



Prince Edward Island

Office of the  
Auditor General

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C.P. 2000, Charlottetown PE  
Canada C1A 7N8

April 26, 2022

Ms. Bethany MacLeod  
Chair  
Teachers' Pension Plan Commission  
Department of Education and Lifelong Learning  
Province of Prince Edward Island

Dear Ms. MacLeod:

Enclosed is a copy of the audited financial statements of the **Prince Edward Island Teachers' Pension Plan** for the year ended June 30, 2021.

If you have any questions, please do not hesitate to contact my Office.

Yours truly,

Darren Noonan, CPA, CA  
Auditor General

DN/bc  
Enclosure

c: Hon. Natalie Jameson  
Hon. Darlene Compton  
✓ Mr. Terry Hogan  
Ms. Denise Lewis-Fleming, MPA, CPA, CA  
Ms. Cindy Harris, MPA, MBA  
Ms. Judy Killam, CPA, CGA



**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

Financial Statements  
June 30, 2021



## Management's Report

### *Management's Responsibility for the Financial Statements*

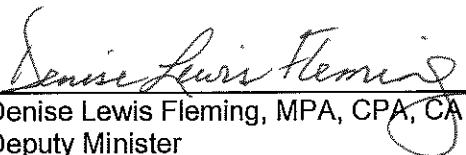
The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Pension Plans and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

The Prince Edward Island Teachers' Pension Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commission reviews internal financial reports on a regular basis and externally audited financial statements yearly.

The Office of the Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses their opinion on the financial statements. The Office of the Auditor General has full and free access to financial information and management of the Prince Edward Island Teachers' Pension Plan to meet as required.

On behalf of the Prince Edward Island Teachers' Pension Plan



Denise Lewis Fleming, MPA, CPA, CA  
Deputy Minister  
Department of Finance



Terry Hogan  
Manager, Pensions and Benefits  
Department of Finance

March 4, 2022



## INDEPENDENT AUDITOR'S REPORT

### To the Commissioners of the Prince Edward Island Teachers' Pension Plan

#### Opinion

I have audited the financial statements of the **Prince Edward Island Teachers' Pension Plan**, which comprise the statement of financial position as at June 30, 2021, the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Plan as at June 30, 2021 and the changes in its net assets available for benefits and its pension obligation for the year then ended in accordance with Canadian Accounting Standards for Pension Plans.

#### Basis for Opinion

I conducted the audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Plan in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### 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 Accounting Standards for Pension Plans and for such internal control that 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 an intention exists to liquidate or cease the operations of the Plan, or there is no realistic alternative but to do so.

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

#### Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

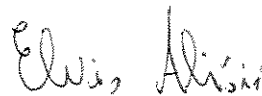
As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- 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 my 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's 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.

I 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 I identify during my audit.



**Darren Noonan, CPA, CA**  
**Auditor General**



**Elvis Alisic, CPA, CA**  
**Audit Director**

**Charlottetown, Prince Edward Island**  
**March 4, 2022**



**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**


Statement of Financial Position  
June 30, 2021

	2021	2020
	\$	\$
<b>Assets</b>		
Cash	1,883,579	3,510,178
Investments (Note 3)	935,266,334	820,232,549
Notes receivable (Note 5)	172,677,000	180,713,900
Receivables		
Contributions - employee	926,695	807,643
- employer	940,883	816,730
Accrued interest	3,466,318	3,524,585
Other	<u>169,681</u>	<u>395,713</u>
<b>Total Assets</b>	<u>1,115,330,490</u>	<u>1,010,001,298</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,008,850	1,216,186
Remittances payable	920,903	883,423
Investment fees payable	772,690	735,940
Due to the Province of Prince Edward Island	<u>-</u>	<u>371,348</u>
<b>Total Liabilities</b>	<u>2,702,443</u>	<u>3,206,897</u>
<b>Net Assets Available for Benefits</b>	<u>1,112,628,047</u>	<u>1,006,794,401</u>
<b>Accrued Pension Obligation (Note 4)</b>	<u>1,112,628,047</u>	<u>1,006,794,401</u>
<b>Net Surplus (Deficit)</b>	<u>-</u>	<u>-</u>
<b>Supplementary Information</b>		
Commitments (Note 10)		

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

Approved on behalf of the Prince Edward Island Teachers' Pension Plan

  
Chairperson

  
Commissioner

**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

Statement of Changes in Net Assets Available for Benefits  
for the year ended June 30, 2021

	2021	Restated 2020
	\$	\$
<b>Increase in Net Assets</b>		
Investment income (Note 3(a))	29,040,588	38,378,653
Change in fair value of investments (Note 3(a))	<u>98,452,151</u>	<u>(31,885,036)</u>
	127,492,739	6,493,617
Interest income on notes receivable	7,235,855	7,495,362
Contributions		
Employee	13,833,501	12,994,960
Employer	13,833,501	12,994,960
Transfers from other plans	157,299	738,844
Purchased service	<u>271,836</u>	<u>220,057</u>
	<u>162,824,731</u>	<u>40,937,800</u>
<b>Decrease in Net Assets</b>		
Pension benefits paid (Note 6)	51,803,191	49,945,417
Operating expenses (Note 7)	5,078,343	4,914,609
Refunds (Note 6)	84,970	366,208
Transfers (Note 6)	<u>24,581</u>	<u>61,930</u>
	<u>56,991,085</u>	<u>55,288,164</u>
<b>Change in Net Assets Available for Benefits</b>	105,833,646	(14,350,364)
Net Assets Available for Benefits, beginning of year	<u>1,006,794,401</u>	<u>1,021,144,765</u>
<b>Net Assets Available for Benefits, end of year</b>	<u>1,112,628,047</u>	<u>1,006,794,401</u>
<b>Supplementary Information</b>		
Restatement of prior period amounts (Note 13)		

