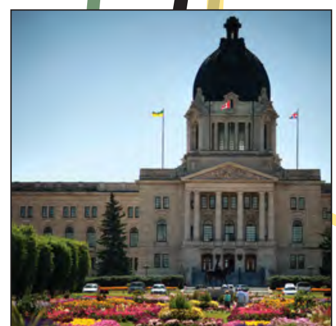
Judges of the Provincial Court Superannuation Plan



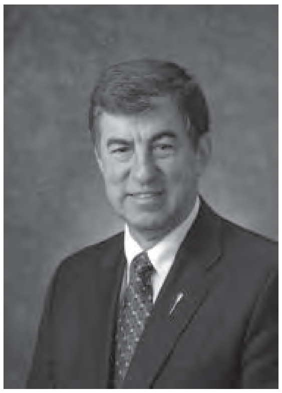



2012-13
ANNUAL REPORT

Government of Saskatchewan

Table of Contents

Letters of Transmittal



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

May it Please Your Honour:

I respectfully submit the thirty-fifth Annual Report of the Judges of the Provincial Court Superannuation Plan for the fiscal year ending March 31, 2013.

Ken Krawetz
Minister of Finance

Judges of the Provincial Court Superannuation Plan

Introduction

The Judges of the Provincial Court Superannuation Plan (Plan) was established under *The Provincial Court Act* (continued as *The Provincial Court Act, 1998*) to provide pension benefits to judges in the event of retirement and secondarily in the event of termination of employment. Previously, pensions had been provided to qualifying judges through *The Magistrates' Courts Act*. Judges appointed at the time the Plan was established had the option of retaining the benefits provided under *The Magistrates' Courts Act*, or opting to contribute to the Plan and earn a pension under *The Provincial Court Act*. For those judges who transferred, service under *The Magistrates' Courts Act* is included as service in the calculation of pensions under *The Provincial Court Act, 1998*. The Plan also provides benefits to the dependents of deceased judges and superannuates in the event of death either prior, or subsequent to retirement.

Operation of the Plan

The Plan is a defined benefit pension plan, which provides a benefit based on a judge's highest earnings during specified periods taking into consideration their total years of service to a maximum of 23 1/3 years. Judges contribute five per cent of their salary to the Plan.

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

The table below shows the number of active and retired judges in the Plan as of the current and prior year-ends.

	March 31, 2013	**March 31, 2012**
Active Judges	51	51
Inactive Members	2	2
Retired Judges *	55	51
Totals	**108**	**104**
***Includes Superannuates, plus their dependents that are now in receipt of a survivor pension.**		

Benefit Payments

During the Plan year, benefit payments are made in accordance with the Plan rules due to retirement of judges, termination of employment and death benefits – either due to death of a judge or a superannuate.

Contributions to the Plan

In accordance with the contribution schedules outlined above, judges' contributions to the Plan during the year totaled $585,274. This compares to $543,797 as of the previous fiscal year end. As at March 31, 2013, 48 judges (2012 – 46 judges) were contributing to the Plan.

Investment Performance

The Minister of Finance is responsible for holding in trust and investing the monies in the Plan. The Minister has retained the services of Greystone Managed Investments Inc. to be the investment manager.

The investment manager makes the day-to-day decision of whether to buy or sell specific investments in order to achieve the long-term investment performances, as set out in the Investment Policy Statement for the Plan. It is against these long-term investment performances that the performance of the investment manager is assessed.

The Plan's long-term investment performance objective is to outperform a benchmark portfolio constructed as follows:

Asset Class	Market Index	Weight
Canadian	S&P/TSX Capped Composite Index	22%
US	S&P 500 Index (Can. $)	14%
Non-North American	MSCI EAFE Index (Can $)	14%
Fixed Income Bonds	DEX Universe Bond Index	45%
Short-Term Investments	91 Day Canadian Treasury Bill	5%
Total		**100%**

The objective of the Plan is to achieve a return that is equal to or greater than the return achieved from this benchmark portfolio over a rolling four-year period. The performance history of the Plan as of March 31, 2013 has been:

	1-Year Return	Rolling 4-Year Average
Fund's Return	6.74%	8.73%
Benchmark Return	7.59%	9.30%

