canadian dollar promissory notes, bearing interest between 0.58% and 0.70% and maturing within 56 and 185 days of issuance (17 and 359 days as at March 31, 2015)	**$883**	**$881**	$507	$506
Short-term US dollar promissory notes, bearing interest between 0.40% and 0.85% and maturing within 63 and 196 days of issuance (84 and 367 days as at March 31, 2015)	**3,558**	**3,556**	2,348	2,346
Medium-term notes Series 2, bearing interest of 2.94% per annum and matured on December 3, 2015	**0**	**0**	508	516
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**653**	**661**	654	671
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**363**	**389**	363	395
Medium-Term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**145**	**145**	145	145
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**725**	**789**	726	805
Total	**$6,327**	**$6,421**	$5,251	$5,384

The interest expense for the years ended March 31 is as follows ($ millions):

	2016	2015
Short-term promissory notes	**$15**	$10
Medium-term notes	**62**	63
Total	**$77**	$73

11. Related party transactions

As outlined in Note 2 (A), investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSPIB and such entities or subsidiaries of such entities are related party transactions. PSPIB enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 5 (A) as well as guarantees, indemnities and commitments described under Notes 23 and 24, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets available for benefits as those with unrelated parties.

Transactions between PSPIB and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

Since PSPIB is a crown corporation it is considered to be related to the Government of Canada. As well, other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada are considered government-related entities.

PSPIB may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 5 (A). Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on the net assets available for benefits as those with unrelated parties. Consequently, management is availing itself of the exemption under IAS 24 Related Parties from making specific disclosures on transactions and balances with such government-related entities.

12. Capital management

PSPIB manages the pension plan's investments. PSPIB's investment objectives are:

- To invest fund transfers in the best interests of the beneficiaries and contributors under the PSSA. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plan established under the PSSA and the ability of the pension plan to meet its financial obligations. The funds are also invested in accordance with PSPIB's Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSPIB has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 10 provides information on the capital market debt financing and Note 7 (C) provides information on PSPIB's liquidity.

The public service pension plan capital consists of the actuarial funding surplus or deficit related to service since April 1, 2000 determined regularly by the actuarial funding valuation prepared by the OCA. The purpose of this valuation is to determine the financial position of the pension plan by testing its ability to meet obligations to current plan members and their survivors. Using various assumptions, the OCA projects the future pension benefits to estimate the current value of the pension obligations on a funding basis, which is compared with the sum of: the investment assets held by PSPIB, including their projected earnings; and the discounted value of future plan member and Government contributions, including future earnings on contributions. The result of this comparison is either an actuarial surplus or an actuarial deficit.

It is Government policy that the obligations pertaining to service before April 1, 2000 are unfunded and are paid as they become due. For the obligations for service since April 1, 2000, the objective of managing the capital position of the pension plan is to ensure that the investments held by PSPIB are sufficient to meet the related future pension obligations.

13. Pension obligations

(A) Valuation of the pension obligations

An actuarial valuation for accounting purposes is performed as at March 31 of each fiscal year by the OCA to measure and report the pension obligations, and to attribute the costs of the benefits to the period using the projected benefit method prorated on service. The actuarial valuation is based on the most recent triennial actuarial valuation for funding purposes in regards to demographic assumptions other than the percentage increase in population growth. The other assumptions underlying the valuation are based on management's best estimates of expected long-term experience and short-term forecasts. The assumptions include estimates of future inflation, interest rates, return on investments, general wage increases, workforce composition, retirement rates and mortality rates.

The discount rates used to measure the present value of the accrued pension benefits, as well as the costs of benefits earned and the interest expense for the pension plan 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

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.

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

	2016		2015	
	Accrued benefit obligations	**Benefit and interest expenses**	Accrued benefit obligations	Benefit and interest expenses
Discount rates[1]				
Funded pension benefits	**5.8%**	**4.2%**	5.8%	4.9%
Unfunded pension benefits	**3.9%**	**4.8%**	4.2%	5.1%
Expected rate of return on investments		**4.2%**		4.9%
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% by 2025 (6.1% by 2022 for 2015) for the funded pension benefits and 4.7% by 2041 (5.1% by 2040 in 2015) for the unfunded pension benefits. The interest expense is calculated using the discount rates presented in the table.

