

# Public Employees Group Life Insurance Fund



## Annual Report for 2018

# Table of Contents

<b>Letters of Transmittal</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>3</b>
<b>Participating Employers</b> .....	<b>3</b>
<b>Administration</b> .....	<b>4</b>
<b>Investment Management Services</b> .....	<b>4</b>
<b>Funding</b> .....	<b>4</b>
<b>Premiums/Claims Experience</b> .....	<b>4</b>
<b>Management’s Report</b> .....	<b>5</b>
<b>Actuarial Opinion</b> .....	<b>6</b>
<b>Financial Statements</b>	
Independent Auditor’s Report .....	8
Statement of Financial Position .....	10
Statement of Operations and Change in Net Assets.....	11
Statement of Cash Flows.....	12
Notes to the Financial Statements.....	13

# 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 twenty-fifth Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 2018.

A handwritten signature in cursive script that reads "Donna Harpauer".

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 twenty-fifth Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 2018.

A handwritten signature in cursive script that reads "Dave Wild".

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

# Public Employees Group Life Insurance Fund

## Introduction

The Public Employees Group Life Insurance Plan was established on April 1, 1958.

The Plan provides comprehensive life insurance coverage to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

Spouses and dependent children are also provided coverage under the Plan.

As at December 31, 2018, there were approximately 28,110 insured employees.

## Participating Employers

The following employers participate in The Public Employees Group Life Insurance Plan:

Advocate for Children and Youth (Office of the Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The Chief Electoral Officer (Office of the) eHealth Saskatchewan  
Farm Land Security Board  
Financial and Consumer Affairs Authority of Saskatchewan  
Global Transportation Hub Authority (The Information and Privacy Commissioner (Office of the)  
Information Services Corporation  
Innovation Saskatchewan  
Kelsey Trail Regional Health Authority  
Leader of the Opposition (Office of the) Legislative Assembly Service  
Liquor and Gaming Authority  
Livestock Services of Saskatchewan Corporation  
Meewasin Valley Authority  
NDP Caucus Office  
Ombudsman (Office of the)  
Physician Recruitment Agency of Saskatchewan  
Prairie Diagnostic Services Inc.  
Prairie North Regional Health Authority  
Provincial Archives of Saskatchewan

Provincial Auditor (Office of the)  
Provincial Capital Commission  
Public Interest Disclosure Commissioner (Office of the)  
Residential Tenancies (Office of)  
Safe Saskatchewan Inc.  
Saskatchewan Arts Board  
Saskatchewan Assessment Management Agency  
Saskatchewan Centre of the Arts  
Saskatchewan Crop Insurance Corporation  
Saskatchewan Government Insurance  
Saskatchewan Health Authority, with respect to employees who were members of the Saskatchewan Government and General Employees' Union and were transferred to the Authority on April 1, 2018 pursuant to clause 9-1(1)(b) of the Provincial Health Authority Act  
Saskatchewan Human Rights Commission  
Saskatchewan Impaired Driver Treatment Centre  
Saskatchewan Milk Marketing Board  
Saskatchewan Municipal Board  
Saskatchewan Party Caucus  
Saskatchewan Polytechnic  
Saskatchewan Pork Development Board  
Saskatchewan Power Corporation  
Saskatchewan Professional Teachers Regulatory Board  
Saskatchewan Telecommunications Holding Corporation  
SaskBuilds Corporation  
SaskEnergy Incorporated  
South Saskatchewan River Irrigation District No. 1  
Sun Country Regional Health Authority  
Technical Safety Authority of Saskatchewan  
Tourism Saskatchewan  
TransGas Limited  
Unifor, Local 481  
(Saskatchewan Government and General Employees' Union, Union Office Employees.)  
Wakamow Valley Authority  
Wanuskewin Heritage Park Authority  
Western Development Museums  
Workers' Compensation Board (The)

The Board responsible for the administration of each of the following, with respect to individuals receiving benefits under each plan:

Anti-Tuberculosis League Employees Superannuation Plan  
Liquor Board Superannuation Plan  
Pension Plan for Employees of the Saskatchewan Workers' Compensation Board  
Power Corporation Superannuation Plan (The Public Employees Pension Plan)  
Public Service Superannuation Plan  
Saskatchewan Telecommunications Pension Plan (The)