Cash Flow Forecast

The total cash inflow is the amount of contributions expected to be received by the pension plan. The total cash outflows are the amounts that are required to pay all pension obligations. The net cash outflows do not consider future investment income and the redemption of investments. Forecast of cash flows have been determined using the following long-term assumptions:

Factor	Current Year Assumptions	Prior Year Assumptions
Salary Escalation	3.50%	3.50%
Inflation Rate	2.50%	2.50%
Discount Rate	3.60%	4.00%
Return on Assets	5.85%	5.85%
Mortality Table	UP94 with generational projections	UP94 with generational projections
Indexing Post April 1, 2003	75% CPI	75% CPI
Indexing Pre April 1, 2003	70% CPI	70% CPI

The actuarial valuations prepared by Aon Hewitt, also take into consideration mortality under the Plan, which is reflected in the Net Cash Flow Forecasts.

Year	Net Cash Outflows (000's)
2013-2014	$4,543
2014-2015	$5,133
2015-2016	$5,579
2016-2017	$6,173
2017-2018	$6,987
Total next 5 Years	$28,415
Total 5-10 Years	$44,629
Total 11-30 Years	$234,794

Administration

The Public Employees Benefits Agency (PEBA) has responsibility for the operation, administration and management of several superannuation plans and other employee benefits programs. Administration of the Judges of the Provincial Court Superannuation Plan is carried out by PEBA.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

Administration of the Plan is presently assigned to the Public Employees Benefits Agency of the Ministry of Finance. Management is responsible for financial administration, administration of the funds and managing of assets.

The financial statements, which follow have been prepared by management in conformity with Canadian accounting standards for pension plans. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Plan.

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

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

Regina, Saskatchewan
July 4, 2013

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Actuaries' Opinion

Aon Hewitt was retained by the Public Employees Benefits Agency (PEBA) to perform actuarial valuations of the pension obligations of the Judges of the Provincial Court Superannuation Plan (Plan) on an accounting basis as at March 31, 2013.

The valuation of the Plan's actuarial pension obligations was based on:

- membership data as of March 31, 2013 and asset data as of March 31, 2013 as provided by the Public Employees Benefits Agency;
- methods prescribed by The Canadian Institute of Chartered Accountants for pension plan financial statements; and
- assumptions about future events (economic and demographic) which were developed by management and Aon Hewitt and are considered as management's best estimate of these events.

The actuarial assumptions used to estimate pension obligations for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and in our opinion these assumptions are not unreasonable, when considering the circumstances of the Plan and the purpose of the valuation and extrapolation. Nonetheless, emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation are appropriate.

Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice.

David Larsen

David R. Larsen, FSA, FCIA
Aon Hewitt

July 4, 2013

Judges of the Provincial Court Superannuation Plan

Financial Statements

Year Ended March 31, 2013

PROVINCIAL AUDITOR
of Saskatchewan

Independent Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Judges of the Provincial Court Superannuation Plan (Plan), which comprise the statement of financial position as at March 31, 2013, the statement of changes in net assets available for benefits, and the statement of changes in pension obligations for the year ended March 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2013 and the changes in its net assets available for benefits and changes in its pension obligations for the year ended March 31, 2013 in accordance with Canadian accounting standards for pension plans.

Regina, Saskatchewan
July 4, 2013

Bonnie Lysyk, MBA, CA
Provincial Auditor

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

Judges of the Provincial Court Superannuation Plan
Statement of Financial Position

Statement 1

As At March 31

	2013 (000's)	2012 (000's)
ASSETS		
Due from General Revenue Fund (Note 7)	$ 75	$ 327
Investments		
Pooled funds (Note 4)	23,800	21,871
	23,875	22,198
Receivables		
Other	2	1
Total assets	23,877	22,199
LIABILITIES		
Accounts payable	24	27
Total liabilities	24	27
NET ASSETS AVAILABLE FOR BENEFITS (Statement 2)	23,853	22,172
Pension obligations (Statement 3, Note 6)	159,042	141,290
Unfunded liability	$135,189	$119,118

(See accompanying notes to the financial statements)

Judges of the Provincial Court Superannuation Plan
Statement of Changes in Net Assets Available for Benefits

