

ANNUAL REPORT

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ROYAL CANADIAN MOUNTED POLICE  
PENSION PLAN

**2006/2007**

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# Message from the Minister of Public Safety

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, 2007.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Stockwell Day', is written over a light blue background.

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

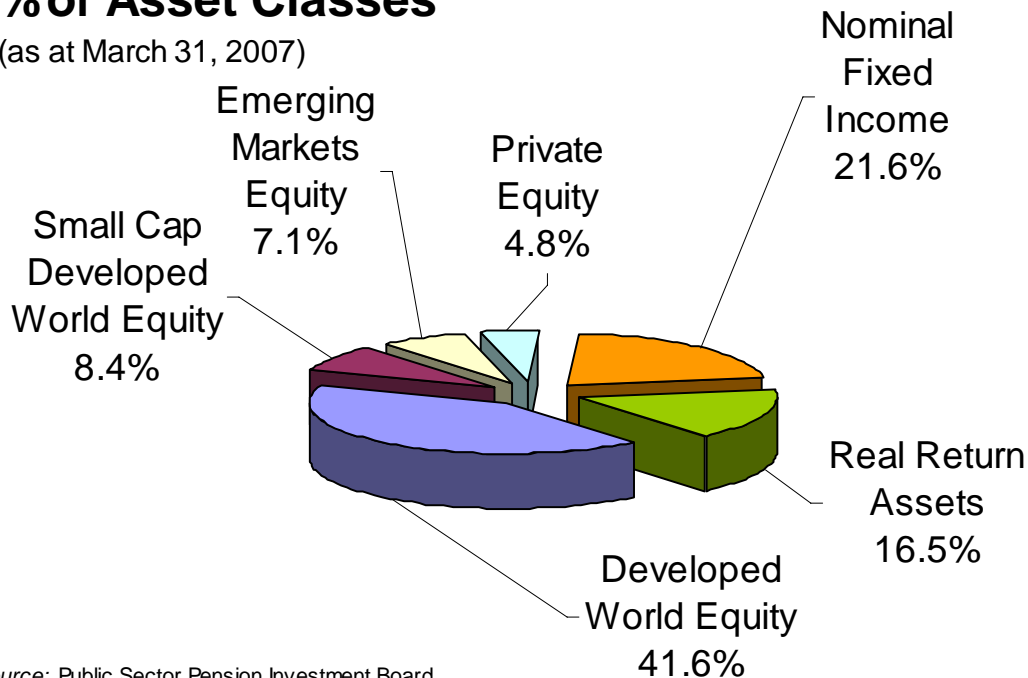
# Financial Highlights

## Year End Financial Position

- Net assets and other accounts available for benefits were \$14,205 million. Net assets and other accounts consist of the balance in the RCMP Superannuation Account of \$11,641 million, the net investments at fair value of \$2,528 million, and other assets and liabilities of \$36 million.
- Investments managed by the Public Sector Pension Investment Board (PSP Investments) were invested as follows:

## % of Asset Classes

(as at March 31, 2007)



Source: Public Sector Pension Investment Board

- Accrued pension benefits were \$12,656 million.
- The excess of the actuarial value of net assets and other accounts available for benefits over accrued pension benefits was \$ 1,306 million.

## Investment Performance

- The RCMP Superannuation Account earned \$ 834 million in interest, representing a 7.3% rate of return.
  - The investments managed by PSP Investments earned \$251 million, representing an overall rate of return of 11.3%.
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# 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

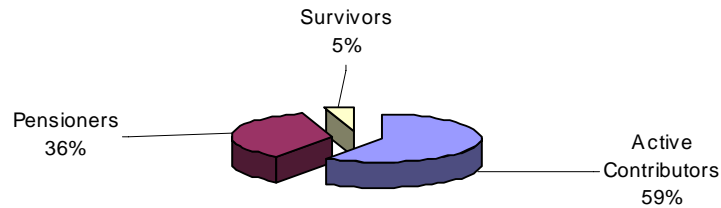
- Entitlement to benefits depends on either service in the Force or pensionable service. There are different provisions for regular and civilian members.
  - The basic benefit upon retirement is an annuity equal to 2% of average pensionable earnings during the best five years of consecutive service multiplied by 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.
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## Plan Membership

- As of March 31<sup>st</sup>, 2007, the Plan had 34,244 members. The membership consisted of 20,318 active contributors, 12,331 pensioners, and 1,595 survivors. (See membership profile in schedule II.)

### RCMP Pension Plan Membership Profile

(as at March 31, 2007)



Source: Morneau Sobeco

## Contributions

- During the first 35 years of pensionable service, members contribute a percentage, [currently 4.6% (4.3% prior to January 2007)] on pensionable earnings up to the maximum salary covered by the Canada Pension Plan and/or Quebec Pension Plan and a higher percentage, [currently 8.1% (7.8% prior to January 2007)] 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 multiplied by 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 if 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, 2006 – December 31, 2006

	Pre-April 1, 2000	Post- March 31, 2000
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

**January 1, 2007 –March 31, 2007**

	<b>Pre-April 1, 2000</b>	<b>Post- March 31, 2000</b>
Current service	2.40	2.40
Elected service		
Single rate	1.00	2.40
Double rate	0.00	0.70
Double and a half	0.00	0.36

- The elected service rates listed 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/she not been absent.
  - Member contribution rates were increased, through a yearly adjustment of 0.3% of salary effective January 1, 2007, 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 the costs of the Plan are shared in a balanced way between plan members and the Government, and ultimately, the Canadian taxpayer.
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# 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 (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 in the capital markets.

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

## **RCMP**

The RCMP is the administrator of the Plan. Under the direction of the Minister; the Commissioner of the RCMP 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 RCMP 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. Although the Department of Public Safety and Emergency Preparedness Act does not yet reflect the new name, this report will refer to the Minister of Public Safety pending the necessary legislative changes.

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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 subsequent period, pension services have been subject to extensive scrutiny. 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 per cent. Work is under way to attempt to produce additional delivery cost improvements for the benefit of pension clientele. This includes examining strategies to further streamline procedures and considering potential savings which could be realized through increased economies and volume efficiencies.

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

## **Treasury Board**

Treasury Board is responsible for establishing principles for the charging of administration costs to the Plan, establishing contribution rates, managing surpluses, and exercising power as the Governor in Council under the *RCMPSA*.

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.*

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## **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 of 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.