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

**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**  
Statement of Changes in Pension Obligation  
for the year ended June 30, 2021

	<b>2021</b>	<b>2020</b>
	\$	\$
<b>Accrued Pension Obligation, beginning of year</b>	<u>1,006,794,401</u>	<u>1,021,144,765</u>
<b>Change in Accrued Pension Obligation</b>		
Interest accrued on benefits	57,021,512	56,524,397
Benefits accrued	18,546,960	17,434,567
Increase due to purchased service	429,134	958,903
Benefits paid (Note 6)	(51,912,742)	(50,373,555)
Loss (gain) on experience and assumption changes and contingent indexation	<u>81,748,782</u>	<u>(38,894,676)</u>
<b>Change in Accrued Pension Obligation</b>	<u>105,833,646</u>	<u>(14,350,364)</u>
<b>Accrued Pension Obligation, end of year (Note 4)</b>	<u>1,112,628,047</u>	<u>1,006,794,401</u>

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

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

## 1. Plan Description

The following description of the Prince Edward Island Teachers' Pension Plan (the Plan, formerly known as the Teachers' Superannuation Fund) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Plan Act and Regulations*.

### a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Teachers' Pension Plan Act*.

### b) Contributions

Under the Plan, members make contributions amounting to 8.3 percent of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canada Pension Plan Act* and 10.0 percent on the amount that exceeds the YMPE. Participating employers match member contributions. Herein these are considered the Base Contributions. Beginning January 1, 2017, variable contributions have been introduced based on the funded benefits ratio as defined below (note that contribution changes by funded level are total and not cumulative).

Funded Benefits Ratio	Employee Contributions <sup>1</sup>	Participating Employer Contributions <sup>1</sup>
<100% <sup>2</sup>	Base Contributions plus 1%	Base Contributions plus 4%
100% to 110% <sup>3</sup>	Base Contributions plus 1%	Base Contributions plus 2%
110% to 135%	Base Contributions	Base Contributions
135% to 145% <sup>4</sup>	Base Contributions less 1%	Base Contributions less 2%
145% + <sup>5</sup>	Base Contributions less 1%	Base Contributions less 4%

<sup>1</sup> Subject to the Income Tax Act Rules for maximum contributions.

<sup>2</sup> If triggered, contributions based on funded benefits ratio <100% remain in effect until funded benefits ratio of ≥ 105% is attained.

<sup>3</sup> If triggered, contributions based on funded benefits ratio <110% remain in effect until funded benefits ratio of ≥ 115% is attained.

<sup>4</sup> If triggered, contributions based on funded benefits ratio ≥135% remain in effect until funded benefits ratio of ≤ 130% is attained.

<sup>5</sup> If triggered, contributions based on funded benefits ratio ≥145% remain in effect until funded benefits ratio of ≤ 140% is attained.

### c) Retirement Benefits

*Pension Formula:* The annual pension is based on the number of years of service times two percent of average salary with a reduction at age 65 for estimated Canada Pension Plan ("CPP") benefits. The reduction is referred to as a bridge pension and only payable to age 65. The bridge is based on the number of years of service times 0.7 percent of average salary to a maximum of the average CPP year's maximum pensionable earnings. For Service prior to December 31, 2013, average salary and year's maximum pensionable earnings is based on the best five-year average. For service commencing January 1, 2014, average salary and year's maximum pensionable earnings is based on career average.

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 1. Plan Description (continued...)

*Pre-Retirement Indexation:* Benefits earned during 2014 to 2016, were automatically indexed at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits, which are the Plan benefits prior to any future contingent indexation. In 2017 and beyond, pre-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 100 percent. If there are years that full indexation is not awarded, and if the funded benefits ratio subsequently reaches 115 percent, then a portion of Plan funds is available to make up for missed indexation in the past. The maximum indexation is 100 percent of the increase in the Average Industrial Wage ("AIW") in Canada. However, if in any year the assets available to be spent on inflation protection are not adequate to provide the full amount, partial indexation will be awarded.

*Post-Retirement Indexation:* For 2014 to 2016, post-retirement indexation was automatically awarded at 0.9 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits. In 2017 and beyond, post-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 110 percent. If there are years that full post-retirement indexation is not awarded, and if the funded benefit ratio subsequently reaches 118 percent, then a portion of Plan funds is available to make up for missed past indexation on a go-forward basis (i.e. no retroactive payments). The maximum indexation is 100 percent of Consumer Price Index (CPI); however, if the Plan cannot afford that amount, partial indexation will be awarded. Indexation also applies to deferred vested benefits and is applied in the same manner as the post-retirement indexation.

*Retirement Age:* For pensionable service prior to January 1, 2019, the earliest unreduced retirement age remains at the earlier of 30 years of pensionable service (minimum of age 55) and attained age 60. For pensionable service after December 31, 2018, the earliest unreduced retirement age will be the earlier of 32 years of pensionable service (minimum of age 55) and attained age 62. The earliest retirement age is 55 with two years of continuous service.

### d) Disability Benefits

Disability benefits are available at any age to a member who retires from teaching service because of total and permanent disability provided the member contributed to the Plan for two or more years.

### e) Death Benefits

*Less than two years of continuous service:* On the death of a member prior to completing two years of pensionable service, the member's accumulated contributions with interest will be refunded.

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 1. Plan Description (continued...)

*Greater than or equal to two years of continuous service:* If a member dies prior to retirement but after completing two years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to ten percent of the member's or vested former member's pension entitlement at death prior to retirement is payable in respect of each dependent child, up to a maximum of four children, until the child is no longer a dependent child or upon the death of the dependent child. Where a member dies after two years of service and before retirement and does not leave a surviving spouse or dependent children, the personal representative of the member shall receive a lump sum amount equal to one and a half times the member's accumulated contributions plus interest.