For the year ended March 31, 2016, the pension plan recorded net losses related to changes in actuarial assumptions and due to experience gains in the amount of $2.2 billion (net losses of $6.8 billion in 2015).

(B) Pension plan curtailment

In 2015, former employees of Atomic Energy of Canada Limited (CANDU Reactor Division) ceased to be employed in the public service and became employed by SNC-Lavalin Group Inc. The impact of this curtailment was a one-time past service cost of $48 million.

14. Deficit to be financed by the Government of Canada

The financial statement deficit does not impact the benefit payments to plan members as the Government has a statutory obligation for the payment of the pension benefits it sponsors. Pursuant to pension legislation, the transactions for funded and unfunded pension benefits are tracked in the pension accounts within the accounts of Canada.

(A) Funded pension benefits

The pension plan is financed from employee and employer contributions, as well as investment earnings. Funded pension benefits relate to post-March 2000 service that falls within the Income Tax Act limits, as an amount equal to contributions less benefit payments and other charges is invested in capital markets through the PSPIB. Funded pension benefits also include pre-2000 service purchased since April 1, 2000.

(B) Unfunded pension benefits

Unfunded pension benefits related to pre-April 2000 service are tracked in the pension plan superannuation account as no separate market invested funds are maintained for this account (see Note 21). Employee and employer contributions for unfunded pension benefits are part of the CRF.

15. Investment income

The investment income of the pension plan is presented for each major class of financial assets and liabilities and is comprised of two categories: interest and dividends, and net unrealized and realized gains (losses). This presentation reflects the substance of the investment income generated by the underlying investments, whether directly held by PSPIB or by its investment entity subsidiaries.

The investment income of the pension plan is comprised of the following for the year ended March 31 ($ millions):

	2016			2015		
	Interest and dividends	**Change in fair value[1]**	**Total investment income**	Interest and dividends	Change in fair value[1]	Total investment income
Public markets	**$631**	**$(2,623)**	**$(1,992)**	$624	$3,507	$4,131
Private markets						
Real estate	**335**	**1,419**	**1,754**	315	1,189	1,504
Private equity	**151**	**382**	**533**	37	1,319	1,356
Infrastructure	**251**	**570**	**821**	192	304	496
Natural resources	**75**	**107**	**182**	86	191	277
Fixed income	**659**	**127**	**786**	747	2,087	2,834
Alternative investments	**1**	**2**	**3**	0	564	564
Total before giving effect to investment-related assets and liabilities	**$2,103**	**$(16)**	**$2,087**	$2,001	$9,161	$11,162
Investment-related assets and liabilities	**$3**	**$(1,149)**	**$(1,146)**	$0	$(433)	$(433)
Capital market debt financing	**$0**	**$50**	**$50**	$0	$(357)	$(357)
Investment income	**$2,106**	**$(1,115)**	**$991**	$2,001	$8,371	$10,372

1. Change in fair value includes realized and unrealized gains (losses) as described in Note 2 (J).

16. Contributions

The contributions related to funded benefits for the year ended March 31 are as follows ($ millions):

	2016	2015
From plan members		
Current service required contributions	**$2,008**	$1,933
Past service contributions	**(11)**	30
Total plan member contributions	**$1,997**	$1,963
From the employers		
Current service contributions	**$2,427**	$2,648
Past service contributions	**(74)**	12
Total employer contributions	**$2,353**	$2,660
Total plan member and employer contributions	**$4,350**	$4,623

17. Actuarial adjustment

Starting with the plan year ended March 31, 2016, and based on the March 31, 2014 triennial actuarial valuation of the pension plan tabled in Parliament on January 25, 2016, an annual adjustment of $340 million will be made to the Pension Fund for a period of 15 years ending in 2030 ($435 million in 2015). The PSSA requires that any actuarial deficit be dealt with by transferring equal instalments to the Pension Fund over a period of up to 15 years, commencing in the year in which the actuarial report is tabled in Parliament. The next triennial actuarial valuation of the pension plan as of March 31, 2017 is expected to be tabled in Parliament in 2018.

