

Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board



Annual Report for 2018

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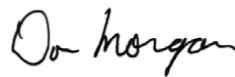
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Letters of Transmittal

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

May it Please Your Honour:

I have the honour to submit herewith the Annual Report of the Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board for the year ending December 31, 2018.



The Honourable Don Morgan, Q.C.
Minister Responsible for the Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board

The Honourable Don Morgan, Q.C.
Minister Responsible for the Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board

Sir:

I have the honour to submit the Annual Report of the Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board for the year ending December 31, 2018.



Gord Dobrowolsky
Chairman
The Workers' Compensation Board

Introduction

The primary purpose of the Plan is to provide pension benefits to employees in the event of retirement and secondarily, in the event of termination of employment. The Plan also provides benefits to the dependents of deceased employees and superannuates in the event of death either prior, or subsequent, to retirement. The Workers' Compensation Board is the Administrator of the Plan.

Operation of the Plan

This Plan is a Defined Benefit pension plan which provides a benefit based on an employee's highest earnings during specified periods taking into consideration their total years of service to a maximum of 35 years. Employees contribute to the Plan at a rate of seven per cent, eight per cent or nine per cent, depending on their age when they entered the Plan. This contribution is offset by an amount equal to two per cent of their pensionable earnings between the Year's Basic Exemption and Year's Maximum Pensionable Earnings as defined on an annual basis by the Canada Pension Plan.

Any deficiencies in the Plan are paid out of the revenues of the Workers' Compensation Board.

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

	December 31, 2018	December 31, 2017
Active Employees	0	0
Inactive Members	0	0
Retired Employees *	72	73
Totals	72	73
*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 employees, termination of employment and death benefits – either due to death of an employee or a superannuate.

Contributions to the Plan

All active employees have reached 35 years of service and are no longer required to make contributions.

Retirement Summary

	December 31, 2018	December 31, 2017
Attained Age 65	-	1
Attained Age 60 – no reduction	-	1
Attained 35 years of Service	-	-
Age 55 and 30 years of service – reduced pension	-	-
Ill Health Pensions	-	-
Deferred Allowances now payable	-	-
Early Retirement Allowances	-	-
Totals	-	2

Investment Performance

The Workers' Compensation Board (the Board) is responsible for holding in trust and investing the monies in the Plan. The Board has retained Greystone Capital Management 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 set out by the Board in their Investment Policy Statement for the Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board. It is against these long-term investment performance objectives that the Board assesses the performance of the investment manager.

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 Composite CPMS CAP 10 Index	20.0%
US	S&P 500 US Stock Index	15.0%
Non-North American	MSCI EAFE Index	15.0%
Fixed Income Bonds	DEX Universe Index	31.5%
Short-Term Investments	91 Day Canadian Treasury Bill	1.0%
Mortgages	60/40 FTSE TMX Short/Mid Term Bond	7.5%
Real Estate	IPD All Property	10.0%
Total		100.0%

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 December 31, 2018 has been:

	1-Year Return	Rolling 4 Year Average
Plan's Return	-0.86%	5.64%
Target Return	-1.26%	4.61%

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 Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board is carried out in conjunction with similar plans administered by PEBA.

Changes to administrative processes will continue to be evaluated with the intent of identifying opportunities for improving customer service and becoming more responsive to the needs of the Board and the membership.

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 of the funds and managing of assets.

The financial statements, which follow, have been prepared by management in accordance with CPA Canada Handbook section 4600, Pension Plans. For matters not addressed in section 4600, International Financial Reporting Standards (IFRS) guidance has been implemented. Management uses internal controls and exercises its best judgment in order that the financial statements reflect fairly the financial position of the Plan.

The present value of pension obligations has been determined by an actuarial valuation. The actuaries' opinion follows. Actuarial valuation reports require management's best estimate assumptions about future events.

The financial statements have been audited by KPMG LLP, Chartered Accountants, whose report follows.

Regina, Saskatchewan
March 12, 2019



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

Actuarial Opinion

Segal Consulting was retained by the Saskatchewan Workers' Compensation Board (the Board) to perform actuarial valuations of the assets and liabilities of the Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board (the Plan) on an accounting basis as at December 31, 2018, for inclusion in the Annual Report with respect to the Plan for the year ended December 31, 2018.

The valuation of the Plan's actuarial assets and liabilities were based on:

- Membership data provided by the Public Employees Benefits Agency that was used to prepare the December 31, 2017 Funding Valuation;
- Asset data provided by the Public Employees Benefits Agency as at December 31, 2018;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future economic and demographic events that were developed by management and Segal Consulting and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will differ from the actuarial assumptions. 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 and the assumptions used are appropriate. Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice.