If the spouse of the member dies before the member, or where having survived the member the surviving spouse dies leaving children by the member, the 60 percent pension that was payable to the spouse will be paid to the dependent child or the guardian of that child, if the member or vested former member is survived by only one dependent child, or the oldest dependent child or the guardian of that child.

### f) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest; or
- if the member has completed at least two years of service, a deferred pension subject to the provisions outlined in the *Retirement Age* section at Note 1(c).

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension benefits to those other plans or transfer contributions and service from those other plans to increase pension benefits under the Plan.

### g) Marriage Breakdown

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

### h) Income Tax

The Plan is a registered pension plan as defined under the federal *Income Tax Act* and is not subject to taxation.



# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 2. Summary of Significant Accounting Policies

### Basis of Accounting

The financial statements have been prepared in accordance with Canadian Accounting Standards for Pension Plans as outlined in the Chartered Professional Accountants of Canada (CPA) Handbook Section 4600, Pension Plans. For accounting policies that do not relate to either investments or pension obligations, the Plan has elected to comply on a consistent basis with International Financial Reporting Standards (IFRS) in Part I of the CPA Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Included in the determination of the accrued pension obligation for pension retirement benefits is a liability for contingent indexation.

For the year ended June 30, 2021, the contingent indexation liability is calculated based on total plan assets less the accrued pension obligation on base benefits assuming no further contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains or losses on asset returns, and new benefit accruals.

Significant judgment is involved in the accounting treatment of contingent indexation. Management recognizes that the contingent indexation liability represents a new challenge for pensions in Canada. Going forward, management will continue to monitor developments in the accounting standards and practices when assessing the most appropriate accounting treatment for plans with a contingent indexation liability component.

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

### a) Use of Estimates and Measurement Uncertainty

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Items requiring the use of significant estimates include investments, accrued interest, accrued liabilities, and the accrued pension obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates and the differences could be material.

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 2. Summary of Significant Accounting Policies (continued...)

### b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the transaction date. The fair value of foreign investments and cash held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in the current period change in fair value of investments.

### c) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and/or discounted cash flow analysis.

### d) Financial Instruments

The Plan's financial instruments include cash, contributions and other receivables, accrued interest, notes receivable, investments, accounts payable, accrued liabilities, amounts due to the Province of Prince Edward Island, investment fees payable, and remittances payable. Due to their nature, the Plan's financial instruments, with the exception of investments, are carried at amortized cost which approximates their fair value. Investments are classified as fair value through the statement of changes in net assets available for benefits. Investments are carried at fair value and are subject to interest rate, credit, foreign currency, price, and liquidity risks as described in Note 3.

### e) Investments

The Province sponsors various defined benefit pension plans. The primary plans are the PEI Public Sector Pension Plan, the PEI Teachers' Pension Plan, and the Pension Plan for Members of the Legislative Assembly of the Province of PEI. Investments of the primary plans are held within the Province of PEI Master Trust, which is administered by external investment managers under policy guidelines set down by Executive Council and supervised by a Joint Investment Advisory Committee to the Minister of Finance. Investments are allocated to each primary plan by units of their participation.

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 2. Summary of Significant Accounting Policies (continued...)

Significant accounting policies for the investments held in the Master Trust consist of:

### (i) Investment Transactions

Investment transactions are recognized on the transaction date. Distributions are recognized on the record date. Investments include receivables and payables at June 30, 2021 for interest, dividends, and settled derivative contracts.

### (ii) Income Recognition

Income from investments is recorded on an accrual basis and includes interest and dividends as well as realized and unrealized gains and losses on investments.

### (iii) Investment Valuation

#### Equity and debt

Equity and debt investments are valued at fair value based on quoted market values. Changes in the market value of investments, including realized and unrealized gains and losses, are reflected in the financial statements as a change in the fair value of investments.

#### Equity investment in real estate

Investment in real estate is represented by an equity investment in a corporation that invests in real estate, participating mortgages, and property for development or resale. Properties within the corporation are valued annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. The appraisal methodology followed is an income approach which is mainly based on discounted cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return.

#### Pooled funds

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represents the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

#### Derivative contracts

The derivative contracts held by the Plan are stated at fair value and are valued using quoted market indices. Realized and unrealized gains or losses on investments from derivative contracts are included in the change in the fair value of investments.

#### Investment in foreign infrastructure

The Plan owns units in a foreign infrastructure partnership. The partnership invests in portfolio companies that own, operate, develop, manage, and support infrastructure assets. Fair value is based upon a number of factors, including readily available market quotes with appropriate adjustments for trading restrictions, the most recent round of financings, earnings-multiple analysis using comparable companies, or discounted cash flow analysis.

**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

Notes to Financial Statements  
June 30, 2021

**2. Summary of Significant Accounting Policies (continued...)**

**(iv) Transaction Costs**

Investment management fees are costs directly attributable to the external management of the assets. All fees incurred on the management of investments are recorded as an investment expense. This policy has been updated to be in line with Canadian Accounting Standards for Pension Plans. Investment expenses are disclosed in Note 7.

**f) Revenues and Expenses**

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

**g) Accrued Pension Obligation**

The value of the accrued pension obligation of the Plan is based on an annual actuarial valuation prepared on an accounting basis by an independent actuary using the projected unit credit method pro-rated on service and best estimate assumptions. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Plan.

**3. Investments and Derivatives**

**a) Investments**

Investments consist of units held in the Master Trust. At year-end, there were 654,831.646 units held in the Master Trust (2020 – 601,666.941) with a fair value of \$1,428.25 (2020 - \$1,363.27) per unit.