18. Benefit payments and refunds and transfers

(A) Benefit payments

The value of benefit payments for funded benefits, for the years ended March 31, are as follows ($ millions):

	2016	2015
Retirement benefit payments	**$1,402**	$1,201
Disability benefit pension payments	**156**	143
Death benefit payments[1]	**13**	11
Total benefit payments	**$1,571**	$1,355

1. Consist of minimum benefit payments and return of contribution payments at death.

(B) Refunds and transfers

The value of refunds and transfers for funded benefits, for the years ended March 31, are as follows ($ millions):

	2016	2015
Pension division payments	**$30**	$26
Returns of contributions and transfer value payments	**333**	290
Transfers to other pension plans	**47**	52
Total refunds and transfers	**$410**	$368

19. Investment-related expenses

Investment-related expenses allocated to the pension plan are comprised of the following for the year ended March 31 ($ millions):

	2016	2015
Interest expense	**$84**	$80
Transaction costs	**74**	75
External investment management fees[1]	**26**	31
Other (net)	**12**	39
Total	**$196**	$225

1. Consists of amounts incurred for investments in public markets that are paid directly by PSPIB. This excludes fees for certain pooled fund investments classified under alternative investments which amounted to $44 million for the year ended March 31, 2016 ($75 million for the year ended March 31, 2015).
   This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSPIB. Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $174 million for the year ended March 31, 2016 ($142 million for the year ended March 31, 2015).

20. Administrative expenses

The legislation provides for administrative expenses to be charged to the pension plan. The Treasury Board approves the administrative expenses chargeable to the plan.

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

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

Health Canada is reimbursed for the costs related to medical examinations required for members that elect to purchase prior service, and for members retiring on medical grounds under the pension plan. These costs are included in the Secretariat's operations and maintenance costs charged to the pension plan.

The OCA provides actuarial valuation services. The costs related to these services are charged to the pension plan.

PSPIB charges plan-related operating expenses, salaries and benefits and other operating fees to the pension plan.

Administrative expenses, for the years ended March 31, consist of the following ($ millions):

	2016	2015
PSPC		
Salaries and employee benefits	**$57**	$54
Professional and consulting fees	**27**	28
Operation and maintenance	**6**	6
Other	**6**	6
Total	**$96**	$94
The Secretariat		
Salaries and employee benefits	**$4**	$3
Operation and maintenance	**1**	1
Total	**$5**	$4
OCA: Actuarial fees	**$1**	$1
Total for government departments (included in the service cost)	**$102**	$99
PSPIB		
Salaries and employee benefits	**$122**	$107
Operations and maintenance	**47**	36
Professional and consulting fees	**33**	22
Other	**13**	12
Total	**215**	$177
Total administrative expenses[1]	**$317**	$276

1. Administrative expenses related to the funded service for 2016 totaled $257 million ($218 million in 2015).

21. Superannuation Account

A separate public service superannuation account (Superannuation Account) has been established in the accounts of Canada in accordance with the PSSA and is not consolidated in the pension plan financial statements. In order for the Government to track transactions made through the CRF, the Superannuation Account records contributions, benefit payments, interest and transfers that pertain to service before April 1, 2000. The Superannuation Account does not contain separate market invested funds, rather, it is credited with notional interest as though net cash flows were invested quarterly in 20-year Government of Canada bonds issued at prescribed rates and held to maturity.

The following summarizes the financial position of the Superannuation Account and contributions receivable for service before April 1, 2000 as at March 31 ($ millions):

	2016	2015
Balance of account		
Superannuation Account	**$95,566**	$95,876
Plan member contribution receivable for past service	**49**	43
Employers contributions receivable for past service	**40**	35
Subtotal	**$95,655**	$95,954
Pension obligations[1]	**$97,027**	$95,999
Deficit of the balance of the account over the pension obligations	**$(1,372)**	$(45)

1. Pension obligations are consolidated in the pension plan's financial statements. The actuarial assumptions used to value the pension obligations of the Superannuation Account are included in Note 13 (A).

