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ANNUAL REPORT OF THE CANADA PENSION PLAN 2010–2011

Canada

Annual Report of the Canada Pension Plan 2010–11

Fiscal Year 2010–11

ISSD-082-10-11E

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.

For more details on subjects covered in this report, or about the Canada Pension Plan in general, please visit www.hrsdc.gc.ca, or call (free of charge from Canada and the U.S.):

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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 2010-2011.

Respectfully,

James M. Flaherty
Minister of Finance

Diane Finley
Minister of Human Resources and Skills Development

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2010–11 at a Glance

- The maximum pensionable earnings of the Canada Pension Plan (CPP) increased from **$47,200** for 2010 to **$48,300** for 2011. The contribution rate remained unchanged at **9.9 percent**.
- **4.7 million** beneficiaries received **5.4 million** benefits from the CPP, with a total value of approximately **$31.6 billion**.
- Approximately **3.9 million** CPP retirement benefits were paid, totalling **$23.2 billion**.
- Benefits for approximately **1 034 000** surviving spouses or common-law partners and **74 000** children of deceased contributors were paid, totalling **$4.2 billion**.
- Benefits for approximately **321 000** people with disabilities and **85 000** of their children were paid, totalling **$4 billion**.
- Approximately **129 000** death benefits were paid, totalling **$0.3 billion**.
- Operating expenses amounted to **$850.3 million**, or **2.69 percent** of the **$31.6 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, 2011, total CPP Investment Board net assets were valued at **$148.2 billion**. These assets consisted primarily of public and private equities, fixed income instruments, real estate, inflation-linked bonds, infrastructure and securities.

Note: Certain figures above have been rounded.

CPP Fund 2011

$148.2 billion
Total CPP fund

$20.6 billion
Total CPP fund increase

11.9 percent
One-year rate of return

$15.5 billion
Investment income in fiscal 2011

$20.9 billion
Cumulative investment income for five-year period ending March 31, 2011

$51.8 billion
Cumulative investment income for ten-year period ending March 31, 2011

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 plans.

For more information on the QPP, visit **www.rrq.gouv.qc.ca**.

Contributions

The CPP is financed through investment income and through mandatory contributions from employees, employers, and those who are self-employed.

An employee's contribution is based on earnings from the start of the Plan in 1966 or from the time the employee reaches the age of 18. The first $3,500 of each employee's annual earnings is exempt from contributions. On earnings above $3,500, up to the 2011 ceiling of $48,300, an employee makes a contribution of 4.95 percent and an employer matches the employee's contribution with an equal contribution.

Self-employed persons pay the combined rate for employees and employers, which is 9.9 percent if their total earnings are more than $3,500 a year. In 2011, self-employed people pay on annual earnings between $3,500 and $48,300.

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. As well as paying monthly benefits to eligible contributors with a disability and their children, the CPP also helps some beneficiaries return to the workforce through vocational rehabilitation services and return-to-work support.

Most 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 published by Statistics Canada.

Calculation of Contributions and Benefits for 2011	
Year's maximum pensionable earnings	**$48,300.00**
Year's basic exemption	**$3,500.00**
Year's maximum employee/employer contribution (4.95%)	**$2,217.60**
Year's maximum self-employed person's contribution rate (9.9%)	**$4,435.20**

International Agreements

Many Canadian residents have lived and worked in other countries. Canada has entered into social security agreements with other countries to help these individuals. The agreements also help people who immigrate to Canada receive pensions from their country of origin and qualify to receive CPP payments in Canada and abroad. Further, social security agreements enable Canadians sent to work temporarily outside the country maintain their CPP coverage and eliminate the need to contribute to the social security program of both countries for the same work.

As of November 1, 2011, social security agreements are in force with 53 countries. In addition, an agreement has been signed with one other country and will enter into force in the near future. Negotiations towards agreements are ongoing with many other countries. The names of countries with which Canada has concluded social security agreements are listed on page 5.

Canada has concluded social security agreements with the following countries.

Country Name	Date of Agreement	Country Name	Date of Agreement
Antigua and Barbuda	January 1, 1994	Latvia	November 1, 2006
Australia	September 1, 1989	Lithuania	November 1, 2006
Austria	November 1, 1987	Luxembourg	April 1, 1990
Barbados	January 1, 1986	Malta	March 1, 1992
Belgium	January 1, 1987	Mexico	May 1, 1996
Brazil*		Morocco	March 1, 2010
Chile	June 1, 1998	Netherlands	October 1, 1990
Croatia	May 1, 1999	New Zealand	May 1, 1997
Cyprus	May 1, 1991	Norway	January 1, 1987
Czech Republic	January 1, 2003	Philippines	March 1, 1997
Denmark	January 1, 1986	Poland	October 1, 2009
Dominica	January 1, 1989	Portugal	May 1, 1981
Estonia	November 1, 2006	Republic of Macedonia	November 1, 2011
Finland	February 1, 1988	Romania	November 1, 2011
France	March 1, 1981	Saint Lucia	January 1, 1988
Germany	April 1, 1988	Saint Vincent and the Grenadines	November 1, 1998
Greece	May 1, 1983	Slovak Republic	January 1, 2003
Grenada	February 1, 1999	Slovenia	January 1, 2001
Hungary	October 1, 2003	St. Kitts and Nevis	January 1, 1994
Iceland	October 1, 1989	Spain	January 1, 1988
Ireland	January 1, 1992	Sweden	January 1, 1986
Israel **	September 1, 2003	Switzerland	October 1, 1995
Italy	January 1, 1979	Trinidad and Tobago	July 1, 1999
Jamaica	January 1, 1984	Turkey	January 1, 2005
Japan	March 1, 2008	United Kingdom**	April 1, 1998
Jersey and Guernsey	January 1, 1994	United States	August 1, 1984
Korea	May 1, 1999	Uruguay	January 1, 2002

* Signed but not yet in force

** Limited agreement providing an exemption from the obligation to contribute to the social security system of the country for employees temporarily posted abroad. Does not contain provisions for the payment of pension benefits.

Benefits and Expenditures

The number of people receiving CPP benefits has increased steadily over the past decade. As a result, expenditures have also increased. Figure 1 (page 8) shows the yearly increases in benefits and expenditures since 2009–10; Figure 2 (page 8) shows the percentage of expenditures by type of benefit.

To be eligible for a retirement pension, the applicant must have:

1. made at least one valid contribution to the plan;
2. reached the age of 60; and
3. "wholly or substantially" ceased working (referred to as the "work cessation test"), if under 65 years of age. The "work cessation test" will be eliminated as of 2012.

Retirement Pensions

Retirement pensions represent 73 percent of the total benefit amount paid out by the CPP in 2010–11. 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 2011 was $960.00; the average payment was $503.95.

