

Canadian Forces Non-Public Funds (NPF) Employees Pension Plan

**Financial Statements
December 31, 2023**

Independent auditor's report

To the Members of the Non-Public Property Audit Committee of
Canadian Forces Non-Public Funds Employees' Pension Plan

Opinion

We have audited the financial statements of **Canadian Forces Non-Public Funds Employees Pension Plan** [the "Plan"], which comprise the statement of financial position as at December 31, 2023, and the statement of changes in net assets available for benefits, statement of changes in accrued pension benefits, and statement of changes in surplus 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 Plan as at December 31, 2023, and its changes in net assets available for benefits, its changes in accrued pension benefits and its changes in surplus for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

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 Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 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.

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 that we identify during our audit.

Ernst & Young LLP

Ottawa, Canada
June 25, 2024

Chartered Professional Accountants
Licensed Public Accountants



Canadian Forces Non-Public Funds (NPF) Employees Pension Plan

Statement of Financial Position

As at December 31

	2023 \$	2022 \$
Assets		
Due from Canadian Forces Central Fund <i>[note 3]</i>	4,416,723	5,911,986
Investments <i>[notes 4 and 6]</i>	543,551,458	487,512,805
	547,968,181	493,424,791
Liabilities		
Plan expenses payable <i>[note 7]</i>	469,447	837,596
Deferred solvency payments <i>[note 8]</i>	1,561,754	2,543,029
	2,031,201	3,380,625
Net assets available for benefits	545,936,980	490,044,166
Pension obligations and surplus		
Pension obligations <i>[note 9]</i>	404,311,000	353,697,000
Surplus of net assets available for benefits versus pension obligations, end of year <i>[note 9]</i>	141,625,980	136,347,166
	545,936,980	490,044,166

Approved on Behalf of the Staff of the Non-Public Funds:



Dave Patel
Chief Financial Officer

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

Canadian Forces Non-Public Funds (NPF) Employees Pension Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31

	2023 \$	2022 \$
Increase in assets		
Employer contributions - Current Service <i>[note 10]</i>	4,252,660	10,164,159
Employer contributions - Special <i>[note 10]</i>	1,952,000	5,156,478
Employee contributions - Required <i>[note 10]</i>	7,666,927	6,699,664
Increase in fair value of investments, net	48,637,276	-
Distribution income	6,713,689	9,542,385
Interest income	7,685,675	96,801
	76,908,227	31,659,487
Decrease in assets		
Retirement benefit payments	13,740,489	12,929,862
Termination benefit payments	5,113,548	8,267,371
Death benefit payments	1,243,223	690,932
Decrease in fair value of investments, net	-	39,426,904
Investment management fees	899,831	1,760,409
Liability insurance	18,322	-
	21,015,413	63,075,478
Net increase (decrease) in net assets available for benefits	55,892,814	(31,415,991)
Net assets available for benefits, beginning of year	490,044,166	521,460,157
Net assets available for benefits, end of year	545,936,980	490,044,166

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

Canadian Forces Non-Public Funds (NPF) Employees Pension Plan

Statement of Changes in Pension Obligations

Year ended December 31

	2023 \$	2022 \$
Increase in pension obligations		
Interest accrued on benefits	20,122,524	18,559,912
Benefits accrued	14,534,736	16,903,253
Experience losses	10,498,000	4,637,000
Changes in actuarial assumptions	4,894,000	-
Plan amendment for ad hoc indexation	20,662,000	-
	70,711,260	40,100,165
Decrease in pension obligations		
Annuity payments and refunds	20,097,260	21,888,165
Changes in actuarial assumptions	-	26,085,000
	20,097,260	47,973,165
Net increase (decrease) in pension obligations	50,614,000	(7,873,000)
Pension obligations, beginning of year	353,697,000	361,570,000
Pension obligations, end of year	404,311,000	353,697,000

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

Canadian Forces Non-Public Funds (NPF) Employees Pension Plan

Statement of Changes in Surplus

Year ended December 31

	2023 \$	2022 \$
Surplus of net assets available for benefits versus pension obligations, beginning of year	136,347,166	159,890,157
Net increase (decrease) in net assets available for benefits	55,892,814	(31,415,991)
Net decrease (increase) in pension obligations	(50,614,000)	7,873,000
Surplus of net assets available for benefits versus pension obligations, end of year	141,625,980	136,347,166

