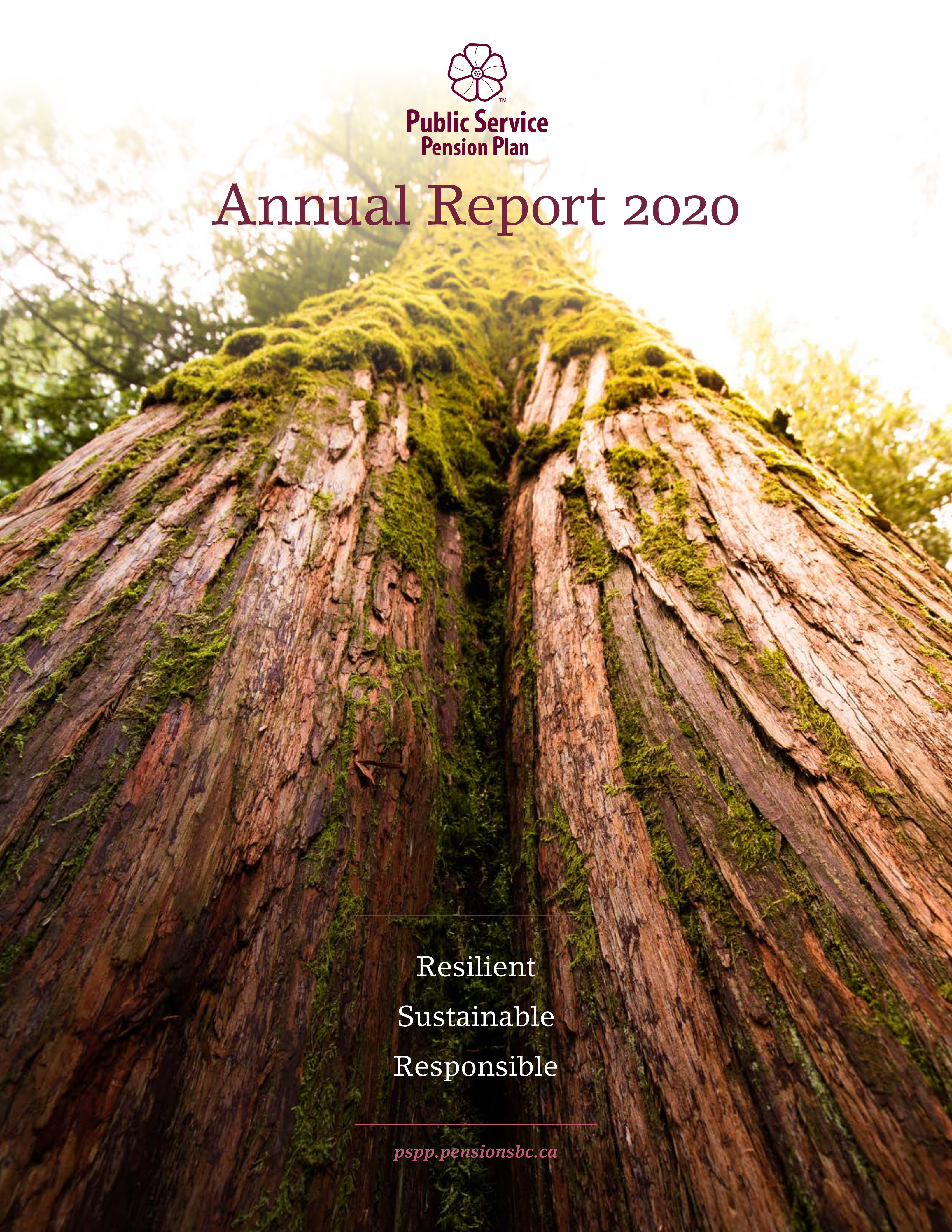
Public Service Pension Plan

Annual Report 2020



Resilient

Sustainable

Responsible

pspp.pensionsbc.ca

Contents

Rooted in strength

A message from your trustees

The past year has been remarkable in the number of political, economic and COVID-19-related events that have occurred across the globe. As the Public Service Pension Board of Trustees (board), we used our strong governance framework to ensure the Public Service Pension Plan (plan) remains financially secure and defensively positioned against changing market conditions. The British Columbia Investment Management Corporation (BCI) continued to provide world-class fund management services, skillfully maneuvering our plan through the ups and downs of 2020 while adhering to our investment beliefs and meeting our objectives.

The board regularly undertakes a review of the pension plan's assets and liabilities, projected over a long time horizon, and adjusts the asset mix based on the results of the review. Effective February 1, 2020, we approved changes to the asset mix for pension fund investments. The main changes are increased allocations to fixed income and real assets, and decreased allocations to public equities. We also approved BCI taking advantage of favourable borrowing costs to invest in assets that diversify the portfolio and provide downside protection. These changes help the plan stay well positioned to withstand market downturns.

The latest valuation is nearly complete and will be a vital tool in helping us govern the plan over 2021–2024. An independent actuary completes a valuation at least once every three years by examining the plan's assets, liabilities, demographics, investments and other economic factors. Each valuation provides us with a clear picture of the plan's ability to pay pensions, and we use it as a base on which to make informed decisions. Watch for the 2020 valuation report on the plan website in January 2021.

Another way we govern the plan is by proactively managing non-guaranteed retirement benefits. Every fall, we examine the changes to the Canadian consumer price index and decide whether to grant inflation adjustments to retired members and, if so, by how much. We also review the design of the plan's optional extended health care and dental benefits program for retired members from time to time. We do this because, over time, the plan demographics, program usage and costs change, so we want to ensure we offer the best value possible with the funds available.

Lastly, we are pleased to report that we joined a United Nations–supported organization called Principles for Responsible Investment (PRI) in June 2019. We are committed to upholding the principles of this organization and are developing guidelines for how we will participate in future PRI initiatives. For more information, please visit the plan website.

Plan members can have confidence their pensions are secure and will be there for them when they retire, both now in and in the future. The Public Service Pension Plan is over 80 years old and has seen several significant market changes over the decades. We have overcome all, learning from each experience and refining our collective expertise to help steer the plan through whatever lies ahead.

Who we are

The plan is jointly sponsored, managed by trustees appointed by the employer partner (Government of BC) and the member partner (BC Government and Service Employees' Union). The trustees themselves appoint a chair and vice-chair.

The board appoints trustees to serve as directors of the BC Pension Corporation, the plan's administrative agent, and BCI, the plan's investment agent.

During the fiscal year, David Vipond and Chan-Seng Lee served as directors of BC Pension Corporation, and Paul Finch served as a director of BCI.

Learn about the trustees and their backgrounds at pspp.pensionsbc.ca/board-trustees.

The Public Service Pension Board of Trustees

As at March 31, 2020

Back row, left to right: Troy Clifford, Chan-Seng Lee, Lawrence Johnson, Paul Finch, Harpinder Sandhu, Kelly Wheeler.

Middle row, left to right: Tom Vincent, Angie Sorrell, Wanda Boden, Tiffany Ma, Maria Middlemiss

Front row, left to right: Alyson Blackstock with her daughter and future plan member, and David Vipond.

Not shown: Doug Dykens

Plan highlights

The plan by the numbers (as at March 31, 2020)

YEAR AT A GLANCE ($ MILLIONS)

33,072	+	1,094	+	802	–	1,256	–	89	=	33,623
Net assets April 1, 2019		Investment income		Contributions		Benefits payments		Investment and administration		Net assets March 31, 2020

INVESTMENTS

TOTAL PLAN NET ASSETS

$33.6 billion

INCREASE IN NET ASSETS

$551 million

RATES OF RETURN

3.1%
Annual

8.7%
Ten-year annualized

PERFORMANCE BENCHMARKS

(0.4)%
Annual

7.1%
Ten-year annualized

MEMBERSHIP

TOTAL 137,745

INACTIVE 19,967

RETIRED 50,956

ACTIVE 66,822

FEMALE 52%
MALE 48%

RETIREE AVERAGES

20 years
Pensionable service (new retirees)

61 years
Retirement age (new retirees)

$19,008
Median pension in pay (all retirees)

Investments

Performance over time

Plan investments matter

Investment income makes up about three of every four dollars a member of the plan receives in retirement. The rest comes from member contributions and employer contributions. Responsible for the plan's financial health, the board aims for sound long-term investment performance. It oversees the management of plan assets through British Columbia Investment Management Corporation (BCI), the plan's investment manager, which works as an agent of the board.

Report on 2019/20 investment results

For the fiscal year ended March 31, 2020, the plan grew by $0.5 billion to $33.6 billion. The plan's investment portfolio returned 3.1 per cent net of fees, exceeding its benchmark return of –0.4 per cent. The plan also exceeded its long-term actuarial return objective of 6.25 per cent, earning 6.3 per cent over five years, and 8.7 per cent over a 10-year period.

The plan's combined public equities portfolio earned –7.0 per cent, meeting the benchmark. In the first three months of 2020, public equity portfolio values were down on an absolute basis as global equities entered their first bear market since the global financial crisis of 2008 on account of the COVID-19 pandemic. Canadian equities, in particular, were affected by both pandemic containment efforts and collapsing oil prices. Canadian equities returned –13.9 per cent, above the benchmark return of –14.2 per cent, and global equities returned –4.0 per cent, above its benchmark of –4.2 per cent.

The plan's emerging markets portfolio significantly outperformed, returning –11.2 per cent against a benchmark of –12.3 per cent; this was driven by outperformance in the Active Emerging Markets Equity Fund.

The combined fixed income portfolio, which includes money market, bonds and mortgages, earned 4.0 per cent in the fiscal year, exceeding the benchmark return of 2.5 per cent. This outperformance can be attributed to strong performance relative to benchmark from Canadian Universe Bonds, which comprised the majority of the fixed income allocation.

CELEBRATING LONG-TERM SUCCESS

The Public Service Pension Plan is looking forward to celebrating two major milestones in 2021. First, the plan will achieve 20 years of joint trusteeship. Second, 2021 marks 100 years of public sector pension plans in BC. The Public Service Pension Plan, along with the College, Municipal and Teachers' pension plans, has helped to support working British Columbians build our province into what it is today.

Canada is home to some of the world's most admired and successful public pension plan organizations, and the Public Service Pension Plan is proud to contribute to Canada's pension success story.

Private markets outperformed through the year, but valuations do not yet reflect the material impact of the COVID-19 crisis. The sharp decline of the Canadian dollar has also provided a significant boost to foreign currency-denominated private market assets. Private equity delivered strong performance, earning 27.4 per cent relative to a benchmark return of –3.4 per cent. The combined real estate portfolio returned 5.3 per cent, outperforming the benchmark return of 5.5 per cent. Market conditions for Canadian industrial and residential apartment properties were strong in 2019, with national vacancy rates at historically low levels. In 2020, the portfolio benefited from low exposure to retail, which was the hardest hit by the COVID-19 crisis.

Infrastructure and renewable resources significantly outperformed in the year, returning 8.5 per cent against a benchmark of 7.0 per cent. The portfolio is well positioned as half of the assets are invested in regulated utilities, which provide essential services and provide relatively reliable revenue, limited transportation exposure and almost no oil exposure.

Investment performance—market value rates of return
for the year ended March 31

(All values %)	Year	Investment returns	Performance benchmark[1]
Annual rates	**2020**	**3.1**	**(0.4)**
	2019	6.2	5.8
	2018	9.8	8.0
	2017	12.8	12.2
	2016	0.0	(0.2)
Five-year annualized rates	**2020**	**6.3**	**5.0**
	2019	8.5	7.6
Ten-year annualized rates	**2020**	**8.7**	**7.1**
	2019	9.9	8.8

1 Benchmarks are standards to compare against actual investment returns.

PSPP retired member
Barry Almond

Five-year financial summary ($ millions)
for the year ended March 31

	2020	2019	2018	2017	2016
Increase in assets					
Investment income	**$ 1,094**	$ 1,993	$ 2,906	$ 3,381	$ 45
Contributions					
Employers	**432**	401	375	353	338
Members	**359**	332	318	308	285
Transfers from other plans	**11**	10	12	21	8
Total increase in assets	**1,896**	**2,736**	3,611	4,063	676
Decrease in assets					
Pension benefits	**1,121**	**1,062**	1,092	962	917
Termination benefits	**97**	80	81	76	84
Transfers to other plans	**14**	14	9	12	10
Retired member group benefits	**24**	22	21	21	22
Investment and administration costs[1]	**89**	85	95	68	64
Total decrease in assets	**1,345**	**1,263**	1,298	1,139	1,097
Increase (Decrease) in net assets	**551**	1,473	2,394	2,924	(421)
Net assets available for benefits at beginning of year	**33,072**	31,599	29,205	26,281	26,702
Net assets available for benefits at end of year	**$33,623**	$33,072	$31,599	$29,205	$26,281
Investment and administration costs as a percentage of net assets[1]					
Investment management[1,2]	**0.37**	0.30	0.36	0.25	0.23
Benefits administation	**0.07**	0.08	0.06	0.06	0.06

1 Investment costs as a percentage of net assets include certain external investment management costs totalling $60.3 million (2019 — $37.4 million; 2018 — $31.8 million; 2017 — $18.4 million; 2016 — $11.7 million) that are netted against investment income; they are not included in investment and administration costs in the financial statements. Included in the 2017 through 2020 external investment management costs are certain costs that were not captured in 2016.

2 Investment and administration costs as a percentage of net assets exclude external indirect investment management costs netted against investment income. This is consistent with current industry practice; including these costs increases investment management costs as a percentage of net assets by 36 basis points in the 2020 fiscal year. External indirect investment management costs include limited partnership costs incurred within investments held in the private equity, infrastructure and global real estate asset classes.

Market outlook for 2020/21

The plan holds a long-term investment perspective. While market declines such as the one recently experienced due to the COVID-19 pandemic are unsettling, the plan's disciplined approach and diversified portfolio significantly helped to mitigate the impact.

In the near term, uncertainty surrounding the economic impact of the COVID-19 pandemic will remain elevated. Social distancing measures and worldwide lockdowns have severely curtailed economic activity. The focus for world leaders is on developing a path to normalization that balances speed with safety. Global central banks have responded to the economic disruption swiftly and on a large scale, which has helped support global equities and the functioning of markets.

BCI continues to focus on safeguarding clients' assets through risk management, and by expanding and diversifying investment strategies and internalizing asset management. BCI believes these measures will support the plan in meeting its long-term return objectives and will build sustainable wealth for plan members.