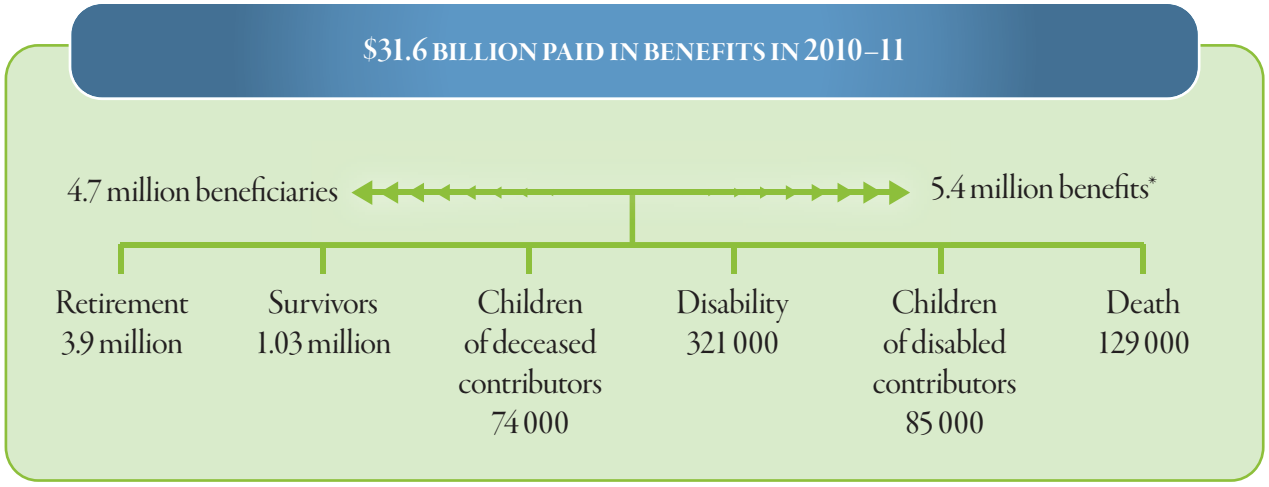
Canadians are living longer and healthier lives, and the transition from work to retirement is increasingly diverse. The CPP offers flexibility for both older workers and their employers with respect to the age of retirement. Contributors can take their pension as early as age 60 or receive a larger 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 (up to a maximum of 30 percent), 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. Before 2011, for those who take their pension between the ages of 65 and 70, the CPP permanently increased 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.

Adjustments for Early and Late Receipt of a Retirement Pension

Since the beginning of 2011, a gradual change in these adjustment factors has been introduced. The change will further decrease the pension for those who start receiving it before age 65, and further increase it for those who start receiving it after age 65. This will help ensure that there are no unfair advantages or disadvantages to those who receive early or late CPP retirement pensions. By 2016, the adjustment factors will be at their actuarial neutrality.

Retirement pension taken before age 65:
From 2012 to 2016, the Government will gradually increase the pension reduction factor from 0.5 percent per month to 0.6 percent per month. This means that by 2016, if contributors start receiving a CPP retirement pension at age 60, their pension amount will be 36 percent less than if taken at age 65.

Retirement pension taken after age 65:
From 2011 to 2013, the Government will gradually increase the adjustment factor from 0.5 percent per month to 0.7 percent per month. This means that by 2013, if contributors start receiving a CPP retirement pension at age 70, their pension amount will be 42 percent more than if taken at age 65.



*In this total, a beneficiary may be receiving multiple CPP benefits.

17 million contributors plus beneficiaries participated in the CPP (2011)

$37.1 billion received in contributions (2011)

$850.3 million in CPP administrative expenses in 2010–11

Figure 1: CPP – Benefits and Expenditures by Fiscal Year

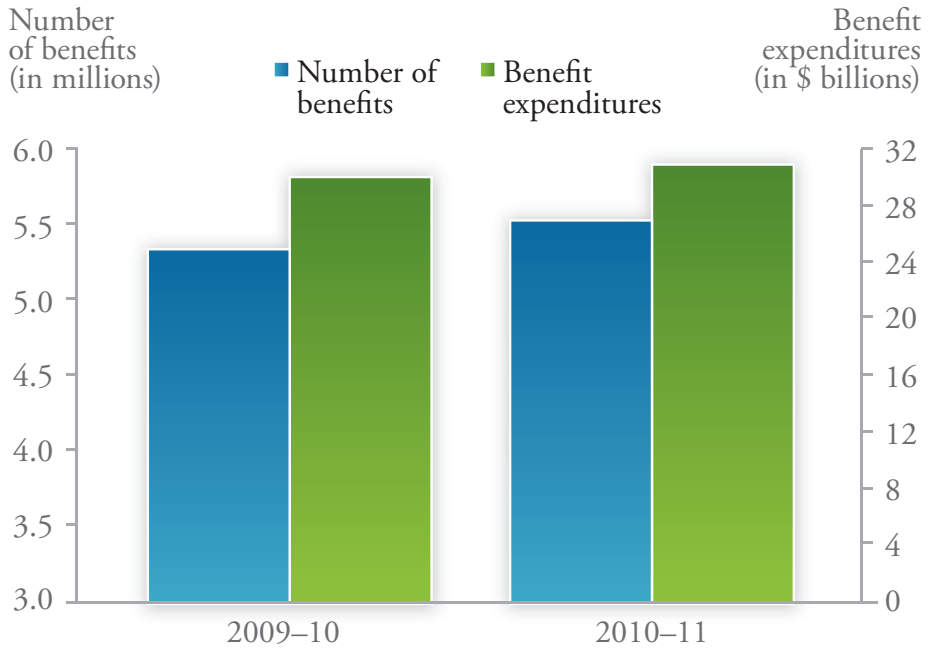
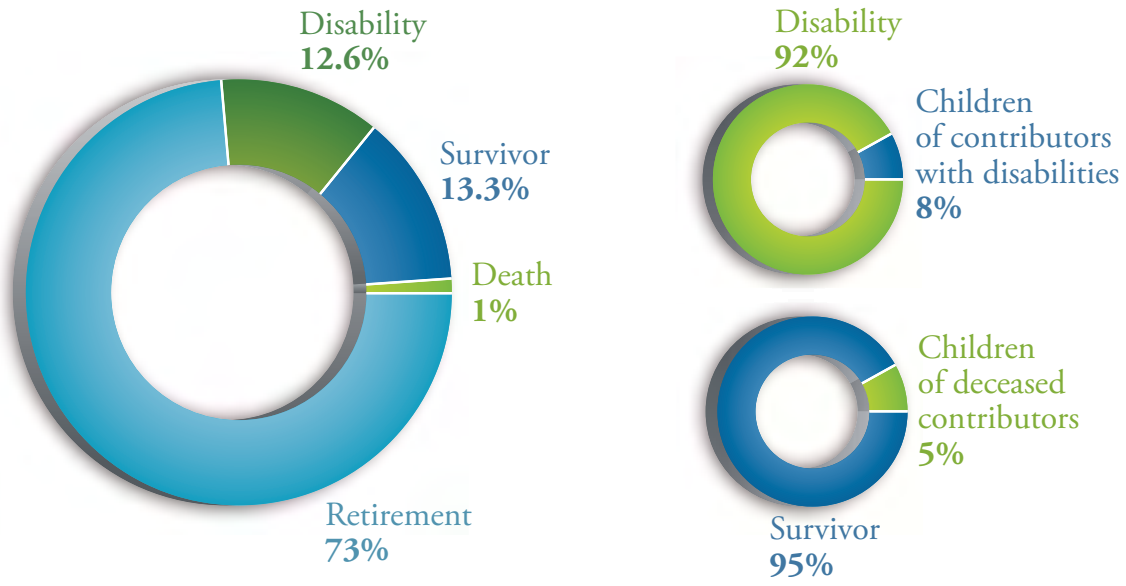