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

Canadian Forces Non-Public Funds (NPF) Employees Pension Plan

Notes to the Financial Statements

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1. Description of pension plan

The Canadian Forces Non-Public Funds [NPF] Employees Pension Plan [the "Plan"] became effective January 1, 1969 and was established under the provisions of Section 38 of the *National Defence Act* to account for the accumulation of employee deductions and employer contributions from participating bases, the transfer of such funds to the custodian for investment purposes and the recording of fund assets and liabilities. In 2023, the Plan's custodian transitioned from Manulife Financial to CIBC Mellon. Investment Management is performed by Aon Investments Canada Inc. in its role as Outsourced Chief Investment Officer ["OCIO"]. Its actuary is Mercer (Canada) Limited. BentallGreenOak continues as the Investment Manager of the Canadian real estate pooled funds. The Plan's registration number with the Office of the Superintendent of Financial Institutions is 55228.

The Plan is a registered pension plan as defined in the *Income Tax Act* and, as such, is not subject to income taxes. The Plan's registration number for income tax purposes is 0277954.

The following description of the Plan is a summary only. For more information, reference should be made to the Plan text.

General

The Plan is a contributory defined benefit plan integrated with the Canada/Quebec Pension Plan and registered under the *Pension Benefits Standards Act* (Canada). Plan membership is compulsory from the date of hire for all indeterminate full-time employees. Plan membership is compulsory for temporary full-time employees on the earlier of the day the employee is hired in a temporary full-time position that is for a period of more than 24 months, or the day on which the employee completes 24 months of continuous employment in a temporary full-time position. Part-time employees may join the Plan after two years of continuous service and two consecutive years with earnings in excess of 35% of the year's maximum pensionable earnings ["YMPE"].

Funding policy

The Plan is funded by the Plan members ["employees"] and the sponsor ["employer"].

The employee contributes 4.5% of earnings, which are not in excess of the Canada/Quebec Pension Plan YMPE, and 6% of the member's earnings in excess of the YMPE. Members cease making contributions when they reach 35 years of pensionable service.

The employer contributes actuarially recommended amounts sufficient to satisfy any experience deficiency and provide pension benefits accruing to Plan members during the current year using the previous year actuarial valuation. The most recent actuarial valuation for funding purposes of the Plan was as at December 31, 2023.

Service pension

Employees meeting pension eligibility conditions may begin to receive an unreduced pension benefit at their pensionable age, which is age 65 with respect to pensionable service on and after July 8, 2019. For employees with pensionable service prior to July 8, 2019, pensionable age is age 65 with less than 10 years of total pensionable

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service and age 60 with at least 10 years of total pensionable service, which includes their combined pensionable service before and after July 8, 2019. At pensionable age, employees are entitled to annual pension benefits equal to the sum of [a], [b] and [c]:

[a] 1.3% of the employees' average pensionable earnings up to the average YMPE and 2.0% of the employees' average pensionable earnings above the average YMPE, times the number of years of pensionable service on and after July 8, 2019; plus,

[b] 1.5% of the employees' average pensionable earnings up to the average YMPE and 2.0% of the employees' average pensionable earnings in excess of the average YMPE, times the number of years of pensionable service from January 1, 1997 to July 7, 2019 inclusive; plus,

[c] For service before January 1, 1997, the greater of:

[i] 40% of the employees' total required contributions before January 1, 1997;

[ii] 1.5% of the employees' average pensionable earnings up to the average YMPE plus 2% of the employees' average pensionable earnings above the average YMPE times the years of pensionable service before January 1, 1997; or

[iii] 1.8% of the employees' average annualized earnings for 1994, 1995 and 1996 up to \$34,900 plus 2.4% of the employees' average annualized earnings for 1994, 1995 and 1996 above \$34,900 but below \$52,350 plus 2% of the employees' average annualized earnings for 1994, 1995 and 1996 above \$52,350 times the number of years of pensionable service before January 1, 1997.

Employees with less than three years of pensionable service in this period are only eligible for the greater of [i] or [ii] for their service prior to January 1, 1997.

Pensions in payment have been indexed on an ad hoc basis at a rate of 75% of the consumer price index. The most recent adjustment was effective September 1, 2007. Subsequent to year-end, an indexation in payments occurred with an effective date of January 1, 2024. The cost of this indexation was accounted for in the 2023 valuation.

