

**RCMP**



ROYAL CANADIAN MOUNTED POLICE

ANNUAL REPORT

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**ROYAL CANADIAN MOUNTED POLICE  
PENSION PLAN**

2005/2006



Royal Canadian Mounted Police  
Gendarmerie royale du Canada

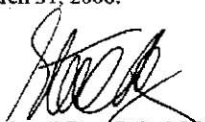
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## **Message from the Minister of Public Safety and Emergency Preparedness**

Pursuant to section 31 of the *Royal Canadian Mounted Police Superannuation Act*, I am pleased to submit the Annual Report of the RCMP Pension Plan for the year ending March 31, 2006.



Stockwell Day (P.C., M.P.)  
Minister of Public Safety

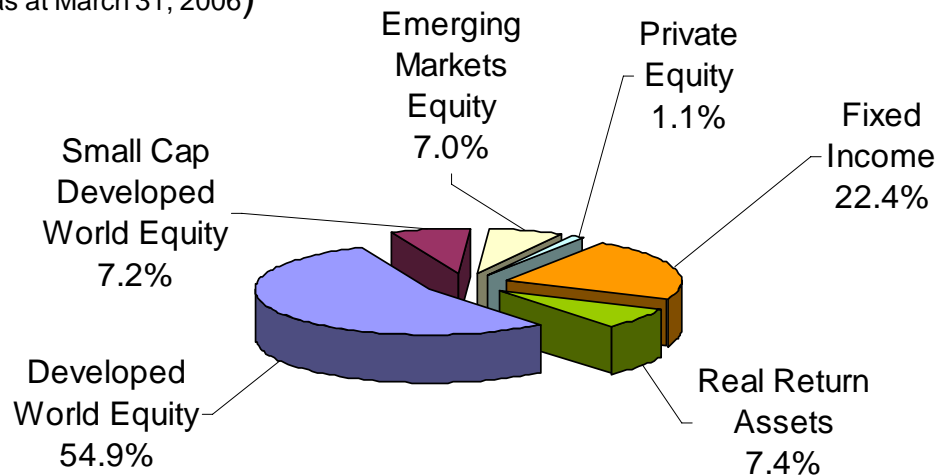
# Financial Highlights

## Year End Financial Position

- Net assets and other accounts available for benefits were \$13,298.1 million. Net assets and other accounts consist of the balance in the RCMP Superannuation Account of \$11,255.5 million, the investments at fair value of \$2,028.9 million and other assets and liabilities of \$13.7 million.
- Investments managed by the Public Sector Pension Investment Board (PSP Investments) were invested as follows:

### % of Asset Classes

(as at March 31, 2006)



Source: Public Sector Pension Investment Board

- Accrued pension benefits were \$11,582.8 million.
- The excess of the actuarial value of net assets and other accounts over accrued pension benefits was \$ 1,515.2 million.

## Investment Performance

- The RCMP Superannuation Account earned \$ 834.8 million in interest representing a 7.7% rate of return.
- The investments managed by PSP Investments earned \$300.2 million representing an overall rate of return of 19.1%.

# RCMP Pension Plan at a Glance

## Overall

- The RCMP Pension Plan is a contributory defined benefit pension plan.
- Benefits are determined based on a formula set out in the *RCMP Superannuation Act* (RCMPSA) and are not based on the financial status of the Plan or the rate of return on plan assets.
- Membership in the plan is compulsory for all members of the RCMP regardless of length of service.

## Benefits

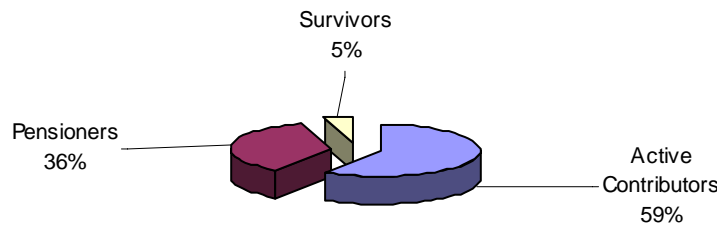
- Entitlement to benefits depends on either service in the Force or pensionable service and there are different provisions for regular and civilian members.
- The basic benefit upon retirement is an annuity equal to 2% of average pensionable earnings during the best five years of consecutive service times the number of years of pensionable service. The maximum benefit is 70% of average pensionable earnings.
- Members who do not have the required years of service to obtain an immediate annuity upon termination may be entitled to receive an annual allowance, a deferred annuity, a commuted value, a return of contributions or a cash termination allowance depending on the circumstances.
- The Plan also provides benefits to members in case of disability and to the spouse and children in case of death of a member.
- Benefits are integrated with the Canada Pension Plan and the Quebec Pension Plan. Pursuant to the Budget of May 2, 2006 and ensuing Budget Implementation Act 2006 that received Royal Assent on June 22, 2006, amendments were made to the *Royal Canadian Mounted Police Superannuation Act*. Effective January 1, 2008, these amendments will decrease from 0.7 per cent to 0.625 per cent over a five-year period, the pension reduction factor that results from the coordination of benefits with the CPP and QPP for plan members reaching age 65 in 2008 and beyond.
- Benefits are indexed to the increase in the cost of living, as measured by the increase in the Consumer Price Index to ensure that benefits are not eroded by inflation.

## Plan Membership

- As at March 31<sup>st</sup>, 2006, the Plan had 32,863 members. The membership consisted of 19,568 active contributors, 11,736 pensioners, and 1,559 survivors. (See membership profile in schedule II.)

### RCMP Pension Plan Membership Profile

(as at March 31, 2006)



Source: Morneau Sobeco

## Contributions

- During the first 35 years of pensionable service, members contribute 4.3% (4.0% prior to January 2006) on pensionable earnings up to the maximum salary covered by the Canada Pension Plan and/or Quebec Pension Plan and 7.8% (7.5% prior to January 2006) of earnings above that amount.
- Members who have achieved 35 years of service contribute 1% of pensionable earnings.
- The Government of Canada contributions are based on member contributions times specified rates determined by the President of the Treasury Board. The rates are based on whether the member contribution was for current or past service and whether the election to purchase prior service was made before or after April 1, 2000. During the year, the Government of Canada was required to contribute at the following rates:

### April 1, 2005 – December 31, 2005

	Pre-April 1, 2000	Post- March 31, 2000
Current service	2.98	2.98
Elected service:		
Single rate	1.00	2.90
Double rate	0.00	0.60
Double and a half	0.00	0.60

**January 1, 2006 –March 31, 2006**

	<b>Pre-April 1, 2000</b>	<b>Post- March 31, 2000</b>
Current service	2.49	2.49
Elected service:		
Single rate	1.00	2.90
Double rate	0.00	0.60
Double and a half	0.00	0.60

- The elected service rates listed above are for contributions for periods of leave without pay which are set out in RCMP Superannuation Regulations. Depending on the type of leave, the member must repay contributions at a rate either equal to single rate, double, or two and one-half times the amount that would have been payable had he not been absent.
- Member contribution rates were increased, through a yearly adjustment of 0.3% of salary effective January 1, 2006, to result in final rates of 6.4% on pensionable earnings up to the maximum salary covered by the Canada Pension Plan and/or Quebec Pension Plan and 8.4% of earnings above that amount. The increase in member contributions rates reflects the Government of Canada's goal of ensuring that the costs of the Plan are shared in a balanced way between the plan members and the Government, and ultimately, the Canadian taxpayer.

# Governance and Administration

The RCMP Pension Plan is governed by the RCMPSA and regulations.

The Government of Canada is the sole sponsor of the Plan and the Minister of Public Safety and Emergency Preparedness (the “Minister”) is the Minister<sup>1</sup> responsible for the Plan. The RCMP is the administrator of the Plan. PSP Investments manages the Plan's investments.

The Minister is responsible for approving recommendations made by the RCMP Pension Advisory Committee, for tabling the annual report and for tabling legislative changes to the RCMPSA in Parliament.

## **RCMP**

The RCMP is the administrator of the Plan. The RCMP is headed by the Commissioner who under the direction of the Minister has the control and management of the RCMP and all matters connected therewith.

The RCMP is responsible for determining eligibility for benefits, calculating and paying benefits, developing legislation and related policies, providing information to plan members and providing the necessary secretariat support for committees. On April 1, 2003, the RCMP outsourced many of the day to day administrative activities of the Plan previously performed by employees of the RCMP and Public Works and Government Services Canada (PWGSC) to Morneau Sobeco, a private sector pension plan administrator.

