

Public Employees Disability Income Fund



Annual Report for 2022

Table of Contents

Letters of Transmittal	2
Introduction	3
Disability Income Plan Advisory Council	3
Participating Employers	3
Administration	4
Investment Management Services	4
Funding	4
Benefits	5
Premiums/Claims Experience	5
Management’s Report	6
Actuarial Opinion	7
Financial Statements	
Independent Auditor’s Report	10
Statement of Financial Position	12
Statement of Operations and Change in Net Financial Assets and Accumulated Surplus	13
Statement of Remeasurement Gains and Losses	14
Statement of Cash Flows	15
Notes to the Financial Statements.....	16

Letters of Transmittal



His Honour the Honourable Russ Mirasty, S.O.M., M.S.M.,
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the thirty-first Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2022.

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

Donna Harpauer
Minister of Finance

The Honourable Donna Harpauer
Minister of Finance

Madam:

On behalf of the Public Employees Disability Income Plan Advisory Council,
I have the honour to transmit herewith the thirty-first Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2022.

A handwritten signature in cursive script that reads "J Phillips".

Jeremy Phillips
Assistant Deputy Minister
Public Employees Benefits Agency
Ministry of Finance

Public Employees Disability Income Fund

Introduction

The Public Employees Disability Income Plan was established in 1978.

The Plan provides long-term disability benefits to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

As at December 31, 2022, there were 12,252 insured employees.

Disability Income Plan Advisory Council

Jeremy Phillips, Chair
Ministry of Finance (PEBA)

Dairen Beblow
SaskPower

Peggy Atkinson
Public Service Commission

Sharon Davis
SaskTel

Janice MacDonald
Public Service Commission

Chris Stinson
SaskEnergy and SaskPower
Unifor Union of Canada, Local 649

Tammy Hinds
SaskTel
Unifor Union of Canada, Locals 1S & 2S

Heather Brown
CUPE 600

Rene Nicolay
SaskPower
IBEW Local 2067

Participating Employers

The following employers participate in The Government of Saskatchewan Disability Income Plan:

Advocate for Children and Youth (Office of the Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The Chief Electoral Officer (Office of the) eHealth Saskatchewan
Farm Land Security Board
Financial and Consumer Affairs Authority of Saskatchewan
Global Transportation Hub Authority (The Information and Privacy Commissioner (Office of the) Innovation Saskatchewan
Law Reform Commission of Saskatchewan
Leader of the Opposition (Office of the) Legislative Assembly Service
Liquor and Gaming Authority
Livestock Services of Saskatchewan Corporation with regard to employees who are out of the scope of a collective bargaining agreement
Meewasin Valley Authority
NDP Caucus Office
Ombudsman (Office of the) Prairie Diagnostic Services Inc.
Provincial Archives of Saskatchewan
Provincial Auditor (Office of the) Provincial Capital Commission
Public Interest Disclosure Commissioner (Office of the) Residential Tenancies (Office of) Saskatchewan Arts Board
Saskatchewan Assessment Management Agency
Saskatchewan Cancer Agency
Saskatchewan Centre of the Arts
Saskatchewan Crop Insurance Corporation
Saskatchewan Human Rights Commission
Saskatchewan Impaired Driver Treatment Centre
Saskatchewan Milk Marketing Board
Saskatchewan Municipal Board
Saskatchewan Party Caucus
Saskatchewan Polytechnic with regard to employees who are out of the scope of a collective bargaining agreement
Saskatchewan Pork Development Board
Saskatchewan Power Corporation

Saskatchewan Professional Teachers
Regulatory Board
Saskatchewan Public Safety Agency
Saskatchewan Telecommunications
Holding Corporation
SaskBuilds Corporation
SaskEnergy Incorporated
Tourism Saskatchewan
TransGas Limited
Wakamow Valley Authority
Wanuskewin Heritage Park Authority
Western Development Museums
Workers' Compensation Board (The)

The Government of Saskatchewan with respect to the following individuals:

Advocate for Children and Youth
Assistant Chief Electoral Officer
Chief Electoral Officer
Conflict of Interest Commissioner
Director of Residential Tenancies
Information and Privacy Commissioner
Legislative Assembly (Members of the)
Members of the Public Service of Saskatchewan as defined by *The Public Service Act, 1998*, excluding employees covered by the Saskatchewan Government and General Employees' Union
Ombudsman
Provincial Auditor
Public Interest Disclosure Commissioner
Senior Justices of the Peace, appointed under section 4 of *The Justices of the Peace Act, 1988*
Justices of the Peace, appointed pursuant to *The Justices of the Peace Act, 1988* who are not court officials

Administration

The Public Employees Disability Income Plan is self-insured and is managed by the Public Employees Benefits Agency, Ministry of Finance.

