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# Annual Report of the Canada Pension Plan

2009–10

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Fiscal Year 2009–10

ISSD-055-12-10E

Human Resources and Skills Development Canada (HRSDC) is responsible for the administration of the Canada Pension Plan (CPP). This report is produced by HRSDC, in collaboration with Finance Canada, the Canada Revenue Agency, the Office of the Superintendent of Financial Institutions and the CPP Investment Board.

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Government  
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His Excellency  
The Governor General of Canada

May it please Your Excellency:

We have the pleasure of submitting the *Annual Report of the Canada Pension Plan* for the fiscal year 2009–10.

Respectfully,

James M. Flaherty  
Minister of Finance

Diane Finley  
Minister of Human Resources  
and Skills Development



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# 2009–10 at a Glance

- The maximum pensionable earnings of the Canada Pension Plan (CPP) increased from **\$46,300** for 2009 to **\$47,200** for 2010 to reflect the statutory increase. The contribution rate remained unchanged at **9.9 percent**.
- **4.5 million** Canadians received **5.2 million** benefits from the CPP, with a total value of approximately **\$30 billion**.
- More than **3.7 million** CPP retirement benefits were paid, totalling **\$22.2 billion**.
- Benefits for approximately **1 023 000** surviving spouses or common-law partners and **76 000** children of deceased contributors were paid, totalling **\$4.1 billion**.
- Benefits for approximately **316 000** people with disabilities and **86 000** of their children were paid, totalling **\$3.8 billion**.
- Approximately **127 000** death benefits were paid, totalling **\$0.3 billion**.
- Personal Statements of Contributions were sent to **6 825** contributors 70 years of age.
- Operating expenses amounted to **\$734 million**, or **2.4 percent** of the **\$30.4 billion** in benefits paid. This compares favourably with operating expenses for other large pension plans and individual registered retirement savings plans.
- As at March 31, 2010, total CPP Investment Board net assets were valued at **\$127.7 billion**. These assets consisted primarily of public and private equities; fixed income instruments; real estate; inflation-linked bonds, infrastructure; and securities.
- In early 2009, nearly **6 million** people received the annual T4 and NR4 information inserts. These inserts are Human Resources and Skills Development Canada's main vehicle for providing CPP and Old Age Security information updates to benefit recipients residing in Canada and abroad. The inserts describe new government initiatives in support of seniors, provide a brief overview of benefit parameters and explain the benefit application process and procedures.

**Note:** Certain figures above have been rounded.





# Canada Pension Plan in Brief

If you have worked any time since the age of 18, you have likely contributed to the Canada Pension Plan (CPP) or to its sister plan, the Quebec Pension Plan (QPP), and you will at some time benefit from their provisions.

Implemented in 1966, the CPP is managed jointly by the federal and provincial governments. Quebec manages and administers its own comparable plan, the QPP, and participates in decision making for the CPP. Benefits from either plan are based on pension credits accumulated under both. The plans are financed through mandatory contributions from employees, employers, those who are self-employed, and through investment income.

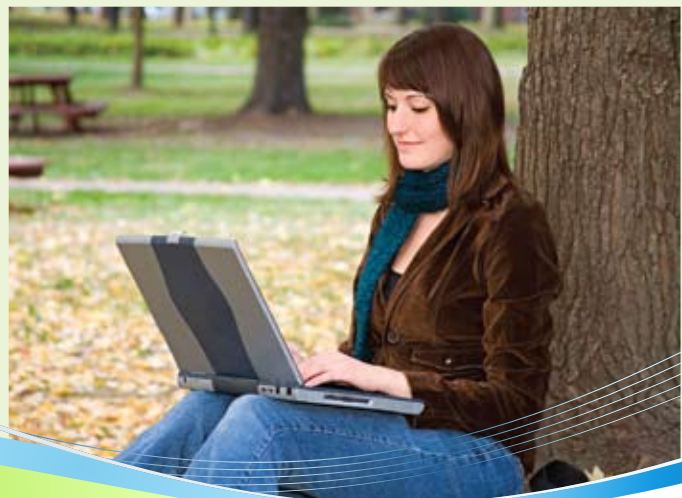


For more information on the **QPP**, visit [www.rrq.gouv.qc.ca](http://www.rrq.gouv.qc.ca)

While many Canadians associate the CPP with retirement pensions, the CPP also provides disability, death, survivor and children's benefits. The CPP administers the largest long-term disability plan in Canada. In addition to paying monthly benefits to eligible contributors with a disability and to their children, the CPP helps some beneficiaries return to the workforce through vocational rehabilitation services and return-to-work support.

Benefit calculations are based on how much and for how long a contributor has paid into the CPP and, in some cases, the age of the beneficiary. Benefits are not paid automatically—everyone must apply and provide proof of eligibility. Benefit amounts are adjusted in January of each year to reflect increases in the average cost of living, as measured by the Consumer Price Index.

Many Canadians live and work in other countries. Others move here after contributing to a public pension plan elsewhere. To help protect their pensions, Canada has entered into social security agreements with other nations. These agreements enable Canadians to receive public pensions from other countries and to receive CPP payments abroad. They also permit continuity of social security coverage when Canadians are temporarily working outside the country; help participants meet eligibility requirements for CPP and for other countries' public pensions; and eliminate duplicate contribution payments. As of March 31, 2010, social security agreements were in force with 51 countries.



# Benefits and Expenditures

The number of people receiving Canada Pension Plan (CPP) benefits has increased steadily over the past decade. As a result, expenditures have also increased. Figure 1 (next page) shows the yearly increases in benefits and expenditures since 2006–07; Figure 2 (next page) shows the percentage of expenditures by type of benefit.

## Retirement Pensions

Retirement pensions represent 73 percent of the total benefit amount paid out by the CPP in 2009–10. The amount of contributors' pensions depends on how much and how long they have contributed and at what age they begin to draw the benefits. The maximum new monthly retirement pension in 2010 was \$934.17; the average payment was \$501.15.

Canadians are living longer and healthier lives, and the transition from work to retirement is increasingly diverse. The CPP offers flexibility for both older workers and their employers with respect to the age of retirement. Contributors can take their pension as early as

age 60 or receive a larger pension if they wait until age 65 to begin receiving it. For those who start receiving their benefit before they turn 65, their CPP pension is permanently reduced by 0.5 percent per month, reflecting the fact that these seniors will, on average, contribute less and receive their benefits longer than someone who retires at the age of 65 or older. For those who take their pension between the ages of 65 and 70, the CPP permanently increase the pension by 0.5 percent per month (up to a maximum of 30 percent), reflecting the fact that these seniors will contribute more and receive their benefits for a shorter amount of time, on average.



Figure 1: CPP – Benefits and Expenditures by Fiscal Year

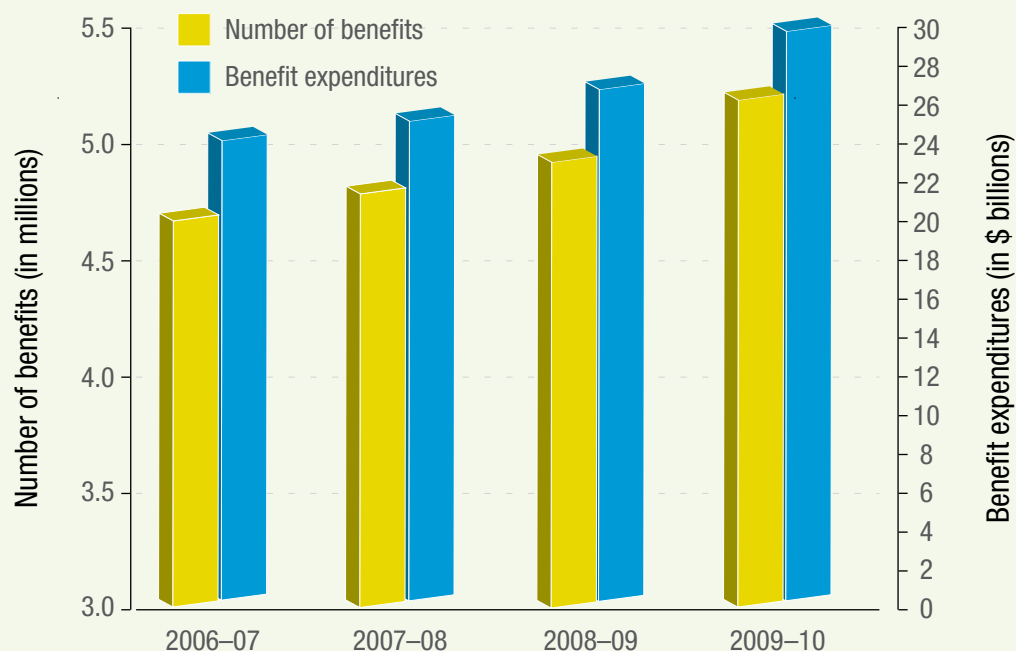
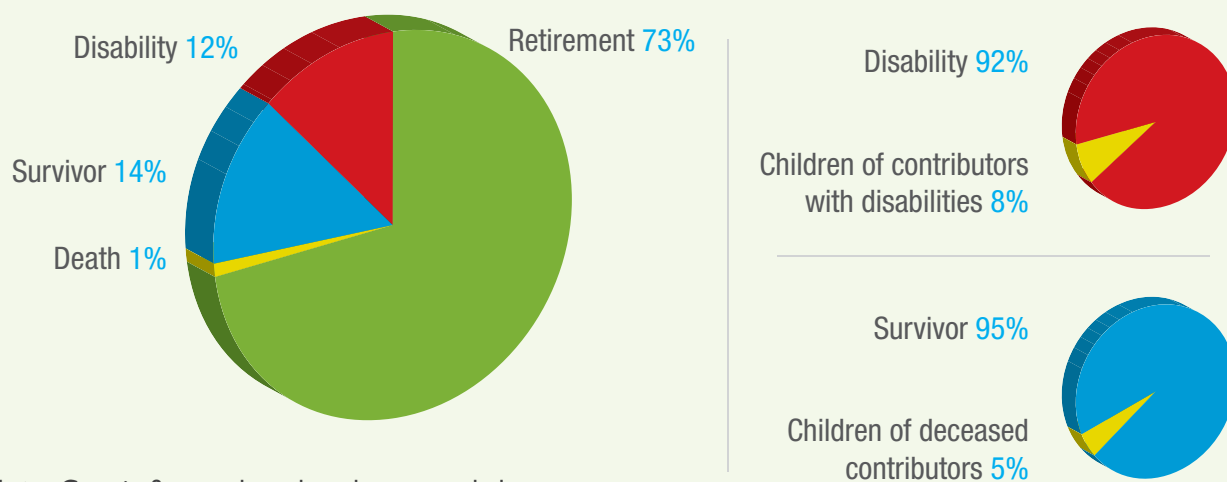


Figure 2: CPP – Percentage of Expenditures by Benefit Type for 2009-10



**Note:** Certain figures above have been rounded.

## Disability Benefits

Disability benefits provide basic earnings replacement to CPP contributors, who cannot work due to a severe and prolonged disability, and to their dependent children. Disability benefits represented 12 percent of the total benefits paid out by the CPP in 2009–10.

The CPP Disability case load has grown by an average of 2 percent per year over the last five years. This correlates with the disease trends of an aging population. Since 2005–06, “mental disorders” has surpassed “diseases of the musculoskeletal system and connective tissue” as the most prevalent medical condition category for all beneficiaries.

## Survivor Benefits

Survivor benefits, paid to the surviving spouse or common-law partner of the contributor and his or her dependent children, represented 14 percent of the total benefits paid out by the CPP in 2009–10. The amount of the monthly survivor benefit varies depending on a number of factors, including the age of the surviving spouse or common-law partner at the time of the contributor’s death and whether the survivor also receives other CPP benefits.

The maximum new monthly survivor benefit in 2010 at age 65 was \$560.50; the average payment was \$315.33. The children’s benefit was a flat-rate amount of \$214.85 per month,



In 2009–10, disability benefits were paid to 315 725 beneficiaries and 86 256 of their children. The benefit includes a monthly flat rate, which was \$426.13 in 2010, plus an earnings-related portion (75 percent of the retirement benefit). In 2010, the maximum monthly payment for new disability benefits was \$1,126.76; the average payment in 2009–10 was \$811.75. The children’s benefit was a flat-rate amount of \$214.85 per month, paid out to eligible children under the age of 18. Those aged 18 to 25 must be enrolled in full-time post-secondary education.

paid out to eligible children under the age of 18. Those aged 18 to 25 must be enrolled in full-time post-secondary education.

## Death Benefits

Death benefits represented one percent of the total benefits paid out by the CPP in 2009–10. The death benefit is a one-time payment. The maximum benefit payable in 2010 was \$2,500; the average payment was \$2,260.60.



## Provisions

### General Drop-out Provision

The CPP includes provisions that compensate for periods of low earnings. When a benefit is calculated, the general drop-out provision excludes 15 percent of a person's lowest earnings to help offset periods of low or no earnings, such as those incurred during unemployment, illness or schooling.