## **RCMP Pension Advisory Committee**

The RCMP Pension Advisory Committee was established in September 1992 to advise and assist the Minister on issues related to the administration, funding and design of the RCMPSA.

The Committee consists of eight members. Committee members are appointed by the Minister for up to three years and can be re-appointed. The Committee consists of one pensioner, three Division Staff Relations Representatives, two members of Senior Management, one representative from the Veterans Association and one independent member. Two committee members also serve as representatives of the RCMP Pension Plan on the nominating committee for the Board of Directors of PSP Investments.

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<sup>1</sup> As of February 6, 2006, the Minister of Public Safety and Emergency Preparedness adopted the new title of Minister of Public Safety. Since the Department of Public Safety and Emergency Preparedness Act does not yet reflect the new name, this report will continue to refer to the Minister of Public Safety and Emergency Preparedness until the necessary legislative changes have been made.



The activities of the Committee are reported through the Pension Advisory Committee News.

## **RCMP Pension Finance Oversight Committee**

The RCMP Pension Finance Oversight Committee was established on April 6<sup>th</sup>, 2004 to assist the Deputy Commissioner, Corporate Management & Comptrollership and the Chief Human Resources Officer on matters related to the financial administration and management of the RCMP Pension Plan. The Chairpersons of the Pension Finance Oversight Committee report directly to the Deputy Commissioner, Corporate Management & Comptrollership and the Chief Human Resources Officer.

## **PWGSC**

Prior to the outsourcing, PWGSC provided certain pension administration services under a memorandum of understanding with the RCMP. During the year, PWGSC continued to issue payments to beneficiaries of the Plan.

## **Morneau Sobeco**

On April 1, 2003, the administration of the RCMP Pension Plan was outsourced to Morneau Sobeco, a recognized private sector leader in the delivery of pension plan administration.

In the period subsequent, pension services have been subject to extensive scrutiny as this process got underway. Following initial transitional difficulties, considerable progress has been achieved. Comparison with the delivery performance of other similar pension operations indicates that, in the case of the RCMP, Service Standards exceed the performance of the industry norm in a range of key delivery areas. Further, year-over-year, per unit clientele pension delivery costs have declined by nearly ten percent. Work is at present underway to attempt to produce further delivery cost improvements, for the benefit of Pension Clientele - through examining strategies to streamline procedures further and to attempt to cut costs through increased economies and volume efficiencies.

The term of the contract is for a five-year period from April 1, 2003 to March 31, 2008 with two one-year option periods.

## **Treasury Board**

Treasury Board is responsible to establish principles for charging administration costs to the Plan, establish contribution rates, manage surpluses and exercise power as the Governor in Council under the RCMPSPA.

The President of the Treasury Board is also responsible for *the Public Pensions Reporting Act, the Public Sector Pension Investment Board Act, and the Special Retirement Arrangements Act.*

## **Office of the Superintendent of Financial Institutions**

In accordance with the *Public Pensions Reporting Act*, the Chief Actuary of the Office of Superintendent of Financial Institutions (OSFI) conducts triennial actuarial reviews of the Plan and is required to prepare and file with the President of the Treasury Board a cost certificate, an actuarial valuation report and an assets report on the state of the Plan.

## **Office of the Auditor General**

Pursuant to the *Auditor General Act*, the Office of the Auditor General audits the financial statements of the Plan.

# Investment Management

## **RCMP Superannuation Account (the “Account”)**

The Account represents contributions, net of benefit payments and administrative charges in respect of service provided by members prior to April 1, 2000. The Account earns interest at rates based on long-term Government Canada bond rates. A summary of transactions during the current and prior periods to the Account is included in Schedule I.

## **RCMP Pension Fund (the “Fund”)**

Contributions, net of benefit payments and administrative charges in respect of service provided by members on or after April 1, 2000 are transferred periodically to PSP Investments for investment in the capital markets. The balance at year end in the Fund represents the amount in transit to PSP Investments. A summary of transactions during the current and prior periods to the Fund is included in Schedule I.

## **PSP Investments**

PSP Investments is a Crown corporation established by the *Public Sector Pension Investment Board Act* in September 1999 and commenced operations on April 1, 2000 to invest in financial markets the net contributions received from the Public Sector Pension Plan, the Canadian Forces Pension Plan and the RCMP Pension Plan.

### ***Mandate***

The legislated mandate of PSP Investments is to:

- manage the funds transferred to PSP Investments in the best interest of the contributors and beneficiaries of the Plans; and,
- invest with a view of achieving a maximum rate of return without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of those Plans to meet their financial obligations.

The legislation states that PSP Investments shall not, directly or indirectly, carry on any business or activity or exercise any power inconsistent with these objectives.

### ***Accountability and Reporting***

PSP Investments is governed by a twelve member Board of Directors. The Board of Directors is accountable to Parliament through the President of the Treasury Board, who is responsible for the *Public Sector Pension Investment Board Act* and is required to table its annual report in Parliament. PSP Investments is required to provide quarterly financial statements and the annual report to the Ministers responsible for the plans. The Board of Directors also meets annually with the Pension Advisory Committee.

Additional information about the mandate of PSP Investments, the role of the Board of Directors and key policies can be found in the Public Sector Pension Investment Board 2006 Annual Report published on PSP Investments' Web site: [www.investpsp.ca](http://www.investpsp.ca).

### ***Investment Policies***

Investment decisions are governed by PSP Investments' Statement of Investment Policies, Standards and Procedures. The Board of Directors is required to review this investment policy on an annual basis.

### ***Asset Mix Policy***

The current investment policy provides for assets to be invested as follows:

	<b>Long-term target weight</b>	<b>Long-term range</b>
<b>Developed World Equities</b>	<b>40%</b>	
Canadian Equities	30%	24-36%
Large Cap U.S. Equities	5%	4-6%
EAFE Market Equities	5%	4-6%
<b>Small Cap Developed World Equities</b>	<b>7%</b>	5-9%
<b>Emerging Markets Equity</b>	<b>7%</b>	6-8%
<b>Private Equity</b>	<b>8%</b>	6-10%
<b>Nominal Fixed Income</b>	<b>15%</b>	
Cash & Cash Equivalents	2%	0-4%
World Government Bonds	5%	3-7%
Canadian Fixed Income	8%	4-12%
<b>Real Return Assets</b>	<b>23%</b>	
World Inflation-linked Bonds	5%	3-7%
Real Estate	10%	5-15%
Infrastructure	8%	5-11%

In fiscal year 2005-2006, the Canadian government removed the 30% limit imposed on the foreign content of registered pension plans. This enabled PSP Investments to review its assets allocation. Accordingly, amendments to the Policy Portfolio were approved by the PSP Investments Board of Directors during fiscal 2005-2006. These amendments introduced infrastructure as a new asset class and geographically diversified investments in fixed-income instruments, small capitalization equities and real return bonds. Until the phase-in of the introduction of these amendments is completed, there will be discrepancies between the long term policy and the actual asset allocations for these assets classes.

### ***Investment Strategy***

PSP Investments uses a combination of passive and active investment management. Passive investment management means to replicate a market index return by gaining exposure to individual securities in proportions that closely resemble their composition in an underlying index. Active management means that investment managers can increase or reduce exposure to certain securities based on the risk/return profile.

Investment risks are managed through diversification strategies and by limiting the overall percentage of assets that are actively managed and the amounts managed by individual investment managers.

# 2005-2006 Results

## **Net Assets and Other Accounts Available for Benefits**

Net Assets and Other Accounts Available for Benefits increased by \$948.6 million from the previous year, to \$13,298.1 million at March 31, 2006. The reason for the increase is shown in the Statement of Changes in Net Assets and other Accounts Available for Benefits.

As indicated on this Statement, the main reasons for the increase of \$948.6 million are:

- Interest earned on the RCMP Superannuation Account of \$834.8, plus
- Earnings on investments managed by PSP investments of \$300.2 million, plus
- Contributions received \$307.4 million, less
- Benefits paid of \$415.4 million, less
- RCMP Superannuation Account actuarial adjustment \$49.0 million, less
- Refunds and transfers \$19.2 million.

Net Assets and Other Accounts Available for Benefits are valued at fair market value.

## **Accrued Pension Benefits**

Accrued Pension Benefits increased by \$615.5 million to \$11,582.8 million at March 31, 2006. The reason for the increase is shown on the Statement of Changes in Accrued Pension Benefits.