The Government of Saskatchewan with respect to the following individuals:

Advocate for Children and Youth  
Assistant Chief Electoral Officer  
Chief Electoral Officer  
Conflict of Interest Commissioner  
Director of Residential Tenancies  
Individuals receiving an allowance pursuant to section 5 of *The Members of the Legislative Assembly Benefits Act*  
Individuals receiving benefits under the Judges of the Provincial Court Superannuation Plan  
Information and Privacy Commissioner  
Judges of the Provincial Court  
Legislative Assembly (Members of the)  
Members of the Public Service of Saskatchewan as defined by *The Public Service Act, 1998*  
Ombudsman  
Provincial Auditor  
Public Interest Disclosure Commissioner  
Senior Justices of the Peace, appointed under section 4 of *The Justices of the Peace Act, 1988*  
Supervising Justice of the Peace, appointed under section 3 of *The Justices of the Peace Act, 1988*

## Administration

The Public Employees Group Life Insurance Plan is underwritten by The Great-West Life Assurance Company on a cost-plus basis and is managed by the Public Employees Benefits Agency, Ministry of Finance.

The Great-West Life Assurance Company under Group Policy 161938 (Life) provides claims adjudication and benefit payment services to the Plan.

## Investment Management Services

The assets of the Group Life Insurance Fund can be invested in any class of investments authorized for the investment of moneys in the general revenue fund.

GLC Asset Management Group Ltd. invests the monies of the Fund under a contract to provide services. The Fund pays management fees to GLC Asset Management Group Ltd.

## Funding

Funding for the Plan is comprised of employee and employer paid insurance premiums based on salary and the age, gender and smoker status of the employee.

## Premiums/Claims Experience

	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Premiums	\$13,938,081	\$14,337,673
Claims	\$13,857,892	\$12,773,672
Claims (# of)		
- Employee	55	48
- Dependent	48	54
- Retiree	237	188

# Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As members of management of the Public Employees Group Life Insurance Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian public sector accounting standards applied on a basis consistent with that of the preceding year.

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

The actuary has prepared a valuation report on the provision for life insurance benefits of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management. This report has been used in the preparation of the financial statements.

The Public Employees Group Life Insurance Fund 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.

Enclosed are the financial statements of the Public Employees Group Life Insurance Fund for the year ended December 31, 2018, and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan  
April 18, 2019



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

# Actuarial Opinion

With respect to the *Public Employees Group Life Insurance Plan*, I have prepared an actuarial valuation as at December 31, 2018 for the purpose of determining the necessary actuarial information for financial statement reporting in accordance with Sections 3250 and 3255 of the Chartered Professional Accountants Canada (CPA Canada) Public Sector Accounting Handbook. In my opinion, for the purpose of this actuarial valuation:

- the data on which this valuation is based is sufficient and reliable;
- where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and, in my opinion, the assumptions are appropriate for the purpose of the valuation;
- the actuarial cost methods employed are appropriate; and
- the valuation conforms with the requirements of the Sections 3250 and 3255 of the CPA Canada Public Sector Accounting Handbook.

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

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



Johanan Schmuecker  
Fellow, Society of Actuaries  
Fellow, Canadian Institute of Actuaries

March 12, 2019

# **Public Employees Group Life Insurance Fund**

## **Financial Statements**

**Year Ended December 31, 2018**

## INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

### Opinion

We have audited the financial statements of the Public Employees Group Life Insurance Fund, which comprise the statement of financial position as at December 31, 2018, and the statements of operations and change in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Public Employees Group Life Insurance Fund as at December 31, 2018, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Public Employees Group Life Insurance Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical 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. The other information comprises the information included in the *Public Employees Group Life Insurance Fund Annual Report for 2018*, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or any knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 this auditor's 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 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.

In preparing the financial statements, management is responsible for assessing Public Employees Group Life Insurance Fund'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 Public Employees Group Life Insurance Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Public Employees Group Life Insurance Fund's financial reporting process.

