Public Employees Disability Income Fund

Annual Report for 2020

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Saskatchewan

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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 twenty-ninth Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2020.

Donna Harpauer
Minister of Finance

The Honourable Donna Harpauer
Minister of Finance

Madam:

On behalf of the Pubic Employees Disability Income Plan Advisory Council.
I have the honour to transmit herewith the twenty-ninth Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2020.

Dave Wild
Associate 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, 2020, there were 11,914 insured employees.

Disability Income Plan Advisory Council

Jeremy Phillips, Chair
Ministry of Finance (PEBA)

Dairen Beblow
SaskPower

Peggy Atkinson
Public Service Commission

Carolynne Warner
SaskTel

Janice MacDonald
Public Service Commission

Vacant
SaskEnergy and SaskPower
Unifor Union of Canada, Local 649

Vacant
SaskTel
Unifor Union of Canada, Locals 1S &2S

Heather Brown
CUPE 600-3 and 600-5

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)
Safe Saskatchewan Inc.
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
Technical Safety Authority of Saskatchewan
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 th e)
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*

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 Workplace Solutions - Vital Life Inc. 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

	Dec. 31, 2020	Dec. 31, 2019
Premiums	$23,215,117	$22,479,243
Claims	$20,818,133	$19,883,791
Active Claims	411	429

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, 2020, and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan
April 14, 2021

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

Actuarial Opinion

With respect to the *Public Employees Disability Income Plan*, I have prepared an actuarial valuation as at December 31, 2020 for the purpose of determining the necessary actuarial information for financial statement reporting in accordance with Sections 3250 and 3255 of the Chartered Professional Accountants Canada (CPA Canada) Public Sector Accounting Handbook. In my opinion, for the purpose of this actuarial valuation:

- the data on which this valuation is based 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 (WHO) declared a state of global pandemic linked to the 2019 coronavirus disease (COVID-19) which, in Canada, has been accompanied by two waves of disease-related deaths. The net effect on short- and long-term mortality from COVID-19 remains unknown due to the uncertainty surrounding the effectiveness of the implementation of containment measures, the development of treatments and vaccines, and the magnitude of side effects. Our view of basic mortality as well as the impact on the future progression of life expectancy remains unchanged and the disability termination rates have been revised without consideration of any potential impact of COVID-19.

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

March 10, 2021

Public Employees Disability Income Fund

Financial Statements
Year Ended December 31, 2020

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, 2020, and the statements of operations and change in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Employees Disability Income Fund as at December 31, 2020, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of 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 2020*, 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.

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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 14, 2021

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

Public Employees Disability Income Fund **Statement 1**
Statement of Financial Position

As At December 31

	2020	2019
Financial Assets		
Cash	$ 2,018,581	$ 2,290,084
Due from The Canada Life Assurance Company (Note 4)	75,810	316,425
Accounts Receivable	1,393,147	1,253,315
Investments (Note 3)	141,866,309	130,074,268
	145,353,847	133,934,092
Liabilities		
Accounts Payable	341,410	324,721
Employer Premium Payable	51,750	70,407
Provision for Claims Payable (Note 5)	128,310,000	124,067,000
	128,703,160	124,462,128
Net Assets and Accumulated Surplus (Statement 2)	$ 16,650,687	$ 9,471,964

Contingencies (Note 7)

(See accompanying notes to the financial statements)

Public Employees Disability Income Fund **Statement 2**
Statement of Operations and Change in Net Assets

Year Ended December 31

	2020		2019
	Budget (Note 10)	**Actual**	**Actual**
Revenues			
Premiums	$ 22,912,471	$ 23,215,117	$ 22,479,243
Investment Income	4,869,646	11,294,428	12,073,939
	27,782,117	34,509,545	34,553,182
Expenses			
Disability Benefits	19,754,210	20,818,133	19,883,791
Change in Provision for Claims Payable (Note 5)	-	4,243,000	6,676,000
Administration (Note 6)	1,314,448	1,178,110	1,132,840
Adjudication Fees	717,030	793,340	731,541
Investment Management Fees	329,950	298,239	320,467
	22,115,638	27,330,822	28,744,639
Operating Surplus	5,666,479	7,178,723	5,808,543
Net Assets and Accumulated Surplus Beginning of Year	9,471,964	9,471,964	3,663,421
Net Assets and Accumulated Surplus, End of Year – (Statement 1)	$ 15,138,443	$ 16,650,687	$ 9,471,964