Pensionable earnings include base salary and wages including overtime, performance and incentive pay, pay during working notice period, acting pay, paid leave, vacation payouts, commissions, and other recurring categories of pay as designated by the employer, but exclude bonuses, special remunerations and gratuities. Average pensionable earnings are calculated as the employee's average earnings as a Plan member during the three highest paid consecutive years of pensionable service in the 10 years preceding the date on which pensionable service ceases to accrue.

Employees who have only accrued pensionable service on and after July 8, 2019 may elect to retire at age 55 and receive a pension reduced by 0.416% for each month that the actual retirement date precedes their 65th birthday. Employees who have accrued any pensionable service prior to July 8, 2019 may elect to retire at age 50 with 10 or more years of pensionable service and, in respect of their service prior to July 8, 2019, receive a pension reduced by 0.25% for each month that the actual retirement date precedes their 60th birthday plus, in respect of their service

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on and after July 8, 2019, receive a pension reduced by 0.416% for each month that the actual retirement date precedes their 65th birthday. Employees who have accrued any pensionable service prior to July 8, 2019 may elect to retire at age 55 with less than 10 years of pensionable service and, in respect of their service prior to July 8, 2019, receive a pension reduced by 0.25% for each month that the actual retirement date precedes their 65th birthday plus, in respect of their service on and after July 8, 2019, receive a pension reduced by 0.416% for each month that the actual retirement date precedes their 65th birthday.

The Chief Executive Officer approved an initiative to give the Canadian Forces Non-Public Funds full-time and part-time employees the opportunity to purchase pensionable service during the previously imposed mandatory or the voluntary waiting periods. The past service pension purchase program commenced in 2004. The employee and the employer shared the purchase cost for the previously imposed mandatory periods and, for the voluntary waiting periods, the employee was fully responsible for the cost.

Bridge benefits

An employee who retires early from active service and who satisfies the eligibility requirements as follows:

[a] Has attained age 55 at retirement;

[b] Must have completed at least five years of pensionable service at retirement; and

[c] The sum of the employee's age and completed years of pensionable service at retirement must be equal to at least 65.

Employees who meet eligibility are entitled to receive an annual bridge benefit payable in equal monthly instalments in an amount equal to \$15 per month for each completed year and partial year of pensionable service, to a maximum of 20 years. Such bridge benefit is payable from the date that the early retirement pension commences and ceases with the payment for the month following the employee's 65th birthday or, in the case of death prior to age 65, ceases the month following the death of the employee.

Employees who have accrued any pensionable service prior to July 8, 2019 and retire between the ages of 50 and 55 with at least 10 years of total pensionable service, including combined pensionable service before and after July 8, 2019, are entitled to receive a bridge benefit calculated only on pensionable service prior to July 8, 2019. This benefit is payable from the first day of the month following the employee's 60th birthday and ceases with the payment for the month following the employee's 65th birthday or, in case of death prior to age 65, ceases the month following the death of the employee.

Death benefits

The normal form of pension provides for monthly payments for the life of retired members with 180 payments guaranteed. Should the employee die before receiving the guaranteed 180 monthly payments, the value of the remaining payments will be paid to the beneficiary in a lump sum. If the employee has a spouse at retirement, the automatic option provides that a joint pension in an amount that is the actuarial equivalent of the normal form is payable throughout the joint lifetime of the employee and spouse, reducing to 60% on the death of the employee. An employee may elect a joint and survivor pension, which provides for a benefit of 100% to the surviving spouse

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after death. In the event the normal form is not the form payable, the benefit payable will be the actuarial equivalent of the normal form, which cannot exceed the amount payable under the normal form.

If death occurs before becoming eligible for early retirement, the member's surviving spouse, or if there is no surviving spouse, the beneficiary, or if no beneficiary exists, the member's estate, is entitled to a death benefit. The amount of the death benefit is equal to the transfer value to which the member would have been entitled if employment had terminated on the date of death. The surviving spouse, if any, may elect among the following alternatives: transfer to a locked-in registered retirement savings plan ["RRSP"]; transfer to a registered pension plan; or purchase an immediate life annuity or deferred life annuity. The beneficiary or the member's estate shall receive the death benefit in a cash lump sum, less withholding taxes.