Investments of the Master Trust consist of the following listed assets:

	<u>2021</u>	<u>%</u>	<u>2020</u>	<u>%</u>
	\$		\$	
Cash and Short-Term Investments	65,116,791	2.1	57,382,218	2.1
Long Core Plus Bond	299,434,872	9.6	262,073,241	9.7
Core Plus Bond	837,785,543	26.9	804,264,584	29.6
Canadian Equities	393,687,835	12.7	270,661,541	10.0
Global Equities	1,073,486,877	34.5	899,492,141	33.1
Canadian Real Estate	110,582,970	3.6	104,418,690	3.8
Global Real Estate	159,678,884	5.1	161,746,342	6.0
Global Infrastructure	184,259,616	5.9	146,697,416	5.4
Currency Overlay	<u>(13,997,113)</u>	<u>(0.4)</u>	<u>7,895,375</u>	<u>0.3</u>
<b>Total</b>	<b>3,110,036,275</b>	<b><u>100.0</u></b>	<b>2,714,631,548</b>	<b><u>100.0</u></b>
Plan's pro-rated share	<u>30.0725%</u>		<u>30.2152%</u>	
<b>Plan investments*</b>	<u><u>935,266,334</u></u>		<u><u>820,232,549</u></u>	

\*Rounded

**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

Notes to Financial Statements  
June 30, 2021

**3. Investments and Derivatives (continued...)**

Investment income and realized and unrealized gains (losses) of the Master Trust consist of the following:

	Investment Income	Change in Fair Value of Investments*	Investment Income	Change in Fair Value of Investments*
	<u>2021</u>	<u>2021</u>	<u>2020</u>	<u>2020</u>
	\$	\$	\$	\$
Cash and Short-Term Investments	85,701	(3,087,733)	150,059	8,896,032
Long Core Plus Bond	16,032,939	(31,871,307)	14,518,076	11,966,155
Core Plus Bond	39,381,654	(34,860,695)	28,551,722	26,066,352
Canadian Equities	9,626,183	113,940,078	9,663,798	(47,958,696)
Global Equities	20,381,619	203,613,116	58,876,072	(69,794,720)
Canadian Real Estate	-	6,164,280	-	3,295,057
Global Real Estate	4,598,513	(5,760,281)	4,650,229	6,171,362
Global Infrastructure	6,415,491	13,296,518	10,255,036	(15,954,352)
Currency Overlay	-	65,440,326	-	(28,147,753)
<b>Total</b>	<u>96,522,100</u>	<u>326,874,302</u>	<u>126,664,992</u>	<u>(105,460,563)</u>
Plan's pro-rated share	<u>30.0870%</u>	<u>30.1193%</u>	<u>30.2993%</u>	<u>30.2341%</u>
<b>Plan investments**</b>	<u>29,040,588</u>	<u>98,452,151</u>	<u>38,378,653</u>	<u>(31,885,036)</u>

\*Includes realized gains of \$192.6 million (2020 - gains of \$2.8 million) and unrealized gains of \$134.3 million (2020 - losses of \$108.3 million). Unrealized losses for 2020 fiscal period were restated as a result of a prior period restatement disclosed in Note 13.

\*\*Rounded

Investments include amounts which investment managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	<u>2021</u>	<u>2020</u>
	\$	\$
Baillie Gifford Overseas Limited	383,509,121	325,884,606
Beutel, Goodman & Company Limited	39,199,519	28,668,149
CBRE Global Investment Management	77,208,543	78,050,392
Global Infrastructure Partners (GIP)	132,697,983	117,038,861
Goldman Sachs Asset Management	520,121,862	490,401,616
Greystone Management Investments Inc.	209,246,524	198,362,115
Lazard Asset Management	51,561,633	29,658,555
Morgan Stanley Prime Property Fund	78,847,537	80,736,013
State Street Global Advisors Ltd.	3,622,804	2,959,936
TD Asset Management	978,701,486	899,254,891
Wellington Global PERSP (CAD)	<u>229,711,269</u>	<u>156,345,429</u>
<b>Total</b>	<u>2,704,428,281</u>	<u>2,407,360,563</u>
Plan's pro-rated share	<u>30.0725%</u>	<u>30.2152%</u>
<b>Plan's pooled funds*</b>	<u>813,289,782</u>	<u>727,389,871</u>
Plan's non-pooled investments*	<u>121,976,552</u>	<u>92,842,678</u>
<b>Plan investments*</b>	<u>935,266,334</u>	<u>820,232,549</u>

\*Rounded

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 3. Investments and Derivatives (continued...)

### b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is "derived" from the value of underlying assets or exchange rates. Derivative contracts provide flexibility in implementing investment strategy.

Forward contracts are used to manage currency exposure and mitigate risk with respect to investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of outstanding transactions and serves as the basis upon which the return and market value of the contract is determined.

The details of the Master Trust's derivative contracts are as follows:

	<u>2021</u>	<u>2020</u>
	\$	\$
<b>Notional Amount</b>	<u>771,503,641</u>	<u>730,384,344</u>
<b>Fair Value</b>	<u>(13,997,113)</u>	<u>7,895,375</u>

### c) Fair Value Disclosure

Plan investment assets recorded at fair value have been categorized based upon a fair value hierarchy on significant inputs used in measuring fair value. The following fair value hierarchy table presents information about the Plan's assets measured at fair value on a recurring basis at June 30, 2021.

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Inputs other than quoted prices that are observable either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities, investments in real estate and derivative contracts not traded in an open market.

Level 3: Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgment and/or estimation. Level 3 primarily consists of foreign infrastructure investments.

**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

Notes to Financial Statements

June 30, 2021

**3. Investments and Derivatives (continued...)**

The following table illustrates the classifications of the Plan's financial instruments using the fair value hierarchy as at June 30.