## **Investment Objectives**

The mandate of PSP Investments is set out in section 4 of the Public Sector Pension Investment Board Act (the Act):

- To manage the funds transferred to PSP Investments in the best interest of the contributors and beneficiaries of the Plans; and,
- To maximize returns without undue risk of loss, having regard to the funding, policies and requirements of the pension plans and the ability of those plans to meet their financial obligations.

Based on these statutory objectives, the following investment objectives were established:

- Absolute Performance: Achieving a return (net of expenses) at least equal to the actuarial rate of return as determined by the Chief Actuary of Canada; and
  - Relative Performance: Achieving a return exceeding the Policy Benchmark return by 0.50% (with a minimum value added component equal to expenses).
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## **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 2007 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 (SIP&P). 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>Equities</b>	<b>62%</b>	
• <b>Developed World</b>	<b>40%</b>	
○ <b>Canadian Equity</b>	30%	24-36
○ <b>U.S. Large Cap Equity</b>	5%	4-6
○ <b>EAFE Large Cap Equity</b>	5%	4-6
• <b>Small Cap</b>	<b>7%</b>	5-9
• <b>Emerging Markets</b>	<b>7%</b>	6-8
• <b>Private Equity</b>	<b>8%</b>	8-10
<b>Nominal Fixed Income</b>	<b>15%</b>	
• <b>Cash &amp; Cash Equivalents</b>	<b>2%</b>	0-4
• <b>World Government Bonds</b>	<b>5%</b>	3-7
• <b>Canadian Fixed Income</b>	<b>8%</b>	4-12
<b>Real Return Assets</b>	<b>23%</b>	
• <b>World Inflation-Linked Bonds</b>	<b>5%</b>	3-7
• <b>Real Estate</b>	<b>10%</b>	5-15
• <b>Infrastructure</b>	<b>8%</b>	5-11

By the end of the fiscal year 2007, most of the asset classes were in line with their target weights as described in the SIP&P, with the exception of underweights in Private Equity

and Infrastructure compensated by overweights in US large capitalization and Canadian bonds.

In fiscal year 2007, PSP Investments began implementing a new hedging policy for its foreign investments. This policy will be rolled out over a three-year span. Its goal is to minimize the impact of the foreign exchange movements on PSP Investments' assets over the long term.

### ***Active Investment Strategy***

PSP Investments has an active-management strategy designed to add value on top of the Policy Portfolio, in accordance with a risk budget – approved by the Board – which management can allocate to active strategies. Within this framework, the goal is to optimize the “roster” of active strategies, in order to meet the value-added objectives set out above, under the Investment Objectives heading.

Active-management activities involve both internal and external managers and are not limited to the asset classes of the Policy Portfolio. They include mandates in other spheres, such as currency management and tactical asset-allocation across countries and asset classes.

The PSP Investment active-management approach is predicated on the diversification of revenue sources. That process continued in fiscal year 2007, with eight new active mandates awarded. The value at risk decreased by about 7% in dollar terms due to diversification and mandate changes.

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# 2006-2007 Results

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

Net Assets and Other Accounts Available for Benefits increased by \$907 million from the previous year, to \$14,205 million at March 31, 2007. 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 \$907 million are:

- Interest earned on the RCMP Superannuation Account of \$834 million; plus
- Earnings on investments managed by PSP Investments of \$251 million; plus
- Contributions received of \$301 million; less
- Benefits paid of \$451 million; less,
- Refunds and transfers of \$18 million.

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

## **Accrued Pension Benefits**

Accrued Pension Benefits increased by \$1,073 million to \$12,656 million at March 31, 2007. 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 \$842 million; plus
- Additional benefits earned by members during the year of \$291 million; plus
- Plan amendments of \$161 million; plus
- Changes in actuarial assumptions of \$106 million; plus
- Experience losses of \$142 million; less
- Benefits paid of \$451 million; less,
- Refunds and transfers \$18 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 Available for benefits over Accrued Pension Benefits**

The Excess of Actuarial Value of Net Assets and Other Accounts available for benefits over Accrued Pension Benefits, as of March 31, 2007, was \$1,306 million, representing a decrease of \$209 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.

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The reason for the decrease is shown on the Statement of Changes in Excess of Actuarial Value of Net Assets and Other Accounts available for benefits over Accrued Pension Benefits. This Statement indicates that the decrease is due to an increase in the actuarial value of net assets and other accounts available for benefits of \$864 million, offset by a greater increase in accrued pension benefits of \$1,073 million.

### **Interest on RCMP Superannuation Account**

The RCMP Superannuation Account earned \$834 million in interest in 2006-2007, representing a 7.3% return. In 2005-2006, the RCMP Superannuation Account earned \$835 million. This slight decrease is a result of lower interest rates through 2006-2007 compared to 2005-2006.

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

Investments managed by PSP Investments earned \$251 million in 2006-2007. This includes the current year change in fair value of investments of \$17 million, interest and dividends income of \$74 million, and net realized gains of \$160 million.

This result represents a total return on investment of 11.3 %. This represents a 14.3 % return on Canadian equities; a 8.7 % return on US Large Cap; a 16.6% return on EAFE Large Cap; a 5.5% return on Small Cap Developed World; a 18.8% return on Emerging Markets; a 36.5 % return on real estate; a 5.4 % return on Canadian Fixed Income; a (1.5)% return on World Government Bonds; a (1.4)% return on World Inflation-linked Bonds; a 4.2 % return on cash equivalents; and a 5.5% return on Infrastructure. The return on investments managed by PSP Investments was slightly higher than the overall benchmark return of 10.1 %. These returns compare to the investment gain of \$300 million in 2005-2006, representing a total gain on investment of 19.1 %.

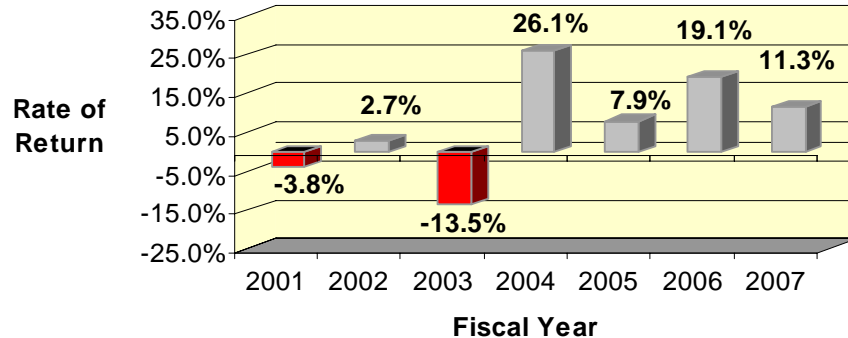
Since PSP Investments commenced operations on April 1, 2000, the investments have earned a cumulative net investment gain of \$759 million on total transfers of \$1,784 million, resulting in cumulative annualized four-year total return of 15.9 %.