Kevin Rozek, FSA, FCIA,
Vice President
Segal Consulting
February 1, 2019

**Pension Plan for the Employees of the Saskatchewan
Workers' Compensation Board**

Financial Statements

Year Ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the financial statements of the Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2018;
- the statement of changes in net assets available for benefits for the year then ended;
- the statement of changes in pension obligations for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.



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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants Regina,
Canada
March 12, 2019

**Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board
Statement of Financial Position**

Statement 1


As at December 31

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Assets		
Investments (Note 5)		
Short-Term Investments	\$ 233	\$ 165
Bonds and Debentures	9,991	11,006
Equities	-	5,986
Pooled Funds	26,891	22,996
	<u>37,115</u>	<u>40,153</u>
Accrued Investment Income	48	60
Due from General Revenue Fund (Note 6)	175	82
Cash	27	28
Accounts Receivable	<u>1</u>	<u>1</u>
Total Assets	<u>37,366</u>	<u>40,324</u>
Liabilities		
Accounts Payable and Accrued Liabilities	<u>87</u>	<u>50</u>
Net Assets Available for Benefits	37,279	40,274
Pension Obligations (Note 7)	<u>36,288</u>	<u>38,566</u>
Surplus	<u>\$ 991</u>	<u>\$ 1,708</u>

(See accompanying notes to the financial statements)

Approved by the Board and signed on their behalf on March 12, 2019


_____ Chairman


_____ Board Member


_____ Board Member

**Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board
Statement of Changes in Net Assets Available for Benefits**

Statement 2

Year Ended December 31

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Increase In Assets		
Investment Income		
Interest	\$ 307	\$ 318
Dividends – Equities	157	147
Distributions – Pooled Funds	<u>1,988</u>	<u>1,573</u>
	2,452	2,038
Increase in Fair Values of Investments	<u>-</u>	<u>1,888</u>
Total Increase in Assets	<u>2,452</u>	<u>3,926</u>
Decrease In Assets		
Administration Expenses (Note 11)	257	209
Superannuation Allowances	<u>2,459</u>	<u>2,502</u>
	2,716	2,711
Decrease in Fair Value of Investments	<u>2,731</u>	<u>-</u>
Total Decrease in Assets	<u>5,447</u>	<u>2,711</u>
(Decrease) / Increase in Net Assets Available for Benefits	(2,995)	1,215
Net Assets Available For Benefits, Beginning of Year	<u>40,274</u>	<u>39,059</u>
Net Assets Available For Benefits, End of Year	<u>\$ 37,279</u>	<u>\$ 40,274</u>

(See accompanying notes to the financial statements)

**Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board
Statement of Changes in Pension Obligations**

Statement 3

Year Ended December 31

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Pension Obligations, Beginning of Year	\$ 38,566	\$ 38,188
Increase In Pension Obligations		
Interest Accrued on Obligations	1,247	1,363
Experience Loss	-	1,517
	<u>1,247</u>	<u>2,880</u>
Decrease In Pension Obligations		
Obligations Paid	2,459	2,502
Experience Gain	1,066	-
	<u>3,525</u>	<u>2,502</u>
Pension Obligations, End of Year	<u>\$ 36,288</u>	<u>\$ 38,566</u>

(See accompanying notes to the financial statements)

Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board Notes to the Financial Statements

December 31, 2018

1. Description of the Plan

a) General

The Pension Plan for the Employees of The Saskatchewan Workers' Compensation Board (the Plan) is a defined benefit final average pension plan established under *The Workers' Compensation Board Pension Implementation Act*. This Plan replaces the Workers' Compensation Board Superannuation Plan (former plan). Membership is comprised of employees and board members who were enrolled in the former plan on October 1, 1977, and who did not elect to transfer to the Public Employees Pension Plan prior to October 1, 1978. The description of the Plan is a summary only. For complete information reference should be made to the Plan text.

b) Administration

The Workers' Compensation Board (WCB) administers the Plan. Day-to-day administration is provided by the Public Employees Benefits Agency (PEBA). The WCB has established a trust fund for the Plan and appointed RBC Investor Services as the Trustee.

c) Superannuation Plan

The Plan was established to accumulate contributions paid by employees and the employer, as well as any investment income.

Superannuation allowances and refunds of contributions together with interest are paid out of the Plan.

d) Funding policy

Members contribute at the rate of seven per cent, eight per cent or nine per cent of salary depending on their age at the date of the commencement with the Plan.

Members' contributions cease after attaining 35 years of credited service.