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Risk management

The board oversees the investment strategy and overall framework for the management of the plan's assets as outlined in the Statement of Investment Policies and Procedures. The board approves the strategic asset allocation policy, recognizing the importance of taking a long-term investment perspective.

Investments are held across a range of asset types (fixed income; mortgages; public and private equity; real estate; infrastructure and renewable resources), industry sectors and global markets, as diversification is a key principle in managing risk. The board oversees the management of the plan's assets through its investment manager, BCI.

Risk management is a fiduciary responsibility of the board and BCI. The actions of anticipating risk and taking appropriate steps to limit exposure or capitalize on opportunities are essential to BCI's business plan and risk-management activities.

Responsible investing

Responsible investing is an integral part of the plan's investment approach. The plan and BCI believe that assessing and managing risk over the long term—the cornerstone of responsible investing—is a fundamental way to meet their mandate to grow and protect the value of the plan's fund. Taking environmental, social and governance matters (ESG) into account enables BCI, as an investor, to better understand, manage and mitigate risks associated with long-term investments. BCI believes companies that employ robust ESG practices are better positioned to generate long-term value for investors than similar companies with less-favourable practices.

As an active owner, BCI monitors ESG factors and engages with companies to raise awareness that good corporate governance is the overarching framework for effective management of risk. ESG considerations are integrated into investment analysis, decisions and processes. BCI uses its influence as a shareholder to encourage companies to manage and report on ESG risks.

Collaborating with like-minded investors and organizations to enhance governance practices and standards is important to the board. BCI and the Public Service Pension Plan are signatories to Principles for Responsible Investment (PRI), an international network of investors coordinated by the United Nations that share the goal of incorporating ESG elements into the processes and activities of institutional investors. BCI and the board's approach for responsible investing is aligned with PRI, which provides a set of principles for institutional investors to consider as they integrate ESG factors into their investment processes and analysis, ownership activities and interactions with long-term investors.

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In addition, the board supports BCI's participation as an active member and contributor to a number of responsible investing initiatives. For example, BCI is a member of the steering committee for the 30% Club, which advocates for companies to enhance gender diversity, and the Sustainability Accounting Standards Board, which has a mandate to promote standards of sustainability reporting.

Plan members can learn more about ESG activities on the BCI website at bci.ca.

Climate change continues to be a growing concern for the board, plan members and global investors. BCI's four-part Climate Action Plan helps position the fund's assets to mitigate the associated physical and investment risks, while capitalizing on investment opportunities arising from the gradual transition to a lower-carbon economy. By measuring the exposure to climate-related risks, assessing market trends and managing investments, BCI is able to mitigate clients' climate change risk.

BCI's four-part Climate Action Plan helps position the fund's assets to mitigate the associated physical and investment risks, while capitalizing on investment opportunities arising from the gradual transition to a lower-carbon economy.

Investment asset mix

Recognizing the importance of taking a long-term investment perspective, the board approves the plan's strategic asset allocation policy. At the board's September 2019 meeting, a new long-term policy asset mix was chosen through an asset liability review the board undertakes every three years. The plan's new asset mix policy reflects a continued focus on real assets such as land, buildings, infrastructure, regulated utilities, renewable resources and private market assets, such as private equity. These assets typically provide capital appreciation, income, and inflation protection and are ideally suited for the long-term financial objectives of the plan.

Top 25 company holdings
as at March 31, 2020

Company	% of public equity	Total exposure ($ millions)
Tencent Holdings Ltd.	0.9	102
Toronto-Dominion Bank	0.7	86
Royal Bank of Canada	0.7	84
Samsung Electronics Co. Ltd.	0.7	78
Taiwan Semiconductor Manufacturing	0.6	67
Microsoft Corporation	0.5	59
Brookfield Asset Management Inc.	0.4	53
TC Energy Corporation	0.4	43
Mastercard Inc.	0.4	43
Canadian Pacific Railway Ltd.	0.3	42
Apple Inc.	0.3	40
Amazon.com Inc.	0.3	39
Constellation Software Inc./Canada	0.3	37
Canadian National Railway Co.	0.3	37
AIA Group Ltd.	0.3	35
Iberdrola SA	0.3	35
Alimentation Couche-Tard Inc.	0.3	35
Roche Holding AG	0.3	34
Fidelity National Information Services Inc.	0.3	33
UnitedHealth Group Inc.	0.3	33
SAP SE	0.3	32
Shopify Inc.	0.3	31
CVS Health Corporation	0.2	29
Franco-Nevada Corporation	0.2	28
Electronic Arts Inc.	0.2	28
Total top 25	**9.8**	**1,163**
Total Public Equity		11,907
Total Portfolio		**33,623**

Investment asset mix
as at March 31, 2020
(all values %)

Asset class	Approved range	Target allocation	Actual allocation	Portfolio one-year return	Benchmark one-year return
Short–term	0–10	2	2.3	6.4	5.6
Universe bonds	5–35	22	22.0	5.8	4.5
Corporate bonds	0–10	2	3.1	1.2	(1.8)
Private debt	0–10	3	2.7	4.4	1.1
Mortgages	0–10	4	4.2	4.9	5.3
Combined fixed income	**15–55**	**33**	**34.4**	**4.0**	**2.5**
Canadian equities	0–10	5	4.5	(13.9)	(14.2)
Global equities	10–30	24	22.7	(4.0)	(4.2)
Emerging markets equities	0–12	9	8.2	(11.2)	(12.3)
Combined public equity	**10–52**	**38**	**35.4**	**(7.0)**	**(7.0)**
Private equity	**5–25**	**12**	**13.3**	**27.4**	**(3.4)**
Real estate	**10–25**	**16**	**15.6**	**5.3**	**5.5**
IRR[1]	**5–20**	**11**	**11.7**	**8.5**	**7.0**
Leverage and cash	**n/a**	**(10)**	**(10.4)**	**n/a**	**n/a**
Total		**100**	**100**	**3.1**	**–0.4**

1 Infrastructure and renewable resources.

PSPP active member
Robyn Thompson

Investment portfolio

Investments consist primarily of ownership in units of pooled investment portfolios, which are reviewed based on the fair market value of the underlying assets. The remainder consists of directly held investments.

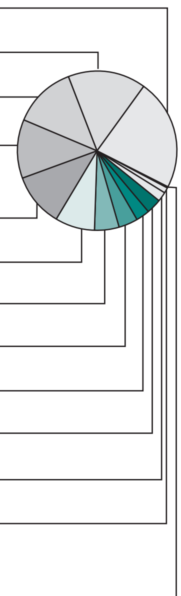
Investment portfolio
as at March 31, 2020

	Market value ($ millions)	**Asset mix market value** (%)
Fixed income		
Money market	$ 605	1.8
Short-term bonds (1–5 years)	162	0.5
Canadian bond universe	3,514	10.5
Leveraged bonds	3,892	11.6
Corporate bonds	1,054	3.1
Mortgages	1,418	4.2
Private debt	911	2.7
Fixed income	**11,556**	**34.4**
Public equity		
Canadian equities	1,517	4.5
Global equities	7,627	22.7
Emerging equities	2,763	8.2
Public equity	**11,907**	**35.4**
Private equity	**4,474**	**13.3**
IRR[1]	**3,929**	**11.7**
Real estate	**5,241**	**15.6**
Leverage and cash	**(3,483)**	**(10.4)**
Total Fund	**$33,623**	**100.0**

1 Infrastructure and renewable resources.
Note: Total includes net derivatives and net receivable and payable for investment trades.

Investment holdings—market value
($ billions)
as at March 31, 2020

Global equities	$7.6	23%
Real estate	$5.2	16%
Private equity	$4.5	13%
IRR[1]	$3.9	12%
Canadian bond universe	$3.5	11%
Emerging equities	$2.8	8%
Canadian equities	$1.5	5%
Mortgages	$1.5	4%
Corporate bonds	$1.1	3%
Private debt	$0.9	3%
Money market	$0.6	2%
Leveraged bonds[2]	$0.4	1%
Short-term bonds (1–5 years)	$0.2	1%



1 Infrastructure and renewable resources.
2 Including leverage and cash

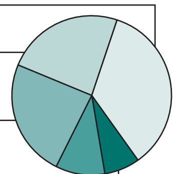
Managing costs

BCI operates on a cost-recovery, not-for-profit basis. Its large asset size provides access to substantial economies of scale. Managing investment costs is important to the board, and BCI's fees continue to be lower than those available in the private sector. The board focuses on overall net returns, as these returns contribute to the plan's long-term sustainability.

Select asset class investments

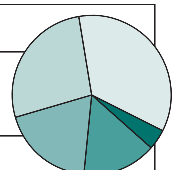
Real estate, by type (%)
as at March 31, 2020

Office	35
Residential	24
Industrial	24
Retail	10
Other	7



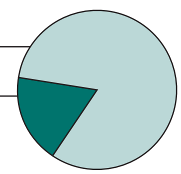
Real estate, by location (%)
as at March 31, 2020

International	35
Ontario	27
British Columbia	19
Alberta	15
Rest of Canada	4



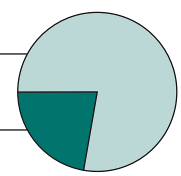
Infrastructure and renewable resources (%)
as at March 31, 2020

Infrastructure	82
Renewable resources	18

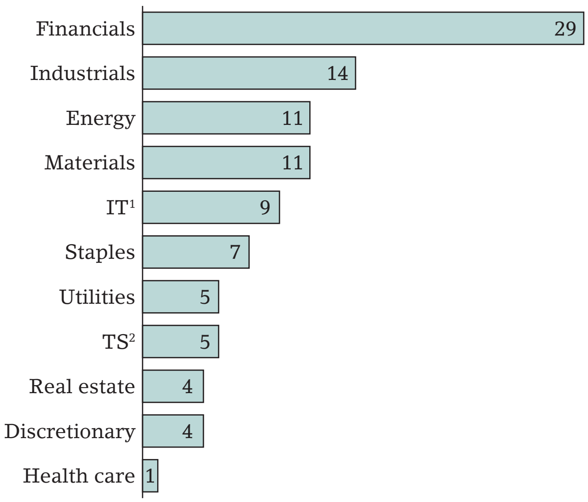


Bonds—market value (%)
as at March 31, 2020

Government	78
Corporate	22

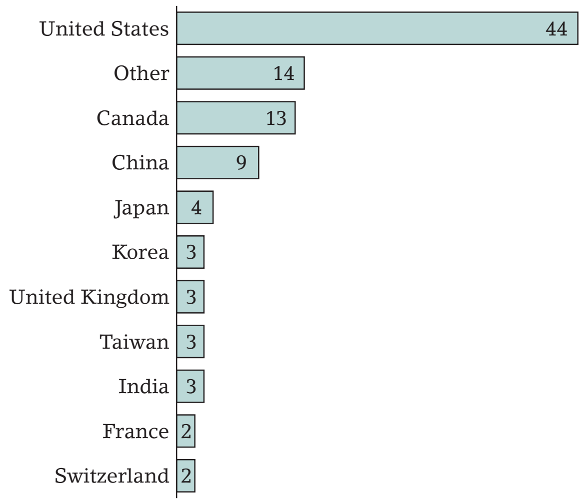


Canadian equities, by sector (%)
as at March 31, 2020

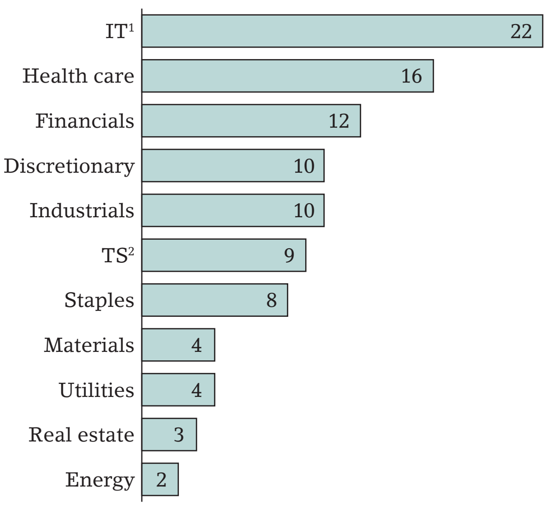


1 Information technologies.
2 Telecommunication services.

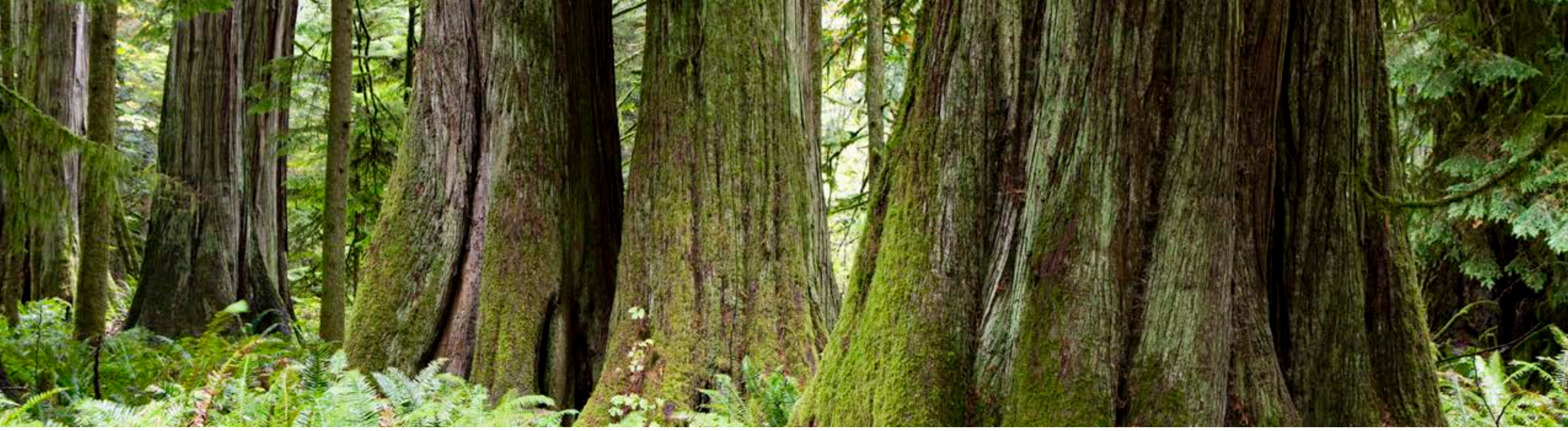
Equities, by country (% of public equity)
as at March 31, 2020



Global equities, by sector (%)
as at March 31, 2020



1 Information technologies.
2 Telecommunication services.



Benefits and contributions

In the Public Service Pension Plan, a lifetime pension is based on a calculation that uses a member's age, their years of pensionable service, and the average of the best five years of their salary (not necessarily the last five years).