The PSSA requires that any actuarial deficit resulting from a lower balance in the Superannuation Account than the actuarial liability be addressed by increasing the Superannuation Account in equal instalments over a period of up to 15 years. It also allows the surplus to be reduced by decreasing the Superannuation Account over a period of up to 15 years; however, if the balance of the Superannuation Account exceeds 110% of the amount required to meet the cost of the benefits payable, the surplus amount must be reduced by decreasing the Superannuation Account annually over a period of up to 15 years.

The following summarizes the transactions in the Superannuation Account and contributions receivable for unfunded pension benefits for the year ended March 31 ($ millions):

	2016	2015
Opening balance	**$95,876**	$96,424
Increase		
Contributions by employers	**$11**	$14
Contributions by plan members	**14**	18
Actuarial adjustment	**681**	0
Interest income	**4,443**	4,798
Total increase	**$5,149**	$4,830
Decrease		
Benefits paid	**$5,341**	$5,257
Refunds and transfers	**58**	63
Administrative expenses	**60**	58
Total decrease	**$5,459**	$5,378
Closing balance	**$95,566**	$95,876

22. Retirement compensation arrangements

Retirement compensation arrangements (RCAs) have been established under the authority of the Special Retirement Arrangements Act to provide supplementary pension benefits to certain plan members. Since these arrangements are covered by separate legislation, the balance of the RCAs and the related pension obligations are not consolidated in the financial statements of the pension plan.

RCA No. 1 provides for benefits in excess of those permitted under the Income Tax Act restrictions for registered pension plans.

RCA No. 2 provides pension benefits to federal public service employees who were declared surplus as a result of a three-year Early Retirement Incentive program that ended on March 31, 1998. The cost of RCA No. 2 is entirely assumed by the Government.

Pursuant to the legislation, transactions pertaining to both RCA No. 1 and RCA No. 2, such as contributions, benefits, and interest credits, are recorded in the RCA Account, which is maintained in the accounts of Canada. The legislation also requires that the RCA Account be credited with interest quarterly at the same rates as those credited to the Superannuation Account. The RCA is registered with the Canada Revenue Agency (CRA), and a transfer is made annually between the RCA Account and the CRA either to remit a 50% refundable tax in respect of the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments.

The following summarizes the financial position of RCA No. 1 and RCA No. 2 as at March 31 ($ millions):

	2016	2015
Balance of account		
RCA Account	**$1,970**	$1,813
Refundable tax receivable	**1,829**	1,793
Plan members contributions receivable for past service	**7**	19
Employers contributions receivable for past service	**32**	6
Subtotal	**$3,838**	$3,631
Pension obligations	**$3,661**	$3,774
Excess (deficit) of the balance of the account over the pension obligations	**$177**	$(143)

The actuarial assumptions used to value the pension obligations pertaining to the RCA Account are consistent with those used for the pension plan in all respects, except that they take into consideration the impact of the refundable tax on the notional rate of return expected for the Account.

The following summarizes the transactions in RCA No. 1 and RCA No. 2 for the year ended March 31 ($ millions):

	2016	2015
Opening balance	**$3,631**	$3,541
Increase		
Contributions by employers	**$77**	$90
Contributions by plan members	**11**	12
Interest income	**86**	90
Net change in prior service contributions receivable	**14**	7
Actuarial adjustment	**141**	8
Increase in refundable tax receivable	**36**	41
Total increase	**$365**	$248
Decrease		
Benefits paid	**$121**	$115
Refunds and transfers	**2**	2
Refundable tax remittance	**35**	41
Total decrease	**$158**	$158
Closing balance	**$3,838**	$3,631

Actuarial deficits found between the balance in the RCA Account and the actuarial liabilities are credited to the RCA Account in equal instalments over a period of up to 15 years. Adjustments to fund deficiencies are based on triennial actuarial valuations. An adjustment of $12 million was made to RCA No. 1 (nil in 2015), and an adjustment of $129 million was made to RCA No. 2 ($8 million in 2015) during the year to cover actuarial deficiencies.