The Disability Income Plan Advisory Council has been established under Section 15 of *The Executive Government Administration Act* and is comprised of an equal number of management and union representatives appointed by Minister's Order. The Canada Life Assurance Company (Canada Life) is on contract under an Administrative Services Only agreement to provide claims adjudication and benefit payment services to the Plan.

Where appropriate and in discretion of the Plan Administrator, CBI Limited and Bridges Health provide rehabilitation services to the Plan.

Investment Management Services

The Minister of Finance is authorized to invest money of the Disability Income Fund in any class of investments authorized for the investment of monies in the General Revenue Fund.

Canada Life Assurance Company (Canada Life) invests the monies of the Fund under a contract to provide services. The Fund pays management fees to Mackenzie Financial Corporation (all funds excluding the Mortgage Fund) and Canada Life (Mortgage Fund).

Funding

Employees and employers pay premiums monthly. Employees contribute 0.97 per cent of their basic monthly salary and employers contribute between 1.11 per cent and 1.26 per cent. For some plan participants the employer pays 100 per cent.

Benefits

After serving a qualifying period of 119 calendar days (or 85 working days on a non-consecutive basis), the gross monthly disability benefit is equal to 75 per cent of pre-disability basic monthly salary.

Benefits are initially payable while an employee is occupationally disabled (unable to work at his or her own occupation). This period covers 24 months from the date of disability.

Thereafter, the employee must be totally disabled from any reasonable occupation for benefits to continue.

Benefits will continue under the total disability provision until the earlier of return to work, death, age 65, or retirement.

Premiums/Claims Experience

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Premiums	\$24,429,159	\$23,446,218
Claims	\$23,377,763	\$21,418,054
Active Claims	419	415

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

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

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

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

The Public Employees Disability Income Fund has a system of internal controls adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian public sector accounting standards.

The Disability Income Plan Advisory Council was established in 1978 and is comprised of an equal number of management and labour representatives. It is responsible for reviewing policies and procedures governing the operations of the Disability Income Plan, address appeals where benefits have been declined by the insurance carrier and oversee management of the investment fund.

Enclosed are the financial statements of the Public Employees Disability Income Fund for the year ended December 31, 2022, and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan
April 12, 2023



Jeremy Phillips
Assistant Deputy Minister
Public Employees Benefits Agency
Ministry of Finance

Actuarial Opinion

With respect to the *Public Employees Disability Income Plan*, we have prepared an actuarial valuation as at December 31, 2022 for the purpose of determining the necessary actuarial information for financial statement reporting in accordance with Sections 3250 and 3255 of the Chartered Professional Accountants Canada (CPA Canada) Public Sector Accounting Handbook. In our opinion, for the purpose of this actuarial valuation:

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

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

In March 2020, the World Health Organization declared a state of global pandemic linked to the 2019 coronavirus disease (COVID-19). The COVID-19 pandemic in Canada has been accompanied by several waves of disease-related deaths. The net effect on short- and long-term mortality from COVID-19 will depend on the effectiveness of containment measures, vaccination campaigns, and potential treatments, as well as potential future variant outbreaks. Faced with this uncertainty, our view of basic mortality, as well as the impact on the future progression of life expectancy, remains unchanged. Accordingly, the disability valuation table assumption is also unchanged. The impact of COVID-19 will, however, affect the results of future valuations to the extent that actual deaths differ from expected.

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



David Larsen

Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries



Brad Nehring

Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

March 3, 2023

Public Employees Disability Income Fund

Financial Statements

Year Ended December 31, 2022



INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

Opinion

We have audited the financial statements of the Public Employees Disability Income Fund, which comprise the statement of financial position as at December 31, 2022, and the statements of operations and change in net assets, remeasurement gains and losses, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Employees Disability Income Fund as at December 31, 2022, and the results of its operations, changes in its net assets, remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Public Employees Disability Income Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the *Public Employees Disability Income Fund Annual Report for 2022*, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or any knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Public Employees Disability Income Fund's financial reporting process



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during the audit.