The plan is pre-funded, which means enough money is set aside through contributions and investments to pay lifetime pensions now and into the future. Once members make their first contribution, they are entitled to a pension at their earliest retirement age. The plan also provides survivor and disability benefits.

Contributions

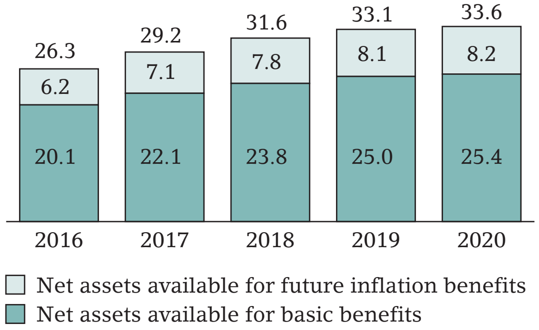
Active members contribute to the plan through automatic payroll deductions. Employers and members make pension contributions to the basic account and inflation adjustment account (IAA). Members stop contributing to the plan if they

- end employment,
- reach 35 years of pensionable service,
- retire, or
- begin to receive benefits from an approved group disability plan.

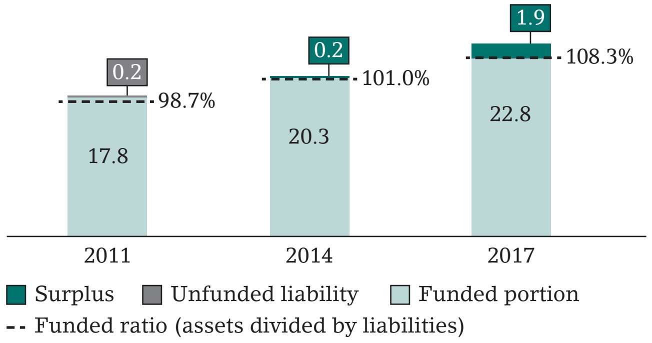
Funding ratios 2011 to 2017 (%)

Year	Ratio
2017	108.3
2014	101.0
2011	98.7

Net assets available for benefits ($ billions) as at March 31



Funding of the total basic benefit liability ($ billions) as at March 31



Contributions[1] (% of salary)

Rates effective April 1, 2018

	Account	Member	Employer
	Basic[2]	7.10	7.10
	IAA[3]	1.25	2.75
	Total	8.35	9.85

Rates effective from April 1, 2012 to March 31, 2018

	Account	Member	Employer
Below YMPE[4]	Basic[2]	6.68	6.68
	IAA[3]	1.25	2.75
	Total	7.93	9.43
Above YMPE[4]	Basic[2]	8.18	8.18
	IAA[3]	1.25	2.75
	Total	9.43	10.93

1 Rates apply to most members, excluding groups with higher contribution rates (correctional members, emergency health workers, some statutory officers, judges, members of the legislative assembly and masters of the court).

2. Members and employers both contribute to the basic account to provide for member pensions.

3. Inflation adjustment account (IAA). Members and employers also contribute to the IAA to provide for inflation adjustments. Inflation adjustments are not guaranteed. Retirement group health benefits are partially funded from a portion of employer contributions, which would otherwise go to the IAA, and partially funded from benefit premiums paid by plan members.

4. Year's maximum pensionable earnings (YMPE). The YMPE is a salary limit set each year by the federal government, and Canada Pension Plan contributions cannot be made on earnings above YMPE. The YMPE for 2020 was $58,700.

Beyond the lifetime pension benefit

As at March 31, 2020, the average annual pension in pay is $22,762, and the median is $19,008. Figures are gross amounts; they indicate all pensions in pay and include bridge and temporary annuities.

Pensions 2016–2020
for the year ended March 31

	Public Service			($ millions)		
	New pensions during year	Pension terminations	In force at end of year	Basic pensions paid	Inflation supplements paid	Total pensions paid
2020	**2,431**	**1,021**	**50,956**	**$938.4**	**$182.9**	**$1,121.3**
2019	2,575	921	49,546	893.9	167.8	1,061.7
2018	2,510	900	47,892	852.3	158.2	1,010.5
2017	2,466	1,050	46,282	809.6	152.3	961.9
2016	2,385	907	44,866	768.6	147.9	916.5

Average value of new pensions by years of service and age
for the year ended March 31, 2020

		Average amount		
Years of service[1]	Number of new pensions	Annual salary base	Annual lifetime pension[2]	Median annual lifetime pension[2]
< 10 years	472	$68,400	$5,000	$4,000
10 < 15	337	70,100	12,700	10,900
15 < 20	279	70,200	17,700	15,100
20 < 25	340	72,600	22,900	20,600
25 < 30	509	73,600	29,000	25,100
30 < 35	301	72,700	34,700	29,300
≥ 35 years	193	73,800	35,100	30,700
Total	**2,431**	**n/a**	**n/a**	**n/a**
Average				
All new lifetime pensions		**$71,200**	**$21,100**	**$18,700**
Age	61			
Years of service	20			

1 Years of service includes service transferred from other plans.
2 Does not include value of bridge benefits. Members receive the bridge benefit until they turn 65, or die, whichever comes first. For service accrued on or after April 1, 2018, the bridge benefit will not apply.

Additional components and service options

Beyond the lifetime pension, several non-guaranteed components and service options are available to members.

Inflation adjustments in retirement

Inflation adjustments help our retired members' pensions keep pace with increases in the cost of living. Providing future inflation adjustments is not guaranteed. Inflation adjustments are granted only when enough funds are available in the inflation adjustment account (IAA).

Both active members and employers contribute to the IAA. Part of employers' contributions, up to a fixed proportion, helps pay for retirement group health benefits. The remaining contributions are deposited into the IAA and, together with active members' contributions and investment returns, pay for inflation adjustments.

Once an inflation adjustment is granted to retired members, it becomes part of their lifetime pension. For members receiving the bridge benefit, previous indexing of the bridge benefit ends at the same time as their bridge benefit, at age 65 or death (whichever comes first).

For service accrued on or after April 1, 2018 (April 1, 2020, for ambulance paramedics), the bridge benefit does not apply.

Retirement health benefits

The Public Service Pension Plan provides access to group coverage, including extended health care (EHC) and group life insurance. Coverage is not guaranteed. This means the board may change coverage and subsidies at any time.

The plan subsidizes a portion of the premiums for retired members' EHC, and the amount depends on the member's pensionable service. The subsidies are funded by a small portion of employers' contributions that would otherwise go to the IAA.

The plan does not subsidize EHC premiums for spouses and dependants of retired members. Each retired member must pay the full premium for any EHC and dental coverage they choose for their spouse or dependants.

The plan does not subsidize dental premiums. Each retired member choosing to participate must pay their full premium for dental coverage.

The plan may also pay group life insurance subsidies for retired members under age 65 who had access to the group life insurance plan through their employer when they were active employees.

PSPP retired member
Valeria Azevedo

Termination and refund benefits

Members who leave the plan, but have not yet reached the earliest retirement age, may choose one of the following:

- Defer their pension
- Transfer the commuted value of their pension (the minimum value is their contributions plus interest) to a locked-in retirement account or similar tax-deferred plan

If members leave the plan having reached their earliest retirement age, they may choose one of the following:

- Defer their pension
- Take an immediate pension (which may be reduced)

Service transfers

When moving to an employer with a different pension plan, members may be able to transfer their service if a transfer agreement is in place between the pension plans. However, it may be in the best interest of members in this situation to leave their benefit in the Public Service Pension Plan, as they may be eligible to receive a lifetime pension when they reach their earliest retirement age.

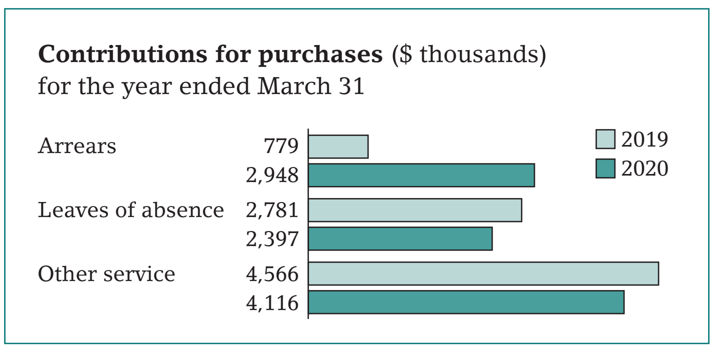
Service purchases

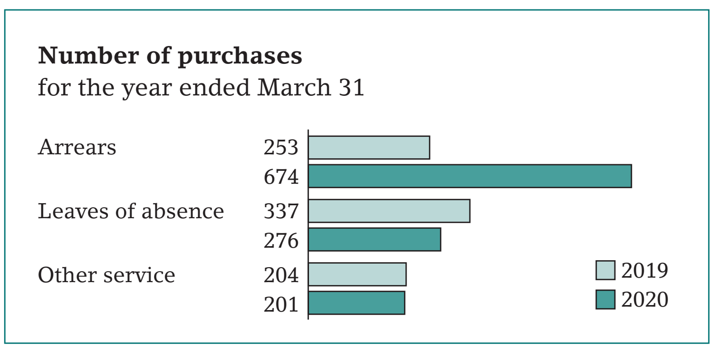
Members may be able to increase their future pension by buying service—paying for periods of employment not already counted as service with the plan. Examples include:

- Leaves of absence (such as pregnancy, parental, compassionate care and general leaves)
- Arrears contributions (occurring if a member was not enrolled properly or if their contributions were not deducted and remitted)
- Time worked for an employer before the employer joined the plan
- Non-contributory service (employment service with a plan employer from before an employee became a member)

Depending on the type of service they choose to buy, members may be responsible for paying both the employee and employer portions, or just the employee portion. For more information on buying service, visit the plan website.

For the fiscal year ended March 31, 2020, there were 1,151 purchases of service with a total contribution of about $9.7 million. This is an increase from 2019, where there were 794 purchases of service with a total contribution of about $8.1 million.





Temporary annuities
Members can buy an optional temporary annuity (additional monthly payment) to increase their monthly income until age 65 or death, whichever comes first. If members do buy a temporary annuity, their basic lifetime pension income after age 65 will be lower than it would be if they did not buy the annuity. Members who retire at an earlier age will pay a higher amount for the temporary annuity.

In 2019, the board created a new half temporary annuity option. Members may choose this option because the temporary monthly payments are half of the full temporary annuity payments, meaning they will incur a smaller decrease in their lifetime pension income. This option is based on half of the maximum old age security pension and is payable to age 65 or death.

Services and communications

Plan website and My Account
The plan website is an excellent source of pension plan information, providing the resources and tools members need to make the most of their plan.

Members can sign in to My Account on the plan website for instant access to their personal pension information. My Account offers members personalized pension and purchase cost estimators to help with their planning, service and salary summaries, the ability to update their beneficiary information, and the ability to apply for their pension online once they are ready to retire. Members can now opt in to paper-free communications through My Account. This option will allow them to receive important notifications and pension information online.

Member services
Some aspects of pension and retirement planning can be tricky. In cases where members need more personalized support, the plan has skilled staff available by phone and email to assist members with issues like marital breakdowns, the death of a spouse, retirement planning questions, employment transfers and more.

Pension communications
The plan's website offers members a wealth of information and access to educational and transactional content. Members can learn about different features of their pensions and initiate services online through My Account. New information is added regularly.

Starting in spring 2020, members can now choose to go paper-free and receive their pension information online. The option to select paper-free communications is available through My Account, and more online options will be included over time.

PSPP active member
Christina Nuttall

Member workshops

Educational resources for plan members include the online introduction *Getting to Know Your Pension* and two workshops: *Making the Most of Your Pension* and *Approaching Retirement*. Designed to help educate members at all career stages, these online workshops make important information available to members at their convenience.

PSPP active member
Scott Taylor

Plan participants

The people and organizations in the plan

Members

Membership in the plan is open to all eligible employees of the provincial public service or other employers approved by the board. Once an employee begins contributing to the plan, contributions will continue as long as the member remains with a plan employer or until they have completed 35 years of pensionable service.

As at March 31, 2020, the number of active plan members had an annual increase of 3.91 per cent, while the number of retired members increased by 2.85 per cent.

MEMBER CATEGORIES

Active

Currently contributing (or no longer contributing because they have earned 35 or more years of pensionable service), receiving benefits from an approved group disability plan or on an approved leave of absence

Limited

Spouse or ex-spouse who applied to the plan following separation or divorce from a member and who is entitled to a portion of the member's benefit

Inactive

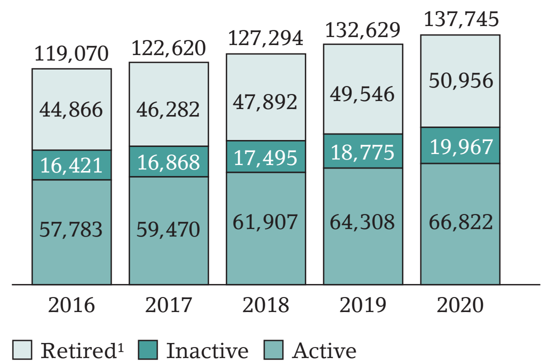
Ended employment but left their benefit in the plan

Retired

Receiving a pension, including a disability benefit

Total membership profile

as at March 31

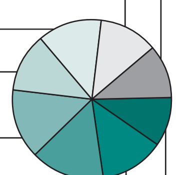


1 Limited members are included within the retired member category when they retire and claim a portion of an active or inactive member's pension benefit.