Figure 2: CPP – Percentage of Expenditures by Benefit Type 2010–11



Disability Benefits

Disability benefits provide basic earnings replacement to CPP contributors who cannot work due to a severe and prolonged disability as well as their dependent children. A contributor is deemed disabled if he or she suffers from a physical or mental condition that is severe and prolonged. Disability benefits represented about 13 percent of the total benefits paid out by the CPP in 2010–11.

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

In 2010–11, disability benefits were paid to 321 000 beneficiaries and 85 000 of their children. The benefit includes a monthly flat rate, which was $433.37 in 2011, plus an earnings-related portion (75 percent of the retirement benefit that would have been earned had the contributor become disabled). In 2011, the maximum monthly payment for new disability benefits was $1,153.37; the average payment in 2010–11 was $813.51. The children's benefit was a flat-rate amount of $218.50 per month, paid out for eligible children under the age of 18. Those aged 18 to 25 must be enrolled in full-time post-secondary education to be eligible for the children's benefits.

Survivor Benefits

Survivor benefits, paid to the surviving spouse or common-law partner of the contributor and his or her dependent children, represented about 13 percent of the total benefits paid out by the CPP in 2010–11. The amount of the monthly survivor's pension 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.

In 2011, the maximum new monthly survivor pension for those under age 65 was $529.09. This includes a flat-rate portion of $169.09 and an earnings-related portion (37.5 percent of the deceased contributor's retirement pension). The average amount was $366.37. The maximum amount at age 65 and over was $576.00; consisting of 60 percent of the deceased contributor's retirement pension. The average payment was $298.81. The children's benefit was a flat-rate amount of $218.50 per month, paid out for eligible children under the age of 18. Those aged 18 to 25 must be enrolled in full-time post-secondary education to receive the children's benefit.

Death Benefits

The CPP death benefit is a lump-sum payment that amounts to six times the amount of the deceased contributor's monthly retirement pension, up to a maximum of $2,500. In 2010–11, death benefit payments represented one percent of the total benefits paid out by the CPP. The average payment was $2,272.37.

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 periods 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. Every month 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

Pension sharing allows spouses or common-law partners who are together and receiving their CPP retirement pensions to share those pensions. If only one person is receiving a pension, it can be shared between them. While this does not increase or decrease the overall benefits paid, it may result in tax savings. Each person is responsible for any income tax that may be payable on the pension amount they receive.

Credit Splitting

When a marriage or common-law relationship ends, the CPP credits accumulated by the couple during the time they lived together can be divided equally between them, if requested by or on behalf of either spouse or common-law partner. Such a division is called "credit splitting." Credits can be split even if only one partner paid into the Plan. Credit splitting may increase the amount of CPP benefits payable, or even create eligibility for benefits.

Credit splitting permanently alters the Record of Earnings, even after the death of a former spouse or common-law partner.

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 are requests 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 2010–11, Service Canada issued 11 151 reconsiderations of decisions related to CPP benefits, division of pension credits or pension sharing. There were 4 028 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 hearing nor the decisions are open to the public. In 2010–11, the Office of the Commissioner of Review Tribunals received 4 265 appeals under the CPP and held 3 889 hearings. The tribunal issued 3 857 decisions, of which 1 647 were in favour of the appellants. In addition, 237 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 (PAB). The PAB 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, PAB hearings are held in major centers 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 2010–11, the PAB received 730 requests for "leave to appeal." Eighty-four percent of applications received were granted "leave to proceed to a hearing." In 2010–11, the PAB issued 660 final decisions, of which 399 (60 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, provincial and territorial 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 by the Ministers of Finance.

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 have provided formal consent by the provinces to the federal legislation enacting the changes. Quebec participates in decision making regarding changes to the CPP legislation, even though it administers its own comparable plan. When the CPP/QPP were established, it was considered important that Quebec be involved in changes to the CPP to ensure a high degree of portability of QPP and CPP benefits across Canada.

Triennial Review

The results of the most recent triennial review were announced jointly by federal, provincial and territorial 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 for both older and younger workers in an equitable and affordable way.

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

The changes include the following key elements:

- Starting in 2011 there was a gradual change in the CPP retirement pension adjustment factors for late retirement. This will further increase

the pension for those who start receiving it after age 65. In 2012, there will be a gradual change in the CPP retirement pension adjustment factor for early retirement, which will further reduce the retirement pension for those who start receiving it before age 65. This measure will restore actuarial neutrality to the early and late retirement benefits. The new adjustment factors will be fully phased in by 2016.

- Starting in 2012, the following measures will also take place:
  - the periods 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;
  - with the elimination of the work cessation test, contributors will no longer have to stop working or significantly reduce their earnings to receive their CPP retirement pension; and
  - people under the age of 65 who are receiving CPP/QPP retirement pensions while working must make CPP contributions that will increase their retirement income through the new post-retirement benefit (PRB). Those who are at least 65 but under 70 may elect not to contribute, but should they choose to, their employers will have to do so as well. Anyone who contributes towards a PRB will begin to receive the resulting benefit the following year.

To read the conclusions of the **triennial review**, visit www.fin.gc.ca/n08/09-051-eng.asp

Actuarial Reporting

The *Twenty-fifth Actuarial Report on the Canada Pension Plan* 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 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.