	2021			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Cash and Short-Term Investments	65,116,791	-	-	65,116,791
Long Core Plus Bond	-	299,434,872	-	299,434,872
Core Plus Bond	-	837,785,543	-	837,785,543
Canadian Equities	393,687,835	-	-	393,687,835
Global Equities	1,073,486,877	-	-	1,073,486,877
Canadian Real Estate	-	110,582,970	-	110,582,970
Global Real Estate	-	159,678,884	-	159,678,884
Global Infrastructure	51,561,633	-	132,697,983	184,259,616
Currency Overlay	-	(13,997,113)	-	(13,997,113)
<b>Totals</b>	<b><u>1,583,853,136</u></b>	<b><u>1,393,485,156</u></b>	<b><u>132,697,983</u></b>	<b><u>3,110,036,275</u></b>
<b>Total financial assets at fair value</b>				3,110,036,275
Plan's pro-rated share				<u>30.0725%</u>
<b>Plan investments*</b>				<u><u>935,266,334</u></u>

\*Rounded

	2020			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Cash and Short-Term Investments	57,382,218	-	-	57,382,218
Long Core Plus Bond	-	262,073,241	-	262,073,241
Core Plus Bond	-	804,264,584	-	804,264,584
Canadian Equities	270,661,541	-	-	270,661,541
Global Equities	899,492,141	-	-	899,492,141
Canadian Real Estate	-	104,418,690	-	104,418,690
Global Real Estate	-	161,746,342	-	161,746,342
Global Infrastructure	29,658,555	-	117,038,861	146,697,416
Currency Overlay	-	7,895,375	-	7,895,375
<b>Totals</b>	<b><u>1,257,194,455</u></b>	<b><u>1,340,398,232</u></b>	<b><u>117,038,861</u></b>	<b><u>2,714,631,548</u></b>
<b>Total financial assets at fair value</b>				2,714,631,548
Plan's pro-rated share				<u>30.2152%</u>
<b>Plan investments*</b>				<u><u>820,232,549</u></u>

\*Rounded

There were no significant transfers between any financial instruments during the year.

**PRINCE EDWARD ISLAND  
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Notes to Financial Statements  
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**3. Investments and Derivatives (continued...)**

The following table details changes in fair value measurement in Level 3 of the fair value hierarchy:

	<u>2021</u>	<u>2020</u>
	\$	\$
Level 3 investments, July 1	117,038,861	130,984,313
Transfers in	14,172,816	4,501,517
Disbursements	(8,570,712)	(9,875,222)
Net income received	4,248,916	8,082,481
Realized gains	1,648,092	1,135,698
Unrealized gains (losses)	<u>4,160,010</u>	<u>(17,789,926)</u>
Level 3 investments at fair value	132,697,983	117,038,861
Plan's pro-rated share	<u>30.0725%</u>	<u>30.2152%</u>
Level 3 investments, June 30*	<u>39,905,630</u>	<u>35,363,577</u>

\*Rounded

**d) Investment Risk Management**

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate, price, credit, and liquidity risks. The Plan has set formal goals, policies, and operating procedures that establish an asset mix among equity and fixed income, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counter parties.

Risk and credit considerations are periodically assessed in consultation with external consultants, the Department of Finance, and the Joint Investment Advisory Committee. Plan sponsor oversight, procedures, and compliance functions are incorporated into Plan processes to achieve consistent controls and to mitigate operational risk.

**(i) Interest Rate Risk**

Interest rate risk refers to the fact that the Plan's financial position will change with market interest rate changes as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Plan's assets and liabilities.

Assuming all other variables are held constant, a one percentage point change in nominal interest rates would change the fair value of the Plan by \$33.4 million (2020 - \$31.2 million).

	Value of Fixed Income Securities (millions) \$	Weighted Average Duration years	Percentage Point Change %	Impact on Fair Value of the Master Trust (millions) \$	Plan's Pro-rated Share %	Pro-rated Impact on Fair Value of the Plan (millions) \$
2021	1,137.2	9.75	1	110.9	30.0725	33.4



**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

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**3. Investments and Derivatives (continued...)**

**(ii) Price Risk**

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk is managed by the Plan through the use of diversified investment portfolios traded on various markets and across various industries. Assuming all other variables are held constant, a 10 percent change in market values of all public equities would change the fair value of the Plan by \$52.2 million (2020 - \$43.4 million).

	Value of Public Equities (millions) \$	Percentage Change %	Impact on Fair Value of the Master Trust (millions) \$	Plan's Pro-rated Share %	Pro-rated Impact on Fair Value of the Plan (millions) \$
2021	1,737.4	10	173.7	30.0725	52.2

**(iii) Credit Risk**

Credit risk is the risk of loss in the event the counter party to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk associated with the Plan is periodically assessed in consultation with external consultants, the Department of Finance, and the Joint Investment Advisory Committee.

**Fixed Income**

The Plan is exposed to credit risk from interest earning investments at June 30 as follows:

	2021 (millions) \$	2020 (millions) \$
Federal government	117.4	71.4
Provincial government	458.5	405.6
Corporate	560.4	575.7
Government agencies	1.0	13.7
<b>Total investment credit risk exposure</b>	<b>1,137.3</b>	<b>1,066.4</b>
Plan's pro-rated share	<u>30.0725%</u>	<u>30.2152%</u>
<b>Plan's investment credit risk exposure</b>	<b>342.0</b>	<b>322.2</b>
Provincial government promissory notes	<u>172.7</u>	<u>180.7</u>
<b>Plan's total credit risk exposure</b>	<b><u>514.7</u></b>	<b><u>502.9</u></b>

All fixed income investments are considered to have low credit risk.

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

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## 3. Investments and Derivatives (continued...)

### Security Lending

The Plan participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent when the value of the securities lent is denominated in a different currency and 102 percent when denominated in the same currency. The market value of the collateral is monitored by the custodian at least daily to ensure that the security thresholds are maintained. In addition, security loans are allocated across various borrowers within the program and the Plan holds indemnification coverage, which mitigates the credit and market risk on the collateral.

