

SaskPower Severance Pay Credits Plan



Annual Report for 2017

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Letters of Transmittal

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

May it Please Your Honour:

I have the honour to transmit herewith the Annual Report of the
SaskPower Severance Pay Credits 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 SaskPower Severance Pay
Credits Plan for the year ending December 31, 2017.



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

Introduction

The Saskatchewan Power Corporation (SaskPower; the Corporation) established the SaskPower Severance Pay Credits Plan (the Plan) for the purpose of providing severance benefits to SaskPower employees.

The Plan is not registered as a pension plan under the *Income Tax Act* (Canada). The Corporation 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 the Corporation.

On January 13, 2004, an Order in Council designated the Public Employees Benefits Agency (PEBA) as the administrator of the Plan.

Participants

The Plan consists of International Brotherhood of Electrical Workers (IBEW), UNIFOR, and Management employees. As of December 31, the following number of Participants were eligible to receive benefits from each type of severance benefit payable under the Plan.

Benefit Type	Participants (# of)
Pre-1996*	594
Post-1995*	697
Pre-2005**	224
Post-2005**	116

* Includes both IBEW and Management employees

** Includes UNIFOR employees

Benefits

The following describes the various types of severance benefits payable on retirement, termination or death for all Participants under the Plan:

- a) Pre-1996 severance pay credits are benefits provided to IBEW and Management employees for company service time prior to January 1, 1996.
- b) Post-1995 severance pay credits are benefits provided to IBEW and Management employees for company service time after January 1, 1996.
- c) Pre-2005 severance pay credits are benefits provided to UNIFOR employees for company service time prior to February 1, 2005.
- d) Post-2005 severance pay credits are benefits provided to UNIFOR employees for company service time after February 1, 2005.
- e) For those employees who voluntarily opted out of the Millennium Registered Retirement Savings Plan (MRRSP) due to insufficient RRSP contribution room, any eligible company service will be paid out under the provisions of the Plan document.

Each Participant receives five days per year of service at their hourly rate of pay in effect at retirement, termination or death based on the number of hours worked per day.

Upon termination of active service, Participants elect how severance benefits are to be paid. In the event of termination of service, SaskPower, on behalf of the Plan, may pay a Participant's severance benefits in a lump sum.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As administrators of the SaskPower Severance Pay Credits 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.

The SaskPower Severance Pay Credits Plan has a system of internal control 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.

Enclosed are the financial statements of the SaskPower Severance Pay Credits Plan for the year ended December 31, 2017, and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan
April 19, 2018



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

Actuarial Opinion

With respect of the various Saskatchewan Power Corporation Severance Programs, I have prepared a valuation as at September 30, 2017, with a subsequent extrapolation to December 31, 2017, for the purpose of determining actuarial information in accordance with International Financial Reporting Standards, IAS 19 - Revised. In addition, I have performed a reconciliation of the accrued liability for 2017.

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

- The membership data on which the valuation and subsequent extrapolation is based are sufficient and reliable;
- The assumptions are appropriate; and
- The calculations have been made in accordance of my understanding of the requirements of International Financial Reporting Standards IAS 19 - Revised.

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

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



Paul Hebert
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

January 24, 2018

**Saskatchewan Power Corporation
Severance Pay Credits 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 Saskatchewan Power Corporation Severance Pay Credits 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 Saskatchewan Power Corporation Severance Pay Credits Plan as at December 31, 2017, December 31, 2016 and January 1, 2016 and the results of its operations and changes in its net financial assets for the years ended December 31, 2017 and December 31, 2016 in accordance with Canadian public sector accounting standards.



Judy Ferguson, FCPA, FCA
Provincial Auditor

Regina, Saskatchewan
April 19, 2018

**Saskatchewan Power Corporation Severance Pay Credits Plan
Statement of Financial Position**

Statement 1

	(in thousands)		
As at	<u>December 31 2017</u>	<u>December 31 2016</u>	<u>January 1 2016</u>
Financial Assets			
SaskPower Contribution Receivable	\$ 16,020	\$ 17,859	\$ 19,862
Total Financial Assets	<u>\$ 16,020</u>	<u>\$ 17,859</u>	<u>\$ 19,862</u>
Liabilities			
Benefits Liability (Note 5)	\$ 16,020	\$ 17,859	\$ 19,862
Total Liabilities	<u>\$ 16,020</u>	<u>\$ 17,859</u>	<u>\$ 19,862</u>
Net Financial Assets and Accumulated Surplus (Statement 2)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(See accompanying notes to the financial statements)