A panel of three independent Canadian actuaries, selected by the United Kingdom Government Actuary's Department (GAD) through an arm's length process, reviewed the *Twenty-fifth Actuarial Report on the Canada Pension*

Plan. The external panel's findings confirm that the work performed by the Office of the Chief Actuary (OCA) on the Report meets all professional standards of practice and statutory requirements, and states that the assumptions and methods used are appropriate and reasonable. In addition to these main conclusions, the panel made a number of recommendations regarding the preparation of future actuarial reports. The recommendations deal with various aspects of the report, including data, methodology, assumptions, communication of results and other actuarial issues. The GAD concluded that the opinions given by the panel adequately addressed all the main issues. As a result, Canadians can have confidence in the results of the *Twenty-fifth Actuarial Report on the Canada Pension Plan* and the conclusions reached by the Chief Actuary about the long-term financial sustainability of the Plan.

To view the CPP's actuarial reviews and studies, visit the Office of the Superintendent of Financial Institutions at www.osfi-bsif.gc.ca.

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 the 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, provincial and territorial 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 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 in previous years 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 not needed to pay benefits in the private markets through the CPP Investment Board (CPPIB) to achieve higher rates of return. A further amendment was included to ensure that any new benefit or increase to benefits provided under the Plan be fully funded. The reform package agreed to by the federal and provincial governments in 1997 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-fifth Actuarial Report on the Canada Pension Plan*, the level of assets under steady-state funding is projected to stabilize at a level of about five years of expenditures. Investment earnings from this pool of assets will 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 on the Canada Pension Plan*; and

- 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 already 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 on the Canada Pension Plan*, 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 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 (2008).*

Financing

According to the Chief Actuary, the annual amount of contributions paid by Canadians into the CPP is expected to exceed the annual amount of benefits paid out up to and including 2020, and negative thereafter. 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 income 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. Although the unfunded liability may be used as a measure of the CPP's financial status, the key 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. The Office of the Chief Actuary (OCA) examined this in the *Twenty-fifth Actuarial Report on the Canada Pension Plan*. In it, the OCA provided comparisons of the assets, actuarial liabilities, resulting unfunded liabilities, and the relative percentages of the assets of the CPP under two methodologies. The first method, referred to as the traditional closed-group approach, reveals that CPP assets represented 14.5 percent of the actuarial liability (with an unfunded liability of $748 billion

as at December 31, 2009). The second method, referred to as the open-group approach, reveals that the CPP assets represented 99.7 percent of the actuarial liability (with an unfunded liability of $6.9 billion as at December 31, 2009). This new open-group measure is viewed by the OCA as being the most appropriate in the context of the CPP and confirms the financial sustainability of the CPP under a 9.9 percent contribution rate. A study, titled *Technical Aspects of the Financing of the Canada Pension Plan: Actuarial Study No. 8*, available on the Office of the Superintendent of Financial Institutions (OSFI) website, presents more details with respect to these financial sustainability measures.

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 maintain it, 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 possibly be suspended until the following triennial review. **By law, any further enhancement of the CPP must be fully funded**. The current triennial review (2010–12) will examine the financial status of the CPP based on the results of the *Twenty-fifth Actuarial Report on the Canada Pension Plan*.

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.

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 *An Act to Amend the Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* (Bill C-3), 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, provincial and territorial 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. The Board 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. The Chief Actuary of Canada conducts a financial review of the CPP every three years. According to his latest triennial review completed in November 2010, the Chief Actuary reaffirmed that the CPP remains sustainable at the current contribution rate of 9.9 percent throughout the 75-year period of his report. The report also indicates that CPP contributions are expected to exceed annual benefits paid until 2020, providing a 10-year period before a portion of the investment income from the CPPIB will be needed to help pay pensions.

*17 million figure includes both the contributors and beneficiaries.

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, 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 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.

For more information on the CPPIB mandate, governance structure and investment policy, visit **www.cppib.ca**.

CPPIB Net Assets

As at March 31, 2011, the CPPIB net assets totalled $148.2 billion. The net investments were valued at $148.3 billion.

Canadian assets represented 48.3 percent of the investment portfolio and totalled $71.7 billion. Foreign assets represented 51.7 percent of the investment portfolio and totalled $76.6 billion.

For the 10-year period ending March 31, 2011, the Fund had an annualized rate of return of 5.9 percent or $51.8 billion of cumulative investment income.

Investing for our Future

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 includes on diversifying the portfolio broadly—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 allocate a portion of its assets in 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. 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 the CPPIB to 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, 2011, was $48,300 (up from $47,200 in 2010). Contributions stop once a contributor reaches the age of 70 or begins to receive a CPP retirement pension or disability benefit. As mentioned previously, this will change in 2012 as a result of the *Economic Recovery Act (stimulus).*

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 met, the CRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit.

There are more than 1.5 million existing employer accounts. In 2010–11, the CRA conducted 49 595 examinations to promote compliance with the requirements to withhold, report and remit employer source deductions. Employers and employees account for approximately 94 percent of contributions and the remaining 6 percent comes from the self-employed. In 2010–11, contributions amounted to $37.1 billion.

Overpayment of Benefits

Consistent with its mandate to manage the CPP effectively, HRSDC has procedures in place to detect benefit overpayments. During 2010–11, overpayments totalling $37 million were detected. Of this amount, $33 million was recovered and debts of $3 million were forgiven. All of the above figures represent a net increase of $1 million in the accounts receivable for the year.

Operating Expenses

In 2010–11, the cost to administer the CPP was approximately $850 million, with HRSDC accounting for the largest portion at $354 million. The CRA required approximately $155 million for services to the CPP; Public Works and Government Services Canada (PWGSC) required some $11 million. OSFI, where the Office of the Chief Actuary is housed, and Finance Canada accounted for about $2 million. The CPPIB reported $328 million in operating expenses.

CPP operating expenses of $850 million in 2010–11 represent 2.69 percent of the $31.6 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 1 presents the CPP's operating expenses for the last two years.

Table 1: CPP Operating Expenses for 2010–11 and 2009–10

Expenses (in $ millions)		
Department/Agency/ Crown Corporation	2010–11	2009–10
HRSDC	354	329
CPPIB	328	236
CRA	155	154
PWGSC	11	13
OSFI/Finance Canada	2	2
Total	850	734

Note: Certain figures above have been rounded.

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 2010–11, 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 2010–11 fiscal year, Service Canada issued personal CPP Statements of Contributions (SOCs) to 85 579 contributors 64 years of age. An additional 7 144 SOCs were sent to contributors 70 years of age and over. The SOCs were accompanied by a letter informing the contributors about the retirement income system in Canada and an application for their CPP retirement pension with a self-addressed return envelope.

Online Service Delivery

Service Canada is implementing and continually improving its self-service Web-based options. Today, clients can make inquiries, conduct online transactions and access more information on CPP benefits, all from one secure site. CPP contributors can also view and print an official copy of their SOCs. The contributors can use this online service to request copies of their SOCs by mail. Further, CPP recipients can view and print copies of their tax slips, as far back as six years plus the current year. These online improvements have led to an increase in the number of Canada Pension Plan retirement applications made online.