Notwithstanding the above, if the death benefit is less than 20% of the YMPE in the calendar year of the member's death, the surviving spouse may elect to transfer the death benefit in accordance with the alternatives listed above without a locked-in requirement, or may receive the death benefit in a cash lump sum payment less withholding taxes.

If a member dies after becoming eligible for early retirement, the surviving spouse is entitled to an annuity payable for life. The amount of the annuity shall be determined as if the member had actually retired on the date of the member's death and had elected the automatic option. The spouse's annuity is not subject to early retirement reductions. Where there is no surviving spouse, the beneficiary, or if there is no beneficiary, the member's estate is entitled to the value to which the member would have been entitled if employment had terminated on the date of death.

Termination benefits

A member who terminates employment with at least two years of pensionable service is entitled to receive a pension deferred to his/her pensionable age, which means the earliest age at which a member may begin to receive a pension benefit without the consent of the employer and without reduction by reason of early retirement. The member may also elect to receive a deferred pension earlier. In lieu of receiving a deferred pension, the member may elect to have the transfer value transferred to a locked-in RRSP or a new employer's registered pension plan, or purchase an immediate life annuity or deferred life annuity.

However, if the transfer value of the deferred pension is less than 20% of the YMPE for the calendar year in which the termination of employment occurs, the member shall receive a lump sum cash refund of the transfer value, or may elect to transfer this amount as outlined above without a locked-in requirement.

A member with less than two years pensionable service has the same options, minus the locked-in provision, plus an additional option of receiving the transfer value in a cash lump sum less withholding taxes.

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2. Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans. These financial statements are prepared on a going concern basis and present the information of the Plan as a separate financial reporting entity independent of the sponsor and Plan members. The Plan applies Canadian accounting standards for private enterprises in Part II of the *CPA Canada Handbook – Accounting*, for its accounting policies not related to its investment portfolio or pension obligations.

The Plan elected to apply Section 3462 Employee Future Benefits in Part II of the *CPA Canada Handbook – Accounting* to measure its pension obligations. Amendments to Section 3462 came into effect for periods beginning on January 1, 2022. Under the revised standard, when a plan sponsor elects to use the most recently completed actuarial valuation prepared for funding purposes (going-concern valuation) as the valuation basis of its registered pension plans for reporting under Section 4600 Pension Plans in Part IV of the *CPA Canada Handbook – Accounting*, the defined benefit obligation is required to be measured at the amount that is required to be funded by contributions in accordance with legislative, regulatory or contractual requirements.

Investments

Investment assets are recorded at fair value. The fair value of pooled funds and segregated funds is determined based on the unit price as at year-end multiplied by the number of units held. Pooled and segregated funds are measured at net asset values supplied by the pooled and segregated fund manager, which represent the Plan's proportionate share of underlying net assets at fair values, determined using quoted market prices, or alternative valuation methods where quoted market prices are not available. Purchases and sales of investments are recorded as of the trade date [the date on which the substantial risks and rewards have been transferred]. Transactions that have not been settled are reflected in the statement of changes in net assets available for benefits as amounts receivable or payable.

Investment income

Distribution income is recorded to the extent received and on an accrual basis.

Net realized and unrealized gains and losses on investments are presented in aggregate in the statement of changes in net assets available for benefits as changes in fair value of investments. All changes in the fair value of investments are recorded in the statement of changes in net assets available for benefits in the year in which they occur.

Benefits paid, termination refunds and transfers

Benefit payments that are due as at year-end are recorded in accounts payable and accrued liabilities. When a vested Plan member ceases to be employed by the sponsor, the Plan records a liability to the member on receipt of a signed election form requesting a refund or transfer of assets. The amount of the liability is determined in accordance with the actuarial calculation.

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Use of estimates

The preparation of financial statements requires the sponsor 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 income and expense during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the determination of the fair value of financial instruments [note 6] and the actuarial value of accrued pension benefits [note 9].

Current service

Current service employer and required employee contributions are recorded in the year in which the related payroll costs are incurred. Employer contributions for past service and special payments are recorded in the year they are made or required to be made in accordance with the latest actuarial funding requirements.

Accrued pension benefits

Accrued pension benefits for the Plan are determined based on an actuarial valuation prepared by an independent firm of actuaries as at year-end. The valuation is prepared on a going concern basis and uses the projected unit credit method and management's best estimate of future events.