### **Auditor's 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 auditor's 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 these 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 Public Employees Group Life Insurance Fund'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 Public Employees Group Life Insurance Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Public Employees Group Life Insurance Fund 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.

We 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 identified during the audit.

Regina, Saskatchewan  
April 18, 2019



Judy Ferguson, FCPA, FCA  
Provincial Auditor  
Office of the Provincial Auditor

**Public Employees Group Life Insurance Fund  
Statement of Financial Position**

**Statement 1**

**As At December 31**

	<u>2018</u>	<u>2017</u>
<b>Financial Assets</b>		
Cash	\$ 1,133,786	\$ 1,170,727
Due from The Great-West Life Assurance Company (Note 4)	293,438	1,762,944
Accounts Receivable	543,557	630,642
Investments (Note 3)	<u>135,926,749</u>	<u>135,419,434</u>
	<u>137,897,530</u>	<u>138,983,747</u>
 <b>Liabilities</b>		
Accounts Payable (Note 5)	420,823	499,875
Claims Payable	3,322,496	2,593,897
Payable to Other Employers (Note 7)	3,917,886	4,005,528
Provision for Life Insurance Benefits (Note 6)	<u>86,138,000</u>	<u>80,885,000</u>
	<u>93,799,205</u>	<u>87,984,300</u>
Net Assets and Accumulated Surplus (Statement 2)	<u>\$ 44,098,325</u>	<u>\$ 50,999,447</u>

Contingencies (Note 13)

(See accompanying notes to the financial statements)

**Public Employees Group Life Insurance Fund  
Statement of Operations and Change in Net Assets**

**Statement 2**

**Year Ended December 31**

	2018		2017
	Budget (Note 11)	Actual	Actual
<b>Revenues</b>			
Premiums	\$ 14,445,309	\$ 13,938,081	\$ 14,337,673
Change in Provision for Life Insurance Benefits (Note 6)	-	-	179,100
Investment Income	7,010,460	151,177	8,685,565
	21,455,769	14,089,258	23,202,338
<b>Expenses</b>			
Claims	12,548,510	13,857,892	12,773,672
Change in Provision for Life Insurance Benefits (Note 6)	-	5,253,000	-
Administration (Note 8)	795,851	764,884	731,288
Premium Taxes	437,926	399,494	467,803
Adjudication Fees	319,808	364,590	285,845
Investment Management Fees	304,172	350,520	335,622
	14,406,267	20,990,380	14,594,230
Operating (Deficit) Surplus	7,049,502	(6,901,122)	8,608,108
Net Assets and Accumulated Surplus, Beginning of Year	50,999,447	50,999,447	42,391,339
Net Assets and Accumulated Surplus, End of Year (Statement 1)	\$ 58,048,949	\$ 44,098,325	\$ 50,999,447

(See accompanying notes to the financial statements)

**Public Employees Group Life Insurance Fund  
Statement of Cash Flows**

**Statement 3**

**Year Ended December 31**

	<u>2018</u>	<u>2017</u>
Cash Flows From (Used In) Operating Activities:		
Premiums Received	\$ 13,936,126	\$ 14,347,274
Claims Paid	(13,129,293)	(12,523,012)
PST (Paid) Received	(60,355)	64,256
Administration Expenses Paid	(783,199)	(726,669)
Premium Taxes Paid	(398,778)	(442,526)
Adjudication Fees Paid	(364,590)	(285,845)
	<u>(800,089)</u>	<u>433,478</u>
Cash Flows (Used In) From Investing Activities		
(Purchase of) Proceeds from Investments (Note 3)	<u>(706,358)</u>	<u>1,404,219</u>
Net (Decrease) Increase in Cash	(1,506,447)	1,837,697
Cash Equivalents, Beginning of Year	<u>2,933,671</u>	<u>1,095,974</u>
Cash Equivalents, End of Year	<u>\$ 1,427,224</u>	<u>\$ 2,933,671</u>
Balance Consists of:		
Cash	\$ 1,133,786	\$ 1,170,727
Due from (to) The Great-West Life Assurance Company (Note 4)	<u>293,438</u>	<u>1,762,944</u>
Cash Equivalents, End of Year	<u>\$ 1,427,224</u>	<u>\$ 2,933,671</u>

(See accompanying notes to the financial statements)

## Public Employees Group Life Insurance Fund Notes to the Financial Statements

December 31, 2018

### 1. Description of Fund

The Public Employees Group Life Insurance Fund (PEGIF) is a special purpose fund used to account for transactions of the Group Life Insurance Plan (Plan). The Plan continues under subsection 64(2) of *The Financial Administration Act, 1993*.