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## 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 2006/2007, \$301 million was paid into the Plan, of which members contributed \$87 million and the employer \$214 million. Schedule II presents the number of Plan contributors as of March 31, 2006 and 2007.

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

### Contributions (2006/2007 - current and elective service)



Source: Royal Canadian Mounted Police

## Benefits

Benefits paid increased to \$451 million in 2006-2007, compared to \$415 million in 2005-2006. This increase of \$36 million reflects a net increase of 631 in the number of annuitants, as well as indexing increases of 2.3% that came into effect on January 1, 2006 and another 2.3% on January 1, 2007 respectively. Schedule II summarizes the number of annuitants as of March 31, 2006 and 2007, and the number of other benefits paid during the year ended March 31, 2006 and 2007.

## Actuarial adjustments

During 2006-2007, the Government of Canada did not withdraw any amounts from the RCMP Superannuation Account. At March 31, 2007, the Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits in the RCMP Superannuation Account was \$1,306 million.

During 2005-2006, the Government of Canada withdrew \$49 million from the RCMP Superannuation Account. This transaction is in accordance with the *RCMPSA* 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.

## Administrative expenses

Administrative expenses totaled \$12.2 million in 2006-2007, compared to \$11.8 million in 2005-2006. The total expenses are comprised of expenses incurred by the RCMP (\$2.4 million in 2006-2007 versus \$2.8 million in 2005-2006); Morneau Sobeco (\$2.7 million in 2006-2007 versus \$2.9 million in 2005-2006); PWGSC (\$0.1 million in 2006-2007 versus \$0.1 million in 2005-2006); PSP Investments (\$6.8 million in 2006-2007 versus \$5.8 million in 2005-2006); and OSFI (\$0.2 million in 2006-2007 versus \$0.2 million in 2005-2006). These expenses were directly related to administration of the Pension Plan.

In 2006-2007, overall RCMP expenses increased from 2005-2006 as a result of:

- The decrease in RCMP administration costs is the result of reimbursements made to the Pension Plan for expenses determined by the Office of the Auditor General, in the November 2006 Report of the Office of the Auditor General Chapter 9 Pension and Insurance Administration – RCMP, to be unnecessary and wasted expenditures.;
- The decrease in Morneau Sobeco's administration costs resulted from the conclusion of certain project activities and the payment of the associated expenses in fiscal year 2005-2006;
- PSP Investments - An increase in investment expenses 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 active assets are generally more expensive to manage, they offer the potential of higher returns.

The administrative expenses are detailed in note 14 of the financial statements.

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# Financial Statements

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

Year ended March 31, 2007



## 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:

  
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William J.S. Elliott  
Commissioner  
\_\_\_\_\_  
Alain P. Séguin  
Acting Deputy Commissioner  
Corporate Management and Comptrollership



## AUDITOR'S REPORT

To the Minister of Public Safety

I have audited the statement of net assets and other accounts available for benefits, of accrued pension benefits and of excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits of the Royal Canadian Mounted Police Pension Plan as at March 31, 2007 and the statements of 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 available for benefits 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 available for benefits over accrued pension benefits of the Plan as at March 31, 2007 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 available for benefits 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  
December 23, 2007

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

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

As at March 31

	2007	2006
	(\$ millions)	
<b>Net Assets and Other Accounts Available for Benefits</b>		
<b>Assets</b>		
RCMP Pension Fund Account (note 3)	11	17
Investments (note 4)	2,600	2,102
Investment- related assets (note 4)	118	116
Contributions receivable—post-March 31, 2000 service (note 5)	14	11
Other assets	1	-
	<b>2,744</b>	<b>2,246</b>
<b>Liabilities</b>		
Accounts payable	3	2
Investment-related liabilities (note 4)	190	215
Due to Public Service Pension Plan (note 6)	1	1
	<b>2,550</b>	<b>2,028</b>
<b>Net Assets</b>		
<b>Other Accounts</b>		
RCMP Superannuation Account (note 3)	11,641	11,255
Contributions receivable—pre-April 1, 2000 service (note 5)	14	15
	<b>14,205</b>	<b>13,298</b>
Actuarial asset value adjustment (note 8)	(243)	(200)
	<b>13,962</b>	<b>13,098</b>
<b>Actuarial Value of Net Assets and Other Accounts Available for Benefits</b>	<b>13,962</b>	<b>13,098</b>
<b>Accrued Pension Benefits (note 8)</b>	<b>12,656</b>	<b>11,583</b>
<b>Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits (note 9)</b>	<b>1,306</b>	<b>1,515</b>

The accompanying notes are an integral part of these financial statements.  
Contingency and subsequent event (note 18)

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

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

Year ended March 31

	2007	2006
	(\$ millions)	
<b>Net Assets and Other Accounts Available for Benefits, Beginning of Year</b>	<b>13,298</b>	<b>12,350</b>
Increase in Net Assets and Other Accounts Available for Benefits:		
Interest income from the RCMP Superannuation Account (note 3)	834	835
Contributions (note 10)	301	307
Investment income (note 11)	234	220
Current-year change in fair value of investments and currency (note 11)	17	80
Transfers from other pension funds	2	1
<b>Total Increase in Net Assets and Other Accounts Available for Benefits:</b>	<b>1,388</b>	<b>1,443</b>
Decrease in Net Assets and Other Accounts Available for Benefits:		
Benefits	451	415
Refunds and transfers (note 13)	18	19
RCMP Superannuation Account actuarial adjustment (note 12)	–	49
Administrative expenses (note 14)	12	12
<b>Total Decrease in Net Assets and Other Accounts Available for Benefits</b>	<b>481</b>	<b>495</b>
<b>Increase in Net Assets and Other Accounts Available for Benefits</b>	<b>907</b>	<b>948</b>
<b>Net Assets and Other Accounts Available for Benefits, End of Year</b>	<b>14,205</b>	<b>13,298</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