Statement 2

Year Ended March 31

	2013 (000's)	2012 (000's)
INCREASE IN ASSETS		
Investment income		
Interest	$ 5	$ 2
Distributions-pooled funds (Note 4)	666	680
	671	682
Increase in market value (Note 4)	807	-
Contributions by judges	585	544
Deficiency recoveries from General Revenue Fund (Note 5)	4,238	3,994
Total increase in assets	6,301	5,220
DECREASE IN ASSETS		
Administration expenses (Note 12)	86	80
Decrease in market value (Note 4)	-	329
Superannuation allowances		
Magistrates' Courts Act	218	216
Provincial Court Act	4,316	4,031
Total decrease in assets	4,620	4,656
INCREASE IN NET ASSETS	1,681	564
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	22,172	21,608
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR (Statement 1)	$23,853	$22,172

(See accompanying notes to the financial statements)

Judges of the Provincial Court Superannuation Plan **Statement 3**
Statement of Changes in Pension Obligations

Year Ended March 31

	2013	**2012**
	(000's)	(000's)
PENSION OBLIGATIONS, BEGINNING OF YEAR	$141,290	$ 117,003
INCREASE IN PENSION OBLIGATIONS		
Interest on pension obligations	5,692	5,876
Pension obligations accrued	6,570	5,290
Net experience loss	1,070	
Change in actuarial assumptions (Note 6)	8,583	17,963
Addition of new members	371	10
	22,286	29,139
DECREASE IN PENSION OBLIGATIONS		
Pension obligations paid	4,534	4,247
Net experience gain	-	605
	4,534	4,852
PENSION OBLIGATIONS, END OF YEAR (Note 6)	$159,042	$141,290

(See accompanying notes to the financial statements)

Judges of the Provincial Court Superannuation Plan
Notes to the Financial Statements

March 31, 2013

1. Description of the Plan

a) General

The Judges of the Provincial Court Superannuation Plan (Plan) provides defined benefit final average pensions to the Judges of the Provincial Court of Saskatchewan under *The Provincial Court Act, 1998*.

The Provincial Court Act, 1998 also provides authority to the Judges of the Provincial Court Superannuation Fund (Fund) to accumulate all contributions by judges, investment income and payments received from the General Revenue Fund. Pensions, annuities, supplementary allowances, refunds and interest are paid out of the Fund.

Under *The Provincial Court Act, 1998*, the judges are entitled to a retirement benefit from the pension plan (called registered pension plan) under *The Provincial Court Pension Plan Regulations* to the maximum permitted by *The Income Tax Act (Canada)* and an additional retirement benefit under *The Provincial Court Compensation Regulations*. The additional retirement benefit is not part of the registered pension plan.

Further plan details are contained in *The Provincial Court Act, 1998*, and the related regulations.

b) Administration

The Minister of Finance administers the Fund and is responsible for the investment of the Fund. Day-to-day administration is provided by the Public Employees Benefits Agency (PEBA).

c) Funding Policy

Judges contribute 5% of salary each year.

d) Retirement

The normal retirement age is 65. Judges appointed under *The Magistrates' Courts Act* retire at age 70. There is only one active member remaining who will receive benefits under *The Magistrates' Courts Act*. There is one member appointed under *The Magistrates' Courts Act* who has elected to receive benefits under *The Provincial Court Act, 1998* and three members receiving benefits under *The Magistrates' Courts Act*.

e) Registered Pension Plan

Pursuant to *The Provincial Court Pension Plan Regulations*, the annual pension payable to a superannuated judge is two per cent of the average of the judge's highest three years of salary to the maximum permitted by *The Income Tax Act (Canada),* multiplied by the total number of years of service for which the judge has contributed. The maximum number of years of service is 23 1/3 years.

f) **Additional Retirement Benefits**

Judges are entitled to receive a retirement benefit, including the benefit from the registered pension plan, of three per cent of the average of the judge's highest three years of salary, multiplied by the total number of years of service for which the judge has contributed. The maximum number of years of service is 23 1/3 years. Under *The Provincial Court Compensation Regulations*, judges, who have served for at least 18 years, have attained the age of 58 years or more and the total of the judge's age in years and years of contributory service equals 80 or more, are entitled to a retirement benefit including the benefit from the registered pension plan of 70% of the average of the judge's highest three years of salary.