The fair value of the security loans outstanding and collateral held is as follows:

	<u>2021</u>	<u>2020</u>
	\$	\$
<b>Total security loans outstanding</b>	16,274,064	18,926,956
Plan's pro-rated share	<u>30.0725%</u>	<u>30.2152%</u>
<b>Plan's security loans outstanding*</b>	<u>4,894,022</u>	<u>5,718,826</u>
<b>Total collateral held</b>	17,154,510	20,097,679
Plan's pro-rated share	<u>30.0725%</u>	<u>30.2152%</u>
<b>Plan's collateral held*</b>	<u>5,158,794</u>	<u>6,072,563</u>

\*Rounded

### Derivatives

The Plan is exposed to credit related losses in the event of non performance by counter parties to derivative financial instruments. In order to mitigate this risk, the Plan deals only with highly rated counter parties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of "A-/A3" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counter parties failed completely to perform under the contracts and if the right of offset proved to be non enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counter parties, less any prepayment collateral or margin received as at the reporting date.

### (iv) Foreign Currency Risk

Foreign currency risk is the risk that the value of the future cash flow of the financial instrument will fluctuate because of changes in foreign exchange rates. Consequently, the Plan is exposed to the risk that the exchange rates of the various currencies may

**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

Notes to Financial Statements  
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**3. Investments and Derivatives (continued...)**

change in a manner that has an adverse effect on the value of the portion of the Plan's assets denominated in currencies other than the Canadian dollar. Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A strategy of hedging a portion of the currency exposure is used to mitigate this risk.

The Plan's unhedged currency exposure from net investment assets is summarized as follows:

	2021 <u>(millions)</u> \$	2020 <u>(millions)</u> \$
<b>Currency</b>		
China	29.2	24.7
Euro Zone	27.6	27.3
United Kingdom	39.5	27.6
India	14.1	10.0
Malaysia	12.3	11.7
Japan	99.1	80.9
Sweden	14.8	15.2
Taiwan	33.4	25.8
United States	145.2	60.8
South Africa	12.1	12.4
Other	<u>43.4</u>	<u>34.0</u>
<b>Total</b>	470.7	330.4
Plan's pro-rated share	<u>30.0725%</u>	<u>30.2152%</u>
<b>Plan's foreign currency exposure*</b>	<u>141.6</u>	<u>99.8</u>

\*Rounded

After the effect of hedging, and without a change in all other variables, a 10 percent change in the Canadian dollar against all other currencies would change the fair value of the Plan by \$14.2 million (2020 - \$10.0 million).

**(v) Liquidity Risk**

Liquidity risk is the risk of not meeting the cash obligations of the Plan in an efficient manner. Cash obligations are fulfilled from contributions to the Plan, cash income of the Plan, and dispositions of Plan assets as required. Cash requirements of the Plan are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Plan.

The Plan's cash management policy ensures that the quality and liquidity of the investment vehicles within the portfolio are consistent with the needs of the Plan.

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 4. Accrued Pension Obligation

### a) Actuarial Valuation

The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on service and management's best estimate, as at the valuation date, of future economic events and involves economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

The most recent actuarial valuation for accounting purposes, prepared by the actuarial consulting firm LifeWorks (Canada) Ltd., disclosed a base benefit liability of \$915,312,600 as at April 1, 2021.

The actuarial valuation on April 1, 2021 was based on data as at September 1, 2019 and the actuarial liability was then extrapolated to April 1, 2021 based on current period benefit cost, benefit payments and interest and adjusted for changes in actuarial assumptions. An actuarial valuation of the Plan is performed annually as at April 1<sup>st</sup>.

The world is in the midst of the COVID-19 health pandemic. Although the pandemic could have a material impact on the financial status of the Plan, there is currently insufficient information to determine the extent of either the short-term impact or the long-term impact of this pandemic on the Plan. The results of the accounting valuation as at April 1, 2021 only reflect the financial impact on plan assets and future return expectations up to that date, but do not reflect any further potential impacts on the Plan to occur after that date which may be caused by either economic and/or demographic outcomes different from the assumptions being used in the valuations. Such impacts will result in gains and losses to be revealed in future valuations.

The total accrued pension obligation as at April 1<sup>st</sup>, 2021 consists of the following:

	<u>2021</u>
Base benefit liability	\$915,312,600
Contingent indexation liability <sup>1</sup>	<u>163,799,100</u>
Total accrued pension obligation	<u>\$1,079,111,700</u>

<sup>1</sup>The contingent indexation liability is calculated based on total plan assets less the accrued pension obligation assuming no future contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains and losses on asset returns and new benefit accruals.

**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

Notes to Financial Statements  
June 30, 2021

**4. Accrued Pension Obligation (continued...)**

The assumptions used in the valuations performed as at April 1<sup>st</sup>, are as follows:

	<b>2021</b>	<b>2020</b>
Inflation	2.05%	2.05%
Discount Rate	5.40%	5.70%
Expected Rate of Return of Plan Assets	5.40%	5.70%
Salary Escalation	Basic increase of 2.55% per annum + promotional scale	Basic increase of 2.55% per annum + promotional scale
Pre-Retirement Indexation	3.22% per annum for 2021, 2.55% per annum for 14 years, 0% thereafter	2.26% per annum for 2020, 2.55% per annum for 11 years, 0% thereafter
Post-Retirement Indexation (includes deferred pensioners)	2.00% per annum for 2021, 2.05% per annum for 6 years, 0% thereafter	2.15% per annum for 2020, 2.05% per annum for 2 years, 0% thereafter
Mortality	CPM2014Publ with future improvements based on CPM Scale B and size adjustments of 1.0 for males and 0.95 for females	CPM2014Publ with future improvements based on CPM Scale B and size adjustments of 1.0 for males and 0.95 for females
Termination	Tenure - based scale	Tenure - based scale
Retirement Age	Service and age - based scale	Service and age - based scale
Proportion Married	Males: 80% Females: 75%	Males: 80% Females: 75%
Age Difference for Spouses	Males 2 years older than female spouses	Males 2 years older than female spouses

**b) Extrapolation**

The accrued pension obligation at June 30, 2021 is estimated by the Plan, based on an extrapolation of the April 1, 2021 actuarial valuation. The total accrued pension obligation at June 30, 2021 consists of the following:

	<u><b>2021</b></u>
Base benefit liability	\$919,610,903
Contingent indexation liability	193,017,144
Total accrued pension obligation	<u>\$1,112,628,047</u>

**PRINCE EDWARD ISLAND  
TEACHERS' PENSION PLAN**

Notes to Financial Statements  
June 30, 2021

**4. Accrued Pension Obligation (continued...)**

**c) Sensitivity of Changes in Major Assumptions**

The Plan's future experience may differ from the assumptions used in the actuarial valuation and the extrapolation. Any differences between the actuarial assumptions and future experience could be significant and will emerge as experience gains or losses in future valuations which will affect the financial position of the Plan.