**Saskatchewan Power Corporation Severance Pay Credits Plan
Statement of Operations and Changes in Net Financial Assets**

Statement 2

For the Year Ended December 31

	(in thousands)	
	<u>2017</u>	<u>2016</u>
Revenues		
Contribution Revenue	\$ 644	\$ 658
Total Revenue	<u>644</u>	<u>658</u>
Expenses		
Amortization of Actuarial (Gains)/Losses Benefits Accrued and Interest (Note 5)	42 <u>602</u>	- <u>658</u>
Total Expenses	<u>644</u>	<u>658</u>
Operating Surplus	\$ -	\$ -
Net Financial Assets and Accumulated Surplus, Beginning of Year	<u>\$ -</u>	<u>\$ -</u>
Net Financial Assets and Accumulated Surplus, End of Year (Statement 1)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(See accompanying notes to the financial statements)

Saskatchewan Power Corporation Severance Pay Credits Plan

Notes to the Financial Statements

December 31, 2017

1. Description of the Plan

The Saskatchewan Power Corporation (SaskPower; the Corporation) established the SaskPower Severance Pay Credits Plan (the Plan) for the purpose of providing severance benefits to SaskPower employees.

The Plan is not registered as a pension plan under the *Income Tax Act (Canada)*. The Corporation 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 the Corporation.

On January 13, 2004, an Order in Council designated the Public Employees Benefits Agency (PEBA) as the administrator of the Plan. PEBA continues to be the administrator of this Plan under Order in Council 560-2017.

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

Participants

The Plan consists of International Brotherhood of Electrical Workers (IBEW), UNIFOR, and Management employees. The following numbers of participants were eligible to receive benefits from each type of severance benefit payable under the Plan.

	2017	2016
Pre-1996*	594	652
Post-1995*	697	708
Pre-2005**	224	248
Post-2005**	116	122

* Includes both IBEW and Management employees

** Includes UNIFOR employees

Benefits

The following describes the various types of severance benefits payable on retirement, termination or death for all Participants under the Plan:

- Pre-1996 severance pay credits are benefits provided to IBEW and Management employees for company service time prior to January 1, 1996.
- Post-1995 severance pay credits are benefits provided to IBEW and Management employees for company service time after January 1, 1996.

- c) Pre-2005 severance pay credits are benefits provided to UNIFOR employees for company service time prior to February 1, 2005.
- d) Post-2005 severance pay credits are benefits provided to UNIFOR employees for company service time after February 1, 2005.
- e) For those employees who voluntarily opted out of the Millennium Registered Retirement Savings Plan (MRRSP) due to insufficient RRSP contribution room, any eligible company service will be paid out under the provisions of the Plan document.

Each Participant receives five days per year of service at their hourly rate of pay in effect at retirement, termination or death based on the number of hours worked per day for management and as specified in the collective bargaining agreements for IBEW and UNIFOR employees.

Upon termination of active service, Participants elect how severance benefits are to be paid. In the event of termination of service, SaskPower, on behalf of the Plan, may pay a Participant's severance benefits in a lump sum.

2. Basis of Preparation and Significant Accounting Policies

The financial statements are prepared in accordance with Canadian public sector accounting standards. These statements do not present a Statement of Re-measurement Gains and Losses as the Plan does not have these types of gains and losses or a Statement of Cash Flows as the information is readily available in the other statements and the notes thereto.

The following accounting policies are considered significant:

a) Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of the accrued benefits obligation (Note 2(c)).

b) Financial instruments

The SaskPower 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 severance benefits are determined using the projected benefit method pro-rated on service.

d) Use of estimates

These statements are prepared in conformity with Canadian public sector accounting standards. These principles require 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 revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current operations when identified.

3. Adoption of New Accounting Standards

Effective January 1, 2017, the Plan adopted Canadian public sector accounting standards. 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 as outlined in PS 2125, First-time Adoption therefore there was no impact on opening balances at January 1, 2016. The adoption of the public sector accounting standards results in the actuarial gains or losses being amortized into income over the average remaining service life of the plan rather than recognizing them in income immediately. For the year ended December 31, 2016, there was no change to accumulated surplus. The operating surplus (formerly reflected as the net decrease in accrued benefit obligation) changed from \$(1,758,000) to a \$0 balance.

