

# PAC News

## The Voice of the RCMP Pension Advisory Committee Winter 2009



### Feature Articles:

- RCMP Pensions Secure
- 2009 Contribution rates for the RCMP Pension Plan and the Canada Pension Plan
- The Value of an RCMP pension
- Update on Pension Portability
- New Tax Free Savings Account (TFSA)

**RCMP Pensions Secure** - Under legislation the Government continues to assume sole responsibility for any deficits that may occur in the new Pension Fund.

Despite continued market volatility with major stock market indices, pensions paid from the *RCMP Superannuation Act (RCMPSA)* remain secure. As you know, our Pension Plan is a defined benefit plan with the pension received determined by a benefit formula based on a member's years of service and best five-year salary average. Our pension benefits are guaranteed by the federal government and are unaffected by short term volatility in the markets. *RCMPSA* pensions are paid from two accounts, and pro-rated based on the number of years we contributed to the RCMP pension plan prior to and after April 1, 2000. For simplicity, we can refer to these as the old (Superannuation) account and the new (Pension Fund) account.

### Funding of the RCMP Pension Plan

#### **Funding Before April 1, 2000 -**

Employer and employee contributions to the RCMP pension plan have been held in the RCMP Superannuation Account forming part of the accounts of Canada. Since 1969, the balance of the Superannuation Account has been credited with interest as if it had been invested in Government of Canada long-term bonds. No amount of these funds for contribution prior to 2000 has ever been invested in other vehicles available in financial markets (e.g., stocks).

**Contributions made before April 1, 2000, will remain in the existing Superannuation Account and will continue to be credited with interest as if invested in Government of Canada bonds. Pension benefits for plan members' service before April 1, 2000, will continue to be drawn from this account.**

#### **Funding After April 1, 2000 -**

**As of April 1, 2000, new contributions under the RCMP pension plan by employees and the employer are deposited into a newly created RCMP Pension Fund. The Public Sector Pension Investment Board, operating independently of the government and plan members, invests these contributions in the financial markets. It is expected that, over the long term, market investment of contributions will generate higher returns.**

**The portfolio managed by PSPIB earned a negative - 0.3 % return for the latest fiscal year ending March 31, 2008, compared with a gain of 11.3 % in 2007 and 19.1 % in 2006. The Pension Fund managed by the PSPIB has earned an annualized return of 12.5% over the last five years, ending March 31 2008. During 2008 and continuing in 2009, this portfolio is exposed to stock market volatility, but is diversified in a number of asset classes such as stocks, bonds, real estate, private equity and infrastructure investments to minimize variations in any one asset class.**

#### **Where our RCMP Pension Plan Assets are Invested -**

**As of March 31, 2008 the amount of RCMP pension fund assets invested in the “old” Superannuation account receiving interest at Government of Canada bond rates was \$11.99 billion, compared to the amount invested with the PSPIB of \$2.79 billion (unaudited values). Therefore, as of March 31, 2008, approximately 81.1% of RCMP pension plan assets were receiving interest at Government of Canada long-term bond rates, and the remaining 18.9% of assets were invested with the PSPIB and subject to variation in markets.**

#### **Deficit and Surplus Management -**

**As the sponsor of the RCMP pension plan, the federal government has always assumed responsibility for the cost of benefits that exceed the regular contributions made by employees and the government. Thus the government made up any deficits that occurred when actual plan experience differed from the actuarial assumptions used to determine the necessary government contributions. For instance, if the rate of interest actually earned was lower than the predicted rate, the federal government contributed additional amounts to ensure benefits were fully funded. Under the *RCMPSA* amendments of 1999, the government will continue to be sole sponsor of the RCMP pension plan. Accordingly, it will also continue to assume sole responsibility for any deficits that may occur in the new Pension Fund.**

**Mechanisms for managing surpluses were introduced as part of the 1999 amendments to the *RCMPSA*. Should surpluses arise in the future, the amended legislation provides such**

options as a contribution holiday for the employer, or for both the employer and the employees, reduced contributions or withdrawals from the RCMP Pension Fund. If a surplus arises in the future, the Treasury Board ministers will decide on the most appropriate mechanisms to be used, depending on the circumstances prevailing at the time.

The bottom line is that RCMP pensions will continue to be based on the defined benefit formula, and not subject to any current market volatility, and Member contribution rates will not increase due to losses experienced by recent volatile market conditions.

### 2009 Contributions to RCMP Pension Plan and Canada Pension Plan (CPP)

Members' contribution rates to the RCMP pension plan in 2009 will be at 5.2% of pensionable salary up to the CPP maximum contribution limit of \$46,300, and 8.4% of salary above that amount. Members will also continue to contribute 4.95% of their salary, up to the CPP contribution limit of \$46,300, to the Canada Pension Plan in 2009.