As indicated on this Statement, this increase reflects:

- The interest incurred on accrued pension benefits of \$823.6 million, plus
- Additional benefits earned by members during the year of \$278.3 million, plus
- Changes in actuarial assumptions \$27.3 million, less
- Benefits paid of \$415.4 million, less
- Experience gains \$76.9 million, less
- Refunds and transfers \$19.2 million

Accrued pension benefits are based on an actuarial valuation which is performed every three years by the plan's actuary: the Office of the Superintendent of Financial Institutions. This valuation is updated annually for the purpose of preparing the financial statements.

## **Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits**

The Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits, as at March 31, 2006, was \$1,515.2 million representing an increase of \$213.7

million from the previous year. The excess is calculated by deducting the accrued pension benefits from the actuarial value of net assets available for benefits.

The reason for the increase is shown on the Statement of Changes in Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits. This Statement indicates that the increase is due to an overall increase in the actuarial value of net assets and other accounts available for benefits of \$829.2 million offset by the overall increase in accrued pension benefits of \$615.5 million.

## **Interest on RCMP Superannuation Account**

The RCMP Superannuation Account earned \$834.8 million in interest in 2005-2006, representing a 7.7% return. In 2004-2005, the RCMP Superannuation Account earned \$829.5 million. This increase is a result of a higher balance in the RCMP Superannuation Account.

## **Earnings on Investments Managed by PSP Investments**

Investments managed by PSP Investments earned \$300.2 million in 2005-2006. This includes the current year change in fair value of investments and currency of \$80.0 million, investment and dividend income of \$43.3 million, and realized gains of \$176.9 million.

This result represents a total return on investment of 19.1 %. This represents a 28.8 % return on Canadian equities, a 9.5 % return on U.S. Large Cap Equity, a 20.8% return on EAFE Large Cap Equity, a 18.6% return on Small Cap Developed World Equity, a 39.6% return on Emerging Markets Equity, a 21.6 % return on real estate, a 4.7 % return on Canadian Fixed Income, a 10.9% return on World Inflation-linked Bonds and a 2.7 % return on cash equivalents. The return on investments managed by PSP Investments was slightly higher than the overall benchmark return of 18.0 %.

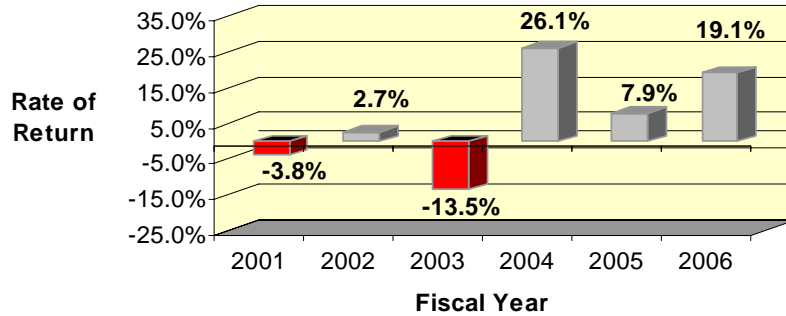
These returns compare favorably to the investment gain of \$100.0 million in 2004-2005 representing a total gain on investment of 8.0 %.

Since PSP Investments commenced operations on April 1, 2000, the investments have earned a cumulative net investment gain of \$508.5 million on total transfers of \$1,503.7 million, resulting in cumulative annualized four year total return of 8.8 %.

## PSP Investment Performance

The graph below illustrates the rates of return on the consolidated Pension Plans since PSP Investments' inception.

**Rates of Return on Consolidated Pension Plan Account**  
(by fiscal year)



Source: Public Sector Pension Investment Board

## Contributions

In 2005/2006, \$307.4 million was paid into the Plan, of which members contributed \$82.2 million and the employer \$225.2 million. Schedule II presents the number of Plan contributors as at March 31, 2005 and 2006.

The graph below illustrates the contributions made by the Members and the Employer, as a percentage of the total contributions.

**Contributions**  
(2005/2006 - current and elective service)



Source: Royal Canadian Mounted Police



## **Benefits**

Benefits paid increased to \$415.5 million in 2005-2006 compared to \$383.0 million in 2004-2005. This increase of \$32.5 million reflects a net increase of 600 in the number of annuitants as well as indexing increases of 2.2% and 2.3% that came into effect on January 1, 2005 and January 1, 2006 respectively. Schedule II summarizes the number of annuitants as at March 31, 2005 and 2006, and the number of other benefits paid during the year ended March 31, 2005 and 2006.

## **Actuarial adjustments**

During 2005-2006, the Government of Canada withdrew \$49 million from the RCMP Superannuation Account. This transaction is in accordance with the RCMPSPA which provides the authority to withdraw actuarial excess from the RCMP Superannuation Account. This adjustment is based on estimates from the Office of the Chief Actuary.

No withdrawal was made during 2004-2005. At March 31, 2006, the excess of actuarial value of net assets and other accounts over accrued pension benefits in the RCMP Superannuation Account was \$1,517.2 million.

## **Administrative expenses**

Administrative expenses totaled \$11.8 million in 2005-2006 compared to \$8.6 million in 2004-2005. The total expenses are comprised of expenses incurred by the RCMP (\$2.8 million in 2005-2006 versus \$1.5 million in 2004-2005), Morneau Sobeco (\$3.0 million in 2005-2006 versus \$4.0 million in 2004-2005), PWGSC (\$0.1 million in 2005-2006 versus \$0.2 million in 2004-2005), PSP Investments (\$5.8 million in 2005-2006 versus \$2.6 million in 2004-2005), and OSFI (\$0.2 million in 2005-2006 versus \$0.3 million in 2004-2005).

The aforementioned expenses were directly related to administration of the Pension Plan.

The 2005-2006 RCMP expenses increased from 2004-2005 as a result of:

- A revision to its 2004/2005 allocations of administration costs. The revision which consisted of a reduction totaling \$1.5M consisted of costs related to the implementation and administration of the insurance outsourcing initiative that were not chargeable to the Plan based on Treasury Board Pension Administrative Cost Charging Principles. In addition, the revision included undercharged benefit and accommodation costs.

The 2005-2006 PWGSC expenses decreased from 2004-2005 as a result of:

- A decrease in expenses for transition activities associated to the outsourcing initiative.

The 2005-2006 Morneau Sobeco expenses decreased from 2004-2005 as a result of:

- Additional implementation costs related to system change requirements and pension plan legislative improvements, which were incurred in 2004/2005.

The 2005-2006 PSP Investment expenses increased from 2004-2005 as a result of:

- Shifts to more actively manage the growing assets under PSP Investments' portfolio. Actively managed assets entail considerably higher expenses than a passive mandate. Although these actively managed assets are generally more expensive to manage, they offer the potential of higher returns.

The administrative expenses are detailed in note 15 of the financial statements.

# Financial Statements

## **ROYAL CANADIAN MOUNTED POLICE PENSION PLAN**

Year ended March 31, 2006

## ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

### Management Responsibility for Financial Statements

The accompanying financial statements of the Royal Canadian Mounted Police (RCMP) Pension Plan have been prepared by the management of the RCMP in accordance with the accounting policies set out in Note 2 of the financial statements, which are based on Canadian generally accepted accounting principles. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles. The financial statements include management's best estimates and judgements where appropriate.

Responsibility for the integrity and objectivity of the financial statements rests with the management of the RCMP Pension Plan. In support of its responsibility, management has developed and maintained books, records, internal controls and management practices, designed to provide reasonable assurance as to the reliability of the financial information and to ensure that transactions are in accordance with the *Royal Canadian Mounted Police Superannuation Act* and regulations, as well as the *Financial Administration Act* and regulations.

Additional information, as required, is obtained from the Public Sector Pension Investment Board which maintains its own records and systems of internal control to account for the funds managed on behalf of the RCMP Pension Plan in accordance with the *Public Sector Pension Investment Board Act* and regulations.

These financial statements have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Approved by:



Beverley Busson  
Commissioner



Paul Gauvin  
Deputy Commissioner  
Corporate Management and Comptrollership

November 3, 2006



Auditor General of Canada  
Vérificatrice générale du Canada

## AUDITOR'S REPORT

To the Minister of Public Safety

I have audited the statement of net assets and other accounts available for benefits, accrued pension benefits and excess of actuarial value of net assets and other accounts over accrued pension benefits of the Royal Canadian Mounted Police Pension Plan as at March 31, 2006 and the statements of changes in net assets and other accounts available for benefits and changes in accrued pension benefits and changes in excess of actuarial value of net assets and other accounts over accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets and other accounts available for benefits, the accrued pension benefits and the excess of actuarial value of net assets and other accounts over accrued pension benefits of the Plan as at March 31, 2006 and the changes in net assets and other accounts available for benefits, changes in accrued pension benefits and changes in excess of actuarial value of net assets and other accounts over accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions of the Plan that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Royal Canadian Mounted Police Superannuation Act* and regulations, the *Public Sector Pension Investment Board Act* and the by-laws of the Board.