Service Canada has responded in the past few years to growing expectations regarding service delivery. **My Service Canada Account** and other self-serve tools have expanded citizens' capacity to find and access information online. **My Service Canada Account** provides a single point of access to view and update information with the CPP program.

Since June 2005, CPP clients can access their personal information securely online. They can view and, if they live in Canada, update mailing addresses, phone numbers and direct deposit information, as well as view their monthly payment amounts.

Service Canada has promoted the use of online services through targeted mailing of promotional inserts in existing mass mailings, promotional messages within standard client correspondence and improved navigation to online services on the Service Canada home page. Seasonal promotional activities are also undertaken where appropriate, such as promoting the online tax slip service during the tax-filing season. A significant increase in the use of online services is anticipated when the next generation of seniors begins to apply for pension benefits.

Processing Benefits

In 2010–11, Service Canada processed close to 285 000 retirement applications, 97 percent of which were paid within the first month of entitlement, exceeding the national objective (see Table 2). During the same period, Service Canada also processed approximately 72 000 CPP Disability initial applications. Decisions were made on 66 percent of all disability initial applications within 120 calendar days of receipt of the completed application. An increased number of applications coupled with a growing complexity of the factors to be considered contributed to the results falling below the national objective. Workload recovery efforts were put in place to improve service levels which will continue into the coming year. With regard to CPP reconsiderations, Service Canada processed slightly more than 11 000 requests.

In terms of disability reconsideration decisions, 69 percent were made within 120 calendar days of receipt of the request—a rate almost at the national objective. A continued strong emphasis on communication with clients and their physicians helped staff make well-informed decisions and CPP disability applicants better understand the reasons for those decisions.

Table 2: Application-processing Statistics

National Measure	National Objective	2010–11 National Result
CPP retirement applications Percentage of benefits paid within the first month of entitlement	**85%**	**97%**
CPP disability (initial decisions) Percentage of initial decisions made within 120 calendar days of receipt of applications	**75%**	**66%**
CPP disability (reconsideration decisions) Percentage of reconsideration decisions made within 120 calendar days of receipt of applications	**70%**	**69%**

Looking to the Future

Information Technology Renewal Delivery Systems

Following the successful implementation of the Information Technology Renewal Delivery Systems (ITRDS) in May 2009 and the decommissioning of the CPP legacy systems, Service Canada continued to optimize the capabilities of the new information technology platform in 2010–11. At the same time, the focus was on preparing for the implementation of Bill C-51 legislative changes (the last CPP Triennial review).

Changes to the CPP arising from the last triennial review are being implemented over a 6-year period that began on January 1, 2011. Communications and marketing information to inform Canadians of the changes, the delivery of training to prepare front-line staff to respond and modifications to the online services and internal systems were completed in advance of the coming into force of the first changes. As well, preparatory work was completed to ensure readiness to implement the remaining legislative changes.

Service Canada is also developing a Service Improvement Strategy for the delivery of the CPP benefits. The strategy is focusing on how best to respond to changing citizens' service expectations, increase efficiencies and reduce costs of delivery, implement legislative changes and enhance program stewardship, accountability and integrity.

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. Enhanced and modernized integrity activities within CPP and OAS are essential to meeting these expectations and ensuring public trust and confidence in effective management of the programs. These integrity activities consist of risk analysis measures to ensure that appropriate and effective controls are in place and to understand the causes of incorrect payments, as well as benefit entitlement reviews and investigations to address situations in which clients are receiving benefits to which they are not entitled. These activities result in the detection and correction of existing overpayments, the reduction of the costs of these programs through the avoidance of future overpayments, and the identification of systemic impediments to clients receiving their correct and full benefit entitlement.

In 2010–11, these CPP integrity activities yielded savings for the federal government and CPP contributors of $60 million which included $9 million in recoverable overpayments and $51 million in avoidance of future overpayments.

Identity management policies, practices and controls, including initiatives such as information-sharing agreements with provincial organizations are integral to the effective administration of the Social Insurance Number and Social Insurance Register. These measures serve to enhance and strengthen the integrity of the Canada Pension Plan program.

DID YOU KNOW...

New penalty provisions allow the Government of Canada to impose financial sanctions on anyone who receives or tries to receive benefits by knowingly making false or misleading statements, or omitting information. A person can come forward and correct inaccurate or incomplete information or disclose information not previously disclosed. A disclosure, if made before any investigation has started, may exempt an individual from penalty and potential prosecution.

Canada Pension Plan
Consolidated Financial Statements
for the year ended March 31, 2011

Canada Pension Plan
Management's Responsibility for Financial Statements

The Consolidated Financial Statements of the Canada Pension Plan have been prepared in accordance with Canadian public sector accounting standards 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.

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

Ian Shugart
Deputy Minister
Human Resources and
Skills Development Canada

Gatineau, Canada
August 31, 2011

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Human Resources and Skills Development

I have audited the accompanying consolidated financial statements of the Canada Pension Plan, which comprise the consolidated statement of financial position as at 31 March 2011, and the consolidated statement of operations, consolidated statement of changes in financial assets available for benefit payments and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Canada Pension Plan as at 31 March 2011, and the results of its operations, changes in its financial assets available for benefit payments, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

John Wiersema, FCA
Interim Auditor General of Canada

31 August 2011
Ottawa, Canada

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

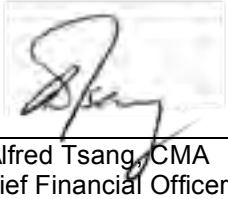
Canada Pension Plan
Consolidated Statement of Financial Position
as at March 31

	2011	2010
	(in millions of dollars)	
Financial assets		
Cash (Note 3)	**34**	180
Receivables (Note 4)	**3,737**	3,989
Investments (Note 6)	**152,933**	130,477
Amounts receivable from pending trades (Note 6)	**1,085**	1,118
	157,789	135,764
Liabilities		
Payables and accrued liabilities (Note 8)	**514**	475
Investment liabilities (Note 6)	**4,046**	2,519
Amounts payable from pending trades (Note 6)	**1,675**	1,391
	6,235	4,385
Financial assets available for benefit payments	**151,554**	131,379
Non-financial assets		
Other assets	**47**	41
Assets available for benefit payments	**151,601**	131,420

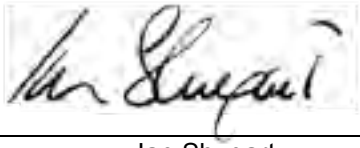
Actuarial obligation in respect of benefits (Note 12)
Commitments (Note 13)
Contingent liabilities (Note 14)

The accompanying notes 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 Operations
for the year ended March 31