	2007	2006
	(\$ millions)	
<b>Accrued Pension Benefits, Beginning of Year</b>	<b>11,583</b>	<b>10,967</b>
Increase in Accrued Pension Benefits:		
Interest on accrued pension benefits	842	824
Benefits earned	291	278
Plan amendment (note 8)	161	-
Experience losses	142	-
Changes in actuarial assumptions (note 8)	106	27
Cost of new elections	3	2
Transfers from other pension funds	2	1
<b>Total Increase in Accrued Pension Benefits</b>	<b>1,547</b>	<b>1,132</b>
Decrease in Accrued Pension Benefits:		
Benefits	451	415
Experience gains	-	76
Refunds and transfers (note 13)	18	19
Administrative expenses included in the service cost (note 14)	5	6
<b>Total Decrease in Accrued Pension Benefits</b>	<b>474</b>	<b>516</b>
<b>Net Increase in Accrued Pension Benefits</b>	<b>1,073</b>	<b>616</b>
<b>Accrued Pension Benefits, End of Year</b>	<b>12,656</b>	<b>11,583</b>

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

# ROYAL CANADIAN MOUNTED POLICE PENSION PLAN

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

Year ended March 31

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	2007	2006
	(\$ millions)	
<b>Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits, Beginning of Year</b>	<b>1,515</b>	<b>1,302</b>
Increase in net assets and other accounts available for benefits	907	948
Change in actuarial asset value adjustment	(43)	(119)
<b>Increase in actuarial value of net assets and other accounts available for benefits</b>	<b>864</b>	<b>829</b>
Net increase in accrued pension benefits	(1,073)	(616)
<b>Excess of Actuarial Value of Net Assets and Other Accounts Available for Benefits over Accrued Pension Benefits, End of Year</b>	<b>1,306</b>	<b>1,515</b>

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

## 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 is invested in capital markets by the Public Sector Pension Investment Board ("PSP Investments"). PSP Investments is a separate Crown corporation that started operations on April 1, 2000. Its statutory objectives are to manage the funds transferred to it in the best interests of the contributors and beneficiaries and to maximize investment returns without undue risk of loss having regard to the funding requirements of the plans.

### (b) Funding policy

The Plan is funded from member and government contributions. Plan members contributed 4.3 per cent (4.0 per cent in 2006) for the first nine months and 4.6 per cent (4.3 per cent in 2006) for the last three months of pensionable earnings up to the maximum covered by the Canada Pension Plan or Quebec Pension Plan ("CPP" or "QPP") and 7.8 per cent (7.5 per cent in 2006) for the first nine months and 8.1 per cent (7.8 per cent in 2006) for the last three months of pensionable earnings above that maximum. The employer'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. The determination of the cost of the benefits is made on the basis of actuarial valuations, which are performed triennially.

The RCMPSA requires actuarial deficiencies found in the RCMP Pension Fund to be dealt with by transferring amounts to the Fund in equal installments over a period not exceeding

## 1. Description of Plan (continued)

### (b) Funding policy (continued)

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 RCMPSA provides that all pension obligations arising from the Plan be met by the Government of Canada. For the pre-April 2000 service, the RCMPSA 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 years. 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 cent per year of pensionable service times the average of the five consecutive years of highest paid service. Benefits are coordinated with the CPP and QPP, and are fully indexed to the increase in the Consumer Price Index. In June 2006, amendments to the *RCMP Superannuation Act* were made to better integrate the coordination of the benefits under those plans with the ones under the CPP/QPP pension plans for plan members reaching age 65 in 2008 and beyond. As a result, effective January 1, 2008 the pension benefit reduction factors will be decreased from 0.7 per cent to 0.625 per cent over a five-year period starting in 2008. Consequently, when benefits under the CPP/QPP become payable, the basic benefit formula will be 1.3 per cent per year of pensionable service for earnings subject to CPP/QPP in 2008 increasing to 1.375 per cent per year in 2012.

In October 2006, amendments were made to the *RCMPSA* Regulations that introduced the opportunity for plan members to elect for prior part-time service with the federal Public Service.

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* 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 15.

## 1. Description of Plan (continued)

### (d) Income Taxes

The Plan is a registered pension plan under the *Income Tax Act* 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, the most important being the valuation of investments, related income and expenses and the estimation of the accrued pension benefits. 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, grouped by asset class holdings, are presented at the respective fair value and cost of the underlying investments held in PSP Investments. 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.

## 2. Significant accounting policies (continued)

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

Fair values of investments are determined as follows:

- i) Cash equivalent investments are recorded at cost, which, together with accrued interest income, approximates fair value.
- ii) Market prices for equities and unit values for pooled funds are used to represent the fair value of these investments. Unit values reflect the quoted market prices of the underlying securities.
- iii) Private equity and infrastructure investments, where quoted market prices are not available, are fair valued annually. The fair value is determined by the external managers, management and/or third party appraisers using acceptable industry valuation methods. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity and infrastructure investments unless there is an indication of permanent impairment of value.
- iv) The fair value of investments in real estate is determined at least annually, using acceptable industry valuation methods, such as discounted cash flows and comparable transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate, unless there is an indication of permanent impairment of value.
- v) PSP Investments may use the services of a third party appraiser to determine the fair value of real estate investments.
- vi) Fixed income securities are valued at quoted market prices at the end of the year, where available. Where quoted market prices are not available, estimated values are calculated using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.
- vii) All derivative financial instruments are recorded at fair value using market prices. Where quoted market prices are not available, appropriate valuation techniques are used to determine fair value.

Contributions receivable for past service elections made after March 31, 2000 are recorded at their estimated net present value, which approximates their fair value. Contributions receivable for past service elections made prior to April 1, 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.

## 2. Significant accounting policies (continued)

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

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 per cent 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

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 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 change in unrealized appreciation (depreciation) on investments held at the end of the year.

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

### (d) Contributions

Contributions for current service are recorded on an 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.