Douglas G. Timmins, CA  
Assistant Auditor General  
for the Auditor General of Canada

Ottawa, Canada  
November 3, 2006

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## STATEMENT OF NET ASSETS AND OTHER ACCOUNTS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS AND EXCESS OF ACTUARIAL VALUE OF NET ASSETS AND OTHER ACCOUNTS OVER ACCRUED PENSION BENEFITS

As at March 31

	2006	2005
	(\$ thousands)	(\$ thousands)
<b>Net Assets and Other Accounts Available for Benefits</b>		
<b>Assets</b>		
RCMP Pension Fund Account (note 3)	16,563	17,510
Investments (note 4)	2,028,987	1,425,627
Contributions Receivable – Post March 2000 service (note 5)	11,100	9,700
Other Assets	268	172
	<b>2,056,918</b>	<b>1,453,009</b>
<b>Liabilities</b>		
Investment-related liabilities (notes 4 & 7)	25,347	-
Accounts payable	2,408	725
Due to Public Service Pension Plan (note 6)	1,111	737
	28,866	1,462
<b>Net Assets</b>	<b>2,028,052</b>	<b>1,451,547</b>
<b>Other Accounts</b>		
RCMP Superannuation Account (note 3)	11,255,481	10,890,476
Contributions Receivable – Pre April 2000 service (note 5)	14,600	7,500
<b>Net Assets and Other Accounts Available for Benefits</b>	<b>13,298,133</b>	<b>12,349,523</b>
Actuarial asset value adjustment (note 8)	(200,100)	(80,700)
<b>Actuarial Value of Net Assets and Other Accounts Available for Benefits</b>	<b>13,098,033</b>	<b>12,268,823</b>
<b>Accrued pension benefits (note 8)</b>	<b>11,582,814</b>	<b>10,967,271</b>
<b>Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits (note 9)</b>	<b>1,515,219</b>	<b>1,301,552</b>

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

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## STATEMENT OF CHANGES IN NET ASSETS AND OTHER ACCOUNTS AVAILABLE FOR BENEFITS

Year ended March 31

	2006	2005
	(\$ thousands)	(\$ thousands)
<b>Net Assets and Other Accounts Available for Benefits, Beginning of Year</b>	<b>12,349,523</b>	<b>11,547,401</b>
Increase in Net Assets and Other Accounts:		
Interest income from the RCMP Superannuation Account (note 3)	834,840	829,464
Contributions (note 11)	307,449	280,216
Current year change in fair value of investments and currency	80,024	34,147
Investment income (note 10)	220,221	65,890
Transfers from other pension funds	1,565	1,504
<b>Total Increase in Net Assets and Other Accounts</b>	<b>1,444,099</b>	<b>1,211,221</b>
Decrease in Net Assets and Other Accounts:		
RCMP Superannuation Account actuarial adjustment (note 14)	49,000	-
Benefits paid (note 12)	415,496	382,956
Administrative expenses (note 15)	11,798	8,564
Refunds and transfers (note 13)	19,195	17,579
<b>Total Decrease in Net Assets and Other Accounts</b>	<b>495,489</b>	<b>409,099</b>
<b>Increase in Net Assets and Other Accounts Available For Benefits</b>	<b>948,610</b>	<b>802,122</b>
<b>Net Assets and Other Accounts Available for Benefits, End of Year</b>	<b>13,298,133</b>	<b>12,349,523</b>

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

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

Year ended March 31

	2006	2005
	(\$ thousands)	(\$ thousands)
<b>Accrued Pension Benefits, Beginning of Year</b>	<b>10,967,271</b>	<b>10,841,268</b>
Increase in Accrued Pension Benefits:		
Interest on accrued pension benefits	823,600	791,700
Benefits earned	278,300	276,100
Changes in actuarial assumptions (note 8)	27,300	(480,400)
Cost of new elections	2,400	-
Transfers from other pension funds	1,565	1,504
<b>Total Increase in Accrued Pension Benefits</b>	<b>1,133,165</b>	<b>588,904</b>
Decrease in Accrued Pension Benefits:		
Benefits paid (note 12)	415,496	382,956
Experience gains	76,900	56,400
Refunds and transfers (note 13)	19,195	17,579
Administrative expenses included in the service cost (note 15)	6,031	5,966
<b>Total Decrease in Accrued Pension Benefits</b>	<b>517,622</b>	<b>462,901</b>
<b>Net Increase in Accrued Pension Benefits</b>	<b>615,543</b>	<b>126,003</b>
<b>Accrued Pension Benefits, End of Year</b>	<b>11,582,814</b>	<b>10,967,271</b>

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



# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## STATEMENT OF CHANGES IN EXCESS OF ACTUARIAL VALUE OF NET ASSETS AND OTHER ACCOUNTS OVER ACCRUED PENSION BENEFITS

Year ended March 31

	2006	2005
	(\$ thousands)	(\$ thousands)
<b>Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits, Beginning of Year</b>	<b>1,301,552</b>	<b>642,733</b>
Increase in net assets and other accounts available for benefits	948,610	802,122
Change in actuarial asset value adjustments	(119,400)	(17,300)
Increase in actuarial value of net assets and other accounts available for benefits	829,210	784,822
Net increase in accrued pension benefits	(615,543)	(126,003)
<b>Excess of Actuarial Value of Net Assets and Other Accounts over Accrued Pension Benefits, End of Year</b>	<b>1,515,219</b>	<b>1,301,552</b>

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

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 1. Description of Plan

The Royal Canadian Mounted Police Pension Plan (the "Plan"), which is governed by the *Royal Canadian Mounted Police Superannuation Act* (the "RCMPSA" or the "Act"), provides pension benefits to all members of the Royal Canadian Mounted Police ("RCMP"). This Act has been in effect since April 1, 1960.

The following description of the Plan is a summary only.

#### (a) General

The Plan is a contributory defined benefit plan covering all Regular and Civilian members of the RCMP. Membership in the Plan is compulsory for all members of the RCMP regardless of length of service.

The Government of Canada is the sole sponsor of the Plan. The Minister of Public Safety is the Minister responsible for the RCMPSA. The RCMP is responsible for the management of the Plan. Responsibility for the day-to-day administration of the Plan was outsourced to Morneau Sobeco. The Office of the Superintendent of Financial Institutions ("OSFI") makes periodic actuarial valuations of the Plan.

Until April 1, 2000, separate market invested funds were not set aside to provide for payment of pension benefits. Instead, transactions relating to the Plan were recorded in a RCMP Superannuation Account created by Legislation in the Accounts of the Government of Canada. Pursuant to the RCMPSA as amended by the *Public Sector Pension Investment Board Act*, transactions relating to service subsequent to March 31, 2000 are now recorded in the RCMP Pension Fund (the "Pension Fund"), where the excess of contributions over benefits and administration costs are invested in capital markets by the Public Sector Pension Investment Board ("PSP Investments"). PSP Investments is a separate corporate body that started operations on April 1, 2000. Its goal is to achieve maximum rates of return on investments without undue risk, while respecting the requirements and financial obligations of the Plan.

#### (b) Funding policy

The Plan is funded from member and government contributions. Plan members contribute 4.3% (4.0% prior to January 2006) of pensionable earnings up to the maximum covered by the Canada Pension Plan or Quebec Pension Plan ("CPP" or "QPP") and 7.8% (7.5% prior to January 2006) of pensionable earnings above that maximum. The government's contribution is made monthly to provide for the cost (net of member contributions) of the benefits that have accrued in respect of that month. After 35 years of pensionable service, members

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 1. Description of Plan (continued)

#### (b) Funding policy (continued)

contribute only 1% of pensionable earnings. The determination of the cost of the benefits is made on the basis of actuarial valuations, which are performed triennially.

The RCMPSPA requires actuarial deficiencies found in the RCMP Pension Fund to be dealt with by transferring amounts to the Fund in equal instalments over a period not exceeding 15 years. It also allows excesses in the Pension Fund to be dealt with by a reduction of government and/or plan member contributions or by withdrawing amounts from the Fund.