3. Due from Canadian Forces Central Fund

The amount due from Canadian Forces Central Fund ["CFCF"] of \$4,416,723 [2022 – \$5,911,986] is non-interest bearing and due on demand. CFCF operates under the authority of the Chief of the Defence Staff ["CDS"] in its Non-Public Property ["NPP"] capacity. Responsibility for directing the affairs of CFCF rests with the Managing Director, NPP as delegated by the CDS.

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Notes to the Financial Statements

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4. Investments

The Plan holds assets in pooled and segregated funds which are invested on its behalf by the OCIO. The allocation at December 31, 2023 was as follows:

	2023	2022
	Fair value	Fair value
	\$	\$
Pooled/segregated funds		
Cash	17,224,943	30,172,429
Canadian fixed income	257,081,745	145,734,086
Canadian equities	-	49,213,085
Foreign equities	203,606,744	198,480,352
Canadian real estate	59,607,534	63,912,853
Foreign private equities	1,365,276	-
Foreign private debt	4,665,216	-
Total investments	543,551,458	487,512,805

5. Financial risk management

The Plan's investment portfolio is subject to a variety of financial instrument risks that could adversely affect its cash flows, financial position and income. The Plan's financial risks are concentrated in its investment holdings detailed in the table in note 4. These risks include credit risk, liquidity risk and market risk [including interest rate risk, currency risk and other price risk].

The Plan's Statement of Investment Policies and Procedures ["SIPP"] prescribes an asset mix policy, requires portfolio investment diversification, sets guidelines on investment categories, and limits exposure to individual investments and major asset classes. Following the release of the asset-liability study, an amendment to this policy was drafted by the Pension Investment Committee and approved by the Pension Board in September 2023. The new OCIO was temporarily permitted to work outside of the target weights defined in the new policy due to the transition in control and the timelines required to set up the new investments.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as the Plan's actual exposure to market rates may change. Changes in fair value or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in a market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Plan.

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Credit risk

Credit risk is the risk of loss should the counterparty to a transaction default or otherwise fail to perform under the terms of the contract. The Plan is indirectly susceptible to credit risk through its investments in pooled and segregated funds. This risk is managed through credit rating minimums defined in its Statement of Investment Policies and Procedures.

Liquidity risk

Liquidity risk is the risk the Plan will not be able to meet its financial obligations as they fall due including satisfying benefit payments, expenses and the ongoing requirements to satisfy its benefit obligations as discussed in note 9. The risk the Plan would be unable to meet such obligations is managed through the Plan's ongoing monitoring of the investment manager and in its ability to redeem units in the individual pooled and segregated funds in which the Plan has invested.

Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of the Plan's investments will fluctuate due to changes in market interest rates. It arises from the potential variation in the timing and amount of cash flow related to the Plan's assets and liabilities.

The Plan's investments consist of pooled and segregated funds, which in turn invest in a diversified portfolio of assets. While the underlying interest-bearing investments of the pooled and segregated funds are susceptible to interest rate risk, the risk to the Plan is indirect in nature and is not directly managed by the Plan. The Plan has no direct exposure to interest rate risk.

Currency risk

Currency risk is the risk the value of the Plan's investments will fluctuate due to changes in foreign exchange rates. It arises from securities that are denominated in a currency other than the Canadian dollar, which is the Plan's reporting currency.

The Plan is exposed to indirect currency risk to the extent that the pooled and segregated funds invest in financial instruments that are denominated in a currency other than the Canadian dollar.

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Other price risk

Other price risk is the risk the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market prices, other than those arising from foreign exchange risk or interest rate risk. The investments of the Plan are directly exposed to other price risk arising from changes in the unit prices of the pooled and segregated funds. If these unit prices were to increase or decrease by 1%, with all other variables being held constant, the impact on the net assets available for benefits would be approximately \$5,435,515 [2022 – \$4,875,128].

6. Fair value of investments

The following is a summary of the methods used to determine the fair value of the Plan's financial instruments and an analysis of those instruments that are measured at fair value using the hierarchy set forth in the Appendix to the *CPA Canada Handbook – Accounting*, Section 4600. The hierarchy prioritizes the inputs to fair value measurement, placing the highest priority on unadjusted quoted prices in active markets for identical assets or liabilities [Level 1] and the lowest priority to inputs not based on observable market data [Level 3].