**5. Funding Policy**

- a) Prior to plan amendments in 2014, the Province was committed to make payments if the assets of the Plan were insufficient to provide for pension payments as they became due. In addition, a funding policy existed which required the Province to make special contributions when the Plan's funded level declined below 90 percent.

Special contributions made under this funding policy were as follows:

- (i) As a result of an unfunded liability at July 1, 2011, the Province made a special contribution through the signing of a \$80,369,000 promissory note. The note, issued December 11, 2012, is held by the Plan and is receivable in ten equal annual instalments of \$8,063,900 beginning April 1, 2013. Interest on the note is accrued from April 1, 2012, at a rate of 2.9 percent per annum, and is receivable semi-annually on April 1 and October 1.

The following is a schedule of principal and interest payments as disclosed in the promissory note:

<u>Date of Payment</u>	<u>Principal Payments</u>		<u>Interest Payments</u>	
	<u>Principal Payment</u>	<u>April 1</u>	<u>October 1</u>	
	\$	\$	\$	\$
April 1, 2012	-	-	1,165,351	
April 1, 2013	8,036,900	1,165,351	1,048,815	
April 1, 2014	8,036,900	1,048,815	932,281	
April 1, 2015	8,036,900	932,281	815,746	
April 1, 2016	8,036,900	815,746	699,210	
April 1, 2017	8,036,900	699,210	582,675	
April 1, 2018	8,036,900	582,675	466,140	
April 1, 2019	8,036,900	466,140	349,605	
April 1, 2020	8,036,900	349,605	233,070	
April 1, 2021	8,036,900	233,070	116,535	
April 1, 2022	<u>8,036,900</u>	<u>116,535</u>	-	
	<u>80,369,000</u>	<u>6,409,428</u>	<u>6,409,428</u>	

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements

June 30, 2021

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## 5. Funding Policy (continued...)

b) As part of the plan amendments in 2014, the Province's requirement to make payments if the assets of the Plan were insufficient to provide for pension payments as they became due was removed. The funding policy was rescinded and was replaced by the following Government guarantee:

- Effective April 1, 2016, if the funded benefits ratio of the Plan falls below 100 percent (of base benefits) and, after reflecting the future contributions as described in Note 1(b), the Plan is still not projected to achieve a funded benefits ratio of at least 100 percent within five years, the Province is required to make an additional contribution equal to one fifth of the additional amount required to restore the funded benefits ratio to 100 percent within five years. This is reviewed on an annual basis and the contribution amount will be subject to change each year.

In addition, the Province committed to make a one-time transitional contribution (transitional government funding amount) to the Plan on or before December 31, 2014 such that, if that contribution had been made on January 1, 2014, the total assets of the Plan would have equalled:

- 122 percent of the total liabilities of the Plan excluding the liabilities for salary indexing and pension indexing for any year after 2013; plus
- 100 percent of the liabilities for salary indexing and pension indexing for 2014, 2015, and 2016.

The transitional government funding amount was contributed to the Plan by the Province of Prince Edward Island through the signing of a \$164,640,100 promissory note. The note, issued December 22, 2014, is held by the Plan and is receivable in seven equal annual instalments of \$23,520,014 beginning January 1, 2023. Interest on the note is accrued from January 1, 2014 at a rate of 4.14 percent per annum and is receivable semi-annually on January 1 and July 1.

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**5. Funding Policy (continued...)**

The following is a schedule of principal and interest payments as disclosed in the promissory note:

<u>Date of Payment</u>	<u>Principal Payments</u>		<u>Interest Payments</u>	
	<u>Principal Payment</u>	<u>January 1</u>	<u>July 1</u>	
	\$	\$	\$	\$
January 1, 2014	-	-	3,408,050	
January 1, 2015	-	3,408,050	3,408,050	
January 1, 2016	-	3,408,050	3,408,050	
January 1, 2017	-	3,408,050	3,408,050	
January 1, 2018	-	3,408,050	3,408,050	
January 1, 2019	-	3,408,050	3,408,050	
January 1, 2020	-	3,408,050	3,408,050	
January 1, 2021	-	3,408,050	3,408,050	
January 1, 2022	-	3,408,050	3,408,050	
January 1, 2023	23,520,014	3,408,050	2,921,186	
January 1, 2024	23,520,014	2,921,186	2,434,321	
January 1, 2025	23,520,014	2,434,321	1,947,457	
January 1, 2026	23,520,014	1,947,457	1,460,593	
January 1, 2027	23,520,014	1,460,593	973,729	
January 1, 2028	23,520,014	973,729	486,865	
January 1, 2029	23,520,016	486,865	-	
	<u>164,640,100</u>	<u>40,896,601</u>	<u>40,896,601</u>	

Subsection 9(5) of the *Teachers' Pension Plan Act* stipulates that none of the above promissory notes may be cancelled or recalled by the Province prior to maturity unless the Province contributes an amount equal to or greater than the value of the outstanding promissory notes on the date of cancellation or recall. The notes are non-transferrable.