Until April 1, 2000, a separate market-invested fund was not maintained; however, the RCMPSPA provides that all pension obligations arising from the Plan be met by the Government of Canada. For the pre-April 2000 service, the RCMPSPA requires deficiencies found between the balance of the RCMP Superannuation Account and the actuarial liability to be reduced by crediting the Account in equal instalments over a period not exceeding 15 years. When the balance of the RCMP Superannuation Account exceeds the actuarial liability, it also allows the excess to be reduced by debiting the Account over a period of up to 15 years.

#### (c) Benefits

The Plan provides pension benefits based on the number of years of pensionable service to a maximum of 35. The benefits are determined by a formula set out in legislation; they are not based on the financial status of the plan. The basic benefit formula is 2% per year of pensionable service times the average of the five consecutive years of highest paid service. Benefits are co-ordinated with the CPP and QPP, and are fully indexed to the increase in the Consumer Price Index. When benefits under the CPP/QPP become payable, the basic benefit formula becomes 1.3% per year of pensionable service for earnings subject to the CPP/QPP, up to the average of the maximum earnings under the CPP/QPP for the year of termination and the previous four years and 2% on earnings above that average.

Other benefits include survivor pensions, minimum benefits in the event of death, unreduced early retirement pensions and disability pensions. To reflect the *Income Tax Act (Canada)* restrictions on registered pension plan benefits, separate Retirement Compensation Arrangements have been implemented to provide benefits that exceed the income tax limit. Since these arrangements are covered by separate legislation, their net assets available for benefits and accrued pension benefits are not consolidated in these financial statements. However, condensed information is presented in note 16.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 1. Description of Plan (continued)

#### (d) Income Tax

The Plan is a registered pension plan under the *Income Tax Act (Canada)* and as such is not subject to income taxes.

### 2. Significant accounting policies

#### (a) Basis of presentation

These financial statements present information on the Plan on a going concern basis. They are prepared to assist plan members and others in reviewing the activities of the Plan for the year, but they are not meant to portray the funding requirements of the Plan.

These financial statements are prepared using the accounting policies stated below, which are based on Canadian generally accepted accounting principles. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ significantly from those estimates, although at the time of their preparation, management believes the estimates and assumptions to be reasonable.

#### (b) Valuation of assets and other accounts

The RCMP Superannuation Account portrays a notional portfolio of bonds and is presented at the amount at which it is carried in the Accounts of Canada.

The investments of the Plan are held and managed through PSP Investments. Investments are grouped by asset class holdings and maintaining the respective fair value and cost of the underlying investments held in PSP Investments. This presentation was changed from the previous year where unit interest in PSP investment's assets (the PSP Funds) was allocated to the Plan. This change has resulted in a reclassification of certain previous year's comparative numbers.

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act.

Fair value for investments in pooled funds is based on unit values, which reflect the quoted market prices or other generally accepted pricing methodologies for the underlying securities.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 2. Significant accounting policies (continued)

#### (b) Valuation of assets and other accounts (continued)

Contributions receivable for past service elections made after March 2000 are recorded at their estimated net present value, which approximates their fair value. Contributions receivable for past service elections made prior to April 2000 that will be credited to the RCMP Superannuation Account once the member's share is received are also presented at their estimated net present value.

The actuarial value of net assets is based on the market-related value of investments, whereby the fluctuations between the market and expected market value are deferred and recognized over a five year period within a ceiling of plus or minus 10% of the market value. Market-related value of investments is used to mitigate the impact of large fluctuations in the market value of plan investments.

#### (c) Income recognition

The investment income has been allocated proportionally based on the asset value held by the Plan.

Investment income is recorded on an accrual basis. The investment income has been allocated by PSP Investments proportionately based on the assets held by the Plan. Investment income represents realized gains and losses on the disposal of investments, interest and dividend income and net operating income from private market and real estate investments. These income items include the related distributions from pooled funds and limited partnerships.

The current year change in fair value of investments and currency is the unrealized appreciation (depreciation) on investments held at the end of the year.

Interest earned on the Royal Canadian Mounted Police Superannuation Account is also presented on an accrual basis.

#### (d) Contributions

Contributions for current service are recorded on the accrual basis in the year in which the related payroll costs are incurred. Contributions for past service that are receivable over a period in excess of one year are recorded at the estimated net present value of the contributions to be received.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 2. Significant accounting policies (continued)

#### (e) Benefits, refunds and transfers

Benefits are accrued as pensionable service accumulates and they are recognized as a reduction of accrued pension benefits and net assets and other accounts when paid. Refunds and transfers are recognized at the moment the refund or transfer occurs, until which time they are presented with the net assets and other accounts available for benefits and with the related accrued pension benefits.

#### (f) Translation of foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at year-end are translated at exchange rates in effect at the year-end date. The realized gains (losses) on disposal of investments that relate to foreign currency translation are included in investment income.

Unrealized gains and losses resulting from year-end translation of foreign currency denominated investments are included in the current year change in fair value of investments and currency.

### 3. RCMP Superannuation Account and RCMP Pension Fund Account

The RCMP Superannuation Account is established in the Accounts of Canada pursuant to the RCMPSPA. It portrays a notional portfolio of bonds and is not funded by the Government of Canada. The Act requires that this Account records transactions such as contributions, benefits paid and transfers that pertain to pre-April 1, 2000 service, and that the Account be credited with interest. The Royal Canadian Mounted Police Superannuation Regulations require that the interest be credited quarterly at rates that are calculated as though the amounts recorded in the Account were invested quarterly in a notional portfolio of Government of Canada 20-year bonds held to maturity.

Transactions pertaining to post March 31, 2000 service are recorded in the RCMP Pension Fund through the RCMP Pension Fund Account, which is also held in the Accounts of Canada. The net amount of contributions less benefits and other payments is regularly transferred to PSP Investments for investment in the capital markets. The RCMP Pension Fund Account is only a flow through account, and, as such, does not earn interest. At March 31, the balance in the RCMP Pension Fund Account represents amounts of net contributions in transit awaiting imminent transfer to PSP Investments.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

### 4. Investments

#### (a) Investment Portfolio

The investment portfolio at March 31, is as follows:

Asset Class	2006		2005	
	Fair Value	Cost	Fair Value	Cost
	(\$ thousands)		(\$ thousands)	
<b>Developed World Equity</b>				
Canadian Equity	676,632	583,204	571,073	473,065
US Large Cap Equity	189,509	175,388	170,341	168,791
EAFE Large Cap Equity	232,876	188,280	184,454	169,458
<b>Small Cap Developed World Equity</b>	145,256	131,545	7,741	6,927
<b>Emerging Markets Equity</b>	140,672	110,428	26,059	26,465
<b>Private Equity</b>	21,830	22,200	221	267
<b>Nominal Fixed Income</b>				
Cash Equivalents	28,518	28,518	32,201	32,201
Canadian Fixed Income	381,496	386,486	378,552	374,186
<b>Real Return Assets</b>				
World Inflation-linked Bonds	30,665	28,020	16,157	15,340
Real Estate	139,958	134,539	31,533	31,343
<b>Absolute Return</b>	41,575	40,220	7,295	7,449
<b>Investments</b>	<b>2,028,987</b>	<b>1,828,828</b>	<b>1,425,627</b>	<b>1,305,492</b>
Investment-related liabilities (Note 7)	(25,347)	(25,347)	-	-
<b>Net Investments</b>	<b>2,003,640</b>	<b>1,803,481</b>	<b>1,425,627</b>	<b>1,305,492</b>

Comparative figures have been reclassified to conform to the current year's presentation.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

### 4. Investments (continued)

#### (a) Investment Portfolio (continued)

The presentation of the investment portfolio was changed during the year and references to the "PSP Funds" have been eliminated. Whereas in prior years, the investment portfolio represented holding unit interests in the "PSP Funds", this has been replaced by an investment portfolio depicting the effective asset class holdings.

Direct investments, derivative contracts and investment-related receivables and liabilities are classified by asset-mix category based on the intent of the investment strategies of PSP Investments. In addition to the different asset classes outlined in the asset mix policy, PSP Investments employs a number of absolute return strategies.

#### (b) Investment Asset Mix

PSP Investments has established a Statement of Investment Policies, Standards and Procedures (SIP&P) that sets out the manner in which the assets shall be invested. During the course of the year, PSP Investments modified its assets mix policy.