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides comprehensive life insurance coverage to certain members of the public service of the Province of Saskatchewan and Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The Plan provides basic life insurance coverage at the commencement of employment without a medical examination. Additional coverage may be purchased with a medical examination. The coverage is renewed automatically every year. At retirement, retirement death benefit certificates having values up to \$25,000 (basic death benefit certificate is \$10,000) are given to employees. The cost of providing these certificates to retiring employees is included in the provision for life insurance benefits. At retirement, members can elect to continue insurance coverage. The Plan's insurance coverage does not include accumulation of cash values. The Government, through the Minister of Finance entered into an agreement with The Great-West Life Assurance Company (Great-West Life) to administer the Group Life Insurance Plan, effective January 1, 2009.

Claims are adjudicated and processed for payment by Great-West Life.

Employees and employers pay premiums monthly. Premiums that are paid by employers vary depending on their agreement with PEGIF. Employees pay for the remainder of their coverage at a rate of \$0.22 to \$0.30 per month per \$1,000 coverage.

Premiums for life insurance are waived for disabled members of the Public Employees Disability Income Plan, the Saskatchewan Government Insurance Long Term Disability Plan, and the Saskatchewan Government and General Employees' Union Long Term Disability Plan. The cost of providing life insurance coverage (benefit) due to waiver of premiums is included in the provision for life insurance benefits.

During the period of agreement with Great-West Life, all death claims from a catastrophic accident over and above the two largest individual claims will not be charged to the Plan. Catastrophic accident means each and every accident or series of accidents arising out of one event or occurrence resulting in the death of three or more people insured under the Plan. The Plan pays 0.50 per cent of premium revenue to Great-West Life for this coverage. The amount expensed during the year is included in adjudication fees and the Plan had no claims for 2018 (no claims for 2017).

## 2. Significant Accounting Policies

These 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 it is not practical to determine the unrealized portion of investment income relating to its pooled fund investments. As a result, all income attributable to its pooled fund investments is recorded in investment income on the Statement of Operations and Change in Net Assets. The following accounting policies are considered significant:

a) Premium revenue

Premiums are recognized as revenue when due.

b) Investments

The investments are held by GLC Asset Management Group Ltd (GLC) on behalf of PEGIF in an assortment of pooled funds including a: money market, bond, mortgage, Canadian equity, US equity, and non-North American equity pooled fund. All investments are valued at fair value. Pooled fund investments are valued at the year-end unit value supplied by the pooled-fund administrator, which represent the underlying net assets of the pooled fund at a fair value determined using closing bid prices. The market values of investments in foreign currencies are translated into Canadian dollars at the closing rate of exchange on December 31, 2018. The purchase and sale of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions.

c) Provision for life insurance benefits

Group Life policies are considered yearly termed life policies that are automatically renewed every year. Under such life policies, claims are recorded in the year of the claim. The provision for life insurance benefits represents the present value of future payments arising from benefits for disabled employees whose premiums have been waived and includes an estimated amount for claims incurred but not yet reported (IBNR). The provision also includes the present value of the retirement death benefit certificates for those employees who retired prior to year-end. The provision for life insurance benefits is subject to uncertainty and is selected from a range of possible outcomes. Adjustments to the provisions for life insurance benefits are made as additional information becomes available. The provision for life insurance benefits is determined pursuant to an actuarial valuation. Any resulting change in the liability pursuant to the valuation is recognized as a revenue or expense item in the Statement of Operations and Change in Net Assets.

d) Claims expense

Claims are recognized in the year they are incurred. Claims expense includes future payments arising from life claims received during the year and an estimate of life claims received after the year-end for fatalities that occurred during the year.

e) 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 and disclosure of contingent 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.