4. Financial Risk Management

The nature of the Plan's operations results in a statement of financial position that consists entirely of financial assets and liabilities. As benefits are funded out of current operations of SaskPower, 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 SaskPower.

5. Accrued Benefits Obligation

The accrued benefits obligation of the Plan is receivable from SaskPower and will be funded by SaskPower as participants begin receiving their benefits. The present value of the accrued benefits obligation was determined using the projected benefits method pro-rated on service and the best estimate assumptions of SaskPower's management. Experience gains (losses) result from actual experience differing from that expected and are recognized as an increase or decrease in the accrued benefits obligation.

An actuarial valuation was performed by Aon as at September 30 for both 2016 and 2017 to determine the actuarial present value of the accrued benefits obligation and is extrapolated by Aon to December 31 of each year. The next actuarial valuation is expected to be performed at September 30, 2018 and extrapolated to December 31, 2018.

The accrued benefits obligation as at December 31 and the principal components of changes in the accrued benefits obligation during the year were as follows:

(in thousands)	Pre-1996	Post-1995	Pre-2005	Post-2005	Total
Accrued Benefits Obligation, January 1, 2017	\$ 12,078	\$ 2,913	\$ 2,990	\$ 123	\$ 18,104
Accrued Benefits	-	13	-	-	13
Interest	393	95	97	4	589
Benefits Paid	(2,061)	(165)	(216)	(3)	(2,445)
Interest on Benefits Paid	(32)	(3)	(3)	-	(38)
Actuarial (Gains)/Losses	(60)	99	(82)	2	(41)
Accrued Benefits Obligation, December 31, 2017	\$ 10,318	\$ 2,952	\$ 2,786	\$ 126	\$ 16,182
Unamortized Actuarial Gains/(Losses)	(95)	(272)	203	2	(162)
Benefits Liability, December 31, 2017	\$ 10,223	\$ 2,680	\$ 2,989	\$ 128	\$ 16,020

(in thousands)	Pre-1996	Post-1995	Pre-2005	Post-2005	Total
Accrued Benefits Obligation, January 1, 2016	\$ 13,416	\$ 2,906	\$ 3,411	\$ 129	\$ 19,862
Accrued Benefits	-	12	-	-	12
Interest	436	95	111	4	646
Benefits Paid	(1,949)	(279)	(385)	(5)	(2,618)
Interest on Benefits Paid	(32)	(4)	(7)	-	(43)
Actuarial (Gains)/Losses	207	183	(140)	(5)	245
Accrued Benefits Obligation, December 31, 2016	\$ 12,078	\$ 2,913	\$ 2,990	\$ 123	\$ 18,104
Unamortized Actuarial Gains/(Losses)	(207)	(183)	140	5	(245)
Benefits Liability, December 31, 2016	\$ 11,871	\$ 2,730	\$ 3,130	\$ 128	\$ 17,859

Unamortized actuarial gains/(losses) are amortized commencing in the year following the adjustment over the expected average remaining service life of active plan members at the time the actuarial gains and losses arose. The expected average remaining service life for active members of the Plan ranges from 3.8 to 20.9 years (2016 – 4.0 to 21.8 years).

The accrued benefits obligation is based on many assumptions about future events. Actual experience may vary significantly from the long-term assumptions used. The significant long-term actuarial assumptions adopted in measuring SaskPower's accrued benefits obligation at December 31 are:

	2017	2016
Discount Rate, Beginning of Year	3.25%	3.25%
Discount Rate, End of Year	3.10%	3.25%
Promotional Earnings Increases (Management)	1.40%	1.40%
Promotional Earnings Increases (IBEW and UNIFOR)	0.70%	0.70%
Termination Rate	0.90%	0.90%
Long-term Rate of Compensation Increases	2.00%	2.00%
Remaining Service Life – Pre-1996 (years)	3.80	4.00
Remaining Service Life – Post-1995 (years)	17.10	17.80
Remaining Service Life – Pre-2005 (years)	6.40	7.00
Remaining Service Life – Post-2005 (years)	20.90	21.80
Duration (combined years)	3.60	3.60

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 not practicable.

If the discount rate was increased by one per cent, the impact would be a 3.4 per cent decrease to the accrued benefits obligation at December 31, 2017. Conversely, if the long-term rate of compensation was increased by one per cent, the impact would be a 3.9 per cent increase to the accrued benefits obligation at December 31, 2017.

6. Related Parties

SaskPower and PEBA are related by virtue of common control by the Government of Saskatchewan.

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