Regina, Saskatchewan
April 12, 2023

Tara Clemett, CPA, CA, CISA
Provincial Auditor
Office of the Provincial Auditor

**Public Employees Disability Income Fund
Statement of Financial Position**

Statement 1

As At December 31

	<u>2022</u>	<u>2021</u>
Financial Assets		
Cash	\$ 2,098,513	\$ 2,021,330
Due from The Canada Life Assurance Company (Note 4)	523,950	528,046
Accounts Receivable	1,141,857	1,180,847
Investments (Note 3)	<u>135,841,134</u>	<u>149,366,172</u>
	<u>139,605,454</u>	<u>153,096,395</u>
Liabilities		
Accounts Payable	402,170	451,498
Employer Premium Payable	77,712	138,671
Provision for Claims Payable (Note 5)	<u>129,301,000</u>	<u>125,780,000</u>
	<u>129,780,882</u>	<u>126,370,169</u>
Net Financial Assets and Accumulated Surplus	<u>\$ 9,824,572</u>	<u>\$ 26,726,226</u>
Accumulated Surplus is comprised of:		
Accumulated Surplus from Operations (Statement 2, Note 2h)	\$ 15,797,192	\$ 18,130,032
Accumulated Remeasurement (Loss) Gain (Statement 3)	<u>(5,972,620)</u>	<u>8,596,194</u>
Total Accumulated Surplus	<u>\$ 9,824,572</u>	<u>\$ 26,726,226</u>

Contingencies (Note 7)

(See accompanying notes to the financial statements)

Public Employees Disability Income Fund

Statement 2

Statement of Operations and Change in Net Financial Assets and Accumulated Surplus

Year Ended December 31

	2022		2021 (Re-stated)
	Budget (Note 10)	Actual	Actual
Revenues			
Premiums	\$ 24,583,840	\$ 24,429,159	\$ 23,446,218
Change in Provision for Claims Payable (Note 5)	-	-	2,530,000
Investment Income (Note 2d & 2h)	4,409,856	2,436,123	8,862,119
Interest Income	2,123	11,625	2,125
	<u>28,995,819</u>	<u>26,876,907</u>	<u>34,840,462</u>
Expenses			
Disability Benefits	21,443,369	23,377,763	21,418,054
Change in Provision for Claims Payable (Note 5)	-	3,521,000	-
Administration (Note 6)	1,445,000	1,158,677	1,140,463
Adjudication Fees	831,433	812,564	838,930
Investment Management Fees	368,664	339,743	352,389
	<u>24,088,466</u>	<u>29,209,747</u>	<u>23,749,836</u>
Operating Surplus	4,907,353	(2,332,840)	11,090,626
Accumulated Surplus from Operations, Beginning of Year (Note 2h)	<u>18,130,032</u>	<u>18,130,032</u>	<u>7,039,406</u>
Accumulated Surplus from Operations, End of Year – (Statement 1)	<u>\$ 23,037,385</u>	<u>\$ 15,797,192</u>	<u>\$ 18,130,032</u>

(See accompanying notes to the financial statements)

**Public Employees Disability Income Fund
Statement of Remeasurement Gains and Losses**

Statement 3

Year Ended December 31

	<u>2022</u>	<u>2021</u>
Accumulated Remeasurement Gain Beginning of Year (Note 2h)	\$ 8,596,194	\$ 9,611,281
Unrealized Loss (Note 12)	<u>(14,568,814)</u>	<u>(1,015,087)</u>
Accumulated Remeasurement (Loss) Gain End of Year	<u>\$ (5,972,620)</u>	<u>\$ 8,596,194</u>

(See accompanying notes to the financial statements)

**Public Employees Disability Income Fund
Statement of Cash Flows**

Statement 4

Year Ended December 31

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Premiums Received	\$ 24,437,046	\$ 23,744,466
Disability Benefits Paid	(23,388,959)	(21,371,311)
Administration Expenses Paid	(1,212,501)	(1,079,674)
Adjudication Fees Paid	(812,499)	(838,496)
	<u>(976,913)</u>	<u>454,985</u>
Cash Flows from Investing Activities		
Net Purchases of Investments	<u>1,050,000</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	73,087	454,985
Cash and Cash Equivalents, Beginning of Year	<u>2,549,376</u>	<u>2,094,391</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,622,463</u>	<u>\$ 2,549,376</u>
Balance consists of:		
Cash	\$ 2,098,513	\$ 2,021,330
Due from The Canada Life Assurance Company	<u>523,950</u>	<u>528,046</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,622,463</u>	<u>\$ 2,549,376</u>

(See accompanying notes to the financial statements)

Public Employees Disability Income Fund Notes to the Financial Statements

December 31, 2022

1. Description of Fund

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

This Plan is managed by the Public Employees Benefits Agency (PEBA) under the direction of the Disability Income Plan Advisory Council and provides a level of income protection during periods of occupational or total disability. Plan participants are certain employees of the public service of the Province of Saskatchewan and Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The Government, through the Minister of Finance, entered into an agreement with The Canada Life Assurance Company to administer the Plan, effective January 1, 2009.