The three levels of the fair value hierarchy are:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs that are observable for the assets or liabilities either directly or indirectly; and

Level 3 – inputs for assets or liabilities that are not based on observable market data.

Canadian real estate funds, foreign private equity and foreign private debt funds have all been designated as Level 3 investments. The remaining pooled and segregated funds are designated as Level 2.

7. Plan expenses payable

Included in Plan expenses payable are accrued bridge benefits payable to terminated members of the Plan between 1999 and 2013 of \$463,076 [2022 – \$455,402]; and accrued investment management fees of \$73,855 [2022 – \$460,608], reduced by an investment management fee rebate of \$69,154 [2022 – \$78,414]. Also included is a payable of \$1,670 to a plan member [2022 – nil].

8. Deferred solvency payments

With a reduction in the required employer special solvency payments in the 2021 valuation, a portion of funding allocated for these payments was not required. This funding will be applied against future special solvency payments.

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9. Actuarial value of accrued pension benefits

Accrued pension benefits are the actuarially determined present value amounts required to satisfy all future pension obligations for active and retired Plan members at the statement date. An actuarial valuation for funding purposes of the Plan was made as at December 31, 2023, by Mercer (Canada) Limited, the Plan's actuaries.

The significant assumptions used are:

- Life expectancy of participants as per the 2014 Canadian Pensioners Mortality Table
- 5.75% [2022 – 5.75%] interest rate;
- 2.00% [2022 – 2.00%] inflation rate; and
- 3.25% [2022 – 3.00%] salary escalation rate.

The purpose of the aforementioned actuarial valuation is to determine the value of the accrued pension benefits as at December 31, 2023, for funding and regulatory purposes. Based on the year-end valuation of the accrued pension benefits in the amount of \$404,311,000, the Plan is in a surplus position as at December 31, 2023 of \$141,625,980. In addition, the Plan was actuarially valued as at December 31, 2023, on a going concern basis as well as on a solvency basis.

Under the going concern basis, this valuation compares the relationship between the value of the Plan's assets and the present value of the expected future benefit cash flows in respect of accrued service, assuming the Plan will be maintained indefinitely. Under this scenario, the valuation resulted in a surplus of \$138,783,000.

Conversely, under the hypothetical solvency [or wind-up] basis, the Plan is assumed to be wound up and settled on the valuation date, assuming benefits are settled in accordance with the existing taxation rules and under circumstances producing the maximum wind-up liabilities on the valuation date. This valuation resulted in a surplus of \$77,240,000.

These valuations are utilized to assess monthly and annual employer contributions. The Plan is required to have its next actuarial valuation for funding purposes performed as at December 31, 2024.

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10. Related party transactions

Pension administration costs and professional fees are paid for by the sponsor and are accounted for as employee benefits in the year-end financial statements of the Canadian Forces Morale and Welfare Services ["CFMWS"].

Included among the other entities that operate under the authority of the CDS in his NPP capacity are CFMWS, CFCF, Canadian Forces Exchange System, SISIP Financial, Support Our Troops and individual bases, wings and messes ["NPP entities"].

In 2023, the Plan received \$13,871,587 [2022 – \$22,020,301] in contributions [employer and employee] from CFMWS on behalf of NPP entities with employees who are members of the Plan. CFMWS special contributions represented \$1,952,000 [2022 – \$5,156,478]. Due to a favourable valuation, a regulatory employer contribution holiday was imposed on the Plan effective June 1, 2023.

In addition, the amount due from CFCF is disclosed in note 3.

All transactions are measured at their exchange amount, which is the amount established and agreed to by the related parties involved.

11. Capital management

Management of the Plan defines capital as the net assets available for benefits. The Plan's objective when managing its capital is to safeguard its ability to continue as a going concern in order to maintain adequate assets to support development of the investment activities of the Plan and to ensure adequate assets to fund future benefit payments. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the SIPP, which assists in the management of capital and mitigation of risk.

Management monitors capital on the basis of the value of net assets available for benefits in relation to the pension obligation for purposes. In accordance with the requirements of the *Pension Benefits Standards Act*, the pension obligation is updated every three years or more frequently if required through an actuarial valuation process. The results of the most recent valuation have been disclosed in note 9. There has been no change in the policies with respect to management of capital in the current year.

As at December 31, 2023, all contributions that were required by that date have been remitted to the Plan.