The primary measurement uncertainty arising from the use of estimates which may affect reported amounts relates to the valuation of the provision for life insurance benefits – see Note 6.

f) Financial instruments

Receivables and payables are measured at cost which approximates their fair value. As described in Note 2b, the investments held by GLC on PEGIF's behalf are measured at fair value.

Changes in fair value are recognized in the Statement of Operations and Change in Net Assets.

h) Accounting Policy Changes

Effective for fiscal years beginning on or after April 1, 2017, certain new standards, amendments to standards and interpretations were adopted.

- i) PS 2200 Related Party Disclosures, a new standard defining related parties and establishing disclosure requirements for related party transactions.
- ii) PS 3210 Assets, a new standard providing guidance for applying the definition of assets and establishing disclosure standards for assets.
- iii) PS 3320 Contingent Assets, a new standard defining and establishing disclosure standards on contingent assets.
- iv) PS 3380 Contractual Rights, a new standard defining and establishing disclosure standards on contractual rights.
- v) PS 3420 Inter-Entity Transactions, a new standard establishing guidance on accounting for and reporting on transactions between entities that comprise a government's reporting entity.

The adoption of these new and amended standards had no impact on the financial statements.

### 3. Investments

At December 31, 2018, the investments held on behalf of PEGIF by GLC in various pooled funds consist of short-term notes, Canadian government and corporate bonds, mortgages, Canadian equities, US equities, and Non-North American (NNA) equities.

GLC does not remit the investment income to PEGIF; it reinvests the income, net of management fees, in the pooled funds.

## Fair Value

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.

The following table classifies the Plan's financial instruments within this fair value hierarchy:

2018				
Pooled Funds	Level 1	Level 2	Level 3	Total
Money Market Fund		\$ 5,437,070		\$ 5,437,070
Bond Fund		\$ 62,526,304		\$ 62,526,304
Mortgage Fund		\$ 19,029,745		\$ 19,029,745
Equity Funds		\$ 48,933,630		\$ 48,933,630
Total		\$135,926,749		\$135,926,749

2017				
Pooled Funds	Level 1	Level 2	Level 3	Total
Money Market Fund		\$ 5,958,455		\$ 5,958,455
Bond Fund		\$ 62,292,940		\$ 62,292,940
Mortgage Fund		\$ 16,656,590		\$ 16,656,590
Equity Funds		\$ 50,511,449		\$ 50,511,449
Total		\$135,419,434		\$135,419,434

#### **4. Due from/to The Great-West Life Assurance Company**

According to the agreement between PEBA and Great-West Life, Great-West Life has established an account for receipt of PEGIF's premiums and payment of claims and administrative expenses.

#### **5. Accounts Payable**

Included within Accounts Payable in 2017 was \$64,256 payable to Saskatchewan Finance for Provincial Sales Tax (PST). Effective August 1, 2017, PEGIF began collecting PST on employer contributions and submitting to Saskatchewan Finance on a monthly basis.

On February 26, 2018, the Government of Saskatchewan announced that there would be a reinstatement of the PST exemption on life and health insurance premiums. The exemption was retroactive to August 1, 2017. As a result, the Plan received a PST refund of \$357,205 in 2018 and reimbursed the PST on employer contributions.

## 6. Provision for Life Insurance Benefits

A valuation of the provision for life insurance benefits was performed by Aon Hewitt as at December 31, 2018, to determine the liability for future costs of providing life coverage to existing disabled employees whose premiums have been waived (waived premiums) prior to year-end and the retirement death benefit certificates (retirement certificates) for those employees who retired prior to year-end.