The contributions required to be paid by the employer are calculated by applying a predetermined rate to the members' contributions.

e) Retirement

Normal retirement is at age 65. Members who retire may receive benefit payments earlier under the following conditions:

- At any age after 35 years of service;
- At age 60 with at least 20 years of service;
- At age 60 with between 15 years and 20 years of service with a reduced pension; and
- At age 55 with at least 30 years of service with a reduced pension.

f) Pension

The annual pension payable to a member is two per cent of the average salary received by the member during the five years of highest salary, multiplied by the total number of years of service. The maximum number of years of service is 35 years. At age 65, a member's pension is reduced due to integration with the Canada Pension Plan.

g) Income taxes

The Plan is a registered pension plan as defined in the *Income Tax Act* (Canada) and is not subject to income taxes. Superannuation allowances paid from the Plan are subject to source income tax deductions that are deducted by RBC Investor Services and remitted to Canada Revenue Agency.

2. Basis of Preparation

a) Statement of Compliance

The financial statements for the year ended December 31, 2018, have been prepared in accordance with CPA Canada Handbook section 4600, *Pension Plans*. For matters not addressed in section 4600, International Financial Reporting Standards (IFRS) guidance has been implemented.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments which have been measured 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 noted.

3. Significant Accounting Policies

The following accounting policies are considered to be significant:

Basis of accounting

These financial statements are prepared on a going concern basis and present the financial position of the Plan as a separate entity independent of WCB 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.

Investments

Short-term investments, bonds and debentures, equities and pooled funds are recorded at fair value. The fair values of equities are determined based on the quoted market values, based on the latest bid prices. The fair value of pooled equity funds are based on the quoted market value of the underlying investments, based on latest bid prices. The fair value of short-term investments and bonds and debentures are based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. Transactions are recorded as of the trade date.

Change in fair value of investments

The change in fair value of investments reflects the current year's change in increase (decrease) in fair value of investments.

Investment transactions and income

Investment transactions are recorded on the trade date. Investment income, which is recorded on an accrual basis, includes interest income, dividends, pooled fund distributions, and net gains or losses from the sale of securities. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year end. Gains and losses resulting from translations are included in the change in fair value of investments. Brokers' commission and other transaction costs are recognized in the statement of changes in net assets available for benefits.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans required management to make estimates and assumptions that affect the recorded amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments and pension obligations. Actual results could differ from these estimates.

Accounting policy changes

Effective January 1, 2018, IFRS 9, Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model was adopted.

The adoption of the new standard had no impact on the financial statements.

4. Objectives, Policies, and Processes for Managing Capital

The Plan's capital consists of the investment assets managed under the authority of the Saskatchewan Workers' Compensation Board. The objective of the Plan is to meet the present and future pension obligations accumulated on behalf of the Plan's participants.

5. Investments

a) Short-term investments

Short-term investments are comprised of T-Bills and notes with effective interest rates of 1.7 per cent to 2.2 per cent (2017 – 1.0 - 1.6 per cent) and an average remaining term to maturity of 101 (2017 - 89) days. The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" rating, as rated by a recognized credit rating service.

b) Bonds and debentures

The Plan's investment policy states that bonds and debentures must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15 per cent of the bond portfolio may be invested in BBB rated bonds. As at December 31, 2018, the Plan held 10.47 per cent (2017 – 11.96 per cent) of its portfolio in BBB bonds.

(in thousands)
2018

Years to Maturity						Yield to Maturity at Market	Coupon Rate
	Federal	Provincial	Municipal	Corporate	Total		
Under 5	\$ 1,835	\$ 542	\$ -	\$ 2,051	\$ 4,428	1.3-6.5%	1.3-7.2%
5 – 10	1,399	237	-	749	2,385	1.1-4.0%	1.0-3.9%
Over 10	477	1,736	59	906	3,178	2.4-6.6%	2.8-6.6%
Fair Value	\$ 3,711	\$ 2,515	\$ 59	\$ 3,706	\$ 9,991		

(in thousands)
2017

Years to Maturity						Yield to Maturity at Market	Coupon Rate
	Federal	Provincial	Municipal	Corporate	Total		
Under 5	\$ 3,017	\$ 667	\$ 167	\$ 1,489	\$ 5,340	1.0-4.3%	1.0-4.5%
5 – 10	1,086	206	-	805	2,097	2.2-6.4%	2.3-7.2%
Over 10	467	2,071	61	970	3,569	2.8-5.4%	2.8-6.7%
Fair Value	\$ 4,570	\$ 2,944	\$ 228	\$ 3,264	\$ 11,006		