### (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

## **2. Significant accounting policies (continued)**

(f) Translation of foreign currencies (continued)

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 *RCMPSA*. It portrays a notional portfolio of bonds and is not funded by the Government of Canada. The Act requires that this Account record 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 included 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

At March 31, the portfolio of investments held through PSP Investments is as follows:

	2007		2006	
	Fair Value	Cost	Fair Value	Cost
	(\$ millions)		(\$ millions)	
<b>Developed World Equity</b>				
Canada Equity	754	655	690	596
US Large Cap Equity	164	151	190	177
EAFE Large Cap Equity	124	101	234	190
<b>Small Cap Developed World Equity</b>	213	194	146	131
<b>Emerging Markets Equity</b>	181	154	141	111
<b>Private Equity</b>	121	120	23	22
<b>Nominal Fixed Income</b>				
Cash Equivalents	28	28	29	29
World Government Bonds	121	123	-	-
Canadian Fixed Income	392	394	380	385
<b>Real Return Assets</b>				
World Inflation-linked Bonds	125	125	30	28
Real Estate	296	260	141	135
Infrastructure	35	33	-	-
<b>Absolute Return</b>	46	38	98	89
<b>Investments</b>	<b>2,600</b>	<b>2,376</b>	<b>2,102</b>	<b>1,893</b>
<b>Investment-Related Assets</b>				
Amounts due from pending trades	118	115	116	117
<b>Investments &amp; Investment Related Assets</b>	<b>2,718</b>	<b>2,491</b>	<b>2,218</b>	<b>2,010</b>
<b>Investment-Related Liabilities</b>				
Amounts payable from pending trades	(101)	(101)	(154)	(154)
Capital debt financing	(36)	(36)	(26)	(26)
Securities sold short	(39)	(39)	(22)	(22)
Derivative-related liabilities	(14)	(4)	(13)	(4)
<b>Total investment-related liabilities</b>	<b>(190)</b>	<b>(180)</b>	<b>(215)</b>	<b>(206)</b>
<b>Net Investments</b>	<b>2,528</b>	<b>2,311</b>	<b>2,003</b>	<b>1,804</b>

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

#### **4. Investments (continued)**

(a) Investment Portfolio (continued)

Direct investments and derivative contracts are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio 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 to enhance returns by changing the investment asset mix, enhancing equity and the fixed income portfolio returns and managing foreign currency exposures.

(b) Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets, interest or exchange rates. PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

Notional values are not recorded as assets and liabilities as they represent the face amount of the contract to which a rate or price is applied in order to calculate the exchange of cash flows. Notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions. Rather, it serves as the basis upon which the returns from, and the fair value of the contracts, are determined.

PSP Investments writes credit default derivatives and, hence, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of written credit default derivatives as shown in the table below. No payments related to written credit default derivatives have been made to date.

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED MARCH 31

**4. Investments (continued)**

(b) Derivative financial instruments (continued)

The following tables summarize the derivatives portfolio as of March 31:

	2007		2006	
<b>INVESTMENTS</b>	<b>Notional Value</b>	<b>Fair Value</b>	<b>Notional Value</b>	<b>Fair Value</b>
	(\$ millions)		(\$ millions)	
<b>Equity Derivatives</b>				
Futures	120	-	70	1
Swaps	350	4	209	3
Others	77	5	121	18
<b>Currency Derivatives</b>				
Forwards	780	-	333	(2)
Swaps	50	(1)	-	-
Options	71	1	34	-
<b>Interest Rate Derivatives</b>				
Bond forwards	149	-	248	-
Swaps	318	(1)	739	-
Others	111	-	989	1
<b>Credit Default Derivatives</b>				
Swaps	108	(1)	223	(2)
<b>Total</b>	<b>2,134</b>	<b>7</b>	<b>2,966</b>	<b>19</b>

#### 4. Investments (continued)

(b) Derivative financial instruments (continued)

The fair value of derivative contracts, as at March 31 is represented by:

(\$ millions)	2007	2006
Derivative-related receivables	21	32
Derivative-related payables	(14)	(13)
<b>Total</b>	<b>7</b>	<b>19</b>

The derivative – related receivables are included as part of the fair value of each respective asset class in the investment portfolio.

The term to maturity based on notional value for the derivatives is as follows:

(\$ millions)	2007	2006
Under 1 year	1,695	1,899
1 to 5 years	324	802
Over 5 years	115	265
<b>Total</b>	<b>2,134</b>	<b>2,966</b>

(c) 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.

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

Asset Class	2007		2006	
	Actual Asset Mix	Policy Portfolio	Actual Asset Mix	Policy Portfolio
<b>Equities</b>	61.9%	62.0%	70.2%	62.0%
<b>Fixed Income</b>	21.6%	15.0%	22.4%	15.0%
<b>Real Return Assets</b>	16.5%	23.0%	7.4%	23.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

#### 4. Investments (continued)

(c) Investment Asset Mix (continued)

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 infrastructure assets with a policy portfolio target weight of 8 per cent and an actual asset weight of only 1.4 per cent.

(d) Investment performance

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

	2007		2006	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
<b>Developed World Equity</b>				
Canada Equity	14.3%	14.2%	28.8%	28.7%
US Large Cap Equity	8.7%	10.6%	9.5%	7.7%
EAFE Large Cap Equity	16.6%	18.9%	20.8%	20.0%
<b>Small Cap Developed World Equity</b>	5.5%	6.1%	18.6%	19.3%
<b>Emerging Markets Equity</b>	18.8%	19.3%	39.6%	42.6%
<b>Private Equity</b>	(0.6)%	(0.6)%	0.6%	0.6%
<b>Nominal Fixed Income</b>				
Cash Equivalents	4.2%	4.2%	2.7%	2.8%
World Government Bonds	(1.5)%	(1.6)%	n.a.	n.a.
Canadian Fixed Income	5.4%	5.5%	4.7%	4.9%
<b>Real Return Assets</b>				
World Inflation-linked Bonds	(1.4)%	(1.6)%	10.9%	11.8%
Real Estate	36.5%	6.7%	21.6%	8.3%
Infrastructure	5.5%	5.5%	n.a.	n.a.
<b>Total Return</b>	<b>11.3%</b>	<b>10.1%</b>	<b>19.1%</b>	<b>18.0%</b>

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

#### **4. Investments (continued)**

(d) Investment performance (continued)

Returns have been calculated in accordance with the performance calculation methodology recommended by the CFA Institute.

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 and infrastructure asset class is not being measured against any benchmark during the ramp-up period as disclosed in PSP Investments' SIP& P. However, for purposes of calculating the total 2007 and 2006 benchmark returns, the actual private equity portfolio returns of (0.6) per cent and 0.6 per cent respectively, are used. Similarly, the actual infrastructure portfolio return of 5.5 per cent was used in calculating the total 2007 benchmark return.

The total portfolio return includes the performance impact of absolute return strategies. Hedging investment returns are either netted against the return of the respective hedged assets, as is the case with private asset classes, or included in total return, as in the case of public markets.