Age profile of active members

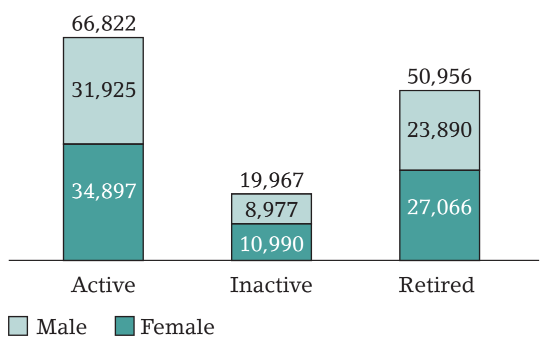
as at March 31, 2020

< 30 years	7,328	11%
30 < 35 years	7,972	12%
35 < 40 years	8,674	13%
40 < 45 years	8,137	12%
45 < 50 years	9,048	14%
50 < 55 years	9,877	15%
55 < 60 years	8,949	13%
≥ 60 years	6,837	10%



Gender profile of members[1]

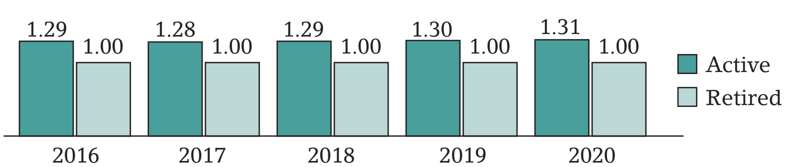
as at March 31, 2020



1 Current data includes male and female gender designations only. Data for the X gender designation will be collected starting fall 2020.

Ratio of active to retired members

as at March 31



New enrolments and average enrolment age, comparing 2008 to 2020
as at March 31

Age	2008 new enrolments	2008 average enrolment age	2020 new enrolments	2020 average enrolment age
Under 25	549	23	477	23
25 < 30	764	27	985	28
30 < 35	574	32	852	32
35 and over	1,809	44	2,084	45
Total	**3,696**	**37**	**4,398**	**36**

Average enrolment age
as at March 31

Age	2008	2011	2014	2017	2018	2019	2020
Under 25	23	23	23	23	23	23	23
25 < 30	27	27	28	28	28	27	28
30 < 35	32	33	32	32	32	32	32
35 and over	44	46	46	45	45	45	45
Average (overall)	**37**	**37**	**37**	**36**	**36**	**36**	**36**

New enrolments (%)
as at March 31

Age	2008	2011	2014	2017	2018	2019	2020
Under 25	10	11	12	11	10	9	11
25 < 30	20	23	21	22	23	21	22
30 < 35	17	16	17	20	20	22	19
35 and over	53	50	50	47	47	48	47
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Employers

As at March 31, 2020, the plan has more than 90 employers. For a complete list, see Appendix on page 70.

Governance

Board activities and responsibilities

Trustee activities

During the fiscal year ended March 31, 2020, the board and its committees undertook several significant initiatives to position the plan for the future while continuing to govern effectively in the present. In addition to the oversight of plan investments, the board:

- Responded to concerns about the impact of COVID-19 on pensions and post-retirement group health benefits.
- Launched plan design changes for ambulance paramedics in CUPE Local 873, effective April 1, 2020. These plan design changes move these members to a flat accrual rate and provide them with the ability to retire at age 50 regardless of service (reduction factors apply).
- Welcomed Helen McArthur as the new executive director of the Public Service Pension Plan. McArthur has extensive experience in pension administration both from her time in the United Kingdom and while developing several key initiatives at BC Pension Corporation.
- Approved an inflation adjustment increase of 1.9 per cent to pensions in pay, effective January 1, 2020. This helps retired members to maintain the purchasing power of their pensions.
- Broadened the criteria for approved group disability plans. An approved group disability plan allows the member to accrue service for the period of the disability, rather than receiving a disability pension.
- Appointed representatives to the Canadian Public Pension Leadership Council (CPPLC). The CPPLC is a non-partisan group of public sector pension plan senior administrators from across Canada who work to inform the debate about retirement income security in Canada using evidence-based research.
- Became an asset owner signatory to the United Nations–supported Principles of Responsible Investment.
- Approved revisions to the terms and conditions of new employer eligibility to join the plan. These revisions allow new and current private sector plan employers, who provide services to an employer who serves a public purpose (such as a municipality), to join the plan or expand their terms and conditions.

Lastly, the board is pleased to welcome to the plan the following employers and their eligible members. Welcome to:

- BC Family Maintenance Agency Ltd.
- BC Infrastructure Benefits Inc.
- British Columbia Financial Services Authority
- Kw'umut Lelum Child and Family Services Society
- NIL/TU,O Child and Family Services Society
- NTT DATA BCU, Inc.
- Real Estate Council of British Columbia

Trustee attendance

		Committees																
	Board meeting	Benefits	PRGB (Sub)	Communications	Governance	Governance risk working group	Responsible investment	IP audit	IP exec/IP coordination	IP investment	IP trustee education	Executive forum	BC Public Sector Pension Conference	Board hiring panel	Attended	Eligible	%[1]	Other[2]
Days	9.5	3	1.5	3	2	1	1.5	3	3	3	1.5	1	2	1.5	36.5			
Alyson Blackstock	9.5	3	1.5	—	—	—	—	—	—	—	—	—	1	1.5	16.5	17.5	94	2
Wanda Boden	9.5	3	—	—	—	—	—	3	—	—	—	—	2	—	17.5	17.5	100	2.5
Troy Clifford	7.5	3	—	1	—	—	0	—	—	—	1	—	2	—	14.5	20.5	71	2
Doug Dykens	6.5	2	—	—	1.5	—	—	—	—	—	—	—	2	—	12	16.5	73	—
Paul Finch	8	1		3									2		14	17.5	80	1
Lawrence Johnson	9.5	3	1.5	3	2	—	—	—	—	3	—	—	0	—	22	24	92	0.5
Chan-Seng Lee	9.5	2	—	—	—	—	—	—	—	1	—	—	2	—	14.5	17.5	83	—
Tiffany Ma	6.5	3	—	0	—	—	—	—	—	—	—	—	0	—	9.5	15.5	61	—
Maria Middlemiss	9.5	3	—	3	2	—	—	—	—	—	—	—	2	—	19.5	19.5	100	—
Harpinder Sandhu	9.5	2	—	2	—	—	1.5	—	—	—	—	—	2	1.5	18.5	20.5	90	2.5
Angie Sorrell	9.5	3	1.5	3	2	1	1.5	—	—	—	—	—	2	—	23.5	23.5	100	1
Tom Vincent	9.5	3	1.5	—	2	1	1.5	—	3	3	1.5	0	2	—	28	29	97	—
David Vipond	7.5	3	1	—	—	—	—	—	2.5	—	—	1	2	1.5	18.5	21.5	86	1
Kelly Wheeler	8.5	2	—	—	2	1	—	3	—	—	—	—	0	—	16.5	20.5	80	—

1 Attendance statistics include regular board, committee, sub-committee and working group meetings, the BC Public Sector Pension Conference and board hiring panel meetings.

2 "Other" meetings are remunerated meetings for education, orientation or for the trustee to attend as a guest. They are not included in attendance statistics and are reported for transparency.

Trustee remuneration

Trustees are compensated by the plan for their time spent on board business. Remuneration guidelines and rates are set out in the Public Service Pension Board of Trustees Remuneration Policy. Trustees receive remuneration directly if they are not paid for time spent on board duties from any other organization. If they are reimbursed from another organization, they may request the remuneration be paid to the other organization. Trustee remuneration may be adjusted annually under board policy by an amount equal to the inflation adjustment made to pension payments.

Expenses related to trustee attendance at educational events and at meetings to conduct board business are reimbursed within board policy limits.

Trustee remuneration rates[1]

	April 1, 2019 to December 31, 2019	January 1, 2020 to March 31, 2020
Annual retainers ($ per year)		
Board member	$ 5,328	$ 5,428
Board chair	15,984	16,288
Vice-chair	10,656	10,860
Committee chair	5,328 + 2,132	5,428 + 2,172
per committee to a maximum of[2]	9,592	9,722
Travel retainer[3]	1,068	1,088
Meeting fee ($ per meeting)	421	428

1 Trustees are remunerated by the plan for time spent on board business; remuneration guidelines and rates are set out in the Public Service Pension Board of Trustees Remuneration Policy effective January each year.

2 For committees scheduled to meet at least three times per year.

3 For trustees who regularly travel four or more hours (one way) to attend meetings.

PSPP active member
Sandy Bojechko

Board member remuneration
for the year ended March 31, 2020

Board member	Meeting fee	Retainer	Payment	Remuneration paid to
Alyson Blackstock	$ 6,971.00	$ 5,353.00	$ 12,324.00	BC Public Service Agency
Wanda Boden	7,816.50	6,606.67	14,423.17	Ministry of Finance
Troy Clifford	6,329.00	6,426.00	12,755.00	Board member
Douglas Dykens	4,631.00	5,353.00	9,984.00	BCGEU
Paul Finch	4,859.00	5,353.00	10,212.00	BCGEU
Lawrence Johnson	9,097.00	7,495.00	16,592.00	Board member
Chan-Seng Lee	6,118.50	5,353.00	11,471.50	Partnerships BC Inc. ($6,118.00) Board member ($5,353.00)
Tiffany Ma	3,592.50	5,353.00	8,945.50	Ministry of Finance
Ron McEachern	842.00	-	842.00	Board member
Maria Middlemiss	8,458.50	5,353.00	13,811.50	BCGEU ($11,122.50) Board member ($2,689.00)
Johanna Morrow	631.50	-	631.50	Board member
Harpinder Sandhu	7,823.50	5,353.00	13,176.50	Canadian Union of Public Employees ($1,070.00) Board member ($12,106.50)
Angie Sorrell	8,048.00	5,353.00	13,401.00	Public Sector Employer's Council Secretariat
Thomas Vincent	11,205.50	10,707.00	21,912.50	Board member
David Vipond	8,234.00	17,133.00	25,367.00	Board member
Kelly Wheeler	6,771.00	7,495.00	14,266.00	BC Ferry Services Incorporated ($6,771.00) Board member ($7,495.00)
Total	**$101,428.50**	**$98,686.67**	**$200,115.17**	

Committees

There are a number of standing committees of the board, which meet regularly to deal with specific areas of pension plan administration. The board also strikes ad hoc committees as required.

Benefits committee

Chair: Tom Vincent

The benefits committee reviews the plan rules for benefit entitlements and policies related to benefit administration, and makes recommendations to the board on potential changes as needed. The committee also reviews post-retirement group benefits, including extended health and dental plan designs, coverage levels and cost structure.

Communications committee

Chair: Lawrence Johnson

The communications committee oversees the development of plan communications to members, employers and other plan stakeholders. The committee provides strategic communications direction to Pension Corporation and reviews major communications, including the annual reports.

Governance committee

Chair: Kelly Wheeler

The governance committee develops and reviews board operational policies, tools and processes related to risk management, strategic planning and other matters. The committee prepares reports on the board's governance structures and activities as required by pension legislation.

Responsible investment committee

Chair: Angie Sorrell

The responsible investment committee considers matters related to the board's responsibilities and opportunities as an asset owner signatory to the United Nations–supported Principles for Responsible Investment (PRI), including drafting the plan's annual PRI disclosure reports.

Interplan audit committee

Chair: Wanda Boden, Public Service Pension Board of Trustees

The interplan audit committee is composed of two nominees from each of the College, Municipal, Public Service and Teachers' pension boards of trustees. The committee prepares each plan's annual financial statements and provides mandated financial oversight by

- monitoring and reporting to the boards on the integrity of reporting, internal controls and compliance of financial statements with generally accepted accounting principles,
- monitoring and reporting on the independence and performance of external auditors,
- monitoring and reporting on risk management as it affects financial reporting, and
- recommending the selection and compensation of external auditors.

Interplan coordination committee

Chair: Ken Tanner, Teachers' Pension Board of Trustees

The interplan coordination committee facilitates communication among the College, Public Service and Teachers' pension boards of trustees on initiatives of mutual interest, and monitors the operation of Pension Board Secretariat.

PSPP active member
Raman Grover

Interplan investment

Chair: Tom Vincent, Public Service Pension Board of Trustees

The interplan investment committee provides a forum for considering investment issues common to the College, Public Service and Teachers' pension boards of trustees. The committee considers trends in the investment industry, new investment approaches and vehicles, and economic and market updates.

Interplan executive forum

Chairs: executive staff of the plan boards

The interplan executive forum is a venue for the chairs and vice-chairs of the College, Municipal, Public Service and Teachers' pension boards of trustees to discuss issues of mutual interest, including pension reform, research, governance and risk.

Board, partners, agents and service providers

The plan's governance arrangement contributes to the overall fairness of the plan and is outlined in the Public Service Pension Plan Joint Trust Agreement. The agreement is available on the plan website.

The plan partners (BC Government and Service Employees' Union and the Government of BC), and other organizations representing plan employers and members, are responsible for nominating and appointing trustees.

The board is responsible for the governance of the plan. It is obligated by law to act even-handedly, to act in the best financial interest of the plan's membership, and to consider the interests of all members when making decisions. Trustees come from a cross-section of employer and member groups participating in the plan. Though trustees bring unique perspectives to the board table, they must act as one for all members.

The board can change plan rules if directed to do so by the plan partners and if certain conditions are met. It can also change plan rules as long as the changes are cost-neutral to the plan. The Joint Trust Agreement sets out conditions for implementing certain changes.

British Columbia Investment Management Corporation (BCI)

BCI is one of Canada's largest investment managers, with $153.4 billion in managed assets. It offers investment options across a range of asset classes, including infrastructure, renewable resources and long-term strategic themes. BCI provides investment management services as an agent of the board.

British Columbia Pension Corporation

British Columbia Pension Corporation is one of the largest pension benefit administrators in Canada, serving the public sector pension plans in British Columbia. It provides plan information to members and employers, manages contributions and member records, and pays pension benefits. BC Pension

Corporation also provides policy, financial and communication services to the board.

Eckler Ltd.
Eckler Ltd. is a Canada-based actuarial and consulting firm specializing in financial services, pensions and benefits, and global consulting solutions. It provides consulting and actuarial services to the plan.

Green Shield Canada
Green Shield Canada provides retired plan members access to optional extended health care and dental coverage.

KPMG LLP
KPMG LLP was appointed to perform the audit of the plan's financial statements for the year ended March 31, 2020.

Plan rule changes

The following plan rule changes were approved April 1, 2019 to March 31, 2020:

Ambulance paramedics plan design changes
Plan rule amendment no. 51—effective April 1, 2020

This amendment introduced plan design changes for ambulance paramedics in the Canadian Union of Public Employees Local 873.