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

c) Equities

Direct equities were held throughout the year, however were sold prior to year-end, therefore the Plan does not hold any direct equities as of December 31, 2018. The Plan's equity investments were held as portfolio investments and were generally readily marketable. Investments are generally limited to stocks that are publicly traded on a recognized securities market. The Plan's equities included common shares that have no fixed maturity dates and were generally not directly exposed to interest rate risk. Dividends were generally declared on a quarterly basis. The average effective dividend rate is 2.75 per cent (2017 – 2.40 per cent). The Plan's investment policy allows any single holding to represent no more than 10 per cent of the fair value of the related portfolio and any single holding to represent no more than 10 per cent of the common stock in any corporation.

d) Pooled funds

The Plan limits its investments in pooled equity funds to 10 per cent of the market value of each fund. The Plan owns units in pooled equity funds which have no fixed interest rate and whose return is based on the success of the fund manager. Exceptions to the 10 per cent limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan's pooled equity funds are comprised of the following:

	(in thousands)	
	2018	2017
Canadian Equity Fund	\$ 6,836	\$ 1,979
US Equity Fund	5,667	6,379
Global Equity Fund	5,448	6,745
Mortgages	4,043	3,386
Real Estate Fund	4,897	4,507
	<u>\$ 26,891</u>	<u>\$ 22,996</u>

Investments in real estate consist of Canadian commercial property held directly by the Greystone Real Estate Fund. The market appraisals used in valuing the real estate involves various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments. The Plan holds investments in real estate through pooled funds.

e) Fair value hierarchy

The Plan has classified its 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.

(in thousands)

2018

	Level 1	Level 2	Level 3	Total
Bonds	\$ -	\$ 9,991	\$ -	\$ 9,991
Short-term	-	233	-	233
Pooled Funds	-	21,994	4,897	26,891
Total	\$ -	\$ 32,218	\$ 4,897	\$ 37,115

(in thousands)

2017

	Level 1	Level 2	Level 3	Total
Bonds	\$ -	\$ 11,006	\$ -	\$ 11,006
Short-term	-	165	-	165
Pooled Funds	-	18,489	4,507	22,996
Equities	5,986	-	-	5,986
Total	\$ 5,986	\$ 29,660	\$ 4,507	\$ 40,153

No investments were transferred between levels during the year.

Fair Value measurement using level 3 inputs

	2018	2017
	Real Estate Fund	Real Estate Fund
Balance at December 31, 2017	\$ 4,507	\$ 4,073
Purchases	-	-
Sales	-	-
Gains		
Realized	-	-
Unrealized	390	434
Balance at December 31, 2018	\$ 4,897	\$ 4,507

6. Due from General Revenue Fund

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

The Plan's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis into the Plan's bank account using the Government's 30-day borrowing rate and the Plan's average daily bank account balance. The Government's average 30-day borrowing rate in 2018 was 1.41 per cent (2017 – 0.70 per cent).

7. Pension Obligations

Pension obligations are determined using the projected benefit method pro-rated on service and management's best estimate assumptions approved by the WCB of expected plan investment performance, discount rate, and post-retirement indexing rate and retirement ages of employees. The actual results may vary significantly from the long-term assumption used. The last filed actuarial valuation was prepared as of December 31, 2017. The next required valuation is due December 31, 2020, to be completed in 2021.

The assumptions used in determining the actuarial value of pension obligations were:

	<u>2018</u>	<u>2017</u>
Discount Rate	3.82%	3.34%
Inflation Rate	N/A	N/A

The actuarial assumption regarding inflation rate is no longer required as there were no active employee members in the plan earning current service.

The Plan also provides for a fixed 1.5 per cent annual cost-of-living-adjustment post retirement and these increases are reflected in the measurement of the obligation.

The discount rate selected is set in reference to yields available as of December 31, 2018, on Canadian AA-rated corporate bonds and provincial bonds, having regard to the duration of the Plan's obligations. The Plan's obligations are the benefit payments that the Plan is to make in the future have an average duration of 11.1 years.

An increase in the discount rate by one per cent is expected to decrease the liability by 10.0 per cent. In contrast, a one per cent decrease in the discount rate is expected to increase the liability by 12.0 per cent.

If there are insufficient funds in the Plan to pay pension obligations, the WCB is obligated to pay any such deficiency to the Plan.

8. Financial Risk Management

The nature of the Plan's operations result 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 approved annually by the Board. 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.

The Board reviews regular compliance reports from its investment managers as to their compliance with the investment policy. The Board also reviews regular compliance reports from the custodian as to the investment manager's compliance with the investment policy.