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**6. Benefits Paid**

A breakdown of benefits paid by type is as follows:

	<u>2021</u> \$	<u>2020</u> \$
Benefits paid to retired members	48,190,357	46,540,076
Benefits paid to survivors	2,778,446	2,562,445
Benefits paid to members on disability	834,388	842,896
Benefits paid to terminated members	94,971	(72,935)
Benefits paid to deceased members	14,580	501,073
	<u>51,912,742</u>	<u>50,373,555</u>

These benefits are presented in the Statement of Changes in Net Assets Available for Benefits as follows:

	<u>2021</u> \$	<u>2020</u> \$
Benefits paid	51,803,191	49,945,417
Refunds	84,970	366,208
Transfers	24,581	61,930
	<u>51,912,742</u>	<u>50,373,555</u>

**7. Operating Expenses**

The Plan is charged with administrative and operating expenses. The following is a summary of these expenses.

	<u>2021</u> \$	<u>Restated</u> (Note 13) <u>2020</u> \$
Administrative expenses - pension section	486,634	367,295
- investment section	54,796	54,838
	<u>541,430</u>	<u>422,133</u>
Consulting fees*	410,345	353,175
Actuarial fees	23,457	69,988
Investment expenses		
Custodian	70,116	41,039
Monitoring	71,026	75,218
Management	3,961,969	3,953,056
	<u>5,078,343</u>	<u>4,914,609</u>

\*Includes other actuarial services

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 8. Related Party Transactions

The Province of Prince Edward Island is the sponsor of the Plan. At the financial statement date, the Province has committed to the funding requirements as defined by the Funding Policy (Note 5). As a participating employer, the Province contributes regular bi-weekly employee and eligible prior period service contributions. Employer contributions receivable from the Province as at June 30, 2021 totalled \$935,900 (2020 - \$811,960).

The Province provides pension and investment administration services to the Plan. A portion of the Province's costs relating to these services is recovered annually from the Plan. Costs recovered for the pension section totalled \$425,110 (2020 - \$316,510) and recoveries related to the investment section totalled \$54,796 (2020 - \$54,838). Other costs recovered by the Province totalled \$53,242 (2020 - \$39,493).

Total amount payable to the Province at June 30, 2021 was \$Nil (2020 - \$371,348).

Total promissory notes, special contributions and interest receivable from the Province at June 30, 2021 was \$176,143,318 (2020 - \$184,238,485).

## 9. Capital Management

The main objective of the Plan is to sustain a level of net assets in order to meet the pension obligations of the Plan. The Plan sponsor manages the contributions received and benefits issued as required by the *Teachers' Pension Plan Act*.

In an effort to utilize economies of scale, contributions for the Province's three registered pension plans are pooled and invested together in the Province's Master Trust. Each pension plan holds units of the Master Trust in proportion to the value of contributions made. The Province has developed a Statement of Investment Policies and Procedures (SIP&P) to provide the framework for how the Master Trust's assets are to be invested, monitored, and evaluated. Assets are managed by engaging knowledgeable, external investment managers who are charged with the responsibility of investing new and existing funds in accordance with the SIP&P. A Joint Investment Advisory Committee exists for the purpose of protecting the pension fund assets, monitoring asset mix, reviewing costs, reviewing investment returns, and assessing investment manager performance, as well as providing advice to the Minister of Finance who serves as Trustee for the Province's three registered pension plans.

## 10. Commitments

The Master Trust has entered into an arrangement with Global Infrastructure Partners (GIP). GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors. The Master Trust has committed to invest \$35 (US) million in its GIP II Fund; \$31.8 (US) million has been invested as of the audit report date. The Master Trust has committed to invest \$75 (US) million in its GIP III Fund; \$65.3 (US) million has been invested as of the audit report date. The Master Trust has committed to invest \$60 (US) million in its GIP IV Fund; \$26.9 (US) million has been invested as of the audit report date.

# PRINCE EDWARD ISLAND TEACHERS' PENSION PLAN

Notes to Financial Statements  
June 30, 2021

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## 10. Commitments (continued...)

The Master Trust has entered into an arrangement with TD Asset Management Inc. The Master Trust has committed to invest \$8 (CDN) million with a commitment period of 18 months in its TD Greystone Mortgage Fund. None has been invested as of the audit report date.

## 11. Impact of COVID-19

On March 11, 2020, the World Health Organization declared a global pandemic due to Coronavirus (COVID-19). The pandemic had significant impacts on the financial status of the Plan at year-end. Global financial markets have experienced significant volatility, and given the extent of the crisis, it is difficult to estimate the future financial impact on the Plan at this time.

## 12. Comparative Figures

Certain prior period comparative figures have been restated to conform to the presentation format adopted in the current year.

## 13. Restatement of Prior Period Amounts

Certain prior period amounts on the Statement of Changes in Net Assets Available for Benefits have been restated as a result of a change in the accounting policy described in Note 2(e)(iv). The accounting policy was changed in order to conform with Canadian Accounting Standards for Pension Plans. Prior period Statement of Changes in Net Assets Available for Benefits included \$1,457,705 of investment management fees that were netted against the Change in Fair Value of Investments versus reported under Operating Expenses. Thus, the Change in Fair Value of Investments and Operating Expenses were both understated by \$1,457,705. The comparative figures for related notes have also been updated as a result of this restatement. This restatement has no impact on the pension obligation or the net assets available for benefits presented in the prior period.

The impact of the restatement on the 2020 comparatives figures is as follows:

### Statement of Changes in Net Assets Available for Benefits

	<u>2020 Previously Reported</u> \$	<u>Restatement</u> \$	<u>2020 Restated</u> \$
<b>Increase in Net Assets</b>			
Change in fair value of investments	(33,342,741)	1,457,705	(31,885,036)
<b>Decrease in Net Assets</b>			
Operating expenses	3,456,904	1,457,705	4,914,609