### Child Rearing Provision

The Child Rearing Provision excludes from the calculation of benefits the periods during which contributors have remained at home, or have reduced their participation in the workforce, to care for children under the age of seven. All of the months following the birth of the child, until the child reaches seven years of age, can be excluded from the benefit calculation provided the contributor meets all criteria, including low or no earnings.

### Pension Sharing or Credit Splitting

The CPP has another provision under which married or common-law spouses may either share their retirement pensions (if the union is intact) or split their pension credits (if the union has ended).

# Reconsideration and Appeals Process


There are three opportunities to request a review of, or appeal a decision on, a CPP application. The majority of these requests are to review or appeal a disability benefit application.

**Level 1** – A client may make a request to the Minister of Human Resources and Skills Development for reconsideration or administrative review of an initial application. In 2009–10, Service Canada issued 11 931 reconsiderations of decisions related to CPP benefits, division of pension credits or pension sharing. There were 3 955 decisions issued in favour of clients.

**Level 2** – If the decision made at the reconsideration level is unsatisfactory, a client can appeal to the Review Tribunal. The Review Tribunal is an administrative tribunal that operates at arm's length from the government. It is made up of three people chosen by the Commissioner of Review Tribunals from a panel of 100 to 400 part-time members appointed by the Governor in Council. Hearings are held in over 110 locations across Canada, and travel and accommodations are provided for parties requested to attend a hearing. Claimants may appear on their own behalf or with representation; a Service Canada representative acts on behalf of the Minister. Neither the hearings nor the decisions are open to the public.







In 2009–10, the Office of the Commissioner of Review Tribunals received 4 374 appeals under the CPP and held 3 446 hearings. The tribunal issued 3 560 decisions, of which 1 511 were in favour of the appellants. In addition, 406 cases were concluded as a result of settlements.

**Level 3** – If the decision made by the Review Tribunal is unsatisfactory, a client or the Minister may request leave to appeal (permission for a hearing) to the Pension Appeals Board. The Pension Appeals Board is an arm’s-length administrative tribunal, whose members are judges or former judges of provincial superior courts or federal courts. Similar to Review Tribunal hearings, Pension Appeals Board hearings are held in major centres across Canada. Travel and accommodations are provided for parties who are requested to

attend a hearing. Claimants may appear on their own behalf or with representation; the Minister is represented by a lawyer. Both the hearings and the decisions are open to the public.

In 2009–10, the Pension Appeals Board received 647 requests for “leave to appeal.” Seventy-nine percent of applications reviewed were granted “leave to proceed to a hearing.” In 2009–10, the Pension Appeals Board issued 651 decisions, of which 328 (50 percent) were decided in favour of the claimants.

Decisions of the Pension Appeals Board may be brought before the Federal Court or Federal Court of Appeal for judicial review. The Federal Courts either uphold a decision or return it to the Pension Appeals Board for a new hearing.

# Ensuring Financial Sustainability

As joint stewards of the CPP, the federal and provincial ministers of finance review the CPP's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. They base their recommendations on a number of factors, including the results of an examination of the CPP by the Chief Actuary. The Chief Actuary is required under the legislation to produce an actuarial report on the CPP every three years (in the first year of the legislated ministerial triennial review of the Plan). The CPP legislation also requires that the Chief Actuary prepare an actuarial report any time a Bill is introduced in Parliament that has, in the view of the Chief Actuary, a material impact on the estimates in the most recent triennial actuarial report. This reporting ensures that the long-term financial implications of proposed Plan changes are given timely consideration.

Changes to the CPP legislation governing the general level of benefits, the rate of contributions or the investment policy framework can be made only through an Act of Parliament. Any such changes also require the agreement of at least two-thirds of the provinces, representing at least two-thirds of the population of all those provinces. The changes come into force only after two years' notice, unless all of the provinces waive this requirement, and only after provincial orders in council confirm the changes have been passed. Quebec participates in decision making regarding changes to the CPP legislation, even

though it administers its own comparable plan. It is important that Quebec be involved in changes to the CPP to ensure the portability of Quebec Pension Plan (QPP) and CPP benefits across Canada.

## Triennial Review

The results of the most recent triennial review were announced jointly by federal and provincial ministers of finance on May 25, 2009. This review confirmed that the CPP remains on



sound financial footing, and is well positioned to weather the recent market downturn. Canadians can count on the CPP to be there for them when they retire. The ministers also proposed a number of changes to the Plan, to be phased in between 2011 and 2016, which are intended to enhance flexibility and support both older and younger workers in an equitable and affordable way.

The changes to the CPP form part of the *Economic Recovery Act (stimulus)*, Chapter 31, Statute of Canada, 2009 (Bill C-51), which received Royal Assent on December 15, 2009.





The changes include the following key elements:

- There will be a gradual change in the CPP retirement pension adjustment factors for early and late retirement. This will further increase the pension for those who start receiving it after age 65, and further reduce it for those who start receiving it before age 65. This measure will restore the actuarial neutrality of the benefits.
- Starting in 2012, the amount of low earnings that can be excluded from the retirement benefit calculation will increase by up to one year. If contributors start their pensions after this change, it will likely increase their benefit payments.
- Starting in 2012, contributors no longer have to stop work or significantly reduce their earnings in order to receive their CPP retirement pension.

- Starting in 2012, if contributors are receiving CPP/QPP retirement pensions and they choose to work, they could continue to make CPP contributions that will increase their payments through the new post-retirement benefit. If they are under age 65, contributions will be mandatory for them and their employers. If they are age 65 to 70, contributions will be voluntary (their employers will have to contribute if they do). People between the ages of 60 and 70 who make these contributions may begin to receive their post-retirement benefit the following year.



To read the conclusions of the triennial review, visit [www.fin.gc.ca](http://www.fin.gc.ca)

## Actuarial Reporting

The *Twenty-Fifth Actuarial Report* was tabled in the House of Commons on November 15, 2010. The Report presents the financial status of the CPP as at December 31, 2009, and takes into account the changes included in Bill C-51, as well as the actual demographic and economic experience reported since December 31, 2006.

According to the Report, the CPP is expected to meet its obligations and remain financially sustainable over the long term under a contribution rate of 9.9 percent.

## Funding Approach

When it was introduced in 1966, the CPP was designed as a pay-as-you-go plan, with a small reserve. This meant that the benefits for one generation would be paid largely from the contributions of later generations. This approach made sense under demographic and economic circumstances of the time, due to the rapid growth in wages, labour force participation, and the low rates of return on investments.

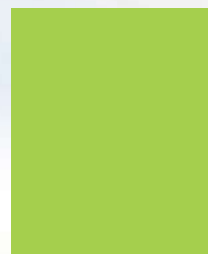
However, demographic and economic developments, as well as changes to benefits in the following three decades, resulted in significantly higher costs. When federal and provincial ministers of finance began their review

of the CPP's finances in 1996, contribution rates, already legislated to rise to 10.1 percent by 2016, were expected to have to rise again—to 14.2 percent by 2030—to continue to finance the CPP on a pay-as-you-go basis. Continuing to finance the CPP on the same basis as it had been in years previous would have meant imposing a heavy financial burden on the future Canadian workforce. This was deemed unacceptable by the participating governments.

Amendments were therefore put into effect in 1998 to gradually raise the level of CPP funding by: increasing contribution rates over the short term; reducing the growth of benefits over the long term; and investing cash flows in the private markets through the CPP Investment Board (CPPIB) to achieve higher rates of return. A further amendment was included to ensure that the ministers of finance consider the full funding of any new or increased benefits provided under the Plan. The reform package agreed to by the federal and provincial governments in 1997 included



To view the CPP's actuarial reports and studies, visit [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)





significant changes to the Plan's financing provisions. The package included:

- the introduction of steady-state funding. This replaced pay-as-you-go financing to build a reserve of assets and stabilize the ratio of assets to expenditures over time. In the *Twenty-Third Actuarial Report*, the level of assets under steady-state funding was projected to stabilize at a level of about five and a half years of expenditures. Investment earnings from this pool of assets would help pay benefits as the large cohort of baby boomers retires. Steady-state funding is based on a constant rate that finances the CPP without the full funding requirement for increased or new benefits. The steady-state rate was determined to be 9.84 percent in the *Twenty-Fifth Actuarial Report*.
- the introduction of incremental full funding. This means that changes to the CPP to increase or add new benefits would be fully funded. In other words, their costs would be paid as the benefit was earned and any costs associated with benefits

that were earned and not paid for would be amortized and paid for over a defined period of time, consistent with common actuarial practice. In the *Twenty-Fifth Actuarial Report*, the full-funding rate was determined to be 0.02 percent for 2010-22 and 0.01 percent thereafter. The minimum contribution rate required to fund the CPP is the sum of the steady-state and the full-funding rates. The minimum contribution rate was determined to be 9.86 percent before 2023 and 9.85 percent from 2023 onward.

Both of these funding objectives were introduced to improve fairness and equity across generations. The move to steady-state funding eases some of the contribution burden on future generations. Under full funding, each generation that receives benefit enrichments is more likely to pay for them in full and not pass on the cost to future generations. These full funding requirements were made operational through new regulations that came into effect with the passage of *An Act to amend the Canada Pension Plan and the Old Age Security Act* (Bill C-36) on March 3, 2008.





## Financing

According to the Chief Actuary, the annual amount of contributions paid by Canadians is expected to exceed the annual amount of benefits paid out until 2020. Funds not immediately required to pay benefits will be transferred to the CPPIB for investment. Plan assets are expected to accumulate rapidly over this period and, over time, will help pay for benefits as more and more baby boomers begin to collect their retirement pensions. In 2021 and thereafter, when most baby boomers will have retired, and benefits paid will begin to exceed contributions, investment revenues from the accumulated assets will provide the funds

necessary to make up the difference. However, contributions will remain the main source of funding for benefits.

The amended financing policy moved the CPP away from pay-as-you-go financing (with a small reserve) toward fuller funding. According to the *Twenty-Fifth Actuarial Report*, the CPP was 14.5 percent funded (with an unfunded liability of \$748 billion as at December 31, 2009) and is projected to be 20 percent funded by 2020 (i.e. CPP assets are expected to cover about 20 percent of obligations), compared to about 7 percent funded at the time of the 1997 agreement.

Although the funded ratio or unfunded liability may be used as measures of the CPP's financial status, a more meaningful measure of the financial health of the CPP is the adequacy and stability of the CPP's steady-state contribution rate and, thus, the legislated rate. To examine this, the Office of the Chief Actuary published a study in January 2010 that compares the assets, obligations and funded ratios of the CPP under various methodologies which confirms the financial sustainability of the CPP under a 9.9 percent contribution rate. The study, entitled *Technical Aspects of the Financing of the Canada Pension Plan: Actuarial Study No. 8*, is available on the Office of the Superintendent of Financial Institutions (OSFI) website.

If, at any time, the legislated contribution rate is lower than the minimum contribution rate, and if the ministers of finance do not recommend to either increase the legislated rate or reduce benefits, then legislative provisions would apply to sustain the CPP. An increase in the legislated rate would be phased in over three years and benefit indexation would be suspended until the following triennial review.

At the end of three years, the next triennial review would examine the financial status of the CPP. In addition, by law, any further enhancement of the Plan must be fully funded.



# Financial Accountability

The CPP uses the accrual basis of accounting for revenues and expenditures. This method gives administrators a detailed financial picture and allows accurate matching of revenue and expenditures in the year in which they occur.

As at March 31, 2010, total CPPIB net assets were valued at \$127.7 billion. These net assets are composed of contributions and investment income that have accumulated since the CPP's inception in 1966, minus benefit and administrative expenditures over the same period.



The CPPIB has \$127.7 billion in net assets.

## CPP Account

A separate account, the CPP Account, has been established in the accounts of the Government of Canada to record the financial elements of the CPP (i.e. contributions, interest, earned pensions and other benefits paid, as well as administrative expenditures). The CPP Account also records the amounts transferred to, or received from, the CPPIB. Spending authority is limited to the CPP's net assets. The CPP assets are not part of the federal government's revenues and expenditures.

In keeping with Bill C-3 (*An Act to Amend the Canada Pension Plan and the Canada Pension Plan Investment Board Act*), which came into force on April 1, 2004, the CPPIB is responsible for investing the remaining funds after the CPP operational needs have been met; the CPP Account's operating balance is managed by the Government of Canada.





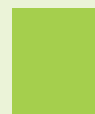


## CPP Investment Board

Created by an Act of Parliament in 1997, the CPPIB invests funds not required by the CPP to pay current benefits. As a Crown corporation operating at arm's length from the federal government, it is governed and managed independently of the CPP. Although it functions within the private-sector financial markets, the CPPIB was specifically designed by the federal and provincial ministers of finance to maintain significant public accountability. It is a professional investment management organization, headquartered in Toronto, with offices in London and Hong Kong, and it is legislated to manage funds transferred from the

CPP in the best interests of CPP contributors and beneficiaries. The CPPIB invests CPP assets to achieve a maximum rate of return, without undue risk of loss. It must also consider the factors that affect the CPP's funding and its ability to meet its financial obligations.

The CPPIB has a long-term investment horizon. In the Chief Actuary's most recent report, it is estimated that contribution revenues will exceed CPP benefit payments and operating expenses well into the future, and that the CPP will not need money from investment income until after 2020.