Credit risk

The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31 is limited to the carrying value of the financial assets summarized as follows:

	(in thousands)	
	2018	2017
Cash	\$ 27	\$ 28
Accounts Receivable	1	1
Accrued Investment Income	48	60
Fixed Income Investments ¹	10,224	11,171
Due from the General Revenue Fund	175	82

¹Includes short-term investments and bonds and debentures

Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

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

Credit rating for bonds and debentures are as follows:

	(in thousands)			
	2018		2017	
Credit Rating	Fair Value	Makeup of Portfolio (%)	Fair Value	Makeup of Portfolio (%)
AAA	\$ 3,970	39.7	\$ 4,854	44.1
AA	3,714	37.2	2,858	26.0
A	1,261	12.6	1,977	18.0
BBB	1,046	10.5	1,317	11.9
Total	\$ 9,991	100.0	\$ 11,006	100.0

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 4.4 per cent (2017 – 3.5 per cent) of the market value of the combined bonds and debentures, and short-term investment portfolios. No one holding of a province is over 8.9 per cent (2017 – 12.9 per cent) of the market value of the bond and debenture portfolio.

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.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments, and bonds and debentures. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point change in interest rates would change net assets available for benefits and surplus at December 31, 2018, by \$0.76 million (2017 - \$0.78 million) representing 7.4 per cent (2017 – 7.0 per cent) of the \$10.22 million (2017 - \$11.17 million) fair value of fixed income investments.

Foreign exchange risk

The Plan is subject to changes in the U.S./Canadian dollar exchange rate for U.S. denominated investments. Also, the Plan is exposed to Non-North American currencies through its investment in a global equity pooled fund. Exposure to both U.S. and Non-North American pooled equity funds and equities is limited to a combined maximum of 35 per cent of the market value of the total investment portfolio. At December 31, 2018, the Plan's exposure to U.S. equities was 15.2 per cent (2017 – 15.9 per cent) and its exposure to a Non-North American pooled equity fund was 14.7 per cent (2017 – 16.8 per cent) for a total exposure of 29.9 per cent (2017 – 32.7 per cent).

At December 31, 2018, a 10 per cent change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$0.6 million (2017 - \$0.6 million) change in net assets available for benefits and surplus. A 10 per cent change in the Canadian dollar versus the Non-North American currencies would result in approximately a \$0.5 million (2017 – \$0.7 million) change in net assets available for benefits and surplus.

Equity price risk

The Plan is exposed to changes in equity prices in Canadian, U.S. and Non-North American markets. Equities and pooled equity funds comprise 48.3 per cent (2017 – 52.5 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. As of December 31, 2018, the plan did not hold any common shares. In 2017, no one investee or related group of investees represents greater than 8.0 per cent of the market value of the Plan's common share portfolio. As well, no one holding represents more than 10 per cent (2017 – 10 per cent) of the voting shares of any corporation which is consistent to prior period.

The following table indicates the approximate change that could be anticipated to both the increase in net assets available for benefits, and deficit based on changes in the Plan's benchmark indices at December 31, 2018:

	(in thousands)	
	<u>10% increase</u>	<u>10% decrease</u>
S&P/TSX Composite Index	\$ 684	\$ (684)
S&P 500 Index	567	(567)
MSCI EAFE Index	545	(545)

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.

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 influence by the Government of Saskatchewan. As at December 31, 2018, the Plan held \$130,517 (2017 – \$135,097) in Government of Saskatchewan bonds with net earnings of \$5,953 (2017 - \$6,251).

Certain administration expenses are paid by the Plan to the Public Employees Benefits Agency Revolving Fund based upon agreed exchange amounts. The amount is identified in Note 11. Included in accounts payable is an amount of \$44,147 (2017 - \$27,429) payable to the Public Employees Benefits Agency Revolving Fund.

10. 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 Board. The Board 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:

	Annual Return		Rolling Four-Year Average Annual Return	
	2018	2017	2018	2017
Plan's Actual Rate of Return	-0.86%	10.39%	5.64%	8.54%
Target Rate of Return	-1.26%	7.50%	4.61%	7.44%

The annual returns are before deducting investment expenses.

11. Administration Expenses

	(in thousands)	
	2018	2017
Administration - PEBA Revolving Fund	\$ 127	\$ 67
Custodial fees - RBC Investor Services Trust	11	17
Investment Management Fees – Greystone	119	125
	<u>\$ 257</u>	<u>\$ 209</u>

12. Fair Value of Financial Assets and Financial Liabilities

For the following financial assets and liabilities, the carrying amounts approximate fair value due to their immediate or short-term nature:

- a) Cash;
- b) Accrued investment income;
- c) Due from General Revenue Fund;
- d) Accounts receivable; and
- e) Accounts payable and accrued liabilities.

Fair values of investments are disclosed in Note 5.