	Budget 2011	Actual 2011	Actual 2010
	(Note 9)	(in millions of dollars)	
Revenues			
Contributions	**35,773**	**37,069**	36,276
Net investment income (Note 10)			
Realized gains	**-**	**2,929**	7,393
Unrealized gains	**-**	**9,159**	5,988
Interest income	**-**	**2,246**	1,742
Dividend income	**-**	**1,428**	1,304
Other income	**-**	**471**	406
Transaction costs	**-**	**(173)**	(148)
Investment management fees	**-**	**(500)**	(466)
	7,340	**15,560**	16,219
	43,113	**52,629**	52,495
Expenses			
Pensions and benefits			
Retirement	**23,550**	**23,184**	22,208
Survivor	**3,925**	**3,986**	3,891
Disability	**3,638**	**3,679**	3,513
Disabled contributor's child	**293**	**297**	291
Death	**296**	**269**	287
Orphan	**223**	**218**	222
Net overpayments (Note 4)	**-**	**(35)**	(49)
	31,925	**31,598**	30,363
Operating expenses (Note 11)	**741**	**850**	734
	32,666	**32,448**	31,097
Net increase in assets available for benefit payments	**10,447**	**20,181**	21,398
Assets available for benefit payments, beginning of year	**131,420**	**131,420**	110,022
Assets available for benefit payments, end of year	**141,867**	**151,601**	131,420

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

Canada Pension Plan
Consolidated Statement of Changes in Financial Assets Available for Benefit Payments
for the year ended March 31

	Budget 2011	**Actual 2011**	Actual 2010
	(Note 9)	(in millions of dollars)	
Net increase in assets available for benefit payments	**10,447**	**20,181**	21,398
Changes in other assets	**-**	**(6)**	(3)
Increase in financial assets available for benefit payments	**10,447**	**20,175**	21,395
Financial assets available for benefit payments, beginning of year	**131,379**	**131,379**	109,984
Financial assets available for benefit payments, end of year	**141,826**	**151,554**	131,379

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

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

	2011	2010
	(in millions of dollars)	
Operating activities		
Cash receipts		
Contributions	**37,327**	37,084
Interest on operating balance	**2**	1
Cash payments		
Pensions and benefits	**(31,604)**	(30,365)
Operating expenses	**(796)**	(713)
Cash flows from operating activities	**4,929**	6,007
Financing activities		
Issuance of debt	**10,878**	9,981
Repayment of debt	**(9,777)**	(8,602)
Payment of interest on debt	**(235)**	(71)
Cash flows from financing activities	**866**	1,308
Investing activities		
Dividends on investments	**1,328**	1,206
Interest on investments	**2,722**	2,089
Other investment income	**378**	451
Investment management fees	**(497)**	(435)
Transaction costs	**(166)**	(158)
Purchases		
Equities	**(70,032)**	(63,420)
Inflation-sensitive investments	**(9,422)**	(4,692)
Fixed income investments	**(25,433)**	(20,461)
Money market securities and absolute return strategies	**(591,808)**	(485,209)
Other debts	**(3,712)**	(1,027)
Premises and equipment	**(21)**	(15)
Disposals		
Equities	**67,807**	66,882
Inflation-sensitive investments	**2,864**	1,705
Fixed income investments	**24,456**	11,163
Money market securities and absolute return strategies	**593,900**	484,096
Other debts	**1,695**	595
Cash flows used in investing activities	**(5,941)**	(7,230)
Net (decrease) increase in cash	**(146)**	85
Cash, beginning of year	**180**	95
Cash, end of year	**34**	180

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

Canada Pension Plan
Notes to Consolidated Financial Statements
for the year ended March 31, 2011

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 is administered by the Government of Canada and the participating provinces.

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 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 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) 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 percent 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 percent. The maximum new monthly pension payable at age 65 in 2011 is $960.00 (2010 – $934.17).

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 percent of the earned retirement pension. The maximum new monthly disability benefit in 2011 is $1,153.37 (2010 – $1,126.76).

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 percent 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 percent of the retirement pension granted to the deceased contributor. The maximum new monthly benefit payable to a beneficiary in 2011 is $576.00 (2010 – $560.50).

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 2011 is $218.50 (2010 – $214.85).

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 percent 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 2011 is $2,500 (2010 – $2,500).

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 2011 is 1.7 percent (2010 – 0.4 percent).

2. Significant Accounting Policies

a) Basis of Presentation

These financial statements are presented on a consolidated basis. They include the consolidated statement of financial position, the consolidated statement of operations, the consolidated statement of changes in financial assets available for benefit payments and the consolidated statement of cash flow of the CPP and the CPPIB. These financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

The CPP, which is managed by both 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) 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.

Canada Pension Plan
Notes to Consolidated Financial Statements
for the year ended March 31, 2011

c) 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.

d) 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 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.

e) 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.

f) 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.

g) Securities Purchased under Reverse Repurchase Agreements

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. Reverse repurchase agreements are presented at Note 6 at the amounts at which the securities were initially acquired. Interest earned on reverse repurchase agreements is included in investment income (see Note 10).

h) 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 (see Note 10).

i) Pensions and Benefits

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

j) 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.

k) Net Overpayments

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

l) Operating Expenses

Operating expenses are recorded as incurred.

m) Other claims and legal actions

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 can be made.

n) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian public sector accounting standards (PSAS) 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, actuarial obligation in respect of benefits 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 Generally Accepted Accounting Principals (GAAP) for publicly accountable enterprises, such as the CPPIB, would be replaced with International Financial Reporting Standards (IFRS), effective for interim and annual periods commencing April 1, 2011.

The International Accounting Standards Board (IASB) is considering a proposal for investment companies to be exempt from the requirement to consolidate investments in controlled entities. To allow the IASB time to complete its consolidation project, the AcSB granted investment companies a deferral of two years to convert to IFRS. The CPPIB will continue to measure and report all of its investments at fair value and will defer the adoption of IFRS until April 1, 2013. Until then, CPPIB will continue to follow Canadian GAAP.

The CPPIB has developed an IFRS conversion plan and has identified the major differences between existing Canadian GAAP and IFRS. As IFRS continues to change, the impact these differences will have on CPPIB's operations, financial position and results of operations is not yet determinable. The CPPIB continues to monitor developments and changes to IFRS and is on schedule to meet the timelines established in its IFRS conversion plan.

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.

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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, 2011, the deposit with the Receiver General for Canada in the CPP Account is $23 million (2010 – $175 million) and CPPIB's cash is $11 million (2010 – $5 million) for a total of $34 million (2010 – $180 million).

4. Receivables

Receivables are comprised of the following:

	2011	2010
	(in millions of dollars)	
Contributions	**3,595**	3,854
Régime de rentes du Québec	**104**	96
Beneficiaries		
Balance of pensions and benefits overpayments	**112**	111
Allowance for doubtful accounts	**(74)**	(72)
	3,737	3,989

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 $37 million (2010 – $53 million) were established and debts totalling $3 million (2010 – $3 million) were forgiven as per the remission provisions of the *CPP* Act. A further $33 million (2010 – $37 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 that 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.