The employer (Government) continues to contribute approximately \$2.22 to the RCMP pension plan for every \$1.00 of Member contributions and matches dollar for dollar the Member contributions to the CPP.

How do 2009 contribution rates for RMs compare to other police pension plans?

Currently, RMs have the lowest contribution rates amongst the plans in the police universe with which the RCMP pension plan is compared. The following table provides a sample comparison with other Canadian police pension plans for 2009.

Police Universe Pension Plan *	Plan Member Contributions for 2009		Value of Contribution based on \$70,000 pensionable salary
	Up to the YMPE	Above the YMPE	
RCMP	5.2%	8.4 %	\$4 398
Halifax**	10.71%**	10.71%**	\$7 497**
Montreal	6,20 %	8,00 %	\$4 767
Sûreté du Québec	6,20 %	8,00 %	\$4 767
OPP	8,20 %	10,00 %	\$6 167

Toronto	7,90 %	10,70 %	\$6 194
Winnipeg	8,00 %	8,00 %	\$5 600
Edmonton	10.01 %	10.01 %	\$7 007
Vancouver	8,99 %	10,49 %	\$6 648

\* Figures taken from "RCMP Total Compensation Report", December 2007 and revised as new information has been received. (rounded to the nearest dollar)

## **The Value of an RCMP pension**

Assuming current interest and annuity rates, what would it cost to provide a typical pension to Member retiring in 2009? The latest Actuarial Report of the Plan suggests the typical profile of Regular Members at retirement is age 50 with 25 years of pensionable service.

Assuming a married Regular Member retires at age 50 with 25 years of service and a final average salary of \$70,000, the Member will receive an annual indexed pension from the RCMP Pension Plan of \$35,000 prior to age 65 and \$28,185 after age 65 due to the CPP integration factor. At current annuity rates, the cost to provide this pension, including indexation and the 50 % survivor pension is \$815,148.42.

## **Update on Pension Portability**

A legislative proposal put forward by the RCMP in the Spring of 2008 to allow for changes to the Elective Service Regulations to proceed, was delayed due to the 2008 Federal Election. It is anticipated this legislative initiative will be re-introduced during the current Parliament.

The Regulatory Group at NCS continues to work on drafting changes to the *RCMP Superannuation Act*. Once changes to the *Act* are completed, subsequent work will be required to complete drafting and obtain TB approval of amended Regulations detailing the costing and administrative processes to be used in the expanded elective service provisions. Not until these Regulations are completed, will prior service with other police forces be eligible for election. Given the length of this legislative process and the current minority position of the Government, no firm timetable is available for the completion of this regulatory work. Further progress updates will be provided in future editions of PAC News as steps in the regulatory process are completed.

## **New Tax Free Savings Account (TFSA)**

**The new TFSA is now available to Canadians wishing to save on a tax-sheltered basis. Any Canadian resident, 18 years and over with a valid SIN number can open a TFSA. Contribution limit for 2009 is \$5,000 per individual, and will be indexed to inflation. Investments earnings held in a TFSA will normally be tax-sheltered during accumulation and unlike RRSPs, will not be taxed upon withdrawal. As well, unlike an RRSP, deposits to a TFSA are not tax deductible.**

**These new vehicles may be ideal to save for an automobile, a vacation, a down payment for a home, or simply to build up an emergency fund. TFSAs are available from most financial institutions. Check with your bank, trust company, co-op or financial advisor to see how these new savings vehicles can supplement your existing retirement and savings plans. For general information on how the plans work from a tax perspective, visit the Canada Revenue Agency website at:**

**<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/tfsa-celi/menu-eng.html>**

#### **WHAT'S NEXT?**

**Future editions of the PAC News will provide updates on the next Actuarial Report for the RCMP pension plan and the Benchmarking comparison on pension administration service levels and costs provided by CEM. These reports and other pension issues will be available on the “*What’s New*” Section of the [RCMP Pension & Benefits Solutions web site](#), as well as the [RCMP PAC web site](#).**

#### **CONTACTS:**

**For all questions concerning your RCMP pension and insurance benefits, please contact on the RCMP Benefits Administration Centre at 1-800-661-7595 (Monday to Friday 7:30 am to 6:00 pm Eastern Standard Time), or visit the [RCMP Pension & Benefits Solutions web site](#).**

**For questions on content of this News Bulletin, please contact the National Compensation Services by fax at (613) 993-0795; by phone: Brandy Veilleux (613) 949-9302; or, by mail, at: RCMP NCS Pension Services, 295 Coventry Road - 4<sup>th</sup> Floor, Ottawa, K1A 0R2.**