## CPP Assets and Cash Management

The 2004 Act (Bill C-3) also stipulates that the CPP must transfer any excess cash to the CPPIB, once the benefit and administration expenses have been paid, in order to gain a better return. The CPP produces cash flow forecasts to determine the amount of funds to be transferred to or from the CPPIB, and these forecasts are updated regularly.

The CPP continues to work closely with the CPPIB, various government departments and banks to coordinate these transfers and to manage a tightly controlled process. A control framework is in place to ensure that the transfer process is followed correctly and that all controls are effective. For instance, the CPP obtains confirmation at all critical transfer points and can therefore monitor the cash flow from one point to the next.

## CPPIB Net Assets

As at March 31, 2010, the CPPIB net assets totaled \$127.7 billion. These assets consisted of \$37.9 billion of public equities; \$16.1 billion of private equities; \$59.9 billion of bonds, other debt, money market securities and absolute return strategies; \$7 billion of real estate; \$1 billion of inflation-linked bonds; and \$5.8 billion in infrastructure. Investment returns were 14.9 percent for the fiscal year ending March 31, 2010. The 10-year annualized rate of return was 5.5 percent, which represents \$39.3 billion of cumulative investment income.



For more information on the CPPIB mandate, governance structure and investment policy, visit [www.cppib.ca](http://www.cppib.ca)





## Investing for Our Future

In order to fulfill its multi-generational mandate of helping to meet the long-term funding requirements of the CPP, the CPPIB focuses on its long-term investment horizon.

The CPPIB investment strategy centres on diversifying the portfolio as broadly as possible—by asset class, by geographic areas and by active and passive investment programs. Investments are made in five major risk-return categories: public equities, private equities, fixed income, real estate and infrastructure.

Like other major pension funds, the CPPIB looks for opportunities to increase investments that track and surpass the general rate of inflation. These include inflation-sensitive assets such as: real estate, which contains mostly retail and commercial properties; infrastructure, with deals originating mainly in North America and Western Europe; and inflation-linked bonds.

The CPPIB draws on internal expertise and partnerships with external investment managers to build its global portfolio. In order to manage the increased complexity and geographic reach of its investment programs, the CPPIB has significantly expanded its team of specialized investment professionals over the past three years.

## CPPIB Reporting

The CPPIB reports on a quarterly basis. Legislation requires that it hold public meetings at least every two years in each of the nine provinces participating in the CPP (excluding Quebec, which operates the QPP). The purpose of these meetings is for the CPPIB to present its most recent annual report and to provide the public with the opportunity to ask questions about the policies, operations and future plans of the CPPIB.

# Managing the CPP

## Collecting and Recording Contributions

Contributions to the CPP are paid on earnings between a minimum and a maximum amount. The minimum (which remains constant) is \$3,500 and the maximum is adjusted annually to reflect the growth in the average Canadian industrial wage. The maximum amount of pensionable earnings as of January 1, 2010, was \$47,200 (up from \$46,300 in 2009). Contributions stop once a contributor reaches the age of 70 or begins to receive a CPP retirement pension or disability benefit. This will change once the *Economic Recovery Act (stimulus)*, Chapter 31, Statute of Canada, 2009 (Bill C-51), comes into effect.

The contribution rate in 2009–10 was 9.9 percent, split equally between employees and employers. People who are self-employed pay the full 9.9 percent. Employers and employees account for approximately 94 percent of contributions; the remaining 6 percent comes from the self-employed. In 2009–10, contributions amounted to \$36.3 billion.

All CPP contributions are remitted to the Canada Revenue Agency (CRA). The CRA also

assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4 slips. To verify that contribution requirements are being met, the CRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit. There are approximately 1.6 million existing employer accounts. In 2009–10, the CRA conducted 47 081 examinations to promote compliance with the requirements to withhold, report and remit employer source deductions.

## Overpayment of Benefits

Consistent with its mandate to manage the CPP effectively, Human Resources and Skills Development Canada (HRSDC) has procedures in place to detect benefit overpayments. During 2009–10, overpayments totalling \$49 million were detected. Of this amount, \$37 million was recovered and debts of \$3 million were forgiven. All of the above figures represent a net increase of \$13 million in the accounts receivable for the year.



## Operating Expenses

In 2009–10, the cost to administer the CPP was approximately \$734 million, with HRSDC accounting for the largest portion at \$329 million. The CRA and the RCMP required approximately \$154 million for services to the CPP; Public Works and Government Services Canada (PWGSC) required some \$13 million. OSFI, where the Office of the Chief Actuary is housed, and Finance Canada accounted for about \$2 million. The CPPIB reported \$236 million in operating expenses.

CPP operating expenses of \$734 million in 2009–10 represent 2.4 percent of the \$30 billion in benefits paid. This ratio compares very favourably with that of other pension plans. CPP operating expenses also compare favourably with those of Registered Retirement Savings Plans (RRSPs). Table I presents the CPP's operating expenses for the last two years.

Table I: CPP Operating Expenses for 2009–10 and 2008–09

Expenses (in \$ millions)		
Department / Agency / Crown Corporation	2009–10	2008–09
HRSDC	329	345
CPPIB	236	189
CRA/RCMP	154	146
PWGSC	13	12
OSFI/Finance Canada	2	2
Total	734	694

# Improving Service Delivery

Service Canada is the Government of Canada's one-stop service delivery network. In partnership with other departments, it provides Canadians with easy access to a growing range of government programs and services.

In 2009–10, Service Canada continued its efforts to increase the number of Canadians receiving public pensions, and to encourage Canadians to actively plan and prepare for their own retirement. Information on the CPP is available in print, on the Internet, in person at local offices, by phone, and at electronic kiosks in government offices and public buildings. Personalized contact with clients continues to receive high priority.

During the 2009–10 fiscal year, Service Canada issued personal CPP Statements of Contributions (SOCs) to 6 825 contributors 70 years of age. The SOC kits were accompanied by a letter informing clients about the retirement income system in Canada, an application for their CPP retirement pension and a self-addressed return envelope. An additional 435 SOC kits were sent to clients who reached 70 years of age, were receiving a CPP survivor's pension, and were eligible for a CPP retirement pension but had not applied.

## Online Service Delivery

Service Canada is continually improving its Internet service options. Today, clients can make inquiries, conduct online transactions, and access more information on benefits including their SOC kits all from one secure site. These online

improvements have led to an increase in the number of CPP retirement applications made online.

CPP and Old Age Security (OAS) recipients can view and print a copy of their previous years' tax slips, as far back as 2003 or six years plus the current year. Clients can also choose to stop receiving their tax slips by mail or choose to restart the mailing if they wish. If they live in Canada, they can also change their mailing address or their direct deposit information online.

In 2009–10, the CPP made approximately 54 million payments, of which 87 percent were paid through direct deposit. During the same period, OAS dispensed approximately 55 million payments, of which 90 percent were paid through direct deposit.

## Processing Benefits

In 2009–10, HRSDC processed 267 263 retirement applications, 96 percent of which were paid within the first month of entitlement (see Table 2). During the same period, 65 754 CPP disability initial applications were processed. Decisions on 79 percent of all disability initial applications, which are complex and require medical information, were made within 120 calendar days of receipt of the completed application. Improved communication with clients and their physicians helped staff make well-informed decisions and helped CPP disability applicants better understand the reasons for those decisions.



Table 2: Application Processing Statistics

National Measure	National Objective	2009–10 National Result
<b>CPP retirement applications</b> Percentage of benefits paid within the first month of entitlement	85%	96%
<b>CPP disability (initial decisions)</b> Percentage of initial decisions made within 120 calendar days of receipt of applications	75%	79%
<b>CPP disability (reconsideration decisions)</b> Percentage of reconsideration decisions made within 120 calendar days of receipt of applications	70%	79%



# Looking to the Future

## Modernizing Service Delivery

In 2009–10, Service Canada continued to modernize the delivery of CPP through improvements to information technology. Providing staff with a comprehensive view of CPP and OAS client and benefit information, benefit payment history, lifetime CPP contributions and the ability to complete some maintenance transactions in real time allows for better client service at the first point of contact. The automated adjudication of CPP retirement benefit applications (determination of eligibility and calculations of entitlement) ensures accuracy and the payment of benefits on time. In early 2009, the adjudication of all remaining CPP benefit applications was automated to bring the same service quality advantages to all CPP beneficiaries, regardless of benefit type.

## Information Technology Renewal Delivery System

In 2009–10, Service Canada replaced the aging CPP information technology system with a modernized one. Through an incremental approach to modernization, staff have maintained client service, avoided the risks that come with a large-scale change and successfully introduced significant new capabilities. The automation of application adjudication and calculation has improved program integrity, enhanced Internet services and provided greater choice to clients. Through the use of technology and by streamlining processes, Service Canada will reduce the complexity of the application process, simplify the management of CPP contributions and focus even more on meeting the needs of clients.

## Ensuring Program Integrity

Income security is essential to the quality of life and well-being of Canadians. The current economic environment and an aging population pose new challenges for responding to the changing needs of Canadians and their families.

To ensure the accuracy of benefit payments, the security and privacy of personal information, and the overall quality of service, HRSDC is working to modernize the CPP program and further enhance the efficiency, accuracy, and integrity of its operations.



Meeting the expectations of Canadians that government services and benefits are delivered to the right person, for the right amount, for the intended purpose, at the right time is a cornerstone of HRSDC's service commitment. While increasing public confidence and trust in the delivery of government services, these efforts also yield savings for the federal government (\$49 million in 2009–10). These savings consist of overpayments and associated penalties that are identified as a result of the review and investigation of suspected errors and abuse, and are subject to recovery, as well as the avoidance of future administration costs.

HRSDC has adopted a risk-based approach to strengthen the integrity of CPP processing and payments. Identity management policies, practices and controls, including initiatives such as information-sharing agreements with provincial organizations, will support the continued effective administration of the Social Insurance Number and Social Insurance Register.

In 2009, Canada signed *The Windsor Arrangement for Mutual Co-operation on Benefit Fraud between the Heads of Department of the Six Countries* with five other countries (Australia, United States of America, United Kingdom, New Zealand and Ireland). The six countries have jointly agreed that success in reducing benefit fraud and better serving mutual clients, both within their respective countries and across their borders, can be achieved by working together in a more systematic way to tackle common challenges.

The integrity of the CPP program is maintained in part by established operational procedures and controls designed to ensure the accuracy of the benefits and services delivered. Service Canada has further improved its operational procedures and controls based on recommendations provided by the Office of the Auditor General in its 2006 report.





**Human Resources and  
Skills Development  
Canada**

**Ressources humaines et  
Développement des compétences  
Canada**

**Canada Pension Plan**

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**Canada Pension Plan  
Consolidated Financial Statements  
for the year ended March 31, 2010**



## Canada Pension Plan Management's Responsibility for Financial Statements

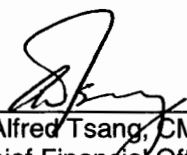
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The Consolidated Financial Statements of the Canada Pension Plan have been prepared in accordance with Canadian generally accepted accounting principles for the public sector, by the management of Human Resources and Skills Development Canada (the Department).

Management is responsible for the integrity and objectivity of the information in the financial statements, including the amounts which must, of necessity, be based on best estimates and judgement. The financial information presented throughout the Annual Report is consistent with the financial statements.

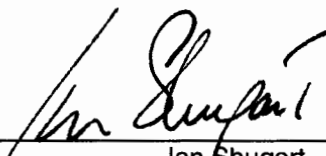
In support of its responsibilities, management has developed and maintains systems of internal control and supporting procedures. They are designed to provide reasonable assurance that assets are safeguarded, records are properly maintained and that transactions are properly authorized and are in accordance with the *Canada Pension Plan Act*, the *Canada Pension Plan Investment Board Act* and the *Financial Administration Act* and their accompanying regulations. These controls include the establishment of an organizational structure that provides a well defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies and guidelines throughout the organization. Internal controls are reviewed and evaluated by both internal and external auditors in accordance with their respective audits. Management also reviews the recommendations of its internal and external auditors for improvements in internal controls.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, has conducted an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and has reported to the Minister of Human Resources and Skills Development.