The provision for life insurance benefits as at December 31 and the principal components of the change in the provision during the year were as follows:

	2018		2017	
	Waived Premiums	Retirement Certificates	Waived Premiums	Retirement Certificates
Provision for Life Insurance, Beginning of Year	\$ 25,205,200	\$ 55,679,800	\$ 25,585,200	\$ 55,478,900
Interest on Previous Liability	1,209,900	2,672,600	1,202,500	2,607,500
Mortality and Termination Experience (Gain) Loss	90,100	159,100	597,400	609,000
New Claims	5,209,500	3,816,800	3,952,300	3,878,200
Expected Benefit Payments	(5,416,400)	(2,014,100)	(5,515,200)	(2,345,000)
Change in Assumptions	305,100	(779,600)	(617,000)	(4,548,800)
Total Provision for Life Insurance, End of Year	<u>\$ 26,603,400</u>	<u>\$ 59,534,600</u>	<u>\$ 25,205,200</u>	<u>\$ 55,679,800</u>

The total liability as at December 31, 2018, is \$86,138,000 (2017 – \$80,885,000). The liability includes \$59,534,600 (2017 – \$55,679,800) for retirement death benefit certificates and \$26,603,400 (2017 – \$25,205,200) for life coverage for those disabled employees whose premiums have been waived.

The liability for the cost of providing life insurance coverage to disabled employees whose premiums have been waived prior to year-end and the retirement death benefit certificates for those employees who retired prior to year-end are based on a number of assumptions about future events including: recovery and mortality rates and interest rates. The actual experience may vary significantly from the assumptions used.

The valuation is based on the following assumptions:

- 1) Inflation rate assumed is 2.3 per cent (2017 – 2.3 per cent) for all future years. If the actuarial valuation assumed no indexing of the level of insurance the liability at December 31, 2018, would be \$83,642,400 (2017 – \$78,488,600);
- 2) Discount rate has been determined in accordance with Sections 3250 and 3255 of the CPA Canada Public Sector Accounting Handbook. The liabilities of the plan are backed by investments whose purpose is to provide the full funding of the plan. The discount rate for the plan is determined as the expected rate of return on investments, net of investment management expenses. The discount rate has been determined as 4.9 per cent (2017- 4.8 per cent);

- 3) Non-investment management expenses assumption is 10 per cent (2017- 10 per cent) of total reserves, including IBNR reserves. This assumption is based on actual expenses over the past five years.
- 4) Mortality and recovery rates used in the waiver valuation for disabled lives were obtained from the Group Life Waiver Study Based on 1988-1994 Canadian Group LTD Termination Experience, published November 2001. The mortality rates were adjusted to 150 per cent (2017- 150 per cent) of the published rates and the recovery rates were adjusted to 160 per cent (2017- 160 per cent) of the published rates.
- 5) Mortality rates used for valuing retiree life coverage have been derived from the unadjusted *Canadian Life 2012-2014 tables*, as published by Statistics Canada

The following illustrates the effect of changes in the discount rate and mortality on the retirement death benefit certificate liability:

- a one per cent decrease in the discount rate would result in a 15.7 per cent increase in the liability including the cost of living adjustment as determined by the consumer price index;
- a 10 per cent increase of the Group Life Insurance mortality rate would result in a 2.9 per cent increase in the liability.

The following illustrates the effect of changes in the discount rate, cost of living adjustment and mortality and recovery rates on group life waivers:

- a one per cent decrease in the discount rate would result in a 4.6 per cent increase in the liability including the cost of living adjustment as determined by the consumer price index;
- a one per cent decrease in the cost of living adjustment would result in a 4.4 per cent decrease in the liability;
- a 10 per cent increase of waiver mortality would result in a 8.5 per cent increase in the liability.

The provision for life insurance benefits is long-term in nature and there is no market for settling these obligations. Accordingly, the fair value of this provision is not determinable.

## **7. Payable to Other Employers**

Public Service Commission, Saskatchewan Health Authority (in conjunction with Canadian Union of Public Employees, Local 600), SaskEnergy, SaskPower, and Saskatchewan Government Insurance (SGI) signed agreements whereby these agencies became responsible for an additional \$5,000 (total of \$10,000 except for SGI total of \$15,000 or \$25,000) paid up life insurance policy to their employees upon retirement (Retirement Death Benefit Certificates).

These agencies pay the premiums for this enhanced benefit to PEGIF and PEGIF pays the claims on behalf of the employers. The payable represents the accumulated difference between premiums collected and the claims paid. The fair value of the payable approximates its carrying value.