Temporary annuity pension options, *Employment Standards Act* leaves of absence, and housekeeping updates
Plan rule amendment no. 52—various effective dates

Temporary annuity pension options: November 10, 2019

This amendment clarified that retiring members are able to choose either a half temporary annuity or a full temporary annuity at retirement.

Employment Standards Act leaves of absence: May 30, 2019

This amendment added two new leaves of absences to the plan rules:

- Critical illness or injury leave—when an employee is providing care or support to a family member experiencing life-threatening illness or injury. This leave requires a separate certificate from a medical or nurse practitioner for each maximum entitlement of 52 weeks.
- Domestic or sexual violence leave—when an employee or eligible person (e.g., a child or other dependant in the daily care of the employee) has or

is experiencing domestic or sexual violence. The maximum entitlement is 17 weeks per calendar year.

Housekeeping updates: December 17, 2019

This amendment updates language, the table of contents and defined terms, and removes various outdated references.

New purchase option for *Employment Standards Act*–related leaves of absence
Plan rule amendment no. 53—effective May 1, 2020

This amendment updates the plan rules to allow plan members to make continuous contributions to the plan while on an *Employment Standards Act*–related leave.

PSPP active member
Mariam Okwengu

Financial statements

BC PENSION
CORPORATION

September 10, 2020

Re: Public Service Pension Plan

Administrative Agent's Responsibility for Financial Reporting

The financial statements of the Public Service Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Pension Corporation), the administrative agent for the Public Service Pension Board of Trustees (Board), in accordance with Canadian accounting standards for pension plans. The Board is responsible for approving the Plan's financial statements. The Board is assisted by the Interplan Audit Committee (Committee), which is made up of representatives from the Public Service, Municipal, Teachers' and College pension boards of trustees. As part of their responsibility, the Committee reviews the financial statements, and performs steps and procedures as necessary, prior to recommending them to the Board for approval.

Pension Corporation prepares the financial statements and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with accounting standards for pension plans. In discharging its responsibility, Pension Corporation maintains a system of internal controls designed to provide reasonable assurance that transactions are properly authorized, reliable financial records are maintained and assets are adequately safeguarded, ensuring the fair presentation of the financial statements. Pension Corporation has assessed that the Plan will continue as a going concern, and ensured that other financial information contained in the *Public Service Pension Plan Annual Report* is consistent with these financial statements.

The Board appointed KPMG LLP as the independent auditor to the Plan. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the independent auditors' report attached to these financial statements.

Trevor Fedyna, CPA, CGA, C. Dir.
Vice-president, Strategy, Insights
and Chief Financial Officer
British Columbia Pension Corporation

Allan Chen, CPA, CA
Controller, Financial Services
British Columbia Pension Corporation

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Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Members of the Public Service Pension Plan

Opinion

We have audited the financial statements of the Public Service Pension Plan (the "Plan"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in accrued 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 Plan as at March 31, 2020, and the changes in its net assets available for benefits and the changes in its accrued 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 Plan 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.

Public Service Pension Plan
Page2

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 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 Plan'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 Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan'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.

Public Service Pension Plan
Page3

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 Plan'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 Plan'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 Plan 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

Vancouver, Canada
September 10, 2020

PUBLIC SERVICE PENSION PLAN

Statement of financial position

($ millions)

As at March 31	Note	2020	2019
Assets			
Investments	3a	**$ 33,790**	$ 33,096
Directly held derivatives	3b	**37**	15
Receivables			
Due from sale of investments		**143**	21
Members' contributions		**13**	13
Employers' contributions		**16**	16
Accrued Interest		**2**	-
		174	50
Cash		**-**	5
Prepaid expenses		**5**	5
Total assets		**34,006**	33,171
Liabilities			
Directly held derivatives	3b	**343**	45
Accounts payable and accrued expenses		**17**	16
Taxes payable		**12**	12
Payable for purchase of investments		**11**	26
Total liabilities		**383**	99
Net assets available for benefits		**$ 33,623**	**$ 33,072**
Accrued pension obligations			
Accrued basic pension obligations	4a	**$ 21,497**	$ 20,511
Non-guaranteed pension obligations	4b	**8,231**	8,103
Accrued pension obligations		**29,728**	28,614
Surplus			
Funding surplus	5a	**2,682**	2,676
Measurement differences between funding and accounting positions	5a	**1,213**	1,782
Surplus		**3,895**	4,458
Accrued pension obligations and surplus		**$ 33,623**	**$ 33,072**

The accompanying notes are an integral part of the financial statements including:
Commitments (note 14)

Approved by the Public Service Pension Board of Trustees:

David Vipond, Chair
Public Service Pension Board of Trustees

Wanda Boden, Trustee
Public Service Pension Board of Trustees

Kelly Wheeler, Trustee
Public Service Pension Board of Trustees

PUBLIC SERVICE PENSION PLAN

Statement of changes in net assets available for benefits

($ millions)

For the year ended March 31	Note	Basic account	Inflation adjustment account	Supplemental benefits account	Totals 2020	Totals 2019
Increase in assets						
Investment income	8	$ 806	$ 288	$ -	**$ 1,094**	$ 1,993
Contributions	9					
Employer						
Province of British Columbia		155	52	30	**237**	220
Other		139	43	13	**195**	181
		294	95	43	**432**	401
Member		304	54	1	**359**	332
		598	149	44	**791**	733
Transfers from other plans		9	2	-	**11**	10
Total increase in assets		1,413	439	44	**1,896**	2,736
Decrease in assets						
Benefits	10	1,146	52	20	**1,218**	1,142
Transfers to other plans		6	8	-	**14**	14
Retired member group benefits	11	-	-	24	**24**	22
Investment and administration costs	12b	73	16	-	**89**	85
Total decrease in assets		1,225	76	44	**1,345**	1,263
Increase in net assets before transfers		188	363	-	**551**	1,473
Account transfers	13	235	(235)	-	**-**	-
Increase in net assets		**423**	**128**	**-**	**551**	**$ 1,473**
Net assets available for benefits at beginning of year		24,969	8,103	-	**33,072**	$ 31,599
Net assets available for benefits at end of year		**$ 25,392**	**$ 8,231**	**$ -**	**$ 33,623**	**$ 33,072**

The accompanying notes are an integral part of these financial statements.

PUBLIC SERVICE PENSION PLAN

Statement of changes in accrued pension obligations

($ millions)

For the year ended March 31	Note	2020	2019
Increase in accrued pension obligations			
Interest on accrued pension obligations		$ **1,269**	$ 1,211
Benefits accrued		**677**	627
Account transfers		**235**	244
Increase in accrued pension obligations		**2,181**	2,082
Decrease in accrued pension obligations			
Benefits paid		**1,195**	1,134
Decrease in accrued pension obligations		**1,195**	1,134
Net increase in accrued pension obligations		**986**	948
Accrued basic pension obligations, beginning of year		**20,511**	19,563
Accrued basic pension obligations, end of year	4a	**21,497**	20,511
Non-guaranteed pension obligations			
Increase in non-guaranteed pension obligations	4b	**128**	322
Non-guaranteed pension obligations, beginning of year		**8,103**	7,781
Non-guaranteed pension obligations, end of year	4b	**8,231**	8,103
Total accrued pension obligations		$ **29,728**	$ **28,614**

The accompanying notes are an integral part of these financial statements.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN

The following description of the Public Service Pension Plan (Plan) is a summary provided for general information only. For more information, please refer to the Joint Trust Agreement (Agreement) and the Public Service Pension Plan Rules (pension plan rules).

a) General

The Plan is a jointly trusteed pension plan continued under a joint trust agreement authorized by the Public Sector Pension Plans Act, SBC 1999, c.44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established effective January 1, 2001. The partners to the Agreement are the Provincial Government and the British Columbia Government and Service Employees' Union (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Public Service Pension Board of Trustees (Board) and provides the authority for the Board to make the pension plan rules.

The Plan is registered with the Superintendent of Pensions, who administers and enforces the Pension Benefits Standards Act (PBSA). The PBSA governs employment pension plans registered in British Columbia that have active, inactive and retired members.

Membership in the Plan is open to eligible employees of the Province of British Columbia and certain crown corporations, agencies, institutions, and other employers approved by the Board, and eligible Members of the Legislative Assembly.

b) Roles and responsibilities

Partners

The Partners and other organizations representing the plan members and employers are responsible for appointing the 14 trustees to the Board. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, may direct amendments to the pension plan rules.

Board

The Board is responsible for the management of the Plan, including investment of assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by the Plan's surpluses or are cost-neutral to the Plan. Unless required to ensure compliance with regulatory enactments applicable to the Plan, only the Partners can initiate pension plan rule changes that result in contribution rate increases. The Agreement allows the Board to either appoint a chair from among the 14 trustees or appoint a person not appointed by the Partners. The vice-chair is appointed by the other trustees, from among the 14 trustees.

British Columbia Pension Corporation (Pension Corporation)

Pension Corporation provides benefit administration services as an agent of the Board. The Board appoints two members to the eight-member board of directors of Pension Corporation.

British Columbia Investment Management Corporation (BCI)

BCI provides investment management services, including the valuation of investments, as an agent of the Board. The Board appoints one member to the seven-member board of directors of BCI.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (CONTINUED)

c) Funding

Contributions and investment earnings fund plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on a triennial actuarial valuation for funding purposes.

The Board's funding policy is intended to secure the pension benefit obligation and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

The following member and employer contributions apply to the majority of members, excluding corrections, ambulance paramedics, statutory officers, provincial court judges, masters of supreme court, and Members of the Legislative Assembly (certain limited groups) with higher contribution rates required to fund the cost of their benefits.

Basic Account

Members contributed 7.10% of salaries and employers contributed 7.10% of members' salaries (excluding certain limited groups with higher contribution rates required to fund the cost of their benefits), less amounts allocated to the Supplemental Benefits Account.

Inflation Adjustment Account and Supplemental Benefits Account

Members contributed 1.25% of salaries to the Inflation Adjustment Account (IAA). Employers contributed 2.75% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account.

e) Pension benefits

The following pension benefits apply to the majority of members, excluding certain limited groups, such as public safety occupations, that may be eligible for a benefit earlier than indicated.

All active members are eligible for a pension benefit.

For service on or after April 1, 2018, members are eligible for unreduced pension benefits

- at age 65;
- at age 60, with at least two years contributory service; or
- at age 55 or older, with at least 35 years of contributory service.

Other retiring members have a reduction factor applied to their pensions.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

e) Pension benefits (continued)

For service on or after April 1, 2018, the Plan provides a defined plan benefit of 1.85% of the member's highest five-year average annual salary (HAS) to a maximum of 35 years. The early retirement reduction applicable for service accrued after this date is 6.2% for each year below age 65 or age 60 with two years or more of contributory service.

For service up to March 31, 2018, the defined basic plan benefit was integrated with the Canada Pension Plan. As a result, the Plan provides a benefit of 1.35% (1.3% for members who terminated prior to March 1, 2002) of pensionable earnings up to YMPE and 2.0% of pensionable earnings over YMPE for each year of pensionable service (to a maximum of 35 years). For the pension calculation, pensionable earnings are based on the member's HAS.

For service up to March 31, 2018, the Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.65% (0.7% for members who terminated prior to March 1, 2002) of the lesser of YMPE or HAS for each year of pensionable service.

Effective October 1, 2019, service earned between April 1, 2006 and March 31, 2018, inclusive, will be adjusted. For service earned during this period, the Plan will provide an integrated defined basic plan benefit of 1.65% of pensionable earnings up to YMPE, and 2.0% of pensionable earnings over YMPE, for each year of pensionable service. Pensionable earnings are based on the member's HAS. The Plan will provide a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit will be 0.35% of the lesser of YMPE or HAS for each year of pensionable service.

For service up to March 31, 2018, members are eligible for unreduced pension benefits

- at age 65;
- at age 60, with at least two years contributory service; or
- at age 55 or older, with age plus years of contributory service totalling 85 or more.

Increases to pension payments related to inflation adjustments are not guaranteed but may be provided each January 1 in accordance with the inflation adjustment provisions of the Plan. These inflation adjustments are based on the annual average increase in the Canada consumer price index (CPI) over the preceding 12-month period ending the previous October 31, reduced for the CPI decrease, if any, in prior years and subject to the availability of funds in the IAA.

The Board annually considers all relevant factors and its IAA funding policy to determine if an inflation adjustment will be granted on pensions in pay and the amount of the inflation adjustment, if any.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (CONTINUED)

f) Termination and portability benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age may choose

- a deferred pension, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in retirement vehicle or similar tax-sheltered plan.

A terminating member may also choose to leave their benefit on deposit in anticipation of future re-employment with a plan employer.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer service to another pension plan.

g) Other benefits

Disability and survivor benefits are also available under the Plan. A disability benefit is available to a member under age 60 (under age 55 for certain limited groups) who has terminated employment, becomes totally and permanently disabled as defined by the Plan, has at least two years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements.

The disability benefit is calculated using the greater of the member's years of pensionable service to the date of termination of employment and HAS, or an increased pension calculation as specified under the Income Tax Regulations. Disability benefits continue for the member's lifetime unless the member is no longer totally and permanently disabled before age 60 (age 55 for certain limited groups) or returns to work.

A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment.

Supplemental benefits are funded from the Supplemental Benefits Account.

h) Tax registration

The Plan is a Registered Pension Plan (RPP) as defined in the Income Tax Act (Canada) (Tax Act) (registration number 0345702), except for any supplemental benefits, which are funded in addition to the RPP. The Plan is not subject to income taxes but is subject to indirect taxes, including British Columbia provincial sales tax (PST) and Canadian federal goods and services tax (GST). The Plan receives a 33% rebate of GST paid.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared on the going-concern basis in accordance with Canadian accounting standards for pension plans, Part IV of the Chartered Professional Accountants of Canada Handbook (CPA Canada Handbook), and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members and independent of any associated retired member group benefit plans.

Accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or accrued pension obligations.

b) Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Accrued pension obligations

Accrued pension obligations are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The Plan actuary is Eckler Ltd. The valuation of accrued pension obligations is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method pro-rated on service that incorporates the independent actuary's estimate of various economic and demographic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

d) Investment income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses that are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date, and interest is recognized on an accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments based on unobservable inputs, as further described in note 7, and the calculation of the accrued pension obligations for the Basic Account for accounting and funding purposes, as further described in notes 4 and 5. Actual results could differ materially from these estimates.