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Alfred Tsang, CMA  
Chief Financial Officer  
Human Resources and  
Skills Development Canada



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Ian Shugart  
Deputy Minister  
Human Resources and  
Skills Development Canada

Gatineau, Canada  
August 23, 2010



Auditor General of Canada  
Vérificatrice générale du Canada

## AUDITOR'S REPORT

To the Minister of Human Resources and Skills Development

I have audited the consolidated statement of net assets of the Canada Pension Plan as at March 31, 2010 and the consolidated statements of changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the management of Human Resources and Skills Development Canada. 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 consolidated financial statements present fairly, in all material respects, the net assets of the Canada Pension Plan as at March 31, 2010 and the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
August 23, 2010

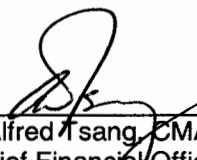
**Canada Pension Plan**  
**Consolidated Statement of Net Assets**  
as at March 31

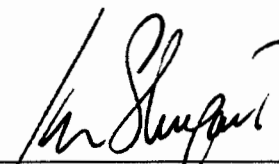
	2010	2009
	(in millions of dollars)	
<b>Assets</b>		
Cash (Note 3)	180	95
Receivables (Note 4)	3,989	4,796
Investments (Schedule, Note 7)	130,477	109,198
Amounts receivable from pending trades (Schedule)	9,813	3,245
Other assets	41	38
	<b>144,500</b>	<b>117,372</b>
<b>Liabilities</b>		
Payables and accrued liabilities (Note 9)	475	468
Investment liabilities (Schedule, Note 7)	2,519	2,149
Amounts payable from pending trades (Schedule)	10,086	4,733
	<b>13,080</b>	<b>7,350</b>
<b>Net Assets</b>	<b>131,420</b>	<b>110,022</b>

Commitments (Note 13)  
Contingent liabilities (Note 14)

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

Approved by:

  
\_\_\_\_\_  
Alfred Tsang, CMA  
Chief Financial Officer  
Human Resources and  
Skills Development Canada

  
\_\_\_\_\_  
Ian Shugart  
Deputy Minister  
Human Resources and  
Skills Development Canada

**Canada Pension Plan**  
**Consolidated Statement of Changes in Net Assets**  
for the year ended March 31

	<b>2010</b>	<b>2009</b>
	(in millions of dollars)	
<b>Net Assets, beginning of year</b>	<b>110,022</b>	126,785
<b>Increase</b>		
Contributions	<b>36,276</b>	36,506
Net investment income (loss)(Note 10)		
Realized gains (losses)	<b>7,393</b>	(17,841)
Unrealized gains (losses)	<b>5,988</b>	(9,326)
Interest income	<b>1,742</b>	1,568
Dividend income	<b>1,304</b>	2,179
Other income	<b>406</b>	326
Transaction costs	<b>(148)</b>	(93)
Investment management fees	<b>(466)</b>	(383)
	<b>16,219</b>	(23,570)
	<b>52,495</b>	12,936
<b>Decrease</b>		
Pensions and benefits		
Retirement	<b>22,208</b>	21,140
Survivor	<b>3,891</b>	3,786
Disability	<b>3,513</b>	3,326
Disabled contributor's child	<b>291</b>	278
Death	<b>287</b>	288
Orphan	<b>222</b>	215
Net overpayments	<b>(49)</b>	(28)
	<b>30,363</b>	29,005
Operating expenses (Note 11)	<b>734</b>	694
	<b>31,097</b>	29,699
Net increase (decrease) in net assets	<b>21,398</b>	(16,763)
<b>Net Assets, end of year</b>	<b>131,420</b>	110,022

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

**Canada Pension Plan**  
**Consolidated Statement of Cash Flow**  
for the year ended March 31

	2010	2009
	(in millions of dollars)	
<b>Operating Activities</b>		
<b>Cash receipts</b>		
Contributions	37,084	35,973
Dividends on investments	1,206	2,134
Interest on investments	2,090	1,818
Other investment income	-	300
<b>Cash payments</b>		
Pensions and benefits	(29,914)	(28,929)
Operating expenses	(713)	(678)
Investment management fees	(435)	(356)
Transaction costs	(158)	(85)
<b>Cash Flows from Operating Activities</b>	<b>9,160</b>	<b>10,177</b>
<b>Financing Activities</b>		
Issuance of debt	9,981	86
Repayment of debt	(8,602)	(68)
Payment of interest on debt	(71)	(60)
<b>Cash Flows from (used) in Financing Activities</b>	<b>1,308</b>	<b>(42)</b>
<b>Investing Activities</b>		
<b>Purchases</b>		
Equities	(63,420)	(117,905)
Inflation sensitive investments	(4,692)	(6,546)
Fixed income investments	(20,461)	(11,524)
Money market securities and absolute return strategies	(485,209)	(426,803)
Other debts	(1,027)	(1,774)
Premises and equipment	(15)	(20)
<b>Disposals</b>		
Equities	66,882	109,421
Inflation sensitive investments	1,705	5,770
Fixed income investments	11,163	11,978
Money market securities and absolute return strategies	484,096	427,479
Other debts	595	(225)
<b>Cash Flows used in Investing Activities</b>	<b>(10,383)</b>	<b>(10,149)</b>
<b>Net increase (decrease) in Cash</b>	<b>85</b>	<b>(14)</b>
<b>Cash, beginning of year</b>	<b>95</b>	<b>109</b>
<b>Cash, end of year</b>	<b>180</b>	<b>95</b>

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

**Canada Pension Plan**  
**Consolidated Schedule of Investments**  
as at March 31

	2010	2009
	(in millions of dollars)	
<b>Equities</b> (Note 7a)		
Canada		
Public equities	8,553	8,058
Private equities	985	775
	9,538	8,833
Foreign developed markets		
Public equities	24,614	19,057
Private equities	14,565	13,100
	39,179	32,157
Emerging markets		
Public equities	4,895	3,866
Private equities	512	240
	5,407	4,106
<b>Total Equities</b>	<b>54,124</b>	<b>45,096</b>
<b>Fixed Income</b> (Note 7b)		
Bonds	35,649	26,915
Other debts	3,526	1,828
Money market securities	14,068	14,569
<b>Total Fixed Income</b>	<b>53,243</b>	<b>43,312</b>
<b>Absolute Return Strategies</b> (Note 7c)	<b>2,871</b>	<b>1,830</b>
<b>Inflation Sensitive Assets</b> (Note 7d)		
Public real estate	-	255
Private real estate	7,982	7,610
Infrastructure	5,821	4,584
Inflation-linked bonds	904	775
<b>Total Inflation Sensitive Assets</b>	<b>14,707</b>	<b>13,224</b>
<b>Investment Receivables</b>		
Securities purchased under reverse repurchase agreements (Note 7e)	4,000	4,000
Accrued interest	594	558
Derivatives receivables (Note 7f)	760	1,042
Dividends receivables	178	136
<b>Total Investment Receivables</b>	<b>5,532</b>	<b>5,736</b>
<b>Total Investments</b>	<b>130,477</b>	<b>109,198</b>
<b>Investment Liabilities</b>		
Debt financing liabilities (Note 7g)	(1,303)	-
Securities sold under repurchase agreements (Note 7e)	-	(99)
Debt on private real estate properties (Note 7d)	(947)	(930)
Derivatives liabilities (Note 7f)	(269)	(1,120)
<b>Total Investment Liabilities</b>	<b>(2,519)</b>	<b>(2,149)</b>
Amounts receivable from pending trades	9,813	3,245
Amounts payable from pending trades	(10,086)	(4,733)
<b>Net Investments</b>	<b>127,685</b>	<b>105,561</b>

# Canada Pension Plan

## Notes to Consolidated Financial Statements

for the year ended March 31, 2010

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### 1. Authority, Objective and Responsibilities

#### a) Description of the Canada Pension Plan

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965.

The CPP began operations in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates the Régime de rentes du Québec, a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

The Canada Pension Plan Investment Board (CPPIB) was established pursuant to the *Canada Pension Plan Investment Board Act*. The CPPIB is a federal Crown corporation and all of its shares are owned by Her Majesty the Queen in right of Canada.

The Minister of Human Resources and Skills Development is responsible for the administration of the Canada Pension Plan (under the CPP Act); the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels and funding policy. The CPPIB is responsible for managing the amounts that are being transferred under Section 108.1 of the *Canada Pension Plan Act*. It acts in the best interests of the beneficiaries and contributors under the Act.

In accordance with the CPP Act, the financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 3). The financial transactions affecting the Account are governed by the CPP Act and its regulations. The Plan's investments are held by the CPPIB. The CPPIB's transactions are governed by the *Canada Pension Plan Investment Board Act* and its accompanying regulations. The CPPIB's assets are to be invested with a view to achieving a maximum rate of return without undue risk of loss, with regard to the factors that may affect the funding of the CPP and its ability to meet its financial obligations on any given business day.

The CPPIB and its wholly-owned subsidiaries are exempt from Part I income tax under paragraphs 149(1)(d) and 149 (1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPPIB and its subsidiaries are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The CPPIB is designed to operate at arm's length from the government. It is required to be accountable to the public, Parliament (through the federal Minister of Finance), and the provinces. It provides regular reports of its activities and the results achieved.

As stated in the CPP and CPPIB Acts, changes to these Acts require the approval of at least two-thirds of the provinces that have, in the aggregate, not less than two-thirds of the population of all included provinces.

#### b) Financing

The CPP is financed by contributions and investment returns. Employers and employees pay contributions equally to the CPP. Self-employed workers pay the full amount.

The CPP was initially designed to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, the CPP is now intended to be funded on a "steady-state" basis – that is, combined employer-employee contributions of 9.9% of pensionable earnings. While the net asset value does not cover the actuarial present value of accrued pensions and benefits, it is expected to provide a capitalization level of 25% of the Plan's liability by the year 2025 as per the last triennial Actuarial Report issued in 2007.

## Canada Pension Plan

### Notes to Consolidated Financial Statements

for the year ended March 31, 2010

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The CPP Act stipulates that an actuarial report shall be prepared every three years for purposes of the review of the financial state of the CPP by the Minister of Finance and his provincial counterparts. The most recent triennial report, the Twenty-third Actuarial Report of the Chief Actuary as at December 31, 2006, was tabled in Parliament on October 29, 2007. The report concluded that the CPP is financially sound and the 9.9% combined employee-employer contribution rate reached in 2003 is expected to be sufficient to sustain the Plan in the face of an aging population.

A number of assumptions such as long term rate of return on assets, inflation rate, mortality rates, increase in salary and benefit rates, among other things, were used in the Twenty-third Actuarial Report. These assumptions reflect best estimates of future economic and demographic events. The next triennial actuarial report as at December 31, 2009 is expected to be completed by December 2010.

#### c) Net Assets of the Plan

The net assets of the Plan are comprised of the deposit with the Receiver General for Canada and investments held by the CPPIB. They represent funds accumulated for the payment of pensions, benefits and operating expenses.

As at March 31, 2010, the value of the Plan's net assets is \$131.4 billion (2009 – \$110.0 billion). This amount represents approximately 4.3 times the total of pensions and benefits in 2010 (2009 - 3.8 times). According to the Twenty-third Actuarial Report, this is expected to grow to 5.5 times by 2019 and remain somewhat stable as the baby boom generation retires between 2015 and 2030.

#### d) Pensions and Benefits

**Retirement pensions** – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum new monthly pension payable at age 65 in 2010 is \$934.17 (2009 – \$908.75).

**Disability benefits** – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum new monthly disability benefit in 2010 is \$1,126.76 (2009 – \$1,105.99).

**Survivor's benefits** – A survivor's benefit is payable to the spouse or common-law partner (the beneficiary) of a deceased contributor, according to the provisions of the Act. For a beneficiary under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A beneficiary between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For beneficiaries aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum new monthly benefit payable to a beneficiary in 2010 is \$560.50 (2009 – \$545.25).

**Disabled contributor's child and orphan benefits** – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or a child of a deceased contributor is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 2010 is \$214.85 (2009 – \$213.99).

**Death benefits** – According to the provisions of the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts to either 10% of the maximum pensionable earnings in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2010 is \$2,500 (2009 – \$2,500).



# Canada Pension Plan

## Notes to Consolidated Financial Statements

for the year ended March 31, 2010

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**Pensions and benefits indexation** – As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 2010 is 0.4% (2009 – 2.5%).

## 2. Significant Accounting Policies

### a) Basis of Presentation

These financial statements are presented on a consolidated basis. They include the consolidated net assets, the consolidated changes in net assets and the consolidated cash flow of the CPP and the CPPIB. These financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for the public sector and conform to the disclosure and accounting requirements of the CPP Act.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

### b) Changes in Accounting Policies

#### Financial instruments – Disclosures

The CPP uses fair value for the preparation of its consolidated financial statements. The CPPIB uses Canadian GAAP for the private sector. Effective for the March 31, 2010 annual Consolidated Financial Statements, the CPPIB adopted the amended CICA section 3862, *Financial Instruments – Disclosures*, which enhance the disclosures regarding fair value measurement and liquidity risk. These new standards prescribe the classification of fair value measurement in accordance with a fair value hierarchy that reflects the significance of the inputs used in determining the fair value of financial instruments (see Note 6). The new standards are for disclosure purposes only and do not impact the CPP’s financial position or results of operations.

### c) Valuation of Investments, Investment Receivables and Investment Liabilities

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of 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.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent arm’s length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, option pricing models and other accepted industry valuation methods.

Fair value is determined as follows:

- (i) Fair value for publicly-traded equities is based on quoted market prices. Where market prices are not available or reliable, such as for those securities that are not sufficiently liquid, fair value is determined using accepted industry valuation methods.
- (ii) Fair value for fund investments is generally based on the net asset value as reported by the external managers of the funds or other accepted industry valuation methods.
- (iii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows using current market yields of

## Canada Pension Plan

### Notes to Consolidated Financial Statements

for the year ended March 31, 2010

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instruments with similar characteristics and third party transactions, or other events which would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on relevant information reported by the General Partner using similar accepted industry valuation methods.