23. Guarantees and indemnities

PSPIB provides indemnification to its directors, its officers, its vice-presidents and to certain PSPIB representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSPIB or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Public Service Pension Investment Board Act, PSPIB may be required to indemnify these representatives for costs incurred, such as claims, actions or litigations in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSPIB has not received any claims or made any payment for such indemnities.

In certain cases, PSPIB also provides indemnification to third parties in the normal course of business. As a result, PSPIB may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSPIB has not received any claims nor made any payments for such indemnities.

PSPIB unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 10.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $705 million has been allocated to the pension plan. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

In certain investment transactions, PSPIB and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2016, PSPIB and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these arrangements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSPIB or its investment entity subsidiaries could assume obligations of up to $1,891 million as at March 31, 2016 ($1,147 million as at March 31, 2015), of which $1,372 million has been allocated to the pension plan ($833 million as at March 31, 2015) plus applicable interest and other related costs. The arrangements mature between May 2016 and September 2028.

Additionally, PSPIB and its investment entity subsidiaries issued letters of credit totalling $29 million as at March 31, 2016 ($64 million as at March 31, 2015), of which $21 million has been allocated to the pension plan ($46 million in 2015) in relation to investment transactions.

24. Commitments

PSPIB and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSPIB's commitments that would be assumed by the pension plan is as follows as at March 31 ($ millions):

	2016
Real estate	**$1,749**
Private equity	**5,142**
Infrastructure	**2,895**
Natural resources	**615**
Other fixed income securities	**3,274**
Alternative investments	**1,378**
Total	**$15,053**

Funding in connection with the above commitments can be called upon at various dates extending until 2032.

25. Reclassification of prior year comparative figures

Management has changed the presentation of certain elements of the financial statements in order to provide more relevant information to the users. Certain comparative information has been reclassified to conform to the presentation adopted as of March 31, 2016.

For the year ended March 31, 2015, investment income was presented in Note 15 to the financial statements in three categories as interest; dividends; and changes in fair values of investment assets and investment liabilities, realized and unrealized gains and losses. For the year ended March 31, 2016, investment income is now presented as interest and dividends together, and changes in fair value, by major classes of assets; investment-related assets and liabilities; and capital market debt financing.

Glossary of terms

accrued pension benefits

Benefits earned by a member of the public service pension plan for pensionable service to date.

actuarial assumptions

Economic and demographic assumptions, such as future expected rates of return, inflation, salary levels, retirement ages and mortality rates, that are used by actuaries when carrying out an actuarial valuation or calculation.

actuarial valuation

An actuarial analysis that provides information on the financial condition of a pension plan.

administrative expenses

Expenses by government departments for the administration of the public service pension plan and for operating expenses incurred by the Public Sector Pension Investment Board to invest pension assets. Investment management fees are paid either directly by the Public Sector Pension Investment Board or offset against distributions received from the investments.

annual allowance

A benefit available to public service pension plan members who have more than two years of pensionable service, who retire before age 60 (Group 1) or before age 65 (Group 2), and who are not entitled to an immediate annuity. This benefit is a reduced pension that takes into account the early payment of a retirement pension. The earliest it becomes payable is at age 50 (Group 1) or at age 55 (Group 2).

basic pension benefits

Pension plan benefits based on a public service plan member's number of years of pensionable service, to a maximum of 35 years. The benefits are determined by a formula set out in the Public Service Superannuation Act; they are not based on the financial status of the pension plan. The basic benefit formula is 2% per year of pensionable service times the average of the five consecutive years of highest paid service. Using a legislated formula, benefits are coordinated with the Canada Pension Plan and the Québec Pension Plan and are fully indexed to increases in the Consumer Price Index.

benchmark rate of return

A standard against which rates of return can be measured, such as stock and bond market indexes developed by stock exchanges and investment managers.

benefits earned

Benefits credited to public service pension plan members for service provided during the fiscal year.

