SaskEnergy Retiring Allowance Plan




Annual Report for 2017

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Government of Saskatchewan

Table of Contents

Letters of Transmittal

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

May it Please Your Honour:

I have the honour to transmit herewith the Annual Report of the SaskEnergy Retiring Allowance Plan for the year ending December 31, 2017.

Donna Harpauer
Minister of Finance

The Honourable Donna Harpauer
Minister of Finance

Madam:

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the Annual Report of the SaskEnergy Retiring Allowance Plan for the year ending December 31, 2017.

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

SaskEnergy Retiring Allowance Plan

Introduction

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

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

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

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

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

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

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

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

Eligibility

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

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

As of December 31, 2017, there were 406 (2016 - 453) eligible employees and 33 (2016 - 29) retired employees who received benefits from the Plan during the year.

Benefits

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

Four days pay at their retirement salary rate multiplied by the first 35 years of service if 35 years of service was reached prior to January 31, 2000; or

Five days pay at their retirement salary rate multiplied by years of service to a maximum of 35 years, if 35 years was not reached prior to January 31, 2000; and

Two days pay multiplied by years of service for greater than 35 years (as defined in the Plan document).

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

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

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As administrators of the SaskEnergy Retiring Allowance Plan, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian public sector accounting standards.

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

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

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

Enclosed are the financial statements of the SaskEnergy Retiring Allowance Plan for the year ended December 31, 2017, and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan
April 20, 2018

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

Actuarial Opinion

With respect to the SaskEnergy Retirement Allowance Program, we have prepared an actuarial valuation as at December 31, 2017, for the purpose of determining the necessary actuarial information for financial statement reporting in accordance with Section 3255 of the CPA Canada Handbook.

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

- The data on which this valuation is based are sufficient and reliable;
- Where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and are appropriate;
- The actuarial cost method employed is appropriate; and
- The valuation conforms to the requirements of Section 3255 of the CPA Canada Handbook.

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

This report has been prepared and these actuarial opinions have been given in accordance with accepted actuarial practice in Canada.

Paul Hebert

Paul Hebert, FSA, FCIA
Associate Partner

January 12, 2018

SaskEnergy Retiring Allowance Plan

Financial Statements

Year Ended December 31, 2017

INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the SaskEnergy Retiring Allowance Plan, which comprise the statements of financial position as at December 31, 2017, December 31, 2016 and January 1, 2016, and the statements of operations and changes in net financial assets for the years ended December 31, 2017 and December 31, 2016, 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 public sector accounting standards for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the SaskEnergy Retiring Allowance Plan as at December 31, 2017, December 31, 2016 and January 1, 2016 and the results of its operations and changes in its net assets for the years ended December 31, 2017 and December 31, 2016 in accordance with Canadian public sector accounting standards.

Judy Ferguson

Regina, Saskatchewan
April 20, 2018

Judy Ferguson, FCPA, FCA
Provincial Auditor

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SaskEnergy Retiring Allowance Plan **Statement 1**

Statement of Financial Position

As at

(in thousands)

	December 31, 2017	**Restated (Note 3) December 31, 2016**	**January 1, 2016**
Financial Assets			
Contribution Receivable	$ 6,637	$ 7,852	$ 9,157
Liabilities			
Benefit Liability (Note 4)	6,637	7,852	9,157
Net Financial Assets (Statement 2)	-	-	-
Accumulated Surplus (Statement 2)	$ -	$ -	$ -

(See accompanying notes to the financial statements)

SaskEnergy Retiring Allowance Plan — Statement 2
Statement of Operations and Changes in Net Financial Assets

Years Ended December 31

(in thousands)

	2017	Restated (Note 3) 2016
Revenues		
Contribution	$ 209	$ 267
	209	267
Expenses		
Benefits expense (Note 4)	29	33
Interest (Note 4)	204	234
Amortization of actuarial (gain)/loss	(24)	-
	209	267
Operating Surplus	-	-
Net Financial Assets and Accumulated Surplus, Beginning of the Year	-	-
Net Financial Assets and Accumulated Surplus, End of the Year (Statement 1)	$ -	$ -

(See accompanying notes to the financial statements)

1. Description of the Plan

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

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

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

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

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

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

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

Eligibility

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

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

As of December 31, 2017, there were 406 (2016 - 453) participants in the Plan and 33 (2016 - 29) terminated participants who received benefits from the Plan during the year.