- (iv) Fair value for marketable bonds is based on quoted market prices. Where the market price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.
- (v) Fair value for non-marketable Canadian government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketable and rollover provisions of the bonds.
- (vi) Fair value for direct investments in private debt is calculated using quoted market prices or accepted industry valuation methods such as discounted cash flows based on current market yields of instruments with similar characteristics.
- (vii) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value due to the short-term nature of these securities.
- (viii) Fair value for public real estate investments is based on quoted market prices.
- (ix) Fair value for private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.
- (x) Fair value for inflation-linked bonds is based on quoted market prices.
- (xi) Fair value for exchange-traded derivatives, which include futures, options and warrants, is based on quoted market prices. Fair value for over-the-counter derivatives, which include swaps, options, forward contracts and warrants, is determined based on the quoted market prices for the underlying instruments where available. Otherwise, fair value is based on other accepted industry valuation methods using inputs such as equity prices and indices, broker quotations, market volatilities, currency exchange rates, current market interest rate yields, credit spreads and other market-based pricing factors. In determining fair value, consideration is also given to liquidity risk and the credit risk of the counterparty.
- (xii) Debt financing liabilities are recorded at the amount originally issued, which, together with accrued interest expense, approximates fair value due to its short-term nature.

#### d) Contributions

**Contributions** include CPP contributions earned for the year. The Canada Revenue Agency (CRA) collects contributions and measures them using the assessment of tax returns. In determining the amount of contributions earned for the year, the CRA considers cash received and contributions assessed, and makes an estimate for contributions related to tax returns not yet assessed. This estimate is subject to review and adjustments. Adjustments, if any, are recorded as contributions in the year they are known.

#### e) Investment Income

**Income from investments** is recognized on an accrual basis and includes realized gains and losses from investments, changes in unrealized gains and losses on investments, dividend income, interest income and net operating income from private real estate investments. Dividend income is recognized on the ex-dividend

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date which is when the CPP's right, through CPPIB, to receive the dividend has been established. Interest income is recognized using the effective interest rate method. Distributions received from limited partnerships and funds are recognized as interest income, dividend income, realized gains and losses from investments or return of capital, as appropriate.

#### f) Transaction Costs

**Transaction costs** are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and recorded as a component of net investment income.

#### g) Investment Management Fees

**Investment management fees** are paid to investment managers for externally managed investments. Investment management fees are expensed as incurred and recorded as a component of net investment income.

#### h) Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

**Securities sold under repurchase agreements** represent the sale of securities effected with a simultaneous agreement to buy them back at a specified price at a specified future date and are accounted for as an investment liability. The securities sold continue to be recognized as an investment of the CPP with any changes in fair value recorded as net gain (loss) on investments (see Note 10). Securities purchased under reverse repurchase agreements represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price at a specified future date and are accounted for as an investment receivable. These securities are not recognized as an investment of the CPP. The fair value of securities to be resold under these reverse repurchase agreements is monitored and additional collateral is obtained when appropriate to protect against credit exposure. In the event of counterparty default, the CPP, through CPPIB, has the right to liquidate the collateral held. Repurchase and reverse repurchase agreements are carried on the Consolidated Schedule of Investments at the amounts at which the securities were initially acquired or sold. Interest incurred on repurchase agreements and interest earned on reverse repurchase agreements are included in investment income (see Note 10).

#### i) Translation of Foreign Currencies

**Transactions denominated in foreign currencies** are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year-end date with any resulting foreign exchange gain or loss included in net gain (loss) in net investment income (loss) (see Note 10).

#### j) Pensions and Benefits

**Pensions and benefits expenses** are recorded when payable or reasonably estimated.

#### k) Tax Deductions due to Canada Revenue Agency

**Tax deductions due to CRA** consist primarily of voluntary and non-resident taxes withheld from pensions and benefit payments to CPP beneficiaries.

# Canada Pension Plan

## Notes to Consolidated Financial Statements

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### l) Net Overpayments

**Net overpayments** are comprised of overpayments of pensions and benefits that were established during the year less remissions of debts granted.

### m) Operating Expenses

**Operating expenses** are recorded as incurred.

### n) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") for the public sector requires management to make certain estimates and assumptions that affect the reported values of assets and liabilities as at the date of the financial statements and income and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated contributions, allowance for doubtful accounts, contingent liabilities and fair values of investments since these determinations include estimates of expected future cash flows, rates of return and the impact of future events. Actual results could differ from those estimates.

### o) Future Changes in Accounting Standards

#### International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS"). For the CPPIB, IFRS will be effective for interim and annual periods commencing April 1, 2011, including the disclosure of prior year comparative figures. In June 2010, the AcSB issued an exposure draft proposing that investment companies currently applying AcG-18, such as the CPPIB, be given a one year deferral from adopting IFRS. Should the proposal in the exposure draft be approved, the CPPIB would be required to adopt IFRS effective for interim and annual periods commencing April 1, 2012.

The CPPIB has developed an IFRS conversion plan and has identified the major differences between existing Canadian GAAP and IFRS. The CPPIB continues to monitor emerging and new standards.

The CPP will assess the impact of the CPPIB's change in accounting framework on its consolidated financial statements and will review any restatements made to CPPIB's information.

#### Introduction to Public Sector Accounting (PSA) Handbook – Government Organizations

In December 2009, the Public Sector Accounting Board ("PSAB") issued an amendment to the Introduction to Public Sector Accounting Standards of the PSA Handbook. As a result of this amendment, many entities are required to re-assess their classification.

In light of these changes, the CPP is presently reviewing its classification and is reassessing its accounting framework and basis of presentation. The impact of such changes, if any, on the CPP consolidated financial statements cannot be determined at this time.

## 3. Cash

Cash consists of the total cash held by the CPP Account and the CPPIB. The CPP Account was established in the accounts of Canada by the CPP Act to record the contributions, interest, pensions, benefits and operating expenses of the Plan. It also records the amounts transferred to or received from the CPPIB. As at March 31, 2010, the deposit with the Receiver General for Canada in the CPP Account is \$175 million (2009 - \$90 million) and CPPIB's cash is \$5 million (2009 - \$5 million) for a total of \$180 million (2009 - \$95 million) in the Consolidated Statement of Net Assets and the Consolidated Statement of Cash Flow.

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#### 4. Receivables

Receivables are comprised of the following:

	2010	2009
	(in millions of dollars)	
Contributions	3,854	4,662
Régime de rentes du Québec	96	98
Beneficiaries		
Balance of pensions and benefits overpayments	111	98
Allowance for doubtful accounts	(72)	(62)
	3,989	4,796

Contributions receivable represent the estimated amount to be collected from CRA relating to contributions earned at year-end and adjusted for tax returns not yet assessed.

The CPP has procedures to detect overpayments. During the year, overpayments totalling \$53 million (2009 – \$31 million) were established and debts totalling \$3 million (2009 – \$3 million) were forgiven as per the remission provisions of the CPP Act. A further \$37 million (2009 – \$24 million) was recovered through collection of payments and withholdings from beneficiaries.

#### 5. Investment Activities Risk Management

The CPPIB is exposed to a variety of financial risks as a result of its investment activities. These risks are market risk, credit risk and liquidity risk. The CPPIB manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the investment policies approved by the Board of Directors at least once every fiscal year. This framework contains risk limits and risk management provisions that govern investment decisions and has been designed to achieve the mandate of the CPPIB which is to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

Included within the Risk/Return Accountability Framework is an active risk limit which represents a limit on the amount of investment risk that the CPPIB can take relative to the CPP Reference Portfolio. The CPP Reference Portfolio is approved by the Board of Directors and serves as a performance benchmark against which the CPPIB's value-added activities are measured. It represents a low-cost strategic alternative to the CPP Investment Portfolio. The objective of the CPPIB is to create value-added investment returns greater than the returns that would be generated by the CPP Reference Portfolio. The CPPIB monitors the active risk in the CPP Investment Portfolio daily and reports active risk exposures to the Board of Directors at least on a quarterly basis.

- (i) **Market Risk:** Market risk (including currency risk, interest rate risk and equity price risk) is the risk that the fair value or future cash flows of an investment or investment liability will fluctuate because of changes in market prices and rates. As discussed above, the CPPIB manages market risk through the Risk/Return Accountability Framework. This includes investing across a wide spectrum of asset classes and investment strategies to earn a diversified risk premium at the total Fund level, based on risk limits established in the investment policies. In addition, derivatives are used, where appropriate, to manage certain market risk exposures (See Note 7f). Market risk is comprised of the following:

**Currency Risk:** The CPPIB is exposed to currency risk through holdings of investments or investment liabilities in various currencies. Fluctuations in the relative value of foreign currencies against the

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Canadian dollar can result in a positive or negative effect on the fair value and future cash flows of these investments and investment liabilities.

In Canadian dollars, the net underlying currency exposures, after allocating foreign currency derivatives, as at March 31 are as follows:

(in millions of dollars)		2010		2009	
Currency	Net Exposure	% of Total	Net Exposure	% of Total	
United States Dollar	35,121	55	25,698	57	
Euro	9,936	15	7,988	18	
Japanese Yen	5,365	8	3,907	9	
British Pound Sterling	4,430	7	2,436	5	
Australian Dollar	2,345	4	875	2	
Hong Kong Dollar	1,537	2	1,363	3	
Swiss Franc	1,432	2	505	1	
Other	4,292	7	2,099	5	
	64,458	100	44,871	100	

**Interest Rate Risk:** Interest rate risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. The CPPIB's interest bearing investments are exposed to interest rate risk.

**Equity Price Risk:** Equity price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

In addition to the above, the CPPIB is indirectly exposed to market risk on the underlying securities of fund investments.

#### Value at Risk

CPPIB uses Value at Risk ("VaR") methodology to monitor market risk exposure in the CPP Investment Portfolio. VaR is a statistical technique that is used to estimate the potential loss in value of an investment as a result of movements in market rates and prices over a specified time period and for a specified confidence level. The VaR calculated by the CPPIB is estimated using a historical simulation method, incorporating the most recent 10 years of weekly market returns, evaluated at a 90 per cent confidence level and scaled to a one-year holding period.

VaR is valid under normal market conditions and does not specifically consider losses arising from severe market events. It also assumes that historical market data is a sound basis for estimating potential future losses. If future market conditions and interrelationships of interest rates, foreign exchange rates and market prices differ significantly from those of the past, then the actual losses could materially differ from those estimated. The VaR measure provides an estimate of a single value in a distribution of potential losses that the CPP Investment Portfolio could experience. It is not an estimate of the worst case scenario.

Other assumptions under the historical simulation method for estimating VaR include:

- An estimate for VaR at a one-year holding period can be derived from a simulation based on weekly market returns by using a time-based scaling factor;
- Incorporating the most recent 10 years of market data is sufficient to reasonably estimate the potential loss in value at a 90 per cent confidence level; and

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- The public market proxies used to represent private market investment returns (e.g. those for private real estate and private equities) are reasonable for estimating their contribution to the VaR.

The CPPIB monitors the active risk of the CPP Investment Portfolio relative to the CPP Reference Portfolio. Changes in active risk are largely independent of changes in VaR in the CPP Reference Portfolio and CPP Investment Portfolio.

As at March 31, VaR, at a 90 per cent confidence level, indicates that one year in 10 the portfolio can be expected to lose at least the following amounts:

2010		
(in millions of dollars)	VaR	% of CPP Investment Portfolio <sup>1</sup>
CPP Reference Portfolio	12,998	10.2
CPP Investment Portfolio Active Risk	1,583	1.2
CPP Investment Portfolio <sup>2</sup>	13,487	10.6

2009		
(in millions of dollars)	VaR	% of CPP Investment Portfolio <sup>1</sup>
CPP Reference Portfolio	10,370	9.7
CPP Investment Portfolio Active Risk	1,720	1.6
CPP Investment Portfolio <sup>2</sup>	11,351	10.6

<sup>1</sup> Excludes certain assets where the market risk exposure is not monitored using VaR, such as the assets of the Cash for Benefits Portfolio which is a separately managed short-term cash management program designed to facilitate monthly benefit payments by the CPP.

<sup>2</sup> CPP Investment Portfolio VaR is less than the sum of the CPP Reference Portfolio VaR and CPP Investment Portfolio Active Risk due to the beneficial impact of risk diversification.

- (ii) **Credit Risk:** Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPPIB's most significant exposure to credit risk is its investment in debt securities and over-the-counter derivatives (as discussed in Note 7f). The carrying amounts of these investments as presented in the Consolidated Schedule of Investments represent the maximum credit risk exposure at the balance sheet date.

Oversight for credit risk resides with the CPPIB's Credit Committee, a sub-committee of their Investment Planning Committee ("IPC"), which is chaired by their Chief Operations Officer. The IPC, chaired by the President and Chief Executive Officer is accountable for monitoring and managing the total portfolio strategic risk exposures and providing strategic direction to the investment departments. The Credit Committee advises the IPC on the total portfolio exposure to credit risk and whether changes are warranted in the allocation of credit risk within the overall limits established by their Board of Directors. The Credit Committee ensures that the credit risks are identified, measured and monitored regularly and communicated at least monthly to the IPC and at least quarterly to the Board of Directors. Credit risk measurement and reporting are performed by professional risk managers within CPPIB's Investment Risk Management group ("IRM"). IRM provides qualitative and quantitative analysis and oversight of credit risk, monitoring exposure limits, augmented by detailed analysis of single-name and sector exposures. Credit VaR is the common measure of credit risk across all investment strategies. IRM works closely with the investment departments to provide an evaluation of the credit risk created by significant transactions. Detailed reports of credit risk and counterparty exposures are provided weekly to CPPIB's management and at least monthly to their Credit Committee and their IPC.