(See accompanying notes to the financial statements)

Public Employees Disability Income Fund **Statement 3**
Statement of Cash Flows

Year Ended December 31

	2020	2019
Cash Flows from Operating Activities:		
Premiums Received	$ 23,043,396	$ 22,860,934
PST Received	-	231
Disability Benefits Paid	(20,771,456)	(19,949,692)
Administration Expenses Paid	(1,190,712)	(1,138,350)
Adjudication Fees Paid	(792,978)	(732,067)
	288,250	1,041,056
Cash Flows from Investing Activities		
Net Purchases of Investments (Note 3)	(800,368)	(700,001)
Net (Decrease) Increase in Cash	(512,118)	341,055
Cash Equivalents, Beginning of Year	2,606,509	2,265,454
Cash Equivalents, End of Year	$ 2,094,391	$ 2,606,509
Balance consists of:		
Cash	$ 2,018,581	$ 2,290,084
Due from The Canada Life Assurance Company (Note 4)	75,810	316,425
Cash Equivalents, End of Year	$ 2,094,391	$ 2,606,509

(See accompanying notes to the financial statements)

Public Employees Disability Income Fund
Notes to the Financial Statements

December 31, 2020

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

a) 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, 2020. 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) 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.

e) 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.

f) 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.

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

3. Investments

At December 31, 2020, 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:

	2020	2019
Money Market Fund	$ 5,674,653	$ 5,202,971
Bond Fund	69,514,491	63,736,391
Mortgage Fund	19,861,283	18,210,398
Equity Funds	46,815,882	42,924,508
	$ 141,866,309	$ 130,074,268

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, 2020, 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:

	2020	2019
Provision for Claims Payable, Beginning of Year	$ 124,067,000	$ 117,391,000
Interest on Previous Liability	5,707,000	5,752,000
Mortality and Termination Experience (Gain)	(7,617,000)	(4,276,000)
Change in Assumptions	6,980,000	411,000
New Claims	19,998,000	24,678,000
Data Changes	-	(311,000)
Expected Benefits Payments	(20,825,000)	(19,578,000)
Provision for Claims Payable, End of Year	$ 128,310,000	$ 124,067,000

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 3.8 per cent (2019 – 4.6 per cent); and
3) The inflation rate assumed is 2.3 per cent (2019 – 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, 2020, would be $112,185,000 (2019 - $109,733,000).

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 5.3 per cent increase (2019 – 5.0 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 5.5 per cent decrease (2019 – 5.1 per cent) in the liability; and
- A 10.0 per cent decrease in recovery rates would result in a 4.3 per cent increase (2019 – 4.6 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. 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:

	2020	Four-Year Annualized Return
Actual (a)	8.7%	6.4%
Benchmark (b)	9.0%	6.6%

(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, 2020, is limited to the carrying value of the financial assets summarized as follows:

	2020	2019
	Carrying value	Carrying value
Accounts Receivable	$ 1,393,147	$ 1,253,315
Due from The Canada Life Assurance Company	75,810	316,425
Investments[1]	95,050,427	87,149,760

[1]Bonds, 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 $6.5 million at December 31, 2020, representing 6.8 per cent of the $95.1 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, 2020, PEDIF's exposure to U.S. equities was 11.0 per cent (2019 – 11.0 per cent) and its exposure to non-North American equities was 11.0 per cent (2019 – 11.0 per cent).

At December 31, 2020, a 10 per cent appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $1.56 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 $1.56 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 33.0 per cent (2019 – 33.0 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, 2020:

	10% increase	10% decrease
S&P/TSX Composite Index	$1,560,529	$(1,560,529)
S&P 500 Index	1,560,529	(1,560,529)
MSCI EAFE Index	1,560,529	(1,560,529)

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 2020 PEDIF operating budget was approved by the Disability Income Plan Advisory Council on December 11, 2019.

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. Impact of COVID-19

The COVID-19 pandemic has caused material disruption to organizations and has resulted in significant economic uncertainty as the Plan has been subject to market fluctuations and may continue to experience significant volatility as the situation evolves. The duration and impact of this pandemic is unknown at this time and as such, an estimate cannot be made of the potential impact on the Plan's future operating results.