Benefits

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

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

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

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

2. Significant Accounting Policies

The accounting policies set out below have been applied in the Plan financial statements:

a) Basis of measurement

With the exception of the benefit liability, these financial statements have been prepared on the historical cost basis (Note 4).

b) Financial instruments

The SaskEnergy contribution receivable, a financial instrument, has been recorded at cost, which approximates its fair value.

c) Accrued benefits obligation

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

d) Use of estimates

These statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). These principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates, while differences are reflected in current operations when identified.

The financial statements are prepared in accordance with Canadian PSAS; however, the statements do not present a Statement of Re-measurement Gains and Losses or a Statement of Cash Flow. The Plan does not have these types of gains and losses and cash flow information is readily available in the statements and the notes.

3. Adoption of New Accounting Standards

In December 2014, the Public Sector Accounting Board (PSAB) changed the introduction to PSAS to introduce a new category of public sector entity (a government component). At the same time, it amended the definition of other government organization. The Introduction to PSAS includes transitional provisions that make these changes applicable for periods beginning on or after January 1, 2017.
Given the changes to the definition of other government organizations effective January 1, 2017, the Plan no longer fits within this category and now fits under the classification as a government component. Government components must apply PSAS as there is no option to apply the Chartered Professional Accountants Canada handbook.

Effective January 1, 2017, the Plan adopted the requirements of the PSAS accounting framework.
These are the Plan's initial financial statements prepared in accordance with the PSAS framework, and the transitional provisions of Section 2125, First-time Adoption by Government Organizations have been applied. These standards were adopted retroactively, however the Plan elected to recognize all cumulative actuarial gains and losses on the date of transition in accumulated surplus, resulting in no impact on opening balances at January 1, 2016. The adoption of PSAS will result in the actuarial gains or losses being amortized into income over the average remaining service life of the plan rather than recognizing them into the net financial assets and accumulated surplus immediately.

For the year ended December 31, 2016, the Contribution Receivable and Accrued Benefit Obligation increased by $107,000. There were no changes to the Accumulated Surplus. The Operating Surplus (formerly reported as the net change between the Increase and Decrease in Net Assets) increased by $1,412,000 to a balance of zero.

4. Benefit Liability

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

An actuarial valuation was performed by AON as at December 31, 2017, to determine the actuarial present value of the accrued benefits obligation.

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

	2017	2016
Discount Rate	2.6%	2.8%
Inflation Rate[1]	1.7%	2.5%
Salary Increase Rate [2]	3.0%	3.0%
Termination Rate up to age 50	3.0%	3.0%

[1] Included in the salary increase rate is an inflation rate assumption, which is equal to 1.7 per cent for 2018 and thereafter.

[2] The salary increase rate used as at December 31, 2017 was estimated from the most recent collective bargaining agreement. As a result, the salary increase rate for in-scope employees was three per cent for 2018 and three per cent thereafter. The salary increase rate used for management employees was three per cent for 2018 and three per cent thereafter.

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

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

Assumption	Change Made	Change in Liability at December 31, 2017 (000's)	Percentage change in Liability
Termination Rate up to age 50	Plus 0.5% Minus 0.5%	(15) 16	(0.2%) 0.2%
Discount Rate	Plus 0.5% Minus 0.5%	(113) 118	(1.7%) 1.8%
Salary Increase Rate	Plus 0.5% Minus 0.5%	108 (105)	1.6% (1.6%)

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

The following table summarizes the reconciliation of the benefit liability for the current and prior period:

(in thousands)		2017		2016
Accrued benefit obligation, beginning of year	**$**	**7,745**	**$**	**9,157**
Benefits expense		29		33
Interest cost		204		234
Actual benefit costs		(991)		(1,079)
Other benefit payments		(432)		(494)
Plan experience loss/(gain)		79		(32)
Change in salary increase assumption		-		(48)
Change in discount rate assumption		46		(26)
Accrued benefit obligation, end of year	**$**	**6,680**	**$**	**7,745**
Unamortized estimation adjustments – (loss)/gain		(43)		107
Benefit liability	**$**	**6,637**	**$**	**7,852**

5. Financial Risk Management

The nature of the Plan's operations result in a statement of net assets and accumulated surplus, consisting entirely of financial assets and liabilities. As benefits are funded out of current operations of SaskEnergy, the Plan's financial risks relate primarily to credit risk. The maximum credit risk to which it is exposed at December 31, 2017 is limited to the carrying value of its contributions receivable from SaskEnergy.

6. Related Parties

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

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