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The CPPIB manages credit risk by setting overall credit exposure limits by credit rating category. The Board of Directors approves the credit exposure limits at least once every fiscal year. Counterparties are assigned a credit rating as determined by a recognized credit rating agency, where available, and/or as determined through an internal credit rating process. Where the internal credit rating is lower than the rating determined by a recognized credit rating agency, the internal credit rating will prevail. Credit exposure to any single counterparty is limited to maximum amounts as specified in the investment policies. The Credit Committee has also established single-name sub-limits within the credit exposure limits to mitigate risks arising from concentrated exposures to certain counterparties. IRM measures and monitors sub-limits and credit exposure limits daily for compliance and reports to the Credit Committee and IPC at least monthly, or more frequently as necessary.

The fair value of debt securities and over-the-counter derivatives exposed to credit risk, by credit rating category and without taking account of any collateral held or other credit enhancements as at March 31 are as follows:

(in millions of dollars)							2010
Credit Rating	Bonds <sup>1,2</sup>	Money Market Securities <sup>1</sup>	Reverse Repurchase Agreements <sup>1,3</sup>	Over-the-Counter Derivatives	Direct Investments in Private Debt <sup>1</sup>	Total	% of Total
AAA/R-1 (high)	16,745	11,281	1,501	423	-	29,950	54
AA/R-1 (mid)	16,379	2,052	-	211	-	18,642	33
A/R-1 (low)	3,262	-	2,502	28	-	5,792	10
BBB/R-2 (low)	500	-	-	-	-	500	1
BB/R-3	253	-	-	-	250	503	1
B	-	-	-	-	667	667	1
CCC	-	-	-	-	5	5	-
	37,139	13,333	4,003	662	922	56,059	100

(in millions of dollars)							2009
Credit Rating	Bonds <sup>1,2</sup>	Money Market Securities <sup>1</sup>	Reverse Repurchase Agreements <sup>1,3</sup>	Over-the-Counter Derivatives	Direct Investments in Private Debt <sup>1</sup>	Total	% of Total
AAA/R-1 (high)	8,257	11,634	-	598	-	20,489	44
AA/R-1 (mid)	15,627	2,286	-	172	-	18,085	39
A/R-1 (low)	4,127	-	4,003	31	-	8,161	17
BBB/R-2 (low)	229	-	-	-	-	229	-
BB/R-3	-	-	-	-	-	-	-
B	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-
	28,240	13,920	4,003	801	-	46,964	100

<sup>1</sup> Includes accrued interest.

<sup>2</sup> Includes inflation-linked bonds.

<sup>3</sup> As at March 31, 2010, fixed income securities with a fair value of \$4,088 million (2009 – \$4,084 million) and an AAA credit rating were received as collateral which mitigates the credit risk exposure on the reverse repurchase agreements (see Note 7h).

Credit risk exposure on over-the-counter derivatives is mitigated through the use of master netting arrangements and collateral. Master netting arrangements are entered into with all counterparties so that, if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. Credit support annexes are negotiated with certain counterparties and require that collateral, in



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the form of cash or fixed income securities, be provided to the CPPIB when the positive fair value of the derivative contract exceeds certain threshold amounts. As at March 31, 2010, master netting arrangements and collateral held reduced the credit risk exposure to over-the-counter derivatives from \$662 million to \$455 million (2009 – \$801 million to \$432 million).

In addition to the above, the CPPIB is indirectly exposed to credit risk on the underlying securities of fund investments.

- (iii) **Liquidity Risk:** Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet investment commitments and investment liabilities as they come due. The CPPIB mitigates liquidity risk through its unsecured credit facilities (see Note 8) available in the amount of \$1.5 billion (2009 - \$1.5 billion) and the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly-traded equities, money market securities, marketable bonds and inflation-linked bonds.

The CPPIB is also exposed to liquidity risk through its responsibility for providing cash management services to the CPP (see Note 12). In order to manage liquidity risk associated with this short-term cash management program, the assets required for this purpose are segregated from the investment portfolio and separately managed as the Cash for Benefits Portfolio. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective of ensuring that the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

## 6. Fair Value Measurement

- a) The following table shows investments and investment liabilities recognized at fair value, analyzed between those whose fair value is based on:
- Quoted prices in active markets for identical assets or liabilities (Level 1);
  - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
  - Those with inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

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	<b>Basis of Fair Value Determination</b>			
	<b>March 31, 2010</b>			
(in millions of dollars)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investments</b>				
<b>Equities</b>				
Canada				
Public equities	8,551	-	2	8,553
Private equities	-	-	985	985
	8,551	-	987	9,538
Foreign developed markets				
Public equities <sup>1</sup>	22,623	1,509	482	24,614
Private equities	688	-	13,877	14,565
	23,311	1,509	14,359	39,179
Emerging markets				
Public equities <sup>1</sup>	4,254	641	-	4,895
Private equities	-	-	512	512
	4,254	641	512	5,407
<b>Total Equities</b>	<b>36,116</b>	<b>2,150</b>	<b>15,858</b>	<b>54,124</b>
<b>Fixed Income</b>				
Bonds	13,436	22,213	-	35,649
Other debt	-	671	2,855	3,526
Money market securities	-	14,068	-	14,068
<b>Total Fixed Income</b>	<b>13,436</b>	<b>36,952</b>	<b>2,855</b>	<b>53,243</b>
<b>Absolute Return Strategies</b>	<b>-</b>	<b>638</b>	<b>2,233</b>	<b>2,871</b>
<b>Inflation-Sensitive Assets</b>				
Private real estate	-	-	7,982	7,982
Infrastructure	981	-	4,840	5,821
Inflation-linked bonds	904	-	-	904
<b>Total Inflation-Sensitive Assets</b>	<b>1,885</b>	<b>-</b>	<b>12,822</b>	<b>14,707</b>
<b>Investment Receivables</b>				
Securities purchased under reverse repurchase agreements	-	4,000	-	4,000
Accrued interest	-	594	-	594
Derivatives receivable	161	594	5	760
Dividends receivable	-	178	-	178
<b>Total Investment Receivables</b>	<b>161</b>	<b>5,366</b>	<b>5</b>	<b>5,532</b>
<b>Total Investments</b>	<b>51,598</b>	<b>45,106</b>	<b>33,773</b>	<b>130,477</b>
<b>Investment Liabilities</b>				
Debt financing liabilities	-	(1,303)	-	(1,303)
Debt on private real estate properties	-	(947)	-	(947)
Derivative liabilities	(20)	(249)	-	(269)
<b>Total Investment Liabilities</b>	<b>(20)</b>	<b>(2,499)</b>	<b>-</b>	<b>(2,519)</b>
Amounts receivable from pending trades	-	9,813	-	9,813
Amounts payable from pending trades	-	(10,086)	-	(10,086)
<b>Net Investments</b>	<b>51,578</b>	<b>42,334</b>	<b>33,773</b>	<b>127,685</b>

<sup>1</sup> Includes investments in funds.

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**b) Transfers Between Level 1 and Level 2**

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2010.

**c) Level 3 Reconciliation**

The following table presents a reconciliation for investments included in Level 3 of the fair value hierarchy for the year ended March 31, 2010.

(in millions of dollars)	Fair value as at April 1, 2009	Gains (Losses) Included in Net Investment Income (Loss)	Purchases	Sales <sup>1</sup>	Transfers into Level 3	Transfers Out of Level 3	Fair Value as at March 31, 2010	Change in Unrealized Gains (Losses) on Investments Still Held at March 31, 2010
<b>Investments</b>								
<b>Equities</b>								
Canada								
Public equities	17	(15)	-	-	-	-	2	(15)
Private equities	775	96	239	(125)	-	-	985	55
	792	81	239	(125)	-	-	987	40
Foreign developed markets								
Public equities <sup>2</sup>	360	122	-	-	-	-	482	122
Private equities	13,056	(1,187)	3,521	(867)	-	(646)	13,877	(1,368)
	13,416	(1,065)	3,521	(867)	-	(646)	14,359	(1,246)
Emerging markets								
Private equities	240	42	232	(2)	-	-	512	45
	240	42	232	(2)	-	-	512	45
<b>Total Equities</b>	<b>14,448</b>	<b>(942)</b>	<b>3,992</b>	<b>(994)</b>	<b>-</b>	<b>(646)</b>	<b>15,858</b>	<b>(1,161)</b>
<b>Fixed Income</b>								
Other debt	530	231	554	(1)	1,541	-	2,855	968
<b>Total Fixed Income</b>	<b>530</b>	<b>231</b>	<b>554</b>	<b>(1)</b>	<b>1,541</b>	<b>-</b>	<b>2,855</b>	<b>968</b>
<b>Absolute Return Strategies</b>	<b>1,301</b>	<b>(226)</b>	<b>1,520</b>	<b>(362)</b>	<b>-</b>	<b>-</b>	<b>2,233</b>	<b>(264)</b>
<b>Inflation-Sensitive Assets</b>								
Private real estate	7,610	(1,194)	1,669	(103)	-	-	7,982	(1,194)
Infrastructure	3,709	(660)	1,849	(58)	-	-	4,840	(641)
<b>Total Inflation-Sensitive Assets</b>	<b>11,319</b>	<b>(1,854)</b>	<b>3,518</b>	<b>(161)</b>	<b>-</b>	<b>-</b>	<b>12,822</b>	<b>(1,835)</b>
<b>Investment Receivables</b>								
Derivatives receivable	190	(63)	-	-	-	(122)	5	5
<b>Total Investment Receivables</b>	<b>190</b>	<b>(63)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(122)</b>	<b>5</b>	<b>5</b>
	<b>27,788</b>	<b>(2,854)</b>	<b>9,584</b>	<b>(1,518)</b>	<b>1,541</b>	<b>(768)</b>	<b>33,773</b>	<b>(2,287)</b>

<sup>1</sup> Includes return of capital.

<sup>2</sup> Consists of investments in funds.

Gains (losses) included in net investment income (loss) for the year ended March 31, 2010 are presented as net gain (loss) on investments (see Note 10).

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Investments were transferred from Level 3 to Level 1 as these investments became listed on an active market for which quoted market prices were obtained.

Investments were transferred from Level 2 to Level 3 as these investments are now valued using valuation techniques using inputs based on non-observable market data.

Direct investments in private equities, infrastructure, private real estate, private debt and certain derivatives have fair values derived primarily from assumptions based on non-observable market data. The fair value of these direct investments is based on accepted industry valuation methods that may include the use of estimates made by management, appraisers or both where significant judgment is required. By using valuation methods based on reasonable alternative assumptions, different fair values at March 31, 2010 could result. Management has determined that the potential impact on fair values using these reasonable alternative assumptions would not be significant.

## **7. Investments and Investment Liabilities**

As stated in Note 1, the role of the CPPIB is to invest the assets with a view to achieving a maximum rate of return without undue risk of loss, with regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day. To achieve their mandate, the CPPIB has established investment policies in accordance with its regulations. These set out the manner in which their assets shall be invested and their financial risks managed and mitigated through the Risk/Return Accountability Framework.

### **a) Equities**

- (i) Public equity investments are made directly or through funds. As at March 31, 2010, public equities include fund investments with a fair value of \$2,631 million (2009 - \$1,730 million).
- (ii) Private equity investments are generally made directly or through ownership in limited partnership arrangements which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity. As at March 31, 2010, private equities include direct investments with a fair value of \$3,997 million (2009 - \$2,906 million).

### **b) Fixed Income**

- (i) Bonds consist of marketable and Canadian government non-marketable bonds.

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them by the Act which permit each issuer, at their option, to roll over the bonds on maturity for a further 20-year term at a rate based on capital markets borrowing rates for that province existing at the time of rollover. The non-marketable bonds are also redeemable before maturity at the option of the issuers.