## **8. Administration Expenses**

All administration expenses related to PEGIF are paid through the PEBA Revolving Fund and billed to PEGIF on a monthly basis.

## 9. Investment Performance

PEGIF's investments are represented by the amounts held by GLC (see Note 3). The following is a summary of the investment performance:

	<u>2018</u>	<u>Four-Year Annualized Return</u>
Actual (a)	0.14%	4.20%
Benchmark (b)	(0.30)%	4.00%

- (a) The annual returns are before deducting investment expenses.
- (b) The benchmark return is PEGIF's target rate of return for its investments. The benchmark return is based on the performance of PEGIF's planned investment portfolio.

The assets within the PEGIF can be invested as authorized within the PEGIF's Statement of Investment Policies and Goals (Investment Policy). GLC is under agreement to invest the monies of PEGIF in a selection of investment mandates offered by GLC consistent with the Investment Policy. PEGIF pays investment management fees to GLC for providing this service.

## 10. 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 approved annually. The Investment Policy provides guidelines to the Plan's investment manager 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 manager as to its compliance with the Investment Policy. PEBA also reviews regular compliance reports from the pooled fund 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, 2018, is limited to the carrying value of the financial assets summarized as follows:

	<u>2018</u> Carrying Value	<u>2017</u> Carrying Value
Accounts Receivable	\$ 543,557	\$ 630,642
Due from The Great-West Life Assurance Company	293,438	1,762,944
Investments <sup>1</sup>	86,993,119	84,907,985

<sup>1</sup>Bonds, mortgages & money market investments held on behalf of PEGIF.

Accounts receivable are primarily made up of employee and employer contributions receivable. Employee and employer contributions receivable are generally received within 30 days.

Credit risk within investments is primarily related to the fixed income pooled funds. It is managed through the Investment Policy that limits fixed-term investments to those of high credit quality (minimum rating for bonds and mortgages, 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.

#### Interest rate risk

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 operating surplus, and net assets and accumulated surplus by \$5.1 million at December 31, 2018, representing 5.9 per cent of the \$86.9 million fair value of fixed income investments.

#### Foreign exchange

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 NNA currencies through its NNA equity pooled fund. Exposure to both U.S. equities and NNA equities is limited to a maximum 18 per cent each of the market value of the total investment portfolio. At December 31, 2018, the Plan's exposure to U.S. equities was 12.0 per cent (2017 – 12.5 per cent) and its exposure to NNA equities was 12.0 per cent (2017 – 12.8 per cent).

At December 31, 2018, a 10 per cent appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$1.6 million decrease in operating surplus, and net assets and accumulated surplus. A 10 per cent appreciation in the Canadian dollar versus the NNA currencies would result in approximately a \$1.6 million decrease in operating surplus, and net assets and accumulated surplus.

#### Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S., and NNA markets through its equity investments. Equities comprise 36.0 per cent (2017 – 37.3 per cent) of the carrying value of the Plan's total investments.

The following table indicates the approximate change that could be anticipated to the operating surplus and net assets and accumulated surplus based on changes in the Plan's benchmark indices at December 31, 2018:

	<u>10% Increase</u>	<u>10% Decrease</u>
S&P/TSX Composite Index	\$ 1,631,121	\$ (1,631,121)
S&P 500 Index	\$ 1,631,121	\$ (1,631,121)
MSCI EAFE Index	\$ 1,631,121	\$ (1,631,121)

### 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, payable to other employers and claims payable are due within one year.

The provision for life insurance benefits is long-term in nature per Note 6.

### **11. Budget**

PEBA approved PEGIF's annual budget on January 26, 2018.

### **12. 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, as well as key management personnel and their close family members (collectively referred to as "related parties"). Related party transactions with the Plan are in the normal course of operations and are recorded at fair market value.

### **13. Contingencies**

PEGIF is a party to a number of lawsuits initiated by claimants relating to Group Life benefits. The ultimate outcome of these lawsuits is not yet determinable. Accordingly, no liability has been recorded in these financial statements. Liabilities arising from the resolution of these lawsuits will be accounted for in the year the lawsuits are settled.