Premiums

Employees and employers pay premiums monthly. Employees contribute 0.97 per cent of their basic monthly salary and employers contribute between 1.11 per cent and 1.26 per cent. For some plan participants the employer pays 100 per cent of the employees' contributions.

Effective June 1, 1994, participating employers in the Public Employees Disability Income Plan remit an additional employer premium on behalf of all insured employees. This additional employer premium funds the employer's pension contribution on behalf of disabled employees who are members of the Public Employees Pension Plan. As some disabled employees are not members of the Public Employees Pension Plan, they are not entitled to have the employer's pension contribution remitted on their behalf. In these cases, the "deemed" employer's pension contribution will be refunded back to the employer each year commencing in 2005.

The refunds of the required premium, and the additional premiums, are recorded in premium revenue in the Statement of Operations and Change in Net Financial Assets.

Benefits

After a qualifying period of 119 calendar days, a disabled employee receives a gross monthly disability benefit equal to 75 per cent of pre-disability basic monthly salary. Benefits are initially payable while an employee is occupationally disabled (unable to work at his/her own occupation). This period covers 24 months from the date of disability. Thereafter, the employee must be totally disabled from any reasonable occupation for benefits to continue. Benefits will continue under the total disability provision until the earlier of return to work, death, age 65 or retirement.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian public sector accounting standards. The following accounting policies are considered significant:

a) Premiums Revenue

Premiums are recognized as revenue when due.

b) Disability Benefits Expense

Disability benefits expense is recognized commencing in the year the claim occurred.

c) Investments

The investments are held by GLC Asset Management Group Ltd. (GLC) on behalf of PEDIF in an assortment of pooled funds including a money market, bond, mortgage, Canadian equity, US equity, and International equity pooled fund. All investments are valued at fair value. Pooled fund investments are valued at the year-end unit value supplied by the pooled-fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices. The market values of investments in foreign currencies are translated into Canadian dollars at the closing rate of exchange on December 31, 2022. The purchase and sale of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions.

d) Investment Income

Investment income is recognized when earned and includes pooled fund income and realized gains or losses on the sale of investments.

e) Provision for Claims Payable

The provision for claims payable represents the present value of future payments arising from claims made prior to year-end. This provision includes an estimated amount for claims incurred but not yet reported at year-end. The provision for claims payable is determined pursuant to an actuarial valuation. Any resulting change in this liability is recognized as a revenue or expense in the Statement of Operations and Change in Net Assets.

f) Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year.

Significant items subject to such estimates and assumptions include the determination of the provision for unpaid claims and adjudication expenses to be incurred on claims not yet paid.

The primary measurement uncertainty arising from the use of estimates which may affect reported amounts, relates to the valuation of the provision for claims payable – see Note 5.

g) Financial Instruments

Receivables and payables are measured at cost which approximates their fair value. As described in Note 2c, the investments are held by GLC and are measured at fair value.

The changes in fair value of investments are unrealized gains and losses and are recognized through the Statement of Remeasurement Gains and Losses (Statement 3).

h) Accounting Changes and Re-statement

The Statement of Remeasurement Gains and Losses (Statement 3) is being presented for the first time in 2022 as management now has the ability to determine both realized and unrealized gains and losses related to the pooled fund investments. In 2022, Management received new investment reporting from Canada Life that provides details on the realized and unrealized gains and losses. Realized gains and losses are recognized in the Statement of Operations and Change in Net Assets. Unrealized gains and losses are recognized in the Statement of Remeasurement Gains and Losses until the related investments are sold.

As a result of the above accounting change, consistent with Section PS 3450, 2021 comparative figures were restated as follows: The investment income and operating surplus were reduced by \$1,015,087 which is now reflected in Statement of Remeasurement Gains and Losses.