In lieu of exercising its statutory rollover right described in the preceding paragraph, agreements between the CPPIB and the provinces permit each province to repay the bond and concurrently cause the CPPIB to purchase a replacement bond or bonds in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions that permit the issuer, at its option, to roll over the bond for successive terms of not less than five years and are subject in all cases to the maximum 30 years outside the maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

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The terms to maturity of the marketable and non-marketable bonds, not including any rollover options or accrued interest, as at March 31 are as follows:

	2010					2009		
	Terms to Maturity							
(in millions of dollars)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average Effective Yield	Total	Average Effective Yield
<b>Marketable bonds</b>								
Government of Canada	-	2,046	756	800	3,602	3.4%	869	2.9%
Canadian provincial governments	-	770	656	1,046	2,472	4.4	955	4.6
Canadian government corporations	-	2,463	411	344	3,218	3.5	1,971	3.3
Foreign government	80	1,510	1,012	555	3,157	2.6	-	-
Corporate bonds	1	431	539	16	987	4.6	455	7.8
<b>Total marketable bonds</b>	<b>81</b>	<b>7,220</b>	<b>3,374</b>	<b>2,761</b>	<b>13,436</b>		<b>4,250</b>	
<b>Non-marketable bonds</b>								
Government of Canada	434	30	-	-	464	0.8	584	0.9
Canadian provincial governments	1,708	4,694	2,316	13,031	21,749	4.5	22,081	4.6
<b>Total non-marketable bonds</b>	<b>2,142</b>	<b>4,724</b>	<b>2,316</b>	<b>13,031</b>	<b>22,213</b>		<b>22,665</b>	
	<b>2,223</b>	<b>11,944</b>	<b>5,690</b>	<b>15,792</b>	<b>35,649</b>	<b>4.1%</b>	<b>26,915</b>	<b>4.5%</b>

- (ii) Other debt instrument consists of investments in distressed mortgage and private debt funds and direct investments in private debt. The terms to maturity of the direct investments in private debt as of March 31 are as follows:

	2010					2009		
	Terms to Maturity							
(in millions of dollars)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average Effective Yield	Total	Average Effective Yield
Leveraged Loans	-	698	217	-	915	7.5%	-	-

**c) Absolute Return Strategies**

Absolute return strategies consist of investments in funds whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indices. The underlying securities of the funds could include, but are not limited to, equities, fixed income securities and derivatives.

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**d) Inflation-sensitive Assets**

- (i) The CPPIB obtains exposure to real estate through investments in publicly-traded securities, funds and privately held real estate.

Private real estate investments are held by wholly-owned subsidiaries and are managed on behalf of the CPPIB by investment managers through co-ownership arrangements. As at March 31, 2010, the subsidiaries' share of these investments includes assets of \$7,982 million (2009 – \$7,610 million) and \$947 million of secured debt (2009 – \$930 million). The terms to maturity of the undiscounted principal repayments of the secured debt at March 31 are as follows:

2010							2009			
Terms to Maturity										
(in millions of dollars)	Within	1 to 5	6 to 10	Over	Total	Fair Value	Weighted Average Interest Rate	Total	Fair Value	Weighted Average Interest Rate
	1 Year	Years	Years	10 Years						
Debt on private real estate properties	444	337	189	120	1,090	947	6.0%	1,011	930	6.6%

Included in the private real estate are investments in joint ventures. The CPPIB's proportionate interest in joint ventures is summarized as follows:

**Proportionate Share of Net Assets  
As at March 31**

	2010	2009
	(in millions of dollars)	
Assets	5,259	4,860
Liabilities	(947)	(930)
	4,312	3,930

**Proportionate Share of Net Income  
For the Year Ended March 31**

	2010	2009
	(in millions of dollars)	
Revenue	584	567
Expenses	(364)	(363)
	220	204

- (ii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. As at March 31, 2010, infrastructure includes direct investments with a fair value of \$4,395 million (2009 - \$3,154 million).

- (iii) The terms to maturity of the inflation-linked bonds as at March 31 are as follows:

2010							2009	
Terms to Maturity								
(in millions of dollars)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average Effective Yield	Total	Average Effective Yield
Inflation-linked bonds	-	141	117	646	904	3.4%	775	2.8%

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**e) Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements**

As at March 31, 2010, securities sold under repurchase agreements are \$nil (2009 - \$99 million). The terms to maturity of the securities purchased under reverse repurchase agreements as at March 31 are as follows:

(in millions of dollars)	2010					2009		
	Terms to Maturity					Average		Average
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Effective Yield	Total	Effective Yield
Securities purchased under reverse repurchase agreements	1,500	2,500	-	-	4,000	1.9%	4,000	2.1%

**f) Derivative Contracts**

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors. Derivatives are transacted through regulated exchanges or are negotiated in over-the-counter markets.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts. They are not recorded as assets or liabilities on the Consolidated Statement of Net Assets. Notional amounts do not necessarily represent the amount of potential market risk or credit risk arising from a derivative contract.

The fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Schedule of Investments.

The CPPIB uses derivatives to generate value-added investment returns and to limit or adjust market, credit, interest rate, currency, and other financial exposures without directly purchasing or selling the underlying instrument.

- (i) The CPPIB uses the following types of derivative instruments as described below:

**Equity Contracts**

Equity futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of an equity index, a basket of stocks, or a single stock at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Equity swaps are over-the-counter contracts in which one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument.

Variance swaps are over-the-counter contracts where cash flows are exchanged based on the realized variance of an equity index, a basket of stocks, or a single stock compared to the fixed strike level specified in the contract.

Equity options are contractual agreements where the seller (writer) gives the purchaser the right, but not the obligation, to buy or sell a specified quantity of an equity index, a basket of stocks, or a single stock at or before a specified future date at a predetermined price. The seller receives a premium from the purchaser for this right. The CPPIB purchases (buys) and writes (sells) equity options. Equity

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options may be transacted in standardized amounts on regulated exchanges or customized in over-the-counter markets.

Warrants are transacted both over-the-counter and through exchanges where the issuer gives the purchaser the right, but not the obligation, to buy a specified quantity of stock of the issuer at or before a specified future date at a predetermined price.

#### ***Foreign Exchange Contracts***

Foreign exchange forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of foreign currencies at a predetermined price and date in the future. These contracts result in a fixed future foreign exchange rate for a period of time.

#### ***Interest Rate Contracts***

Bond futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of a bond index, a basket of bonds, or a single bond at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Interest rate forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of an interest rate sensitive financial instrument at a predetermined price and date in the future. These contracts result in a fixed future interest rate for a period of time.

Bond and inflation-linked bond swaps are over-the-counter contracts in which counterparties exchange the return on a bond, inflation-linked bond or group of such instruments for the return on a fixed or floating interest rate or the return on another instrument.

Interest rate swaps are over-the-counter contracts where counterparties exchange cash flows based on different interest rates applied to a notional amount in a single currency. A typical interest rate swap would require one counterparty to pay a fixed market interest rate in exchange for a variable market interest rate on a specified notional amount. No exchange of notional amount takes place. Cross-currency interest rate swaps involve the exchange of both interest and notional amounts in two different currencies.

#### ***Credit Contracts***

Credit default swaps are over-the-counter contracts that transfer the credit risk of an underlying financial instrument (referenced asset) from one counterparty to another. The CPPIB purchases credit default swaps that provide protection against the decline in value of an underlying financial instrument (referenced asset) as a result of a specified credit event such as default or bankruptcy. The purchaser pays a premium to the seller in return for payment contingent on a credit event affecting the referenced asset.

#### **(ii) Derivative-related Risk**

The primary risks associated with derivatives are:

##### ***Market Risk***

Derivatives generate value, positive or negative, as the value of underlying assets, indices, interest rates, currency exchange rates, or other market-based factors change such that the previously contracted terms of the derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same terms and remaining period to expiry. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk.



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The derivative-related market risk is a component of the total portfolio market risk which is managed through the Risk/Return Accountability Framework as described in Note 5.

**Credit Risk**

Credit risk is the risk of a financial loss occurring as a result of the failure of a counterparty to meet its obligations to the CPPIB. The maximum exposure to credit risk is represented by the positive fair value of the derivative instrument and is normally a small fraction of the contract's notional amount.

Negotiated over-the-counter derivatives generally present greater credit exposure than exchange-traded contracts. Credit risk on exchange-traded contracts is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligation of the writer of a contract and guarantees their performance.

The CPPIB limits credit risk on over-the-counter contracts through a variety of means including dealing only with authorized counterparties of a minimum credit rating and limiting the maximum exposures to any individual counterparty, the use of master netting agreements and collateral as discussed in Note 5.

(iii) The fair value of derivative contracts held is as follows:

	As at March 31, 2010			For the Year Ended March 31, 2010	
	Positive Fair Value	Negative Fair Value	Net Fair Value	Average Positive Fair Value <sup>1</sup>	Average Negative Fair Value <sup>1</sup>
(in millions of dollars)					
<b>Equity contracts</b>					
Equity futures	1	(19)	(18)	17	(30)
Equity swaps	340	(86)	254	455	(220)
Variance swaps	42	(23)	19	19	(67)
Exchange-traded purchased options	1	(1)	-	1	(35)
Over-the-counter written options	-	(57)	(57)	-	(44)
Warrants	164	-	164	150	-
<b>Total equity contracts</b>	<b>548</b>	<b>(186)</b>	<b>362</b>	<b>642</b>	<b>(396)</b>
<b>Foreign exchange contracts</b>					
Forwards	159	(56)	103	223	(162)
<b>Total foreign exchange contracts</b>	<b>159</b>	<b>(56)</b>	<b>103</b>	<b>223</b>	<b>(162)</b>
<b>Interest rate contracts</b>					
Bond futures	-	-	-	1	(1)
Interest rate forwards	-	-	-	-	-
Bond swaps	2	-	2	3	(4)
Inflation-linked bond swaps	78	-	78	55	(6)
Interest rate swaps	17	(9)	8	20	(4)
Cross-currency interest rate swaps	10	-	10	2	(159)
<b>Total interest rate contracts</b>	<b>107</b>	<b>(9)</b>	<b>98</b>	<b>81</b>	<b>(174)</b>
<b>Credit contracts</b>					
Credit default swaps	14	(18)	(4)	8	(10)
<b>Total credit contracts</b>	<b>14</b>	<b>(18)</b>	<b>(4)</b>	<b>8</b>	<b>(10)</b>
	<b>828</b>	<b>(269)</b>	<b>559</b>	<b>954</b>	<b>(742)</b>
Less: Cash collateral received under derivative contracts	(68)	-	(68)	-	-
	<b>760</b>	<b>(269)</b>	<b>491</b>	<b>954</b>	<b>(742)</b>

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	As at March 31, 2009			For the Year Ended March 31, 2009	
	Positive Fair Value	Negative Fair Value	Net Fair Value	Average Positive Fair Value <sup>1</sup>	Average Negative Fair Value <sup>1</sup>
(in millions of dollars)					
<b>Equity contracts</b>					
Equity futures	51	(1)	50	36	(34)
Equity swaps	470	(273)	197	363	(425)
Variance swaps	6	(138)	(132)	4	(84)
Exchange-traded purchased options	-	-	-	-	-
Over-the-counter written options	-	(128)	(128)	-	(99)
Warrants	190	-	190	172	-
<b>Total equity contracts</b>	<b>717</b>	<b>(540)</b>	<b>177</b>	<b>575</b>	<b>(642)</b>
<b>Foreign exchange contracts</b>					
Forwards	122	(165)	(43)	153	(212)
<b>Total foreign exchange contracts</b>	<b>122</b>	<b>(165)</b>	<b>(43)</b>	<b>153</b>	<b>(212)</b>
<b>Interest rate contracts</b>					
Bond futures	1	-	1	-	-
Interest rate forwards	-	-	-	-	-
Bond swaps	6	-	6	7	(8)
Inflation-linked bond swaps	193	-	193	31	(45)
Interest rate swaps	3	(2)	1	3	-
Cross-currency interest rate swaps	-	(412)	(412)	-	(238)
<b>Total interest rate contracts</b>	<b>203</b>	<b>(414)</b>	<b>(211)</b>	<b>41</b>	<b>(291)</b>
<b>Credit contracts</b>					
Credit default swaps	-	(1)	(1)	-	(1)
<b>Total credit contracts</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
	<b>1,042</b>	<b>(1,120)</b>	<b>(78)</b>	<b>769</b>	<b>(1,146)</b>
Less: Cash collateral received under derivative contracts	-	-	-	-	-
	<b>1,042</b>	<b>(1,120)</b>	<b>(78)</b>	<b>769</b>	<b>(1,146)</b>

<sup>1</sup> Determined using month-end values.