The investment asset mix, as set out in the SIP&P as at March 31, is as follows:

Asset Class	2006		2005	
	Actual Asset Mix	Policy Portfolio	Actual Asset Mix	Policy Portfolio
Equities	70.2%	62.0%	67.3%	63.0%
Fixed Income	22.4%	15.0%	29.4%	22.0%
Real Return Assets	7.4%	23.0%	3.3%	15.0%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Comparative figures have been reclassified to conform to the current year's presentation.

Differences between the actual asset mix and the policy portfolio targets are due principally to the target weights of certain asset classes, which have yet to be attained. For instance, real return assets include real estate and infrastructure assets with policy portfolio target weights of 10% and 8%, respectively, and actual asset weights of only 7% and nil, respectively.



# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 4. Investments (continued)

#### (c) Foreign currency risk

The Plan's investments are exposed to currency risk through holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets where investment values will fluctuate due to changes in foreign exchange rates. To mitigate this risk, PSP Investments may take, through derivative contracts, trading positions in foreign currencies.

The underlying net foreign currency exposure in Canadian dollars, as at March 31, was as follows:

Currency	2006		2005	
	Fair value	% of total	Fair value	% of total
	(\$ thousands)		(\$ thousands)	
US dollars	420,101	57.0%	202,428	49.8%
Euro	114,073	15.4%	70,540	17.3%
Yen	66,896	9.1%	36,620	9.0%
British pound	48,696	6.6%	38,380	9.4%
Others	87,850	11.9%	58,803	14.5%
	<b>737,616</b>	<b>100.0%</b>	<b>406,771</b>	<b>100.0%</b>

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

### 4. Investments (continued)

#### (d) Investment performance

Portfolio and benchmark returns, of the investment portfolio held through PSP Investments for the year ended March 31, are as follows:

	2006		2005	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
<b>Developed World Equity</b>				
Canada Equity	28.8%	28.7%	15.6%	13.9%
US Large Cap Equity	9.5%	7.7%	(0.6)%	(1.8)%
EAFE Large Cap Equity	20.8%	20.0%	4.3%	5.9%
<b>Small Cap Developed World Equity</b>	18.6%	19.3%	n.a.	n.a.
<b>Emerging Markets Equity</b>	39.6%	42.6%	n.a.	n.a.
<b>Private Equity</b>	0.6%	n.a.	(33.8)%	n.a.
<b>Nominal Fixed Income</b>				
Cash Equivalents	2.7%	2.8%	2.9%	2.2%
Canadian Fixed Income	4.7%	4.9%	5.0%	5.0%
<b>Real Return Assets</b>				
World Inflation-linked Bonds	10.9%	11.8%	8.8%	9.2%
Real Estate	21.6%	8.3%	7.9%	6.7%
<b>Total Return</b>	<b>19.1%</b>	<b>18.0%</b>	<b>7.9%</b>	<b>7.2%</b>

Comparative figures have been reclassified to conform to the current year's presentation.

Returns have been calculated in accordance with the methodology recommended by the *Chartered Financial Analyst Institute*. Returns are presented gross of expenses. PSP Investments has identified relevant benchmarks for each asset class. The asset class benchmark returns are used in evaluating the relative performance of each asset class. The total benchmark return aggregates the asset class benchmark returns according to the weights under the actual asset mix. The return of the private equity asset class is not being measured against any benchmark during the ramp-up period as per the PSP Investments' SIP& P. However, for the purposes of calculating the total 2006 and 2005 benchmark returns, the actual private equity portfolio returns of 0.6% and (33.8)%, respectively, are used. The total portfolio returns includes the performance impact of absolute return strategies. Hedging investment returns have been netted against respective hedged assets.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

### 5. Contributions receivable:

	2006	2005
	(\$ thousands)	
Post April 1, 2000 service		
Member contributions for past service elections	3,700	3,200
Government of Canada share of contributions for past service elections	7,400	6,500
	<b>11,100</b>	<b>9,700</b>
Pre March 31, 2000 service		
Member contributions for past service elections	7,600	3,800
Government of Canada share of contributions for past service elections	7,000	3,700
	<b>14,600</b>	<b>7,500</b>
<b>Total</b>	<b>25,700</b>	<b>17,200</b>

### 6. Due to Public Service Pension Plan

The costs of operation of PSP Investments are charged to the three plans for which PSP Investments provides investment services, namely, the Public Service Pension Plan, the Canadian Forces Pension Plan, and the Royal Canadian Mounted Police Pension Plan. The direct costs of investment activities, such as external investment management fees and custodial fees, are allocated to each plan and the operating expenses are allocated on a quarterly basis, based upon the asset value of each plan's investments under management.

In 2006, 7.3% of the operating expenses were allocated to the Plan (7.4% in 2005). PSP Investments initially charges all the expenses to the Public Service Pension Plan, which then charges the Plan on a quarterly basis.

### 7. Investment-related liabilities

The investment-related liabilities of \$25.3 million (nil in 2005) consist of the Plan's portion of the short-term promissory notes of PSP Capital Inc., a wholly owned subsidiary of PSP Investments. The notes have maturity dates within 60 to 90 days of issuance and therefore their stated value approximates their fair value. The capital raised was used primarily to finance real estate investments.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 8. Accrued pension benefits

#### (a) Present value of accrued pension benefits

The present value of accrued pension benefits is calculated actuarially using the projected benefit method prorated on service. Actuarial valuations are performed triennially for funding purposes and are updated annually for accounting purposes, using the government's best estimate assumptions. The information in these financial statements is based on this annual valuation. The Chief Actuary of the Office of the Superintendent of Financial Institutions conducted the most recent actuarial valuation of the Plan for funding purposes as of March 31, 2005 but is has not yet been tabled in Parliament as at March 31, 2006. The demographic assumptions and base populations used in the funding actuarial valuation as of March 31, 2005 were used as the basis for the update of the March 31, 2006 accounting actuarial valuation.

The assumptions used in determining the actuarial value of accrued pension benefits were developed with reference to short-term forecasts and expected long-term market conditions. Many assumptions are required in the actuarial valuation process, including estimates of future inflation, interest rates, expected return on investments, general wage increases, workforce composition, retirement rates, and mortality rates. The assumptions for the long-term rate of inflation and long-term general wage increase used in the accounting valuation are 2.0% and 2.9% respectively (2.0% and 2.9% in 2005). At March 31, 2006, the expected rate of return on pension investments and the assumed average government long-term bond rate used to value the pension liability are 6.2% and 7.6% respectively (6.2% and 7.8% in 2005). The corresponding assumptions used in the cost of current service and in the interest expense are 6.2% and 7.8% respectively (5.8% and 7.6% in 2005).

#### (b) Actuarial asset value adjustment

The actuarial value of net assets available for benefits has been determined from short-term forecasts consistent with the assumptions underlying the valuation of the accrued pension benefits. The actuarial asset value adjustment represents the difference between investments valued at fair value and investments valued at market-related values.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

### 9. Excess of actuarial value of net assets and other accounts over accrued pension benefits

For funding purposes, the actuarial value of net assets, other accounts and the accrued pension benefits is tracked separately for service prior to April 1, 2000 and after March 31, 2000. Based on the accounting assumptions used for these financial statements, the breakdowns as at March 31, 2006 and 2005 are as follows:

	2006			2005		
	Pre-April 1, 2000	Post-March 31, 2000	Total	Pre-April 1, 2000	Post-March 31, 2000	Total
	(\$ thousands)			(\$ thousands)		
Net assets and other accounts available for benefits	11,270,081	2,028,052	13,298,133	10,897,976	1,451,547	12,349,523
Actuarial asset value adjustment	-	(200,100)	(200,100)	-	(80,700)	(80,700)
Actuarial value of net assets and other accounts available for benefits	11,270,081	1,827,952	13,098,033	10,897,976	1,370,847	12,268,823
Accrued pension benefits	9,752,849	1,829,965	11,582,814	(9,521,597)	(1,445,674)	(10,967,271)
<b>Excess of actuarial value of net assets and other accounts over accrued pension benefits</b>	<b>1,517,232</b>	<b>(2,013)</b>	<b>1,515,219</b>	<b>1,376,379</b>	<b>(74,827)</b>	<b>1,301,552</b>

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 10. Investment income

	2006	2005
	(\$ thousands)	
Interest and dividend	43,273	32,508
Net realized gains	176,948	33,382
	<b>220,221</b>	<b>65,890</b>

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Comparative figures have been reclassified to conform to the current year's presentation.