Currency Risk: The CPPIB is exposed to currency risk through holdings of investments and/or investment liabilities in various currencies.

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

(in millions of dollars)	**2011**		2010	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
United States Dollar	**42,419**	**54**	35,121	55
Euro	**12,005**	**15**	9,936	15
Japanese Yen	**7,689**	**10**	5,365	8
British Pound Sterling	**4,743**	**6**	4,430	7
Australian Dollar	**4,173**	**5**	2,345	4
Hong Kong Dollar	**1,576**	**2**	1,537	2
Swiss Franc	**834**	**1**	1,432	2
Other	**5,382**	**7**	4,292	7
	78,821	**100**	64,458	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.

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.

(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 6f). The carrying amounts of these investments as presented in Note 6 represent the maximum credit risk exposure at the financial position date.

(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 7) available in the amount of $1.5 billion (2010 – $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 16). 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.

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6. 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. The financial statements of the CPPIB are audited annually by an external firm and are included in their annual report.

The CPPIB's investments are grouped by asset class based on risk/return characteristics of the investment strategies of the underlying portfolios. The investments, before allocating derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they are related, are as follows:

	2011	2010
	(in millions of dollars)	
Equities		
Canada	**10,261**	9,538
Foreign developed markets	**43,691**	39,179
Emerging markets	**6,743**	5,407
Total Equities	**60,695**	54,124
Fixed income		
Bonds	**37,208**	35,649
Other debts	**6,008**	3,526
Money market securities	**17,625**	14,068
Total Fixed income	**60,841**	53,243
Absolute return strategies	**4,464**	2,871
Inflation-sensitive assets		
Private real estate	**12,829**	7,982
Infrastructure	**9,404**	5,821
Inflation-linked bonds	**299**	904
Total Inflation-sensitive assets	**22,532**	14,707
Investment receivables		
Securities purchased under reverse repurchase agreements	**2,500**	4,000
Accrued interest	**657**	594
Derivatives receivables	**1,117**	760
Dividends receivables	**127**	178
Total Investment receivables	**4,401**	5,532
Total Investments	**152,933**	130,477
Investment liabilities		
Debt financing liabilities	**(1,394)**	(1,303)
Debt on private real estate properties	**(1,969)**	(947)
Derivatives liabilities	**(683)**	(269)
Total Investment liabilities	**(4,046)**	(2,519)
Amounts receivable from pending trades	**1,085**	1,118
Amounts payable from pending trades	**(1,675)**	(1,391)
Net Investments	**148,297**	127,685

a) Equities

Equities consist of public and private investments in each of these three markets: Canadian, foreign developed and emerging.

(i) Public equity investments are made directly or through funds. As at March 31, 2011, public equities include fund investments with a fair value of $2,665 million (2010 – $2,631 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, 2011, private equities include direct investments with a fair value of $5,565 million (2010 – $3,997 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.

(ii) Other debt instrument consists of investments in distressed mortgage and private debt funds and direct investments in private debt.

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.

d) Inflation-sensitive Assets

(i) The CPPIB obtains exposure to real estate through direct investments in privately held real estate and real estate funds.

Private real estate investments are held by wholly-owned subsidiaries and are managed on behalf of the CPPIB by investment managers through primarily co-ownership arrangements. As at March 31, 2011, the subsidiary's share of these investments includes assets of $12,829 million (2010 – $7,982 million) and $1,969 million of secured debt (2010 – $947 million). The terms to maturity of the secured debt principal repayments vary from less than a year to more than ten years.

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(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, 2011, infrastructure includes direct investments with a fair value of $7,899 million (2010 – $4,395 million).

e) Securities Purchased under Reverse Repurchase Agreements

The terms to maturity of the securities purchased under reverse repurchase agreements as at March 31, 2011 were all less than a year.

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. The CPPIB uses different types of derivative instruments, which include equity contracts, foreign exchange contracts, interest rate contracts and credit contracts.

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 Financial Position. 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 schedule of investments included above.

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.

g) Debt Financing Liabilities

The terms to maturity of the undiscounted principal repayments of the debt financing liabilities as at March 31, 2011, are: $857 million (less than 30 days, 2010 – $779 million), $478 million (from 1 to 3 months, 2010 – $333 million) and $61 million (from 3 to 6 months, 2010 – $191 million).

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:

	2011	2010
	(in millions of dollars)	
Fixed income securities held as collateral on reverse repurchase agreements[1]	**2,561**	4,088
Securities held as collateral on over-the-counter derivative transactions[1]	**135**	-
Cash held as collateral on over-the-counter derivative transactions	**-**	68
Securities pledged as collateral on guarantees (see Note 14c)	**(132)**	(120)
	2,564	4,036

[1] The total fair value of the collateral held that may be sold or repledged as at March 31, 2011, is $2,588 million (2010 – $3,923 million). The fair value of the securities collateral sold or repledged as at March 31, 2011, is $nil (2010 — $nil).

7. Credit Facilities

The CPPIB maintains $1.5 billion (2010 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2011, the total amount drawn on the credit facilities is $nil (2010 – $nil).

8. Payables and Accrued Liabilities

Payables and accrued liabilities are comprised of the following:

	2011	2010
	(in millions of dollars)	
Operating expenses	**170**	131
Pensions and benefits payable	**221**	224
Tax deductions due to Canada Revenue Agency	**123**	120
	514	475

9. Comparison of Results against Budget

The budget amounts included in the Consolidated Statement of Operations and the Consolidated Statement of Change in Financial Assets Available for Benefit Payments are derived from the amounts that were originally budgeted in the Human Resources and Skills Development Canada *2010–2011 Report on Plans and Priorities*, tabled in Parliament in March 2010 and amounts forecasted by the Office of the Superintendent of Financial Institutions.

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10. Net Investment Income

Net investment income is reported net of transaction costs and investment management fees and is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios.