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- (iv) The terms to maturity and the notional amounts for derivative contracts held as at March 31 are as follows:

(in millions of dollars)	2010					2009			
	Terms to Maturity								
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Within 1 year	1 to 5 years	6 to 10 years	Total
<b>Equity contracts</b>									
Equity futures	5,353	-	-	-	5,353	3,781	-	-	3,781
Equity swaps	16,706	2,413	-	-	19,119	14,363	1,296	-	15,659
Variance swaps	90	423	4,536	-	5,049	3	110	4,877	4,990
Exchange-traded purchased options	40	-	-	-	40	-	-	-	-
Over-the-counter written options	214	-	-	-	214	-	265	-	265
Warrants	33	437	19	-	489	59	377	8	444
<b>Total equity contracts</b>	<b>22,436</b>	<b>3,273</b>	<b>4,555</b>	<b>-</b>	<b>30,264</b>	<b>18,206</b>	<b>2,048</b>	<b>4,885</b>	<b>25,139</b>
<b>Foreign exchange contracts</b>									
Forwards	32,747	-	-	-	32,747	16,597	-	-	16,597
<b>Total foreign exchange contracts</b>	<b>32,747</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,747</b>	<b>16,597</b>	<b>-</b>	<b>-</b>	<b>16,597</b>
<b>Interest rate contracts</b>									
Bond futures	270	-	-	-	270	379	-	-	379
Interest rate forwards	-	-	-	-	-	-	-	-	-
Bond swaps	338	-	-	-	338	1,469	-	-	1,469
Inflation-linked bond swaps	3,345	-	-	28	3,373	3,099	-	-	3,099
Interest rate swaps	-	939	407	105	1,451	-	546	46	592
Cross-currency interest rate swaps	-	-	133	-	133	1,477	-	-	1,477
<b>Total interest rate contracts</b>	<b>3,953</b>	<b>939</b>	<b>540</b>	<b>133</b>	<b>5,565</b>	<b>6,424</b>	<b>546</b>	<b>46</b>	<b>7,016</b>
<b>Credit contracts</b>									
Credit default swaps	-	436	348	-	784	-	74	25	99
<b>Total credit contracts</b>	<b>-</b>	<b>436</b>	<b>348</b>	<b>-</b>	<b>784</b>	<b>-</b>	<b>74</b>	<b>25</b>	<b>99</b>
	<b>59,136</b>	<b>4,648</b>	<b>5,443</b>	<b>133</b>	<b>69,360</b>	<b>41,227</b>	<b>2,668</b>	<b>4,956</b>	<b>48,851</b>

**g) Debt Financing Liabilities**

The terms to maturity of the undiscounted principal repayments of the debt financing liabilities as at March 31 are as follows:

(in millions of dollars)	2010					2009			
	Terms to Maturity								
	Within 1 month	1 to 3 months	3 to 6 months	Total	Fair Value	Weighted Average Interest Rate	Total	Fair Value	Weighted Average Interest Rate
Commercial paper payable	779	333	191	1,303	1,303	0.3%	-	-	-

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**h) Collateral**

Collateral transactions are conducted under the terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged as at March 31 is as follows:

	<b>2010</b>	2009
	(in millions of dollars)	
Fixed income securities held as collateral on reverse repurchase agreements <sup>1</sup>	<b>4,088</b>	4,084
Cash held as collateral on over-the-counter derivative transactions	<b>68</b>	-
Fixed income securities pledged as collateral on repurchase agreements	-	(100)
Securities pledged as collateral on guarantees (see Note 14c)	<b>(120)</b>	-
	<b>4,036</b>	3,984

<sup>1</sup> The total fair value of the collateral held that may be sold or repledged as at March 31, 2010 is \$3,923 million (2009 – \$3,923 million). The fair value of the securities collateral sold or repledged as at March 31, 2010 is \$nil (2009 – \$nil).

## **8. Credit Facilities**

The CPPIB maintains \$1.5 billion (2009 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2010, the total amount drawn on the credit facilities is \$nil (2009 – \$nil).

## **9. Payables and Accrued Liabilities**

**Payables and accrued liabilities are comprised of the following:**

	<b>2010</b>	2009
	(in millions of dollars)	
Operating expenses	<b>131</b>	124
Pensions and benefits payable	<b>224</b>	229
Tax deductions due to Canada Revenue Agency	<b>120</b>	115
	<b>475</b>	468

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## 10. Net Investment Income (Loss)

Net investment income (loss) is reported net of transaction costs and investment management fees.

Net investment income (loss) is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. Net investment income (loss), after giving effect to derivative contracts and investment receivables and liabilities for the year ended March 31, is as follows:

(in millions of dollars)	2010				
	Investment Income (Loss) <sup>1</sup>	Net Gain (Loss) on Investments <sup>2,3,4</sup>	Total Investment Income (Loss)	Investment Management Fees	Net Investment Income (Loss)
<b>Equities</b>					
Canada					
Public equities	178	5,707	5,885	(1)	5,861
Private equities	30	100	130	(17)	113
	208	5,807	6,015	(18)	5,974
Foreign developed markets					
Public equities	706	6,135	6,841	(37)	6,755
Private equities	178	(1,175)	(997)	(220)	(1,224)
	884	4,960	5,844	(257)	5,531
Emerging markets					
Public equities	115	1,946	2,061	(1)	2,058
Private equities	1	38	39	(27)	12
	116	1,984	2,100	(28)	2,070
	1,208	12,751	13,959	(303)	13,575
<b>Fixed Income</b>					
Bonds	1,320	84	1,404	-	1,404
Other debt	124	1,337	1,461	(13)	1,447
Money market securities <sup>5</sup>	108	385	493	(84)	402
Debt financing liabilities	(2)	-	(2)	-	(2)
	1,550	1,806	3,356	(97)	3,251
<b>Inflation-Sensitive Assets</b>					
Public real estate	7	95	102	-	101
Private real estate	406	(1,141)	(735)	(60)	(822)
Infrastructure	267	(512)	(245)	(6)	(282)
Inflation-linked bonds	13	382	395	-	395
	693	(1,176)	(483)	(66)	(608)
<b>Interest on Operating Balance</b>					
	1	-	1	-	1
	3,452	13,381	16,833	(466)	16,219

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(in millions of dollars)	2009					
	Investment Income <sup>1</sup>	Net Gain (Loss) on Investments <sup>2,3,4</sup>	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
<b>Equities</b>						
Canada						
Public equities	339	(9,012)	(8,673)	(1)	(19)	(8,693)
Private equities	11	(69)	(58)	(11)	(2)	(71)
	350	(9,081)	(8,731)	(12)	(21)	(8,764)
Foreign developed markets						
Public equities	1,617	(12,154)	(10,537)	(28)	(27)	(10,592)
Private equities	57	(2,665)	(2,608)	(222)	(7)	(2,837)
	1,674	(14,819)	(13,145)	(250)	(34)	(13,429)
Emerging markets						
Public equities	3	(101)	(98)	(1)	(6)	(105)
Private equities	-	(15)	(15)	(25)	-	(40)
	3	(116)	(113)	(26)	(6)	(145)
	2,027	(24,016)	(21,989)	(288)	(61)	(22,338)
<b>Fixed Income</b>						
Bonds	1,308	638	1,946	-	-	1,946
Other debt	2	(1,295)	(1,293)	(13)	-	(1,306)
Money market securities <sup>5</sup>	100	(314)	(214)	(20)	-	(234)
Debt financing liabilities	-	-	-	-	-	-
	1,410	(971)	439	(33)	-	406
<b>Inflation-Sensitive Assets</b>						
Public real estate	18	(269)	(251)	(8)	(1)	(260)
Private real estate	320	(1,485)	(1,165)	(49)	(11)	(1,225)
Infrastructure	237	(295)	(58)	(5)	(20)	(83)
Inflation-linked bonds	55	(131)	(76)	-	-	(76)
	630	(2,180)	(1,550)	(62)	(32)	(1,644)
<b>Interest on Operating Balance</b>						
	6	-	6	-	-	6
	4,073	(27,167)	(23,094)	(383)	(93)	(23,570)

<sup>1</sup> Includes interest income, dividends, private real estate operating income (net of interest expense), and interest expense on the debt financing liabilities and repurchase agreements.

<sup>2</sup> Includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the year, and other investment-related expenses.

<sup>3</sup> Includes foreign exchange losses of \$10,052 million (2009 – foreign exchange gains of \$6,789 million).

<sup>4</sup> Includes net unrealized losses of \$1,257 million (2009 – \$1,209 million) which represents the change in fair value estimated on direct investments in private equities, infrastructure, private real estate, private debt and certain derivatives, where the fair value is derived primarily from assumptions based on non-observable market data.

<sup>5</sup> Includes absolute return strategies.



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## 11. Operating Expenses

	2010	2009
	(in millions of dollars)	
General operating expenses	321	309
Salaries and benefits	393	364
Professional and consulting fees	20	21
	<b>734</b>	<b>694</b>

## 12. Net Assets and Changes in Net Assets for Accountability Purposes

The administration of the CPP's assets and activities is shared between various government of Canada's departments and the CPPIB. The CPPIB is responsible for investing the majority of the CPP's assets, while the Government of Canada (GoC), through various federal departments, manages the remainder of the assets, as well as the collection of the CPP contributions and the administration and payments of the CPP benefits. For accountability purposes, the following table presents summary information on the levels of assets and liabilities and sources of income and expenses managed by the GoC and the CPPIB respectively.

	2010			2009		
(in millions of dollars)	GoC	CPPIB	Total	GoC	CPPIB	Total
Assets	4,164	140,336	144,500	4,886	112,486	117,372
Liabilities	374	12,706	13,080	365	6,985	7,350
Net assets	3,790	127,630	131,420	4,521	105,501	110,022
Income (loss)						
Contributions	36,276	-	36,276	36,506	-	36,506
Investment income (loss)	1	16,218	16,219	6	(23,576)	(23,570)
	36,277	16,218	52,495	36,512	(23,576)	12,936
Expenses						
Pensions and benefits	30,363	-	30,363	29,005	-	29,005
Operating expenses	498	236	734	505	189	694
	30,861	236	31,097	29,510	189	29,699
Increase (decrease) in net assets	5,416	15,982	21,398	7,002	(23,765)	(16,763)

Pursuant to Section 108.1 of the CPP Act and the Agreement dated as of April 1, 2004, amounts not required to meet specified obligations of the CPP are transferred weekly to the CPPIB. The funds originate from employer and employee contributions to the CPP and interest income generated from the deposit with the Receiver General.

In September 2004, the CPPIB assumed responsibility for providing cash management services to the CPP, including periodic return, on at least a monthly basis, of funds required to meet CPP pension, benefits and operating expenses obligations.

During the year ended March 31, 2010, a total of \$30.3 billion was transferred to the CPPIB and a total of \$24.2 billion was returned to the CPP to meet its liquidity requirements.

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**Activities during the year**

	<b>2010</b>	2009
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB, beginning of year	<b>182,204</b>	153,073
Transfers of funds to CPPIB	<b>30,308</b>	29,131
Accumulated transfers to CPPIB, end of year	<b>212,512</b>	182,204
Accumulated transfers from CPPIB, beginning of year	<b>(85,282)</b>	(62,714)
Transfers of funds from CPPIB	<b>(24,161)</b>	(22,568)
Accumulated transfers from CPPIB, end of year	<b>(109,443)</b>	(85,282)
Net accumulated transfers to CPPIB	<b>103,069</b>	96,922

### **13. Commitments**

The CPPIB has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2010, the commitments total \$18.0 billion (2009 – \$23.9 billion).

As at March 31, 2010, the CPPIB is also committed to redeem exchangeable bonds for a subsidiary up to a maximum of \$0.2 billion (2009 – \$nil) and to provide inter-company loan facilities to certain subsidiaries for up to \$0.6 billion (2009 – \$nil).

As at March 31, 2010, the CPPIB has made lease and other commitments of \$39.5 million (2009 – \$54.7 million) that will be paid over the next eight years.

### **14. Contingent Liabilities**

**a) Appeals relating to the payment of pensions and benefits**

At March 31, 2010, there were 7,449 (6,810 in 2009) appeals relating to the payment of CPP disability benefits. These contingencies are reasonably estimated, using historical information, at an amount of \$72 million (\$71 million in 2009), which was recorded as an accrued liability in the CPP 2009-10 financial statements.

**b) Other claims and legal proceedings**

In the normal course of operations, the CPP is involved in various claims and legal proceedings. While the total amount claimed in these actions may be material, their outcomes are not determinable. The CPP records an allowance for claims and legal proceedings when it is likely that there will be a future payment and a reasonable estimate of the loss can be made. No such allowance was recognized in the financial statements for the 2009-10 and 2008-09 fiscal years for these claims and legal proceedings.

**c) Guarantees**

As part of certain investment transactions entered into during the year ended March 31, 2010, the CPPIB has agreed to guarantee up to \$0.6 billion to other counterparties in the event certain subsidiaries and other entities default under the terms of loan and other related agreements. To date, the CPPIB has not received any claims nor made any payments pursuant to such guarantees.

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#### **d) Indemnifications**

The CPPIB provides indemnifications to its officers, directors, certain others and, in certain circumstances, to various counterparties and other entities. The CPPIB may be required to compensate these indemnified parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPPIB from making a reasonable estimate of the maximum potential payments the CPPIB could be required to make. To date, the CPPIB has not received any claims nor made any payments pursuant to such indemnifications.

## **15. Related Party Transactions**

In addition to the information already disclosed in the other Notes to the Consolidated Financial Statements, the CPP has \$3,854 million (2009 - \$4,662 million) of contributions receivable from the Canada Revenue Agency.

The CPP enters into transactions with the Government of Canada in the normal course of business, which are recorded at the exchange value. The costs are based on estimated allocations of costs and are charged to the CPP in accordance with various memoranda of understanding.

#### **Transactions for the year**

	<b>2010</b>	<b>2009</b>
	(in millions of dollars)	
Pension and benefit delivery, accommodation and corporate services		
Human Resources and Skills Development Canada	<b>329</b>	345
Collection of contributions and investigation services		
Canada Revenue Agency and Royal Canadian Mounted Police	<b>154</b>	146
Cheque issue and computer services		
Public Works and Government Services Canada	<b>13</b>	12
Actuarial services		
Office of the Superintendent of Financial Institutions and Department of Finance	<b>2</b>	2
	<b>498</b>	505

## **16. Comparative Information**

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