### 11. Contributions

	2006	2005
	(\$ thousands)	
Members	82,212	71,319
Government of Canada	225,237	208,897
	<b>307,449</b>	<b>280,216</b>

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During the year, members contributed approximately 26% (25% in 2005) of the total contributions made in respect of current service. The blended rate of 26% consists of 25% from April 1, 2005 to December 31, 2005 and 28% from January 1, 2006 to March 31, 2006.

### 12. Benefits Paid

	2006	2005
	(\$ thousands)	
Annuities	415,442	382,619
Cash termination allowances	22	263
Minimum death benefits	32	74
	<b>415,496</b>	<b>382,956</b>

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# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 13. Refunds and transfers

	2006	2005
	(\$ thousands)	
Pension division payments	11,815	13,424
Returns of contributions and transfer value payments	7,205	3,981
Transfers to other pension funds	175	174
	<b>19,195</b>	<b>17,579</b>

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### 14. Actuarial adjustment

In accordance with the legislation governing the Plan, the President of the Treasury Board Secretariat of Canada is required to direct that any actuarial deficiency found in the RCMP Pension Fund be credited to the Fund in equal installments over a period not exceeding 15 years, commencing in the year in which the actuarial report is tabled in Parliament. Excesses in the Pension Fund may be dealt with by a reduction of government and/or plan member contributions or by withdrawing amounts from the Fund.

The legislation also requires that deficiencies between the balance of the RCMP Superannuation Account and the actuarial liability be credited to the Account in equal instalments over a period not exceeding 15 years. When the balance of the RCMP Superannuation Account exceeds the actuarial liability, it also allows the excess to be reduced by debiting the Account over a period of up to 15 years.

As a result of the March 31, 2002, triennial actuarial valuation of the RCMP Pension Plan, which was tabled in Parliament on October 30, 2003, the RCMP Superannuation Account, was reduced by a one time adjustment of \$49 million in 2006.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 15. Administrative expenses

The Legislation provides for administrative expenses to be charged to the Plan. These administrative services are provided by government organizations related to the Plan and a private sector pension administration service provider, Morneau Sobeco. The administrative expenses relating to the RCMP, Public Works and Government Services Canada (PWGSC), the OSFI, and Morneau Sobeco are approved by the Treasury Board Secretariat.

The RCMP, as the program manager of the Plan, provides operational support, policy interpretation, financial accounting services, and pension committee support. These costs are charged to the Plan. They include salaries and benefits, systems maintenance and development, accommodation, and other operating costs of administering the Plan within the department.

Morneau Sobeco, under a contract agreement, provides administrative services to the Plan and charges costs to the Plan on a monthly basis. Morneau Sobeco provides day to day administration services including determining the eligibility and the calculation of pension benefits, providing call centre support and information to plan members, and providing pension payroll services.

PWGSC, under a memorandum of understanding with the RCMP, charges the Plan for printing and mailing pension cheques and direct deposit stubs to pensioners.

OSFI, under a memorandum of understanding with the RCMP, provides actuarial valuation services and charges these costs to the Plan.

PSP Investments, as the manager of the investment funds of the Plan, charges its operating expenses, salaries and benefits as well as other operating expenses and external investment management fees to the Plan.



# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

### 15. Administrative expenses (continued)

Administrative expenses consist of the following:

	2006	2005
	(\$ thousands)	
RCMP administrative expenses	2,754	1,467
Morneau Sobeco	2,962	4,055
PWGSC administrative expenses	106	173
OSFI	209	271
<b>Total Administrative expenses included in the service cost</b>	<b>6,031</b>	<b>5,966</b>
PSP Investments		
Operating expenses	2,868	1,539
External investment management fees	2,899	1,059
<b>Total PSP Investments</b>	<b>5,767</b>	<b>2,598</b>
	<b>11,798</b>	<b>8,564</b>

During the prior period, the RCMP revised its prior year's allocations of administration costs. A reduction totaling \$1.5 million for expenses charged to the Plan during fiscal years 2000/2001 through 2003/2004 was made. The revision consists of costs related to the implementation and administration of the insurance outsourcing initiative that were not chargeable to the Plan based on Treasury Board Pension Administrative Cost Charging Principles. In addition, the revision included undercharged benefit and accommodation costs.

The total of the administration cost revisions in the prior period were attributed to the following fiscal years:

	2006	2005
Adjustment to Allocation of Prior Year Charges	(\$ thousands)	
2000-2001	-	56
2001-2002	-	386
2002-2003	-	487
2003-2004	-	527
	-	<b>1,456</b>

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

### 16. Retirement Compensation Arrangements

A Retirement Compensation Arrangements (RCA) Account has been established under the authority of the *Special Retirement Arrangements Act* to provide supplementary pension benefits to certain RCMP members. The RCA Account provides for benefits in excess of those permitted under the *Income Tax Act* for registered pension plans.

Pursuant to the legislation, transactions pertaining to these arrangements such as contributions, benefits and interest credits are recorded in the RCA Account, which is maintained in the Accounts of Canada. The legislation also requires that the RCA Account be credited with interest quarterly at the same rates as those credited to the RCMP Superannuation Account. The RCA is registered with the Canada Revenue Agency (CRA) and a transfer is made annually between the RCA Account and CRA either to remit a 50% refundable tax in respect of the net contributions and interest credited or to be credited a reimbursement based on the net benefit payments.

Since these arrangements are covered by separate legislation, the balance in this Account and related accrued pension benefits are not consolidated in the financial statements of the Plan. The following summarizes the financial position of the RCA Account that relates to the Plan as at March 31:

	2006	2005
	(\$ thousands)	
<b>Net balance and accrued pension benefits</b>		
Balance of Account		
RCA Account	21,025	19,455
Refundable tax receivable	20,492	18,441
	41,517	37,896
Accrued pension benefits	16,800	12,600
<b>Excess of the balance of the Account over the accrued pension benefits</b>	<b>24,717</b>	<b>25,296</b>

The actuarial assumptions used to value the accrued pension benefits pertaining to the RCA are consistent with those used for the Plan in all respects, except that they take into consideration the impact of the refundable tax on the notional rate of return expected for the Account.

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

### 16. Retirement Compensation Arrangements (continued)

The following summarizes the changes in net assets of the RCA Account for the year:

	2006	2005
	(\$ thousands)	
<b>Changes in the balance of the Account</b>		
Increase		
Contributions—members	256	289
Contributions—Government of Canada	1,965	1,664
Interest income	1,589	1,506
Increase in refundable tax receivable	2,050	2,005
	5,860	5,464
Decrease		
Benefits paid	189	155
Refundable tax remittance	2,050	2,005
	2,239	2,160
<b>Increase in the balance of the Account</b>	<b>3,621</b>	<b>3,304</b>

Actuarial deficiencies found between the balance in the RCA Account and the actuarial liability are credited in the RCA Account in equal installments over a period not exceeding 15 years. As a result of the last triennial actuarial valuation of March 2002, no adjustment was required to be credited to the RCA during the year.

### 17. Commitments

The Plan entered into a contractual agreement with Morneau Sobeco to function as the administrator of the Plan commencing April 1<sup>st</sup>, 2003. The initial term of the contract is for a five-year period, after which the Plan has the option to renew the contract for a further two-year period. The contract calls for payments over the remaining two-year period as follows:

	Firm Annual Commitment
	(\$ thousands)
2006-2007	2,695
2007-2008	2,756
	<b>5,451</b>

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

## Notes to Financial Statements

Year ended March 31

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### 18. Contingency

The *Public Sector Pension Investment Board Act* which received Royal Assent in September 1999, amended the RCMPSA to enable the federal government to deal with excess amounts in the RCMP Superannuation Account and the RCMP Pension Fund. The legal validity of these provisions has been challenged in the courts. The outcome of these lawsuits is not determinable at this time.

### 19. Subsequent event

Pursuant to the Budget of May 2, 2006 and ensuing Budget Implementation Act 2006 that received Royal Assent on June 22, 2006, amendments were made to the *Royal Canadian Mounted Police Superannuation Act*. Effective January 1, 2008, these amendments will decrease from 0.7 per cent to 0.625 per cent over a five-year period, the pension reduction factor that results from the coordination of benefits with the CPP and QPP for plan members reaching age 65 in 2008 and beyond. As this legislation was initiated and approved after year-end, the increase in past service cost resulting from this amendment was not recognized in these financial statements and it will be recorded in the financial statements of 2007.