(e) 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, positions in foreign currencies.

#### 4. Investments (continued)

##### (e) Foreign currency risk (continued)

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

Currency (in Canadian \$)	2007		2006	
	Fair value (\$ millions)	% of total	Fair value (\$ millions)	% of total
US dollars	452	53.7%	420	57.0%
Euro	147	17.5%	114	15.4%
British pound	58	6.9%	49	6.6%
Yen	51	6.1%	67	9.1%
Australian Dollar	31	3.7%	23	3.1%
Korean Won	24	2.8%	13	1.7%
Others	78	9.3%	52	7.1%
<b>Total</b>	<b>841</b>	<b>100.0%</b>	<b>738</b>	<b>100.0%</b>

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

PSP Investments and its subsidiaries also have commitments, denominated in foreign currencies, in real estate, private equity and infrastructure investments for an amount of \$404 million (\$229 million US, €85 million Euros and £4 million GBP) allocable to the Plan, which is not included in the foreign currency exposure table above.

##### (f) Credit Risk

PSP Investments is exposed to the risk that a debt securities issuer could be unable to meet its financial obligation or that a derivative counterparty could default or become insolvent.

As at March 31, 2007, the Plan's highest concentration of credit risk is with the Government of Canada through holdings of \$0.1 billion of Government of Canada issued securities. In order to minimize derivative contract credit risk, PSP Investments deals only with counterparties that are major financial institutions with a minimum credit rating of "A", as supported by a recognized credit rating agency.

##### (g) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. PSP Investments has a

#### 4. Investments (continued)

(g) Market risk (continued)

diversification strategy to mitigate this risk whereby it invests in a diversified portfolio of investments based on the criteria established in its SIP&P and uses derivative financial instruments to mitigate the impact of market risk.

(h) Interest Rate Risk

Interest rate risk refers to the effect on the market value of PSP Investments' net asset value due to fluctuations in interest rates. Changes in interest rates will directly affect the fair value of PSP Investments' assets.

As at March 31, 2007, the fixed income asset class was managed with an average duration of 5.7 years. An increase of 1 per cent in interest rates would result in a decline in the value of the fixed income securities of 5.7 per cent, or \$22 million.

The terms to maturity of the bonds held in the Canadian fixed income asset class, as at March 31, 2007, are as follows:

(\$ millions)	TERMS TO MATURITY				2007 Total	2006 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		
Government of Canada bonds	17	72	28	36	153	125
Provincial and Territorial bonds	-	40	22	44	106	95
Municipal bonds	1	4	1	-	6	7
Corporate bonds	3	49	38	37	127	143
<b>Total</b>	<b>21</b>	<b>165</b>	<b>89</b>	<b>117</b>	<b>392</b>	<b>370</b>

(i) Securities Lending

The Plan participates in securities lending programs whereby it lends securities in order to enhance portfolio returns. Any such securities lending requires collateral in cash, high quality debt instruments or shares securities with a fair value equal to no less than 102 per cent of the value of the securities lent. As at March 31, 2007, securities with an estimated fair value of \$295 million (\$207 million in 2006) were loaned out, while securities contractually receivable as collateral had an estimated fair value of \$308 million (\$219 million in 2006).

#### **4. Investments (continued)**

(j) Securities Collateral

The Plan deposited or pledged securities with a fair value of \$7 million as collateral (\$6 million in 2006) with various financial institutions. Securities with fair value of \$33 million (nil in 2006) have been received from various financial institutions as collateral.

(k) Private Market Investments

The Plan asset class in Real Estate is comprised of investments, which are owned by either PSP Investments or its wholly owned subsidiaries and managed by general partners or external advisors. The underlying investments are comprised of a diversified portfolio of income-producing properties, third party loans and public and private funds. The real estate asset class is accounted for in the investment portfolio net of all financings. The fair market value of financings in the real estate portfolio generally will not exceed 50 per cent of the gross fair market value of the portfolio.

PSP Investments' Private Equity asset class is comprised of interests in limited partnerships and in funds, which are managed by general partners and investments, which are owned by PSP Investments or its wholly owned subsidiaries. The underlying investments represent equity ownerships or investments with the risk and return characteristics of equity.

PSP Investments' Infrastructure asset class is comprised of investments, which are owned by either PSP Investments or its wholly owned subsidiaries and managed by general partners or external advisors. The underlying investments comprise a diversified portfolio of infrastructure assets and publicly-traded securities. Investment management and performance incentive fees are generally incurred for the above private market investments and are paid through capital contributions or investment income.

Investment management fees in private market investments generally vary between 0.2 per cent and 5.5 per cent of the total invested amount. During the year ended March 31, 2007, investment management and performance incentive fees of \$17 million (\$5 million in 2006) were recorded as part of the cost of the private market investments or against investment income.

The carrying values of these investments are reviewed annually and any resulting adjustments are reflected as unrealized gains or losses in investment income.

#### 4. Investments (continued)

(l) Significant real estate acquisition

In the last quarter of the fiscal year, PSP Investments, through its wholly – owned subsidiary PSPIB Destiny Inc., acquired all the issued and outstanding units of Retirement Residences Real Estate Investment Trust (“Retirement REIT”) for a total cash consideration of \$795 million. Subsequently, PSP Investments advanced an amount of \$445 million to refinance the debt of Retirement REIT. The estimated fair value of the net investment in Retirement REIT allocated to the Plan is \$87 million.

#### 5. Contributions receivable

	2007	2006
	(\$ millions)	
Pre-April 1, 2000, service		
Member contributions for past service elections	7	8
Government of Canada share of contributions for past service elections	7	7
	<b>14</b>	<b>15</b>
Post-March 31, 2000, service		
Member contributions for past service elections	4	4
Government of Canada share of contributions for past service elections	10	7
	<b>14</b>	<b>11</b>
<b>Total</b>	<b>28</b>	<b>26</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.

**6. Due to Public Service Pension Plan (continued)**

In 2007, 7.2 per cent of the operating expenses were allocated to the Plan (7.3 per cent in 2006). PSP Investments initially charges all the expenses to the Public Service Pension Plan, which then charges the Plan on a quarterly basis.