The Provincial Court Compensation Regulations provide for benefits for judges appointed after September 30, 1978 and before December 13, 1985. A judge appointed between these dates, who was 50 years or less on the day of appointment, was engaged in the practice of law for 10 years prior to appointment, was a member in good standing of the bar in a province of Canada for at least 10 years prior to appointment, retires at age 65 and at retirement has served continuously for at least 15 years as a judge, is entitled to a retirement benefit including the benefit from the registered pension plan of 70% of the average of the judge's highest three years of salary.

Effective April 1, 2009, a judge who receives a pension pursuant to *The Provincial Court Pension Plan Regulations* and has made contributions to the superannuation fund with respect to allowances paid to the judge, is entitled to receive an additional retirement benefit for life with respect to those allowances. Allowances are paid to the Chief Judge, Associate Chief Judges, administrative judges and northern judges.

g) **Refunds of Contributions**

A judge who retires, resigns or is removed from office, and who is not entitled to receive a pension, is entitled to receive a refund of contributions together with interest.

h) **Income Tax**

The Plan is a registered pension plan, as defined by the *Income Tax Act (Canada)* and accordingly, is not subject to income taxes. Allowances and refunds are subject to withholding taxes that are remitted to Canada Revenue Agency.

2. Basis of Preparation

a) **Statement of compliance**

The financial statements for the year ended March 31, 2013 have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the Canadian Institute of Chartered Accountants (CICA) Handbook Section 4600, *Pension Plans.* For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed.

These financial statements were authorized and issued on July 4, 2013.

b) **Basis of measurement**

The financial statements have been prepared on the historical cost basis except for financial instruments which have been valued at fair value.

c) **Functional and presentation currency**

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

3. Significant Accounting Policies

The significant accounting policies are as follows:

a) **Basis of Accounting**

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

b) **Investments**

Pooled-fund investments are valued at the unit value supplied by the pooled-fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices.

The change in the market value of investments during the year is reflected on the financial statements as a market value adjustment.

c) **Investment Transactions and Income**

Investment transactions are recorded on the trade date. Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Dividend income is recognized on the record date. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year-end.

d) **Use of estimates**

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the pension obligation (Note 6).

e) **Future Accounting Changes**

A number of new standards, amendments to standards and interpretations which become effective for annual periods beginning on or after January 1, 2015 and January 1, 2013 respectively and which may have an impact on the Plan, include: IFRS 9, Financial Instruments; and, IFRS 13, Fair Value Measurement. The extent of the impact on adoption of these standards is not known at this time, but is not expected to be material.

4. Investments

The Plan limits its investments in pooled equity funds to 10% of the market value of each fund. Foreign equities including foreign pooled funds are limited to 40% of the cost of the investment portfolio and are denominated in Canadian dollars. The Plan’s units in pooled funds have no fixed interest rate and the returns are based on the success of the fund manager. The Plan's pooled funds are comprised of the following:

2013 (in thousands)

	Units Held	% of Total Units Outstanding	Market Value	Investment Income and Change in Market Value
Greystone Fixed Income Fund	914	1.20	$9,866	$ 410
Greystone Canadian Equity Fund	236	0.32	5,402	301
Greystone EAFE Growth Fund	363	0.34	3,448	344
Greystone US Equity Fund	270	1.89	3,523	402
Greystone Money Market Fund	156	0.48	1,561	16
			$23,800	$1,473

2012 (in thousands)

	Units Held	% of Total Units Outstanding	Market Value	Investment Income and Change in Market Value
Greystone Fixed Income Fund	840	1.39	$9,042	$ 873
Greystone Canadian Equity Fund	221	0.26	4,914	(704)
Greystone EAFE Plus Fund	-	-	-	(442)
Greystone EAFE Growth Fund	360	0.20	3,166	330
Greystone EAFE Quantitative Fund	-	-	-	(36)
Greystone US Equity Fund	284	1.77	3,338	318
Greystone Money Market Fund	141	0.43	1,411	12
			$21,871	$351

The EAFE Growth Fund may use derivative financial instruments such as foreign currency forward exchange contracts and future contracts for hedging foreign currency and replicating indexes.