### 20. Comparative figures

Certain comparative figures have been reclassified to conform with the current-year presentation.

# Schedule I – Public Accounts

## ROYAL CANADIAN MOUNTED POLICE SUPERANNUATION ACCOUNT

	<u>2005-2006</u>	<u>2004-2005</u>
	\$	\$
<b>Opening balance</b>	<u>10,890,475,666</u>	<u>10,453,724,135</u>
<b>RECEIPTS AND OTHER CREDITS</b>		
Contributions from members	1,427,039	1,430,319
Contributions from the Government	1,386,573	1,358,469
Transfers from other pension funds	286,230	357,321
Interest	834,839,888	829,464,936
	<u>837,939,730</u>	<u>832,611,045</u>
	<u>11,728,415,396</u>	<u>11,286,335,180</u>
<b>PAYMENTS AND OTHER CHARGES</b>		
Annuities and allowance payments	402,729,374	374,807,907
Pension division payments	10,987,456	12,712,462
Returns of contributions	20,381	50,605
Cash termination allowances and gratuities	22,115	250,818
Committed value payments	4,852,141	2,727,090
Transfers to other pension funds	131,256	96,372
Interest on return of contributions	11,510	13,746
Administrative expenses	5,180,225	5,200,514
Actuarial liability adjustment	49,000,000	-
	<u>472,934,458</u>	<u>395,859,514</u>
<b>Closing balance</b>	<u>11,255,480,938</u>	<u>10,890,475,666</u>

## ROYAL CANADIAN MOUNTED POLICE PENSION FUND ACCOUNT

	2005-2006	2004-2005
	\$	\$
<b>Opening balance</b>	17,508,663	20,337,853
<b>RECEIPTS AND OTHER CREDITS</b>		
Contributions from members	76,485,818	69,888,028
Contributions by the Government	219,651,489	207,039,064
Transfers from other pension funds	1,278,989	1,146,316
	297,416,296	278,073,408
<b>PAYMENTS AND OTHER CHARGES</b>		
Annuities and allowance payments	12,713,052	7,810,706
Minimum benefits	32,309	74,221
Pension Benefit Division Act payments	827,129	711,775
Returns of contributions	52,449	98,895
Cash termination allowance and gratuities	0	12,666
Committed value payments	2,260,098	1,082,749
Transfers to other pension funds	44,024	77,598
Interest on returns of contributions	8,098	7,997
Administrative expenses	851,004	764,607
	16,788,163	10,641,214
<b>Receipts and other credits less payments and other charges</b>	280,628,133	267,432,194
<b>Transfers to Pension Investment Board</b>	281,573,867	270,261,384
<b>Closing balance</b>	16,562,929	17,508,663

# Schedule II – Plan Membership

## Number of Contributors

	<i>March 31, 2006</i>	<i>March 31, 2005</i>
<i>Contributors</i>	19,568	19,127

## Number of Annuitants

	<i>March 31, 2006</i>	<i>March 31, 2005</i>
<i>Pensioners</i>	11,736	11,133
<i>Surviving Children</i>	114	118
<i>Surviving Widows</i>	1,341	1,344
<i>Surviving Children over 18 attending school</i>	104	100
<i>Total</i>	13,295	12,695

## Number of Other Benefits Paid

	<i>April 1, 2005 - March 31, 2006</i>	<i>April 1, 2004 - March 31, 2005</i>
<i>Cash Termination Allowance</i>	-	1
<i>Minimum Death Benefit</i>	8	4
<i>Return of Contributions and Commuted Value</i>	73	88
<i>Total</i>	81	93

# Corporate

## RCMP Pension Advisory Committee

Barbara George, Chair\*

Paul Gauvin\*

Don Taylor

Steve Graham

Kevin Hewco

Kim Floyd

Bill Gidley

Dr. Mark Thompson

\* Members of the Senior Executive Committee

### ***Investment Managers***

Public Sector Pension Investment Board

[www.investpsp.ca](http://www.investpsp.ca)

### ***Professional Advisors***

#### **Actuary**

Office of the Superintendent of Financial Institutions

[www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

#### **Auditor**

Auditor General of Canada

[www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca)

#### **Legal Advisor**

Department of Justice Canada

[www.canada.justice.gc.ca](http://www.canada.justice.gc.ca)



# Glossary of Terms

**Accrued Pension Benefits** – The present value of benefits to be paid under the plan for services provided by members up to the date of the financial statements.

**Actuarial Adjustment** – The amount withdrawn from the plan in respect of a surplus or the additional amount contributed by the government in respect of a deficit.

**Actuarial Asset Value Adjustment** – The difference between investments valued at fair value and investments valued at market related values.

**Actuarial Assumptions** – Predictions made by actuaries made about rates of return on plan assets, retirement age, mortality rates, future salary levels and other factors.

**Actuarial Valuation** - An assessment of the financial status of a pension plan. It consists of the valuation of assets held by the fund and the accrued pension benefits.

**Administrator** – The person or group of persons responsible for the overall operation of a pension plan.

**Annuities** - Monthly payments of set size to a retired member.

**Benefits Earned** – The cost of benefits for services provided by members during the fiscal year.

**Best Estimate Assumptions** - A set of actuarial assumptions which reflect the administrator's judgment of the most likely set of conditions affecting future events.

**Canada Pension Plan (CPP)** — a mandatory earnings-related pension

plan implemented January 1, 1966, to provide basic retirement income to Canadians between the ages of 18 and 70 who work in all the provinces and territories, except in the province of Quebec, which operates its own pension plan similar to the CPP for persons who work in that province.

**Commuted Value** – A lump sum payment that is the present value of future benefits.

**Consumer Price Index (CPI)** – A measure of changes in the cost of living using a hypothetical basket of consumer goods.

**Contributions Receivable** – Amount owing to the plan in respect of services provided by members up to the date of the financial statements.

**Currency Risk** - The risk that the value of investments purchased in foreign currency will fluctuate due to changes in exchange rates.

**Current Service** – Service provided by members during the current fiscal year.

**Current year change in fair value of investments** – The unrealized gain or loss on investments held at year end resulting from differences between fair value and cost on the date of the financial statements.

**Deficit** – The amount by which the plan is under funded.

**Defined Benefit Pension Plan** – A pension plan that specifies the benefits that the employee will receive at the time of retirement.

**EAFE** – Europe, Australasia, Far East

**Excess of actuarial value of net assets over accrued pension benefits** – The funded status of the plan. A positive amount indicates that the plan is over funded while a negative amount indicates that the plan is under funded.

**Experience gains and losses** – The difference between what has occurred and what was expected.

**Fair value** – The amount of the consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

**Foreign Currency Exposure** - The amount by which the plan's investments are exposed to currency risk.

**Market Related Value** – The value of an investment determined based on the actuarial assumptions used to value the accrued pension benefits. It is used to reduce the impact of large fluctuations in the market value of plan investments.

**Net Assets Available for Benefits** – The cash, receivables and investments net of liabilities available to pay for pension benefit payments expected to be paid in the future. For the purposes of this definition, a plan's liabilities do not include accrued pension benefits.

**Net Present Value** - The present value of an investment's future net cash flows minus the initial investment. If positive, the investment should be made (unless an even better investment exists), otherwise it should not.

**Past Service** – Service provided by members prior to the start of the current fiscal year.

**Pension Plan** – An arrangement whereby an employer provides benefits

to employees after they retire for services provided while they were working.

**Projected Benefit Method Prorated on Services** – A method of measuring the amount of the accrued pension benefit which requires the actuary to allocate an equal portion of the total estimated benefit to each year of the employee's service.

**Public Sector Pension Investment Board (PSP Investments)** - A crown corporation established to invest net contributions received from the Public Service Pension Plan, the Canadian Forces Pension Plan and the RCMP Pension Plan.

**RCMP Pension Fund** – An account established by the RCMP Superannuation Act to record transactions relating to service provided by members on or after April 1, 2000. The account is a flow through account used to transfer funds to and from PSP Investments. The balance represents an amount owing to the Plan from the Government of Canada.

**RCMP Superannuation Account** – An account established by the RCMP Superannuation Act to record transactions relating to service provided by members before April 1, 2000. The balance represents an amount owing to the Plan from the Government of Canada.

**Registered Pension Plan** – A pension plan that has a tax-exempt status.

**Sponsor** – The employer.

**Surplus** – The amount by which the plan is over funded.

**Triennially** - Every three years.