3. INVESTMENTS

a) Investments

Fair value of investment holdings	2020			2019		
	Basic account	Inflation adjustment account	Total	Basic account	Inflation adjustment account	Total
Short-term	$ 581	$ 186	$ 767	$ 909	$ 292	$ 1,201
Bonds	4,402	1,408	5,810	2,583	828	3,411
Canadian equities	1,149	368	1,517	1,764	566	2,330
U.S. equities	1,155	370	1,525	966	309	1,275
International equities	6,716	2,149	8,865	8,763	2,811	11,574
Mortgages	1,101	352	1,453	980	314	1,294
Real estate	4,053	1,297	5,350	3,939	1,264	5,203
Private equity	3,389	1,085	4,474	2,487	798	3,285
IRR*	3,053	976	4,029	2,667	856	3,523
	$ 25,599	$ 8,191	$ 33,790	$ 25,058	$ 8,038	$ 33,096

* Infrastructure and renewable resources

Plan investments consist primarily of direct ownership in units of pooled investment portfolios. Each unit gives its holder a proportionate share in the value of the net assets of the pooled investment fund. The Basic Account and IAA are combined for investment management purposes.

One or more pooled investment portfolios exist for different types of investments, such as short-term investments; bonds; Canadian, U.S. and international equities; mortgages; real estate; private equity; and infrastructure and renewable resources. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

3. INVESTMENTS (CONTINUED)

a) Investments (continued)

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills with maturities of 15 months or less, and short-term bonds with one to five-year terms. Short-term investments are valued using current market yields.

Bonds consist of government bonds, investment grade and non-investment grade corporate bonds, and debentures. Bonds are valued based on current market yields and, in some cases, quoted market prices. Equities consist primarily of publicly traded shares and are valued based on quoted market prices on the primary exchanges on which they are traded.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. The mortgages are secured by real estate and valued using current market yields. Real estate investments consist mainly of diversified Canadian and U.S. income-producing properties. Real estate investments are valued quarterly by external investment managers and, at least once every 10 to 18 months, by accredited independent appraisers to establish current market values.

Private equity consists mainly of equity investments made outside the structure of public markets. Private equity is valued annually based on audited financial statements from external investment managers using a market-based approach or discounted cash flows.

Infrastructure and renewable resources consist of privately owned and managed infrastructure assets, as well as timber, agriculture and other renewable assets. Infrastructure and renewable resource investments are valued annually using a market-based approach or net asset value method.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

3. INVESTMENTS (CONTINUED)

b) Derivatives

Derivative contracts are directly held and indirectly held by the Plan. The details of these contracts are as follows:

Fair value of derivative contracts	2020		2019	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Directly held				
Foreign currency forwards	$ 37	$ (343)	$ 15	$ (45)
	$ 37	$ (343)	$ 15	$ (45)
Indirectly held in pooled investment portfolios				
Foreign currency forwards	$ 2	$ (70)	$ 1	$ (3)
Repurchase agreements	-	-	-	-
Options	35	(33)	-	-
Futures	-	-	1	-
Interest rate swaps	9	(64)	-	(28)
Total return swaps	184	(956)	258	(7)
	$ 230	$ (1,123)	$ 260	$ (38)
Total derivatives	$ 267	$ (1,466)	$ 275	$ (83)
Derivatives by investment asset classification				
Bonds	$ 9	$ (131)	$ 3	$ (5)
Canadian equities	19	(33)	29	(3)
U.S. equities	12	(44)	42	(5)
International equities	191	(976)	186	(27)
Mortgages	3	(38)	-	(4)
Real estate	7	(119)	3	(10)
IRR*	26	(125)	12	(29)
Total derivatives	$ 267	$ (1,466)	$ 275	$ (83)

*Infrastructure and renewable resources

Derivative contracts consist of foreign currency forward contracts, repurchase agreements, options, futures, interest rate swaps, and total return swaps held directly by the Plan or indirectly through various pooled investment portfolios. Directly held and indirectly held derivative contracts are reflected at fair value based on expected settlement amounts at the date of the Statement of Financial Position. Directly held derivatives are disclosed on the face of the Statement of Financial Position while indirectly held derivatives are included in investments.

A foreign currency forward contract is a privately negotiated contractual obligation to exchange one currency for another at a specified price for settlement on a predetermined date in the future. Foreign currency forward contracts are held by the Plan to manage exposure to foreign currency risk.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

3. INVESTMENTS (CONTINUED)

b) Derivatives (continued)

Repurchase agreements (repo) are short-term agreements to sell securities in order to buy them back at a slightly higher price. The one selling the repo is effectively borrowing and the other party is lending, since the lender is credited the implicit interest in the difference in prices. Repos are used in the leveraged bond pool fund to borrow funds and create leverage.

Options are contracts that give the buyer the right, but not the obligation, to buy or sell a certain security or index at an agreed-upon price on or before a specified date. Futures contracts are exchange-traded contractual obligations to take or make delivery of an asset at a predefined price and date in the future. Options and futures are held for synthetic indexing, a modern technique used to replicate the performance of a security or index without directly purchasing or selling the underlying assets and for risk control.

An interest rate swap is an agreement between two counterparties in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating interest rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would have been possible without the swap.

A total return swap is a swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, including both the income it generates and any capital gains. In total return swaps, the underlying asset (referred to as the reference asset) is usually an equity index or basket of equity securities. Interest rate swaps and total return swaps are held indirectly through various pooled investment portfolios for synthetic indexing purposes.

Derivative transactions are supported with collateral to mitigate counterparty credit risk. A single net fair value amount is used to determine the value of collateral with each counterparty. Collateral approximately equal to the positive fair value of each derivative contract has been provided by counterparties, and collateral approximately equal to the negative fair value of each derivative contract has been delivered to counterparties. Acceptable forms of collateral include Canadian federal or provincial bonds, and U.S. federal government treasury bills and bonds.

The notional value of derivatives is the total value of a position, how much value a position controls, or an agreed-upon amount in a contract.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

3. INVESTMENTS (CONTINUED)

b) Derivatives (continued)

Notional value of derivatives			2020	2019
Term to maturity	Within 1 year	1 to 5 years	Total	Total
Derivatives by type of contract				
Foreign currency forwards	$ 7,219	$ -	$ 7,219	$ 4,488
Repurchase agreements	3,380	-	3,380	-
Options	77	-	77	5
Futures	-	-	-	31
Interest rate swaps	2,909	3,115	6,024	3,329
Total return swaps	9,188	33	9,221	5,660
	$ 22,773	$ 3,148	$ 25,921	$ 13,513
Derivatives by investment asset classification				
Bonds	$ 7,141	$ -	$ 7,141	$ 865
Canadian equities	350	96	446	713
U.S. equities	966	377	1,343	1,296
International equities	9,012	2,675	11,687	6,989
Mortgages	639	-	639	442
Real estate	1,958	-	1,958	1,471
Private equity	-	-	-	8
IRR*	2,707	-	2,707	1,729
	$ 22,773	$ 3,148	$ 25,921	$ 13,513

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with the Agreement and PBSA, an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in note 5a. As part of the actuarial valuation, the Plan actuary also calculates values, for accounting purposes, of the basic account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in note 5a. Also for accounting purposes, the full impact of investment fair value changes is reflected in the financial statements as at the financial statement date compared with the deferral and amortization of fair value gains or losses in the valuation for funding purposes. The liability for accrued basic pension obligations at the valuation date is determined using the projected benefit method pro-rated on service.

The latest full actuarial valuation for accounting purposes was prepared as at March 31, 2017, by Eckler Ltd. This valuation calculated the liability for accrued basic pension obligations for financial statement purposes to be $17,947.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (CONTINUED)

a) Basic Account (continued)

Between valuations, an estimate of the actuarial position is required. This estimate, an extrapolation, has been made to March 31, 2020, using the following long-term actuarial assumptions:

- Annual investment return 6.25%
- Annual salary escalation rate 3.50%

The extrapolation calculated the liability for accrued basic pension obligations to be $21,497 (2019: $20,511).

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings, and the incidence of retirements, withdrawals and changes in other factors may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of assumptions may be required.

The next full actuarial valuation will be carried out as at March 31, 2020, with the results included in the March 31, 2021, financial statements.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation completed as at March 31, 2017, a reduction in the investment return assumption from 6.25% to 6.00% would have increased the March 31, 2020, liability for accrued basic pension obligations of $21,497 by $610 or 2.84%. Changes to assumptions included in the actuarial valuation are interrelated, and the cumulative impact of changed assumptions may be offsetting.

b) Inflation Adjustment Account (IAA), non-guaranteed pension obligations

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any plan provision to fund the IAA to any minimum level of future potential inflation adjustments (note 5b). The non-guaranteed pension obligations is therefore equal to the net assets available for benefits in the IAA, 2020: $8,231 (2019: $8,103). The net increase of $128 (2019: $322) in the IAA balance consists of employee and employer contributions, investment income and net transfers reduced by payments out of the account (see note 13 for details on amounts transferred).

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($ millions except as otherwise noted)

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement and PBSA, an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued pension obligations to the financial statement date, and contributions and benefits for future service. The contribution requirements are calculated by the actuary using the entry-age normal cost method (entry-age method).

This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate may be adjusted for the amortization of any actuarial funding surplus, and this rate will be adjusted for the amortization of any unfunded actuarial liability.

The Basic Account is also the account from which any inflation adjustments granted to retired members are paid. Future inflation adjustments are not guaranteed within the plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (note 5b). As inflation adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the inflation adjustments granted. Therefore, accrued basic pension obligations for valuation purposes include the liability for all inflation adjustments granted to the date of the valuation, but not for as-yet-unknown future inflation adjustments.

Actuarial valuation

The latest full actuarial valuation for funding purposes was prepared as at March 31, 2017, by the independent actuary based on the entry-age method; the valuation indicated an actuarial surplus of $1,896 prior to plan benefit changes.

The Agreement specifies that, if an actuarial valuation indicates increased basic contribution rates are required, the increase must be shared equally by members and employers. The Agreement also describes the manner in which the Board can elect to apply surplus assets. As a result of the March 31, 2017, basic account actuarial funding valuation surplus, plan benefit changes were approved by the Board on January 30, 2018. After plan benefits changes, the actuarial surplus was $1,166.

An estimate of the actuarial position of the Plan for funding purposes has been made to March 31, 2020, using the following long-term actuarial assumptions:

- Annual investment return 6.25%
- Annual salary escalation rate 3.50%

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Notes to the financial statements for the year ended March 31, 2020

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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

This estimate, called an extrapolation, produced an estimated funding surplus of $2,682 as at March 31, 2020 (2019: $2,676), as follows:

Funding extrapolation	**2020**	**2019**
Net assets available for basic pension benefits	$ **25,392**	$ 24,969
Actuarial asset value adjustment	**(505)**	(1,075)
Smoothed assets for basic pension benefits	**24,887**	23,894
Present value of future contributions at entry-age rate	**5,344**	4,955
Present value of temporary rate reduction below entry-age rate	**(85)**	(104)
Net actuarial assets for basic pension benefits	**30,146**	28,745
Actuarial liability for accrued and future basic pension benefits	**(27,464)**	(26,069)
Entry-age method actuarial surplus	$ **2,682**	$ **2,676**

Changes in the extrapolated entry-age method funded status	**2020**	**2019**
Extrapolated entry-age method actuarial surplus, beginning of year	$ **2,676**	$ 1,995
Extrapolated change in actuarial liability for accrued and future basic pension benefits	**(1,395)**	(1,262)
Extrapolated change in actuarial assets for basic pension benefits	**1,401**	1,943
Extrapolated entry-age method actuarial surplus, end of year	$ **2,682**	$ **2,676**

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, various factors, including actual wage increases, investment earnings, and the incidence of retirements and withdrawals, may vary significantly from the long-term assumptions used in the extrapolation.

Measurement difference between funding and accounting positions

The primary components of the measurement differences between the extrapolated entry-age method funding surplus and the financial statement accounting surplus are as follows:

Measurement difference between funding and accounting positions	**2020**	**2019**
Entry-age method actuarial surplus	$ **2,682**	$ 2,676
Actuarial asset value adjustment	**505**	1,075
Difference in actuarial methods – present value of future contributions	**(5,344)**	(4,955)
Difference in actuarial methods – present value of rate reduction	**85**	104
Difference in actuarial methods – present value of future liabilities	**5,967**	5,558
Measurement differences between funding and accounting positions	**1,213**	1,782
Surplus for financial statement purposes	$ **3,895**	$ **4,458**

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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

Actuarial asset value adjustment

For the purposes of determining the entry-age method surplus for funding purposes, the actuarial value of net assets available for benefits is determined on an adjusted value basis that smooths the difference between the actual investment return and the expected return based on a long-term real return rate over a five-year period.

The funding policy requires that the value of the assets be smoothed within a certain corridor. In the 2017 valuation, the corridor required that the smoothed value be no more than 108% and no less than 92% of the market value of the assets. The smoothed value of the assets at March 31, 2020 was 98.0% of the market value of the assets (2019: 95.7%).

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the entry-age method actuarial surplus. The amounts are based on that proportion of the total fund related to the basic account assets.

Actuarial asset value adjustment	2020	2019
2020	$ -	319
2021	**449**	511
2022	**146**	209
2023	**(27)**	36
2024	**(63)**	-
Total adjustment	**$ 505**	**$ 1,075**

Difference in actuarial methods

While the accrued pension obligations liability for financial statement purposes uses the projected benefit method prorated on service, the pension liability for funding purposes uses an entry-age funding method, where the present value of future normal cost contributions, basic pension benefits for future service and future amortization amounts are included in the determination of the funded status of the Plan.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future inflation adjustments is limited to the amount of the available assets in the account. As inflation adjustments are granted to retired members, full funding for the granted inflation adjustment, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any plan provision to fund the IAA to any minimum level for future potential inflation adjustments.

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Notes to the financial statements for the year ended March 31, 2020

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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

b) Inflation Adjustment Account (IAA) (continued)

The Board annually considers all relevant factors and its IAA funding policy to determine if an inflation adjustment will be granted on pensions in pay and the amount of the inflation adjustment, if any.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, in which the IAA assets may cease to grow and the Plan may not be able to grant full CPI increases.