Canada Pension Plan

A mandatory earnings-related pension plan, implemented on January 1, 1966, to provide basic retirement income to Canadians who work in all the provinces and territories except the province of Quebec. Quebec operates the Québec Pension Plan, which is similar to the Canada Pension Plan, for persons who work in that province.

child

A dependant who may be entitled to a children's allowance under the public service pension plan in the event of a plan member's death. To be eligible for an allowance, a child must be under 18 years of age. Children between 18 and 25 may receive allowances if they are enrolled in school or another educational institution full-time and have attended continuously since the age of 18 or the date of the member's death, whichever occurs later.

Consumer Price Index

A measure of price changes published by Statistics Canada on a monthly basis. The Consumer Price Index measures the retail prices of a "shopping basket" of about 300 goods and services, including food, housing, transportation, clothing and recreation. The index is weighted, meaning that it gives greater importance to price changes for some products than others (for example, more to housing than to entertainment), in an effort to reflect typical spending patterns. Increases in the Consumer Price Index are also referred to as increases in the cost of living.

deferred annuity

A benefit that is available to most public service plan members who leave the public service before age 60 (Group 1) or before age 65 (Group 2) and who have at least two years of pensionable service. This benefit is calculated using the same formula as an immediate annuity, but payment is deferred until age 60 (Group 1) or until age 65 (Group 2). A plan member who is entitled to a deferred annuity may request an annual allowance at any time after he or she reaches age 50 (Group 1) or age 55 (Group 2).

defined benefit pension plan

A type of pension plan that promises a certain level of pension, which is usually based on the plan member's salary and years of service. The public service pension plan is a defined benefit pension plan.

disability

A physical or mental impairment that prevents an individual from engaging in any employment for which the individual is reasonably suited by virtue of his or her education, training or experience and that can reasonably be expected to last for the rest of the individual's life.

Group 1

Members of the public service pension plan who were participating in the plan on or before December 31, 2012.

Group 2

Members of the public service pension plan who began participating in the plan on or after January 1, 2013.

immediate annuity

A benefit payable to public service plan members who retire at any time after reaching age 60 (Group 1) or age 65 (Group 2) with at least 2 years of pensionable service, or after reaching age 55 (Group 1) or age 60 (Group 2) with at least 30 years of pensionable service. An immediate annuity is also payable at any age to plan members who have at least two years of pensionable service and are retiring because of disability.

indexation

The automatic adjustment of pensions in pay or accrued pension benefits (deferred annuities) in accordance with changes in the Consumer Price Index. Under the public service pension plan, pensions are indexed in January of each year in order to maintain their purchasing power.

minimum benefit

A benefit that is equal to the payment of a public service pension plan member's basic pension for a period of five years. If the plan member or his or her eligible surviving spouse or children have not received, in total, pension payments equal to five times the amount of the plan member's annual basic pension, the balance in the form of a lump-sum amount becomes payable to his or her designated beneficiary for the supplementary death benefit or, if there is no beneficiary, to his or her estate.

net assets available for benefits

Assets that include receivables and other assets, and the fair value of the assets held by the Public Sector Pension Investment Board on behalf of the pension plan, net of Public Sector Pension Investment Board liabilities.

past service election

A legally binding agreement to purchase a period of past service to increase a member's pensionable service under the federal public service pension plan. Past service can include eligible periods of employment, either in the public service or with another employer. Members can elect to purchase any eligible past service before they terminate employment.

pension contributions

Sums credited or paid by the employer (Government of Canada, some Crown corporations and the territorial governments) and public service pension plan members to finance future pension benefits. Each year, the employer contributes amounts sufficient to fund the future benefits earned by employees in respect of that year, as determined by the President of the Treasury Board.

pension transfer agreement

An agreement negotiated between the Government of Canada and an eligible employer to provide portability of accrued pension credits from one pension plan to another.

pensionable service

Periods of service to the credit of a public service pension plan member. This service includes any complete or partial periods of purchased service (for example, service buyback or elective service).

Public Sector Pension Investment Board

A Crown corporation established on April 1, 2000, under the Public Sector Pension Investment Board Act. The corporation's mandate is to invest in capital markets the amounts transferred to it since April 1, 2000, by the Government of Canada with respect to the public service pension plan. The Public Sector Pension Investment Board operates under the commercial name of PSP Investments. Both names are used interchangeably throughout this report.