**7. PSP Capital Inc.**

As at March 31, 2007, PSP Capital Inc., a wholly – owned subsidiary of PSP Investments, has \$503 million of short – term promissory notes outstanding with maturity dates within 60 to 90 days of issuance of which \$36 million has been allocated to the Plan and included in Note 4(a) as an investment-related liability. The capital raised was used primarily to finance real estate investments and is unconditionally and irrevocably guaranteed by PSP Investments. Interest on short-term promissory notes was \$17 million for the year ended March 31, 2007 (\$3 million in 2006). The operating expenses incurred by PSP Capital Inc. were allocated to the Plan and include interest expense on the short – term promissory notes of \$1 million.

**8. Accrued pension benefits**

(a) Present value of accrued pension benefits

The present value of accrued pension benefits is actuarially determined by the Chief Actuary of the Office of the Superintendent of Financial Institutions (OSFI) using the projected benefit method prorated on service. Actuarial valuations are performed triennially for funding purposes and are updated annually by the Chief Actuary of OSFI 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 at March 31, 2005 and it was tabled in Parliament on October 30, 2006. However, the accounting actuarial valuation has been updated as at March 31, 2007 using the demographic assumptions and base populations of the funding actuarial valuation as at March 31, 2005.

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 per cent and 2.9 per cent respectively (2.0 per cent and 2.9 per cent in 2006). The discount rates used to value the liabilities at March 31, 2007, and the corresponding assumptions used in the cost of current service and in the interest expense are as follows:

**8. Accrued pension benefits (continued)**

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

	2007		Expense valuation	2006		Expense valuation
	Liability valuation			Liability valuation		
	Short-term	Long-term		Short-term	Long-term	
Expected rate of return on pension investments	6.0%	6.3%	6.2%	6.2%	6.3%	6.2%
Expected weighted average of long-term bond rates	7.3%	5.0%	7.6%	7.6%	5.0%	7.8%

**(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.

**(c) Plan amendment**

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 *RCMP Superannuation Act* to improve the integration of the benefits under the Plan with the ones under the CPP/QPP pension plans. This resulted in a one-time estimated past service cost of \$161 million.

**9. Excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits**

For funding purposes, the actuarial value of net assets and other accounts available for benefits and the accrued pension benefits are 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 breakdown as at March 31, 2007 is as follows:

	Pre- April 1, 2000	Post- March 31, 2000	Total
	(\$ millions)		
Net assets and other accounts available for benefits	11,655	2,550	14,205
Actuarial asset value adjustment	–	(243)	(243)
Actuarial value of net assets and other accounts available for benefits	11,655	2,307	13,962
Accrued pension benefits	10,365	2,291	12,656
<b>Excess of actuarial value of net assets and other accounts available for benefits over accrued pension benefits</b>	<b>1,290</b>	<b>16</b>	<b>1,306</b>

**10. Contributions**

	2007	2006
	(\$ millions)	
From employees	87	82
From employer	214	225
<b>Total</b>	<b>301</b>	<b>307</b>

During the year, employees contributed approximately 29 per cent (27 per cent in 2006) of the total contributions made.

## 11. Investment income

Investment income, before allocating net realized and unrealized gains on investments, is as follows:

	2007	2006
	(\$ millions)	
Interest income	33	20
Dividend income	22	15
Other income	19	8
	<b>74</b>	<b>43</b>
Net realized gains	160	177
<b>Investment income before net unrealized gain</b>	<b>234</b>	<b>220</b>
Net unrealized gains	17	80
<b>Net interest income</b>	<b>251</b>	<b>300</b>

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

Investment income includes a foreign currency realized loss of \$9 million (nil in 2006) and a foreign currency unrealized gain of \$31 million (\$4 million in 2006).

## 12. Actuarial adjustment

In accordance with the legislation governing the Plan, the President of the Treasury Board 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, 2005 triennial actuarial valuation of the Royal Canadian Mounted Police Pension Plan, which was tabled in Parliament in October 2006, no adjustment was made to the RCMP Pension Fund (nil in 2006) nor to the RCMP Superannuation Account (\$49 million in 2006).

### 13. Refunds and transfers

	2007	2006
	(\$ millions)	
Pension division payments	12	12
Returns of contributions and transfer value payments	6	7
<b>Total</b>	<b>18</b>	<b>19</b>

### 14. 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), OSFI, and Morneau Sobeco are approved annually by the Treasury Board. The administrative expenses incurred by PSP Investments are also charged to the Plan.

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 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.

#### 14. Administrative expenses (continued)

Administrative expenses consist of the following:

	2007	2006
	(\$ thousands)	
RCMP	2,398	2,754
Morneau Sobeco	2,686	2,962
PWGSC	111	106
OSFI	252	209
<b>Total Administrative expenses included in the service cost</b>	<b>5,447</b>	<b>6,031</b>
PSP Investments		
Operating expenses	3,759	2,868
External investment management fees	3,000	2,899
<b>Total PSP Investments</b>	<b>6,759</b>	<b>5,767</b>
<b>Total</b>	<b>12,206</b>	<b>11,798</b>

#### 15. Retirement Compensation Arrangement

A Retirement Compensation Arrangement (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 this arrangement 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 per cent refundable tax in respect of the net contributions interest credits or to be credited a reimbursement based on the net benefit payments.

**15. Retirement Compensation Arrangement (continued)**

Since this arrangement is covered by separate legislation, the balance in the 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:

	2007	2006
	(\$ thousands)	
<b>Net balance and accrued pension benefits</b>		
Balance of Account		
RCA Account	22,258	21,025
Refundable tax receivable	21,762	20,492
	44,020	41,517
Accrued pension benefits	20,100	16,800
<b>Excess of the balance of the Account over the accrued pension benefits</b>	<b>23,920</b>	<b>24,717</b>

The actuarial assumptions used to value the accrued pension benefits pertaining to the RCA Account 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.

## 15. Retirement Compensation Arrangement (continued)

The following summarizes the changes in the RCA Account for the year:

	2007	2006
	(\$ thousands)	
<b>Changes in the balance of the Account</b>		
Increase		
Contributions – members	193	256
Contributions – Government of Canada	961	1,965
Interest income	1,608	1,589
Increase in refundable tax receivable	1,270	2,050
	4,032	5,860
Decrease		
Benefits	259	189
Refundable tax remittance	1,270	2,050
	1,529	2,239
<b>Increase in the balance of the Account</b>	<b>2,503</b>	<b>3,621</b>

Actuarial deficiencies found between the balance in the RCA Account and the actuarial liabilities 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 2005, no adjustment was required to be credited to the RCA Account during the year.