6. FINANCIAL RISK MANAGEMENT

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, BCI. The SIPP requires diversification of investments among asset classes, sets guidelines on investment categories and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by BCI, and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board. Such risks include liquidity risk, as well as other financial risks, which comprise currency risk, interest rate risk, other price risk and credit risk.

Financial risks are disclosed on a unit-of-account basis (note 6b), which represents the legal ownership of securities held, and at the underlying securities level (note 6c), which provides additional insight to other risks that may impact the financial instruments of the Plan. Both forms of disclosure provide valuable perspectives into financial risks that may directly or indirectly impact the financial statements and the funded status of the Plan. These two forms of risk disclosure are not additive to each other.

a) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost-effective manner. Expenditures relate primarily to pensions, termination and refund benefits, investment and administration costs, and retired member group benefits. The Plan's approach to mitigating liquidity risk is to forecast its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments, and employer and employee contributions. Investments are primarily held in pooled funds, and the securities held are traded in active markets and can be readily sold, and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable and taxes payable of $29 (2019: $28) and payable for purchase of investments of $11 (2019: $26) are generally due within one month. Derivatives payable of $343 (2019: $45) are due within the next fiscal year.

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Notes to the financial statements for the year ended March 31, 2020

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Financial risks on a unit-of-account basis

Plan investments consist primarily of direct ownership in units of pooled investment portfolios. Each unit gives its holder a proportionate interest in the value of the net assets of the respective pooled investment fund. The unit-of-account for the majority of the Plan's investments is the units of the pooled investment funds.

Investments by unit-of-account	2020	%	2019	%
Pooled investment fund units	$ 32,993	97.7	$ 32,461	98.1
Directly held equity	583	1.7	539	1.6
Directly held bonds and debt	214	0.6	96	0.3
Investments	**$ 33,790**	**100.0**	**$ 33,096**	**100.0**

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Market risk consists of currency, interest rate and other price risk.

Currency risk

Currency risk is the risk that the value of financial instruments denominated in currencies other than the functional currency of the fund will fluctuate due to changes in foreign exchange rates. The Plan holds primarily Canadian dollar denominated investment pooled fund units and is exposed to currency risk through holdings of small amounts of foreign currency denominated private equity, agricultural, bonds and debt investments. See note 6c for currency exposure related to underlying securities.

Foreign denominated investments held as a percentage of the fund

	2020	%	2019	%
United States	$ 1,180	3.5	$ 501	1.5
Australia	86	0.3	92	0.3
	$ 1,266	**3.8**	**$ 593**	**1.8**

As at March 31, 2020, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately $127 (2019: $59).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of plan investments will change as a result of future fluctuations in market interest rates. The majority of the Plan's investment assets are non-interest bearing and not subject to interest rate risk. See note 6c for interest rate risk related to underlying securities.

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Notes to the financial statements for the year ended March 31, 2020

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Financial risks on a unit-of-account basis (continued)

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to other price risk through its public equity investments and private market investments, including equity in real estate companies, held directly and through pooled investment portfolios. This risk is managed by diversifying investments across asset classes based on criteria established in the SIPP.

As at March 31, 2020, if the pooled investment fund unit and directly held equity prices increased or decreased by 10%, with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately $3,358 (2019: $3,300).

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into, resulting in a financial loss to the Plan. The majority of the Plan's investments are held in securities that are not subject to credit risk. See note 6c for credit risk related to underlying securities.

Credit exposure exists for members' and employers' contributions receivable directly held by the Plan totalling $29 (2019: $29), accrued interest $2 (2019: nil), for the derivatives $37 (2019: $15) and for the due from the sale of investments $143 (2019: $21).

c) Financial risks of underlying securities held through pooled investment funds

Pooled investment funds exist for different types of investments, such as short-term investments; bonds; Canadian, U.S. and international equities; mortgages; real estate; private equity; and infrastructure and renewable resources. Examining the risks of the underlying securities contained in pooled investment funds provides additional disclosure to assess the overall financial risks of the plan investments. Viewing the financial risks of underlying securities is an alternative way of disclosing financial risks from the unit-of-account basis in note 6b. These risks are not considered additive to the financial risks already disclosed in note 6b.

Market risks are reduced through asset class diversification, diversification within each asset class and credit quality requirements on investments.

Currency risk

Currency exposure also arises from foreign currency denominated investments held directly and from underlying investments held indirectly in pooled investment funds. BCI has currency exposure management programs under which it enters into economic hedges of foreign currency exposure through the use of forward foreign currency contracts.

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Notes to the financial statements for the year ended March 31, 2020

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Currency risk (continued)

The Plan's total currency exposure, the impact of economic hedging activities and its net exposure as at March 31 are as follows:

Fair value of foreign denominated investment holdings

(Cdn dollar equivalent)	Total exposure	Economic hedging	Net exposure	% of total
			2020	
United States	$ 11,091	$ 5,863	$ 5,228	50%
Asia-Pacific, excluding Japan	2,140	409	1,731	17%
Euro countries	2,232	479	1,753	17%
Other	693	-	693	7%
Japan	465	37	428	4%
Other Europe	498	1	497	5%
United Kingdom	441	430	11	0%
	$ 17,560	**$ 7,219**	**$ 10,341**	**100%**
			2019	
United States	$ 10,004	$ 3,524	$ 6,480	50%
Asia-Pacific, excluding Japan	2,756	310	2,446	19%
Euro countries	2,012	285	1,727	13%
Other	1,020	-	1,020	8%
Japan	629	9	620	5%
Other Europe	545	-	545	4%
United Kingdom	486	360	126	1%
	$ 17,452	**$ 4,488**	**$ 12,964**	**100%**

The net foreign currency exposure of its underlying investment represents 31% (2019: 39%) of the Plan's total investments.

Interest rate risk

The Plan's pooled investment funds hold interest-bearing financial instruments in short-term investments, bonds and mortgages. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and interest rate swaps, and general diversification by security type and geographic region. During the year the Plan entered into a leveraged bond strategy using repurchase agreements, and is included in the terms to maturity table below.

The terms to contractual maturity of interest-bearing financial instruments held directly and through pooled investment portfolios as at March 31, are as follows:

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Notes to the financial statements for the year ended March 31, 2020

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Interest rate risk (continued)

Terms to maturity of interest-bearing financial instruments

	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Effective yield to maturity
			2020			
Short-term	$ 605	$ 162	$ -	$ -	$ 767	0.37%
Bonds	(2,928)	3,627	2,334	2,777	5,810	2.30%
Mortgages	748	547	158	-	1,453	3.56%
Debt	-	-	214	-	214	5.66%
	$ (1,575)	$ 4,336	$ 2,706	$ 2,777	$ 8,244	
			2019			
Short-term	$ 990	$ 211	$ -	$ -	$ 1,201	1.72%
Bonds	364	1,081	1,087	875	3,407	2.73%
Real return bonds*	-	-	-	4	4	1.20%
Mortgages	415	700	179	-	1,294	3.10%
Debt	-	-	92	-	92	6.23%
	$ 1,769	$ 1,992	$ 1,358	$ 879	$ 5,998	

*Effective yield to maturity percentages are only the interest return; inflation has not been considered.

As at March 31, 2020, if the prevailing interest rates had increased or decreased by 1%, assuming a parallel shift in the yield curve with all other variables remaining constant, the fair value of interest-bearing financial instruments and net assets available for benefits would have decreased or increased by approximately $435 (2019: $242).

Other price risk

Other price risk associated with the underlying investments held in pooled investment funds is consistent with that described earlier in note 6b, which describes financial risks on a unit-of-account basis.

Credit risk

The Plan's underlying investment assets held in pooled investment funds attract credit risk. This is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. It's also the risk of losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties and maximum concentration limits with given counterparties.

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Notes to the financial statements for the year ended March 31, 2020

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Credit risk (continued)

Credit risk ratings on financial instruments (short-term investments, bonds, mortgages and debt) held directly and through pooled investment portfolios are as follows:

Credit rating of financial instruments	2020		2019	
AAA/AA	$ 3,788	46%	$ 2,196	37%
A	616	7%	1,277	21%
BBB	459	6%	339	6%
Non-investment grade	848	10%	456	7%
	5,711	69%	4,268	71%
Unrated	2,533	31%	1,730	29%
	$ 8,244	100%	$ 5,998	100%

The ratings used are defined by Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lender's capacity to meet its financial commitment on the obligation is very strong. Bonds rated A, BBB or non-investment grade are weaker, with the BBB rating denoting an obligation with adequate protection parameters and a non-investment grade rating denoting major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to the debtor's inadequate capacity to meet its financial commitment on the obligation. Unrated financial instruments consist mainly of mortgages secured by real estate, debt, and corporate bonds.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are as follows:

Level 1

Inputs are unadjusted quoted prices in active markets for identical assets or liabilities

Level 2

Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly

Level 3

Inputs that are not based on observable market data

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

a) Fair value hierarchy (continued)

Plan investments are carried at fair value in the financial statements. The following table details the classification of the Plan's investments based on the fair value hierarchy as at March 31:

Fair value hierarchy	Level 1	Level 2	Level 3	Total
		2020		
Pooled fund units	$ 605	$ 20,436	$ 11,952	$ 32,993
Directly held equity	-	-	583	583
Directly held debt	-	-	214	214
Investments	$ 605	$ 20,436	$ 12,749	$ 33,790
Derivatives	$ -	$ (306)	$ -	$ (306)
		2019		
Pooled fund units	$ 990	$ 22,752	$ 8,719	$ 32,461
Directly held equity	-	-	539	539
Directly held bond and debt	-	4	92	96
Investments	$ 990	$ 22,756	$ 9,350	$ 33,096
Derivatives	$ -	$ (30)	$ -	$ (30)

During 2020 and 2019, there were no significant transfers of investments between levels.

The following table reconciles the Plan's level 3 fair value measurements:

Level 3 fair value hierarchy	Pooled fund units	Direct equity	Direct debt	Total
		2020		
Balance, beginning of year	$ 8,719	$ 539	$ 92	$ 9,350
Net gain included in investment income	1,476	47	8	1,531
Purchases	3,002	299	115	3,416
Sales	(1,245)	(302)	(1)	(1,548)
Balance, end of year	$ 11,952	$ 583	$ 214	$ 12,749
Total unrealized gain (loss) included in investment income	$ 1,026	$ 47	$ 8	$ 1,081
		2019		
Balance, beginning of year	$ 6,507	$ 478	$ 103	$ 7,088
Net gain (loss) included in investment income	537	54	(4)	587
Purchases	2,582	31	2	2,615
Sales	(907)	(24)	(9)	(940)
Balance, end of year	$ 8,719	$ 539	$ 92	$ 9,350
Total unrealized gain (loss) included in investment income	$ 135	$ 45	$ (4)	$ 176

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Notes to the financial statements for the year ended March 31, 2020

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

BCI uses widely recognized valuation methods for determining the fair value of common and less complex financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity and debt securities, simple derivatives such as forward or future currency contracts and pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the financial instrument and is subject to change based on specific events and general conditions in the financial markets.

For more complex financial instruments, such as direct private equity investments held by the Plan, BCI uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates, or estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of judgment and estimation in the determination of fair value. BCI's judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments, and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that BCI believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Plan and the counterparties where appropriate.

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Notes to the financial statements for the year ended March 31, 2020

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

c) Valuation framework

BCI has an established framework with respect to the measurement of fair values of financial instruments. Where possible, for direct private equity investments held by the Plan, external, independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where BCI is reliant on the third-party manager for the determination of fair value, BCI reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources.

In addition, BCI applies the following specific controls in relation to the determination of fair values:

- Verification of observable pricing inputs
- Appraisal of domestic real estate properties once every 10 to 18 months by accredited independent appraisers
- Analysis and investigation of significant valuation movements
- Review of unobservable inputs and valuation adjustments

When third-party information such as broker quotes or pricing services is used to measure fair value, BCI assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- Verifying that the broker or pricing service is approved by BCI for use in pricing the relevant type of financial instrument
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions
- Understanding how fair value has been determined when a number of quotes for similar financial instruments have been obtained
- Understanding how prices for similar financial instruments used to measure fair value have been adjusted to reflect the characteristics of the financial instrument subject to measurement

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Notes to the financial statements for the year ended March 31, 2020

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

d) Significant unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at year-end in measuring financial instruments categorized as level 3 in the fair value hierarchy.

Significant unobservable inputs used in measuring fair value

Description	Fair value	Valuation technique	Unobservable input	Amount / range	Sensitivity to change in significant unobservable input
			2020		
					The estimated fair value would increase if:
Pooled fund units	$ 11,952	Net asset value	Net asset value	$ 11,952	The net asset value increased
Direct private equity	$ 421	Discounted cash flow	Discount rate	11.60%	The discount rate decreased
Direct private agriculture investments	$ 162	Net asset value	Net asset value	$ 162	The net asset value increased
Direct debt	$ 214	Discounted cash flow	Discount rate	4.8% - 17.0%	The discount rate decreased
			2019		
					The estimated fair value would increase if:
Pooled fund units	$ 8,719	Net asset value	Net asset value	$ 8,719	The net asset value increased
Direct private equity	$ 396	Market approach	Multiple of EBITDA*	11.5x	The multiple of EBITDA increased
Direct private agriculture investments	$ 143	Net asset value	Net asset value	$ 143	The net asset value increased
Direct debt	$ 92	Discounted cash flow	Discount rate	12.0% - 17.5%	The discount rate decreased

*Earnings before interest, tax, depreciation and amortization

Net asset value

Net asset value is determined by BCI based on the fair value of assets less liabilities. Such investments are closed funds with significant restrictions on redemptions, and accordingly, BCI is unable to dispose of the pooled fund investment until the maturity or wind-up and liquidation of the respective pooled fund. In such cases, it is the Plan's policy to categorize the pooled fund investment as level 3 within the fair value hierarchy.

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

d) Significant unobservable inputs used in measuring fair value (continued)

Multiple of EBITDA

Enterprise value (EV) represents amounts market participants would use when pricing direct equity investments. Earnings before interest, tax, depreciation and amortization (EBITDA) multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that BCI management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the EV of the company by its EBITDA and further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and specific company.

Discount rate

This represents the Discount rate applied to the expected future cash flows of the direct private equity and direct debt investment. For the discount rates used, the underlying investment manager assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

e) Effects of unobservable input on fair value measurement

The use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used for a reasonable alternative assumption could have the following effects on net assets attributable to holders of redeemable units.