3. Investments

At December 31, 2022, the investments held on behalf of PEDIF by GLC in various pooled funds consist of short-term notes, Canadian government and corporate bonds, mortgages, Canadian equities, US equities, and International equities. GLC does not remit the investment income to PEDIF; it reinvests the income, net of management fees, in the pooled funds. The Plan's pooled funds are comprised of the following:

	<u>2022</u>	<u>2021</u>
Money Market Fund	\$ 5,433,645	\$ 5,974,647
Bond Fund	59,770,099	65,721,116
Mortgage Fund	19,017,759	20,911,264
Equity Funds	51,619,631	56,759,145
	<u>\$ 135,841,134</u>	<u>\$ 149,366,172</u>

Fair Value

The Plan has classified its fair-valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

PEDIF only holds pooled funds that are classified at level 2.

4. Due from/to The Canada Life Assurance Company

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

5. Provision for Claims Payable

An actuarial valuation was performed by Aon Hewitt as at December 31, 2022, to determine the liability for the future cost of existing claims of disabled members. The valuation includes a provision for claims incurred but not yet reported.

The provision for claims payable as at December 31 and the principal components of the change in provision for claims payable during the year were as follows:

	<u>2022</u>	<u>2021</u>
Provision for Claims Payable, Beginning of Year	\$ 125,780,000	\$ 128,310,000
Interest on Previous Liability	5,157,000	4,876,000
Mortality and Termination Experience (Gain)	4,597,000	(5,565,000)
Change in Assumptions	(7,286,000)	(1,559,000)
New Claims	21,422,000	19,170,000
Data Changes	(2,000)	797,000
Expected Benefits Payments	<u>(20,367,000)</u>	<u>(20,249,000)</u>
Provision for Claims Payable, End of Year	<u>\$ 129,301,000</u>	<u>\$ 125,780,000</u>

The actuarial valuation is based on the following assumptions:

- 1) The allowance for claim termination is based on the Canadian Group Long-Term Disability Termination Study, 2009 to 2015, as published by the Canadian Institute of Actuaries in January 2019;
- 2) The interest rate assumed is 5.5 per cent (2021 – 4.1 per cent); and
- 3) The inflation rate assumed is 2.3 per cent (2021 – 2.3 per cent) for all future years.

The amount of benefits payable under the Plan may be increased on October 1 each year. The increase in benefits is indexed, subject to a maximum of 3.0 per cent per annum, to the Consumer Price Index for the year ending on the immediately preceding July 1.

If the actuarial valuation assumed no indexing of benefits each year, the liability at December 31, 2022, would be \$114,321,000 (2021 - \$110,180,000).

The liability for claims is based on a number of assumptions about future events including: recovery and mortality rates, interest rates and expected benefits from other sources. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate, cost of living adjustment and recovery rates:

- A 1.0 per cent decrease in discount rate would result in a 4.9 per cent increase (2021 – 5.2 per cent) in the liability including the cost of living adjustment as determined by the Consumer Price Index;
- A 1.0 per cent decrease in the cost of living adjustment would result in a 5.1 per cent decrease (2021 – 5.4 per cent) in the liability; and
- A 10.0 per cent decrease in recovery rates would result in a 3.9 per cent increase (2021 – 4.1 per cent) in the liability.

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

6. Administration Expenses

PEBA administers PEDIF for a mutually agreed upon fee. All administration expenses related to PEDIF are paid through the PEBA Revolving Fund and billed to PEDIF on a monthly basis.

7. Contingencies

PEDIF is a party to a number of lawsuits initiated by claimants relating to disability benefits. The ultimate outcome of these lawsuits is not yet determinable and the extent of these lawsuits cannot be measured. The plan is exposed to liability up to the amount that claimants feel they are entitled to from having their claims declined, but due to ongoing litigation no information related to the extent of claims will be disclosed at this time. Accordingly, no liability has been recorded in these financial statements. Liabilities arising from the resolution of these lawsuits will be accounted for in the year the lawsuits are settled.

8. Investment Performance

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

	<u>2022</u>	<u>Four-Year Annualized Return</u>
Actual (a)	-8.1%	3.8%
Benchmark (b)	-9.9%	3.7%

(a) The annual returns are before deducting investment expenses.

(b) The benchmark return is PEDIF's target rate of return for its investments. The benchmark return is based on the performance of PEDIF's planned investment portfolio.