Derivative financial instruments are financial contracts that change in value resulting from changes in underlying assets or indices. Derivatives transactions are conducted in over-the-counter markets directly between two counterparties or on regulated exchange markets. All derivative financial instruments are recorded at market value using market prices. Where market prices are not readily available, other valuation techniques are used to determine market value.

Fair Value

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

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

The Plan presently holds only financial instruments that are classified as Level 2.

5. Deficiency Recoveries from the General Revenue Fund

Section 22 of *The Provincial Court Act, 1998* provides that annuities under *The Magistrates' Courts Act* shall be paid out of the Fund. A judge of the magistrates' courts may elect to receive an annuity to which he/she was entitled under *The Magistrates' Courts Act* rather than contributing to the Fund and receiving benefits as determined by *The Provincial Court Act, 1998*. Accordingly, the annuities which are now or will become payable under *The Magistrates' Courts Act* are considered to be a deficiency and the Fund is reimbursed by the General Revenue Fund (GRF) each year. Also, any amounts payable under *The Provincial Court Act, 1998* to superannuates in excess of an individual's accumulated contributions are considered as a deficiency, and are recovered from the GRF. In addition, the GRF may make lump sum contributions to reduce any unfunded liability.

During the year, the Fund determined and received the following deficiency recoveries from the GRF:

		2013	2012
		(000's)	(000's)
Deficiencies	- *The Magistrates' Courts Act*	$ 218	$ 216
	- *The Provincial Court Act, 1998*	4,020	3,778
		$4,238	$3,994

6. Pension Obligations

The present value of pension obligations was determined using the projected benefit method pro rated on services and the best estimate assumptions approved by PEBA. Aon Hewitt completed an actuarial valuation of the Plan at March 31, 2013. The next annual valuation is due March 31, 2014.

The pension obligation is based on a number of assumptions about future events including: discount rate, rate of salary increase, mortality, retirement rates and inflation. The actual rates may vary significantly from the long-term assumptions used. There has been a change in the discount rate since the previous valuation done in 2012. This yield has decreased from 4.00% to 3.60%, resulting in an increase in the pension obligations of $8,583,000.

The significant long-term assumptions used in the actuarial valuation of pension obligations are as follows:

	2013	2012
Salary escalation rate	3.50%	3.50%
Inflation rate	2.50%	2.50%
Discount rate	3.60%	4.00%
Mortality table	UP94 with generational projections	UP94 with generational projections
Indexing post April 1, 2003	75% CPI	75% CPI
Indexing pre April 1, 2003	70% CPI	70% CPI

The net experience loss was mainly due to retirement experience being higher than expected and mortality experience being lower than expected offset by a gain due to salary increases being lower than expected and pension increases being lower than anticipated.

The following illustrates the effect on the pension obligations if the assumptions used in estimating the obligations change:

	Long-term Assumptions							
	Inflation*		**Salary**		**Discount Rate**		**Post-retirement Indexing ****	
Assumptions	3.50%	1.50%	4.50%	2.50%	4.60%	2.60%	2.45%/2.625%	1.05%/1.125%
(Decrease) increase in liability	(4.0%)	4.3%	2.0%	(1.9%)	(12.7%)	15.7%	11.6%	(9.9%)

* A change in the inflation rate of 1% has a corresponding change in the discount rate and salary scale of 1% and post-retirement indexing of 0.70% for pre April 1, 2003 and 0.75% for post April 1, 2003 retirees.

** Post retirement indexing includes the impact of a 1% change in the pre 2003 indexing and in the post 2003 indexing.

If there are insufficient monies in the Fund to pay allowances or other payments, the Minister of Finance is obligated to pay any such deficiency out of the GRF. The unfunded liability for the Plan is not payable immediately. The expected cash inflows from contributions and the expected cash outflows to pay the required pension obligation are calculated using the above assumptions. The net cash outflows do not consider future investment income and the redemption of investments. The expected net cash flows are not adjusted for inflation, they are based on actual dollar forecasts. The estimated net cash outflows for the next 5 years are $28.4 million, for the next 10 years $73.0 million and for the next 30 years $307.8 million.

7. Due from General Revenue Fund

The Fund's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The earned interest on the bank account is calculated and paid from the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the average daily bank account balance. The Government's average thirty-day borrowing rate for the year ended March 31, 2013 was 1.09% (2012 – 1.05%).