## 16. Guarantees and indemnity

In 2007, as part of an investment transaction, PSP Investments guaranteed a letter of credit facility. The beneficiaries of this letter of credit facility have the ability to draw against this facility to the extent that the contractual obligations, as defined in the related agreement, are not met. As at March 31, 2007, the maximum exposure of the Plan was \$1 million.

During the fiscal year, PSP Investments agreed to guarantee, as part of an investment transaction, a non-revolving term loan. In the event of a default, the Plan would assume the obligation up to \$28 million plus interest and other related costs. PSP Investments also unconditionally and irrevocably guarantees all short-term promissory notes issued by its wholly owned subsidiary, PSP Capital Inc.

## 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 one year period as follows:

	Firm Annual Commitment
	(\$ thousands)
2007-2008	6,150
	<b>6,150</b>

It is expected the contract will be renewed for the option years. This will allow for determination of the best option for the Plan in the future period.

PSP Investments and its subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. As at March 31, 2007, the outstanding commitments in private equity-related, real estate-related and infrastructure-related investments allocable to the Plan amounted to \$429 million (\$348 million for private equity investments, \$65 million for real estate related investments and \$16 million for infrastructure investments).

During 2007, PSP Investments entered into a Purchase and Sale agreement (the "Agreement") to acquire an investment for \$585 million. The amount that will be allocated to the Plan will approximate \$41 million. As at March 31, 2007 completion of the transaction was pending satisfaction of certain conditions in the Agreement, which included receiving consent from regulatory authorities. The transaction is expected to be completed in fiscal year 2008.

## 18. Contingency and subsequent event

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. On November 20, 2007, the court has rendered its decision and has dismissed all the claims of the plaintiffs. The plaintiffs are currently appealing this decision to the Ontario Court of Appeal.

In addition, in August 2007, due to extreme volatility in the global credit markets, the Asset-backed commercial paper (ABCP) market experienced a sudden, rapid exodus of investors, and certain banks and other lenders responsible for providing bank liquidity facilities were refusing to provide funds during this market disruption. The Plan, through the Public Sector Pension Investment Board, holds investments in ABCP.

**18. Contingency and subsequent event (continued)**

In December, an agreement in principle was reached that would convert the non-bank ABCP into longer-term notes. The final valuation of the non-bank ABCP and any notes received is uncertain but it is management's best estimate that the expected outcome of the ABCP market situation will not have a significant impact on the future financial results of the Plan.

**19. Comparative figures**

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

# Schedule I – Public Accounts

## ROYAL CANADIAN MOUNTED POLICE SUPERANNUATION ACCOUNT

	<u>2006-2007</u>	<u>2005-2006</u>
	\$	\$
<b>Opening balance</b>	<u>11,255,480,938</u>	<u>10,890,475,666</u>
<b>RECEIPTS AND OTHER CREDITS</b>		
Contributions from members	1,249,063	1,427,039
Contributions by the Government	1,196,328	1,386,573
Transfers from other pension funds	17,060	286,230
Interest	<u>833,435,836</u>	<u>834,839,888</u>
	<u>835,898,287</u>	<u>837,939,730</u>
	<u>12,091,379,225</u>	<u>11,728,415,396</u>
<b>PAYMENTS AND OTHER CHARGES</b>		
Annuities and allowance payments	432,074,532	402,729,374
Pension division payments	10,718,859	10,987,456
Returns of contributions	2,960	20,381
Cash termination allowance and gratuities	2,619	22,115
Commuted value payments	3,286,248	4,852,141
Transfers to other pension funds	177,832	131,256
Interest on return of contributions	1,491	11,510
Administrative expenses	4,505,786	5,180,225
Actuarial liability adjustment	<u>0</u>	<u>49,000,000</u>
	<u>450,770,327</u>	<u>472,934,458</u>
<b>Closing balance</b>	<u>11,640,608,898</u>	<u>11,255,480,938</u>

## ROYAL CANADIAN MOUNTED POLICE PENSION FUND ACCOUNT

	2006-2007	2005-2006
	\$	\$
<b>Opening balance</b>	16,562,928	17,508,663
<b>RECEIPTS AND OTHER CREDITS</b>		
Contributions from members	85,458,532	76,485,818
Contributions by the Government	210,996,204	219,651,489
Transfers from other pension funds	2,381,127	1,278,988
	298,835,863	297,416,295
<b>PAYMENTS AND OTHER CHARGES</b>		
Annuities and allowance payments	18,955,636	12,713,052
Minimum benefits	0	32,309
Pension Benefit Division Act payments	1,457,006	827,129
Returns of contributions	108,306	52,449
Cash termination allowance and gratuities	0	0
Commuted value payments	2,279,934	2,260,098
Transfers to other pension funds	92,054	44,024
Interest on returns of contributions	15,740	8,098
Administrative expenses	941,449	851,004
	23,850,125	16,788,163
<b>Receipts and other credits less payments and other charges</b>	274,985,738	280,628,132
<b>Transfers to Pension Investment Board</b>	280,408,308	281,573,867
<b>Closing balance</b>	11,140,358	16,562,928

## Schedule II – Plan Membership

### Number of Contributors

	<i>March 31, 2007</i>	<i>March 31, 2006</i>
<i>Contributors</i>	20,318	19,568

### Number of Annuitants

	<i>March 31, 2007</i>	<i>March 31, 2006</i>
<i>Pensioners</i>	12,331	11,736
<i>Surviving Children</i>	113	114
<i>Surviving Widows</i>	1,400	1,341
<i>Surviving Children over 18 attending school</i>	82	104
<i>Total</i>	13,926	13,295

### Number of Other Benefits Paid

	<i>April 1, 2006 - March 31, 2007</i>	<i>April 1, 2005 - March 31, 2006</i>
<i>Cash Termination Allowance</i>	1	-
<i>Minimum Death Benefit</i>	2	8
<i>Return of Contributions and Commuted Value</i>	91	73
<i>Total</i>	94	81

# Corporate

## RCMP Pension Advisory Committee

Pat McDonell, Chair  
Alain Seguin \*  
Don Taylor  
Steve Graham  
Gene Swimmer  
Kim Floyd  
Bill Gidley  
Kevin Boisclair

\* Members of the RCMP 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 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 a set amount 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 represents 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** – An 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 based on actuarial assumptions used to value the accrued pension benefits. This is used to reduce the impact of large fluctuations in the market value of the Plan's 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 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.