Public Service Pension Fund Account

An account established to record pension transactions relating to service provided by members since April 1, 2000.

public service pension plan

A pension plan implemented on January 1, 1954, that provides benefits to public service employees payable on retirement, termination of service, or disability and to their survivors payable after death. This plan is defined by the Public Service Superannuation Act, the Pension Benefits Division Act and the benefits relating to the public service that are provided under the Special Retirement Arrangements Act.

Public Service Superannuation Account

An account established by the Public Service Superannuation Act to record pension transactions relating to service provided by members before April 1, 2000.

Public Service Superannuation Act

An act to provide pension benefits to eligible federal public servants and their dependants.

Québec Pension Plan

A pension plan similar to the Canada Pension Plan that covers individuals working in the province of Quebec. It is administered by the Régie des rentes du Québec.

return of contributions

A benefit that is available to contributors who leave the public service with less than two years of pensionable service under the public service pension plan. It includes employee contributions plus interest, if applicable.

supplementary death benefit

A decreasing life insurance benefit equal to twice the annual salary of a public service plan member. Coverage decreases by 10% per year starting at age 66. A minimum amount of coverage ($10,000) is provided at no cost to the plan member at age 65 for plan members entitled to an immediate annuity or an annual allowance payable within 30 days after termination of employment in the public service. This minimum coverage is maintained for life.

survivor

The person who, at the time of plan member's death, was married to the plan member before his or her retirement, or who was cohabiting with the plan member in a relationship of a conjugal nature prior to retirement and for at least one year prior to the date of death.

survivor benefit

A pension benefit paid to the survivor of a plan member who has died.

transfer value

A benefit option available to public service pension plan members who leave the public service before age 50 (Group 1) or before age 55 (Group 2) with at least two years of pensionable service. This benefit is the actuarial value of the plan member's accrued pension benefits. It must be transferred to another registered pension plan, to a retirement savings vehicle, or to a financial institution to purchase an annuity.

vested member

An employee who has at least two years of pensionable service, in other words, who has been a member of the public service pension plan for an uninterrupted period of two years. Once vested, the member is entitled to receive the value of the employee's own contributions plus those of the employer, along with the investment returns earned on both contributions.

year's maximum pensionable earnings

The maximum earnings on which contributions are made to the Canada Pension Plan and the Québec Pension Plan during the year. The year's maximum pensionable earnings were $54,900 in 2016 ($53,600 in 2015).

Endnotes

i. PSP Investments, http://www.investpsp.ca/en/index.html
ii. Public Services and Procurement Canada, Pay and Pension Services for Government Employees, http://www.tpsgc-pwgsc.gc.ca/remuneration-compensation/txt/index-eng.html
iii. Office of the Chief Actuary, http://www.osfi-bsif.gc.ca/Eng/oca-bac/Pages/default.aspx
iv. Public Service Superannuation Act, http://laws-lois.justice.gc.ca/eng/acts/p-36/
v. Public Service Superannuation Regulations, http://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,_c._1358/
vi. Canada.ca/pension-benefits, https://www.canada.ca/en/treasury-board-secretariat/topics/pension-benefits.html
vii. Public Service Superannuation Act, http://laws-lois.justice.gc.ca/eng/acts/p-36/
viii. PSP Investments, http://www.investpsp.ca/en/index.html
ix. Canada.ca/pension-benefits, https://www.canada.ca/en/treasury-board-secretariat/topics/pension-benefits.html
x. Public Services and Procurement Canada, Pay and Pension Services for Government Employees, http://www.tpsgc-pwgsc.gc.ca/remuneration-compensation/txt/index-eng.html
xi. Public Service Superannuation Act, http://laws-lois.justice.gc.ca/eng/acts/p-36/
xii. PSP Investments, http://www.investpsp.ca/en/index.html
xiii. Office of the Chief Actuary, http://www.osfi-bsif.gc.ca/Eng/oca-bac/Pages/default.aspx