The pooled fund units, direct private agriculture investments and direct debt investment were valued based on information received from BCI, the manager of the respective investments. The fair value of these investments fluctuates in response to changes to specific assumptions for these particular investments, as determined by BCI. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of pooled fund units, direct private agriculture investments and direct debt investments have been calculated by adjusting the respective underlying net asset value by 10%.

Effects of unobservable input on level 3 fair value measurement

	2020		2019	
	Favourable	Unfavourable	Favourable	Unfavourable
Pooled fund units	$ 1,195	$ (1,195)	$ 872	$ (872)
Direct private equity	29	(29)	25	(25)
Direct private agriculture investments	16	(16)	14	(14)
Direct debt	21	(21)	9	(9)
	$ 1,261	$ (1,261)	$ 920	$ (920)

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Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

e) Effects of unobservable input on fair value measurement (continued)

For direct private equity investments, BCI engages third-party independent valuators to estimate the fair market value. The valuators produce comprehensive reports for each applicable investment. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of direct investments have been calculated by recalibrating the model values using unobservable inputs based on the upper and lower threshold of the respective investment's range of possible estimates.

f) Financial instruments not measured at fair value

The carrying value of members' contributions receivable, employers' contributions receivable, due from sale of investments, accounts payable and accrued expenses, and payable for purchase of investments approximate their fair value given their short-term nature. These financial instruments are classified as level 2 in the fair value hierarchy because, while prices are available, there is no active market for these instruments.

8. INVESTMENT INCOME

			2020			2019
	Income allocation	Change in fair value	Total	Income allocation	Change in fair value	Total
Short-term	$ **20**	$ **43**	$ **63**	$ 20	$ 3	$ 23
Bonds	**109**	**-**	**109**	105	81	186
Canadian equities	**93**	**(261)**	**(168)**	53	124	177
U.S. equities	**22**	**(83)**	**(61)**	21	123	144
International equities	**270**	**(648)**	**(378)**	271	237	508
Mortgages	**41**	**72**	**113**	41	29	70
Real estate	**325**	**47**	**372**	101	323	424
Private equity	**247**	**703**	**950**	245	20	265
IRR*	**204**	**173**	**377**	157	98	255
	1,331	**46**	**1,377**	1,014	1,038	2,052
Directly held derivatives	**-**	**(283)**	**(283)**	-	(59)	(59)
	$ **1,331**	$ **(237)**	$ **1,094**	$ **1,014**	$ **979**	$ **1,993**

* Infrastructure and renewable resources

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unitholder, and income from directly held investments. Income allocation is composed of interest, dividends and other investment payments. Change in fair value is composed of realized gains and losses on the disposal of investments and derivatives, and unrealized gains and losses on investments and derivatives held at year-end. All income earned within a pooled investment portfolio is reinvested within the portfolio.

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Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

9. CONTRIBUTIONS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2020		
Member contributions				
Regular	$ 299	$ 53	$ 1	$ 353
Past service purchases	5	1	-	6
	304	54	1	359
Employer contributions				
Province of British Columbia				
Regular	154	52	17	223
Past service purchases	1	-	-	1
Retired member group benefits	-	-	13	13
	155	52	30	237
Other employers				
Regular	138	43	2	183
Past service purchases	1	-	-	1
Retired member group benefits	-	-	11	11
	139	43	13	195
Total employer contributions	294	95	43	432
	$ 598	$ 149	$ 44	$ 791
		2019		
Member contributions				
Regular	$ 276	$ 49	$ 1	$ 326
Past service purchases	5	1	-	6
	281	50	1	332
Employer contributions				
Province of British Columbia				
Regular	143	49	15	207
Past service purchases	1	-	-	1
Retired member group benefits	-	-	12	12
	144	49	27	220
Other employers				
Regular	129	40	1	170
Past service purchases	-	-	-	-
Retired member group benefits	-	-	11	11
	129	40	12	181
Total employer contributions	273	89	39	401
	$ 554	$ 139	$ 40	$ 733

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

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10. BENEFITS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2020		
Regular pension benefits	$ 921	$ -	$ 17	$ 938
Indexing—regular pension benefits	181	-	2	183
Termination and refund benefits	31	44	1	76
Death benefit payments	13	8	-	21
	$ 1,146	$ 52	$ 20	$ 1,218
		2019		
Regular pension benefits	$ 878	$ -	$ 16	$ 894
Indexing—regular pension benefits	166	-	2	168
Termination and refund benefits	17	40	-	57
Death benefit payments	23	-	-	23
	$ 1,084	$ 40	$ 18	$ 1,142

11. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain supplemental benefits, for example, pension benefits which exceed the Income Tax Act limits for registered pension plans are paid through this account. Certain group benefit coverage has been provided for retired members through this account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent retired member group benefits are funded from the Supplemental Benefits Account (2020: $24; 2019: $22), they are funded from current contributions that would otherwise be employer contributions to the IAA and are capped at 1% of pensionable salaries, which equates to 25% of total current member and employer IAA contributions. Retired member group benefit costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members.

12. RELATED PARTY TRANSACTIONS

a) Transfers from Members of the Legislative Assembly (MLA) Superannuation Account

The Members of the Legislative Assembly Superannuation Account (MLA Account) was established under Part 2 of the Members' Remuneration and Pensions Act (Act). The Act was amended in July 1995 to discontinue the accrual of benefit entitlements under Part 2 after June 19, 1996. As at March 31, 2020, four members remain (2019: four members) with eligibility for a benefit from the MLA Account.

When an eligible MLA is granted a pension, the present value of the pension is transferred from the MLA Account to the Plan, from which monthly benefits are paid. During the year ended March 31, 2020, no pension was granted (2019: one pension granted).

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

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12. RELATED PARTY TRANSACTIONS (CONTINUED)

Transfers from Members of the Legislative Assembly (MLA) Superannuation Account (continued)

Transfers from MLA Account ($ thousands)	2020	2019
Present value of MLA pension granted	$ -	$ 297
Present value transfer for indexing supplements	-	78
	$ -	$ 375

b) Investment and administration costs

	2020	2019
Investment management	$ 65.6	$ 59.9
Benefit administration	21.9	23.5
Board secretariat	0.3	0.3
Board remuneration and expenses	0.4	0.4
Other professional services	0.4	0.3
Actuarial and audit	0.2	0.4
	$ 88.8	$ 84.8

Investment and administration costs include audit fees of $53 thousand (2019: $59 thousand) and actuary fees of $125 thousand (2019: $301 thousand).

BCI and Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. BCI and Pension Corporation are participating employers in the Plan. Investment management and benefit administration costs are approved by the Board.

Investment management costs represent amounts charged to recover internal and external management costs incurred by BCI, except those external management fees related to investments managed by an underlying external manager, where management fees are embedded in the net assets of the respective investment. Underlying external investment management fees of $43 (2019: $24) were netted against investment income.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by Pension Corporation. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with supporting the Board.

Other professional services costs include insurance and legal fees incurred directly by the Plan.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

13. ACCOUNT TRANSFERS

	2020		2019	
	Basic account	Inflation adjustment account	Basic account	Inflation adjustment account
Indexing supplements	$ 226	$ (226)	$ 237	$ (237)
Indexing deferred pensions	9	(9)	7	(7)
	$ 235	$ (235)	$ 244	$ (244)

The IAA is a separate account maintained for funding current and future inflation adjustments. The IAA is funded through a portion of ongoing contributions from employers and members, investment income earned and excess investment return earned in the Basic Account.

Inflation adjusted pension payments are made from the Basic Account. Each year, if members' pension payments are adjusted for the current inflation adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current inflation adjustment. The Board annually considers all relevant factors and its IAA funding policy to determine if an inflation adjustment will be granted on pensions in pay and the amount of the inflation adjustment, if any. As at January 1, 2020, retired members received a cost-of-living adjustment of 1.9% (2019: 2.3%) and indexing supplements were transferred.

When a deferred pension commences, the present value of the inflation adjustment during the deferral period is transferred from the IAA to the Basic Account. Approximately $96 (2019: $87) of the current IAA balance is for inflation adjustments already granted for deferred pensions but not yet transferred to the Basic Account.

Excess investment return is based on investment income earned on those assets in the Basic Account required for pensions currently being paid: approximately $11.4 billion of assets for 2020 (2019: $10.8 billion). The excess investment return rate is determined by taking the difference between the actual five-year annualized market rate of return (6.30%) and the rate of return used by the Plan actuary (6.25%) in valuing the Plan's liabilities. The calculated excess investment return rate for 2020 was 0.05% (2019: 2.25%), resulting in an excess investment return amount of $6 (2019: $242). The plan rules allow positive excess investment return transfer to occur at the discretion of the Board. The Board did not elect to transfer this excess investment return in the Basic Account to the IAA.

Should the excess investment return in any year not be transferred to the IAA, and be available for transfer to the IAA at the discretion of the Board, in the future. If the balance is ever negative, it will be offset against future positive excess investment returns before transfers to the IAA will recommence. The excess investment interest is an amount determined by applying the five-year annualized market rate of return to the fiscal year opening balance.

PUBLIC SERVICE PENSION PLAN

Notes to the financial statements for the year ended March 31, 2020

($ millions except as otherwise noted)

13. ACCOUNT TRANSFERS (CONTINUED)

Excess investment return	2020	2019
Cumulative excess investment return, beginning of year	$ 680	$ 404
Interest applied to beginning of year amount	43	34
Excess investment return	6	242
Cumulative excess investment return, end of year	**$ 729**	**$ 680**

14. COMMITMENTS

The Plan participates in private equity, international real estate, mortgages, and infrastructure and renewable resource pools. As at March 31, 2020, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $6,098 (2019: $5,288).

15. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary. The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively, and with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates; through implementation of the SIPP, which affects the earnings of the Plan; and, in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan's assets is reviewed by the Board on a regular basis and compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. Funding deficits must be funded over a period not to exceed 15 years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at March 31, 2017, and has two components, the Basic Account non-indexed benefits and, by considering the valuation of the entire Plan, the non-guaranteed inflation adjustment account benefits. The next full actuarial valuation will be carried out as at March 31, 2020, with the results included in the March 31, 2021 financial statements.

The Act and the Board's funding policy require that contribution rates comply with the going-concern requirements of PBSA.

16. PLAN OPERATIONS

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation continues and remains dynamic with various cities and countries around the world responding in different ways to address the outbreak. As a result of the COVID-19 outbreak, global financial markets have experienced significant volatility. Given the extent of the crisis, it is difficult to estimate the ultimate impact or duration of the volatility on the Plan.

Appendix

Employer list

A

Architectural Institute of British Columbia

B

BC Government and Service Employees' Union
BC Pavilion Corporation
BC Family Maintenance Agency Ltd.
BC Ferry and Marine Workers' Union
BC Infrastructure Benefits Inc.
BC Oil and Gas Commission
BC Public Service Agency
British Columbia Assessment Authority
British Columbia Centre for Disease Control (an operation of Provincial Health Services Authority)
British Columbia College of Social Workers
British Columbia Excluded Employees' Association
British Columbia Ferry Services Inc.
British Columbia Financial Services Authority
British Columbia Housing Management Commission
British Columbia Innovation Council
British Columbia Institute of Technology
British Columbia Investment Management Corporation
British Columbia Medical Association
British Columbia Mental Health Society (Riverview Hospital is an operation of Provincial Health Services Authority)
British Columbia Milk Marketing Board
British Columbia Pension Corporation
British Columbia Rapid Transit Company Ltd.
British Columbia Safety Authority
British Columbia Securities Commission
British Columbia Transit Authority
British Columbia Treaty Commission

British Columbia Utilities Commission
Broadmead Care Society
Brookfield GIS Workplace Solutions Inc.
Building Officials' Association of British Columbia

C

Canada/British Columbia Business Services Society
Canadian Office and Professional Employees' Union, Local 378
Canadian Road Builders Inc. dba Lafrentz Road Marking Division
Coast Mountain Bus Company Ltd.
Cobra Electric (South Coast) Ltd.
College of Physicians and Surgeons of British Columbia
Columbia Basin Trust
Columbia Power Corporation
Community Living British Columbia
Creative BC Society

E

E-Comm Emergency Communications for British Columbia Inc.
Elections British Columbia
Emergency Health Services Commission
ESIT Advanced Solutions Inc.

F

First Peoples' Heritage, Language and Culture Council
Forensic Psychiatric Services Commission
Forestry Innovation Investment Ltd.
Fraser Health Authority
Fraser River Marine Transportation Ltd.
Fraser Valley Aboriginal Children and Family Services Society
Freshwater Fisheries Society of BC

G

GAEA Management Ltd.

H

Habitat Conservation Trust Foundation

I

Industry Training Authority
Insurance Corporation of British Columbia
Interior Health Authority
Islands Trust Council
ISM Information Systems Management Canada Corporation

J

Justice Development Commission

K

Kw'umut Lelum Child and Family Services Society

L

Land Title and Survey Authority of British Columbia
Legislative Assembly of British Columbia
Liquor Distribution Branch
Lu’ma Native Housing Society

M

MAXIMUS BC Health Benefits Operations Inc.
MAXIMUS BC Health Inc.
MAXIMUS Canada Services (BC) Inc.

N

NIL/TU,O Child and Family Services Society
Northern Development Initiative Trust
Northern Health Authority
NTT DATA BCU, Inc.

P

Partnerships British Columbia Inc.
Professional Employees Association
Protrans BC Operations Ltd.
Providence Health Care Society
Provincial Health Services Authority
Public Service Pension Plan

R

Real Estate Council of British Columbia
Royal BC Museum

S

Scw'exmx Child and Family Services Society
South Coast British Columbia Transportation Authority
Southern Interior Development Initiative Trust

T

TELUS Employer Solutions Inc.
Themis Program Management and Consulting Ltd.
Thompson Health Region
Thompson River University
TransLink Security Management Ltd.
Transportation Investment Corporation

U

Union of Psychiatric Nurses

V

Vancouver Aboriginal Child and Family Services Society
Vancouver Coastal Health Authority
Vancouver Island Health Authority

W

WaterBridge Equipment Inc.
WaterBridge Ferries Inc.
West Coast Express Ltd.
Western Pacific Marine Ltd.
Workers' Compensation Appeal Tribunal

Public Service Pension Plan™

This is a publication of the Public Service Pension Board of Trustees. If you have any questions about the information contained in this report, please contact:

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