The assets within the PEDIF can be invested as authorized within the PEDIF's Statement of Investment Policies and Goals (Investment Policy). The Disability Income Plan Advisory Council has an agreement in place with GLC to invest the monies of PEDIF in a selection of investment mandates offered by GLC consistent with the Investment Policy. PEDIF pays investment management fees to GLC for providing this service.

9. Financial Risk Management

The nature of the PEDIF's operations results in a Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk), and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an Investment Policy, which is approved annually. The Investment Policy provides guidelines to PEDIF's investment manager for the asset mix of the portfolio regarding quality and quantity of fixed income and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. PEBA reviews regular compliance reports from the investment manager as to its compliance with the Investment Policy. PEBA also reviews

regular compliance reports from the pooled fund custodian as to the investment manager's compliance with the Investment Policy.

Credit Risk

PEDIF's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2022, is limited to the carrying value of the financial assets summarized as follows:

	<u>2022</u>	<u>2021</u>
	Carrying value	Carrying value
Accounts Receivable	\$ 1,141,857	\$ 1,180,847
Due from The Canada Life Assurance Company	523,950	528,046
Investments ¹	84,221,503	92,607,027

¹Bonds, mortgages & money market investments held on behalf of PEDIF.

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

Credit risk within investments is primarily related to the fixed income pooled funds. It is managed through the Investment Policy that limits fixed term investments to those of high credit quality (minimum rating for bonds and mortgages, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Market Risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest Rate Risk

PEDIF is exposed to changes in interest rates in its fixed income investments. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point change in interest rates would change operating surplus, and net assets and accumulated surplus by \$4.5 million at December 31, 2022, representing 5.3 per cent of the \$84.2 million fair value of fixed income investments.

Foreign Exchange

PEDIF is exposed to changes in the U.S. dollar exchange rate through its U.S. equity pooled fund. Also, PEDIF is exposed to non-North American currencies through its non-North American equity pooled fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 18 per cent each of the market value of the total investment portfolio. At December 31, 2022, PEDIF's exposure to U.S. equities was 11.0 per cent (2021 – 11.0 per cent) and its exposure to non-North American equities was 13.0 per cent (2021 – 13.0 per cent).

At December 31, 2022, a 10 per cent appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$1.49 million decrease in operating surplus, and net assets and accumulated surplus. A 10 per cent appreciation in the Canadian dollar versus the non-North American currencies would result in approximately a \$1.77 million decrease in operating surplus, and net assets and accumulated surplus.

Equity Prices

PEDIF is exposed to changes in equity prices in Canadian, U.S. and non-North American markets through its pooled funds. Equity pooled funds comprise 38.0 per cent (2021 – 38.0 per cent) of the carrying value of the Plan's total investments.

The following table indicates the approximate change that could be anticipated in operating surplus, and net assets and accumulated surplus based on changes in PEDIF's benchmark indices at December 31, 2022:

	<u>10% increase</u>	<u>10% decrease</u>
S&P/TSX Composite Index	\$1,901,776	\$(1,901,776)
S&P 500 Index	1,494,252	(1,494,252)
MSCI EAFE Index	1,765,935	(1,765,935)

Liquidity Risk

Liquidity risk is the risk that PEDIF is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable and claims payable are due within one year.

10. Budget

The 2022 PEDIF operating budget was approved by the Disability Income Plan Advisory Council on December 8, 2021.

11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Plan by virtue of common control by the Government of Saskatchewan, as well as key management personnel and their close family members (collectively referred to as "related parties"). Related party transactions with the Plan are in the normal course of operations and are recorded at fair market value.

12. Unrealized Investment Gains and Losses

At December 31, 2022, the investments held on behalf of PEDIF by GLC in various pooled funds consist of short-term notes, Canadian government and corporate bonds, mortgages, Canadian equities, US equities, and International equities. Unrealized gains and losses for the period are recognized in the Statement of Remeasurement Gains and Losses (Statement 3) due to accounting changes and re-statement (Note 2h).

	<u>2022</u>	<u>2021</u>
Canadian Growth	\$ (1,896,674)	\$ 335,779
International Equity (SP)	(364,586)	(382,807)
International Opportunity Fund	(1,919,763)	732,147
Mortgage	(1,426,056)	(558,784)
PEBA Bond Fund	(4,771,821)	(2,925,760)
U.S. Equity Index	(4,189,914)	1,784,338
	<u>\$ (14,568,814)</u>	<u>\$ (1,015,087)</u>