8. Financial Risk Management

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

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

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from accounts receivable and certain investments. The maximum credit risk to which it is exposed at March 31, 2013 is limited to the carrying value of the financial assets summarized as follows:

	2013 Carrying value ($000's)	2012 Carrying value ($000's)
Receivables	$ 2	$ 1
Due from the General Revenue Fund	75	327
Fixed income investments[1]	11,427	10,453

[1] Includes the fixed income and money market pooled funds.

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

Market risk

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

<u>Interest rate risk</u>

The Plan is exposed to changes in interest rates in its fixed-income investments. Duration is a measure used to estimate the extent market values of fixed-income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point change in interest rates would change net assets available for benefits and unfunded liability by $0.61 million at March 31, 2013, representing 6.2% of the $9.9 million fair value of fixed income investments.

<u>Foreign exchange</u>

The Plan is exposed to changes in the U.S. dollar exchange through its U.S. equity pooled fund. Also, the Plan is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in EAFE equity pooled fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 40% of the market value of the total investment portfolio. At March 31, 2013, the Plan's exposure to U.S. equities was 14.8% (2012 – 15.3%) and its exposure to non-north American equities was 14.5% (2012 – 14.5%).

At March 31, 2013, a 10% change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $0.35 million change in net assets available for benefits and unfunded liability. A 10% change in the Canadian dollar versus the EAFE currencies would result in approximately a $0.34 million change in net assets available for benefits and unfunded liability.

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets through its pooled funds. Equity pooled funds comprise 52.0% (2012 – 52.2%) of the market value of the Plan's total investments.

The following table indicates the approximate change that could be anticipated to both the change in net assets available for benefits and unfunded liability based on changes in the Plan's benchmark indices March 31, 2013:

	($000's)	
	10% increase	10% decrease
S&P/TSX Composite Index	$ 540	$ (540)
S&P 500 Index	352	(352)
MSCI EAFE Index	345	(345)

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable and accrued liabilities will be paid within the next fiscal period.

9. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties". The operating expenses associated with administering the Plan are paid to the PEBA Revolving Fund. At year end, the Plan has an accounts payable to the PEBA Revolving Fund of $18,265 (2012 - $17,396).

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

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

10. Fair Value of Financial Assets and Financial Liabilities

For the following financial instruments, the fair-value approximates their carrying value due to the immediate or short-term nature of these instruments.

a) Due from General Revenue Fund
b) Other Receivables
c) Accounts payable

The calculation of fair value of investments are disclosed in Note 3.

The fair value of pension obligations cannot be readily determined; however, information about the pension obligations is provided in Note 6.

11. Investment Performance

The investment manager makes day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Minister of Finance. PEBA reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over four-year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	2013	2012	Rolling Four-year Average Annual Return
Plan's actual rate of return (a)	6.74%	1.60%	8.73%
Plan's benchmark (b)	7.59%	3.39%	9.30%

(a) The annual returns are before deducting investment expenses.
(b) The Fund's benchmark for its investment portfolio has been calculated using the actual returns of the following indices: The Standard & Poors (S&P) / Toronto Stock Exchange Capped Composite Index, the S&P 500 (Canadian dollars) Index, the Morgan Stanley Capital International Europe, Australasia and Far East Index (Canadian dollars), the DEX Universe Bond Index, and the DEX 91-Day Treasury Bill Index.

12. Administration Expenses

	2013		2012
	Budget (000's)	**Actual** (000's)	**Actual** (000's)
Administration	$54	$46	$40
Investment management fees - Greystone Managed Investments Inc.*	40	40	40
	$94	$86	$80

*Investment management fees are based on the market value of the Fund's portfolio

13. Capital Management

The Plan receives new capital from employee contributions and deficiency payments. The Plan also benefits from income and market value increase on its invested capital. The Plan's capital is invested in a number of pooled funds including equity funds, fixed income fund, and money market fund. The Minister of Finance has delegated the operational investment decisions to Greystone Managed Investments Inc. as defined in the Plan's Statement of Investment Policy and Procedures.

For More Information

If you require more information on the Judges of the Provincial Court Superannuation Plan please contact the Public Employees Benefits Agency.

- 306-787-2992
- peba@peba.gov.sk.ca (email)
- www.peba.gov.sk.ca (website)