Net investment income, after giving effect to derivative contracts and investment receivables and liabilities for the year ended March 31, is as follows:

	2011					
(in millions of dollars)	Investment Income (Loss)[1]	Net Gain on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities						
Canada	270	3,369	3,639	(19)	(14)	3,606
Foreign developed markets	946	4,658	5,604	(245)	(26)	5,333
Emerging markets	133	654	787	(29)	(4)	754
	1,349	8,681	10,030	(293)	(44)	9,693
Fixed income						
Bonds	1,415	145	1,560	-	-	1,560
Other debt	240	506	746	(15)	(5)	726
Money market securities[5]	145	1,004	1,149	(109)	(37)	1,003
Debt financing liabilities	(10)	-	(10)	-	-	(10)
	1,790	1,655	3,445	(124)	(42)	3,279
Inflation-sensitive assets						
Private real estate	473	894	1,367	(77)	(58)	1,232
Infrastructure	378	659	1,037	(6)	(29)	1,002
Inflation-linked bonds	153	199	352	-	-	352
	1,004	1,752	2,756	(83)	(87)	2,586
Interest on operating balance	2	-	2	-	-	2
	4,145	12,088	16,233	(500)	(173)	15,560

	2010					
(in millions of dollars)	Investment Income (Loss)[1]	Net Gain (Loss) on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities						
Canada	208	5,807	6,015	(18)	(23)	5,974
Foreign developed markets	884	4,960	5,844	(257)	(56)	5,531
Emerging markets	116	1,984	2,100	(28)	(2)	2,070
	1,208	12,751	13,959	(303)	(81)	13,575
Fixed income						
Bonds	1,320	84	1,404	-	-	1,404
Other debt	124	1,337	1,461	(13)	(1)	1,447
Money market securities[5]	108	385	493	(84)	(7)	402
Debt financing liabilities	(2)	-	(2)	-	-	(2)
	1,550	1,806	3,356	(97)	(8)	3,251
Inflation-sensitive assets						
Public real estate	7	95	102	-	(1)	101
Private real estate	406	(1,141)	(735)	(60)	(27)	(822)
Infrastructure	267	(512)	(245)	(6)	(31)	(282)
Inflation-linked bonds	13	382	395	-	-	395
	693	(1,176)	(483)	(66)	(59)	(608)
Interest on operating balance	1	-	1	-	-	1
	3,452	13,381	16,833	(466)	(148)	16,219

1 Includes interest income, dividends, private real estate operating income (net of interest expense) and interest expense on the debt financing liabilities.
2 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.
3 Includes foreign exchange losses of $1,403 million (2010 – $10,052 million).
4 Includes net unrealized gains of $1,307 million (2010 – unrealized losses of $1,257 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.
5 Includes absolute return strategies.

11. Operating Expenses

	2011	2010
	(in millions of dollars)	
General operating expenses	**349**	321
Salaries and benefits	**470**	393
Professional and consulting fees	**31**	20
	850	734

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12. Actuarial obligation in respect of benefits

The CPP is financed by contributions and investment returns. Employers and employees pay contributions equally to the CPP, at a combined rate of 9.9 percent of pensionable earnings, and self-employed workers pay the full amount.

The CPP is managed by both the federal and provincial ministers of finance. The Plan's financial state is reviewed by these ministers every three years, following the receipt of an actuarial valuation report prepared by the Chief Actuary, at which time recommendations can be made as to whether benefits and/or contribution rates should be changed. Actuarial valuation determines the minimum contribution rate, which is the lowest rate sufficient to sustain the Plan. In the event that the projected minimum contribution rate is greater than the legislated contribution rate and no recommendations are made by the federal and provincial finance ministers, the insufficient rates provision in the *CPP* Act applies. This provision would increase the contribution rate for employees, employers and self-employed persons automatically and require the non-indexation of current benefits.

The CPP was initially designed to be financed on a pay-as-you-go basis with a small reserve equivalent to about two years worth of expenditures. This means that the pensions and benefits for one generation would be paid largely from the contributions of later generations. However, in the following three decades since inception, demographics and economic developments, such as lower birth rates, increased life expectancies and lower real wage growth, as well as changes in benefits and an increase in disability claims, led to significantly higher Plan costs.

A major reform of the CPP was undertaken in 1997. The reform package agreed to by the federal and provincial finance ministers included amendments that were put into effect in 1998 to make the CPP financially sustainable by:

- increasing contribution rates over the short term to achieve steady-state funding (i.e. to build a reserve of assets and stabilize the ratio of assets to the following year's expenditures over time);
- reducing the growth of benefits over the long term;
- investing cash flows in the private markets through the establishment of the CPPIB to achieve maximum rate of return without undue risk of loss, and
- introducing incremental full funding for the CPP, such that any new or increased benefits provided under the Plan must be fully funded.

As a result of the 1997 reform, the CPP is considered to be partially funded and operating on a "steady-state" basis i.e. the lowest contribution rate that generally stabilizes the ratio of assets to expenditures over the long term with full funding for new or enhanced benefits. These funding objectives improve fairness and equity across generations and ensure the financial long-term sustainability of the Plan.

The *CPP* Act stipulates that an actuarial report shall be prepared every three years for purposes of the review of the CPP's financial state by the Minister of Finance and his provincial counterparts. The most recent triennial report, the *Twenty-Fifth Actuarial Report* on the CPP as at December 31, 2009, was tabled in Parliament on November 15, 2010. The next triennial actuarial report as at December 31, 2012, is expected to be tabled by December 2013.

In the *Twenty-Fifth Actuarial Report*, the minimum contribution rate required to fund both the steady-state funding (at 9.84 percent) and the incremental full funding (at 0.02 percent before 2023 and 0.01 percent for 2023 and thereafter), was determined to be 9.86 percent of pensionable earnings before 2023 and 9.85 percent from 2023 onward. This report confirms that, on the basis of the assumptions selected, the current legislated combined employer-employee contribution rate of 9.9 percent is and will continue to be sufficient to pay for future expenditures and to accumulate assets worth $275.1 billion (i.e. 4.7 times the following year's annual expenditures) until 2020 when a portion of investment income will be used to pay for

benefits. By 2050, 29 percent of investment income will be required to pay for benefits that exceed contributions.

A number of assumptions were used in the *Twenty-Fifth Actuarial Report* for the projections of the Plan's revenue and expenditures over the long projection period of 75 years. These assumptions are actuarial best estimates relating to demographic, economic and other factors such as the ones shown in the table below:

	As at 31 December 2009		**As at 31 December 2006**	
	Males	Females	Males	Females
Canadian life expectancy				
at birth in 2010 (2006 – in 2007)	85.4 years	88.3 years	84.5 years	87.7 years
at age 65 in 2010 (2006 – in 2007)	20.2 years	22.6 years	19.3 years	22.0 years
Retirement rates for cohort at age 60	38% (2016+)	41% (2016+)	40% (2009+)	45% (2009+)
CPP disability incidence rates (per 1,000 eligible)	3.3 (2015+)	3.6 (2015+)	3.1 (2011+)	3.5 (2011+)
Total fertility rate	1.65 (2015+)		1.6 (2010+)	
Net migration rate	0.58% of population for 2023+		0.54% of population for 2020+	
Participation rate (age group 15-69)	75.2% (2030+)		74.2% (2030+)	
Employment rate (age group 15-69)	70.6% (2030+)		69.9% (2030+)	
Unemployment rate	6.1% (2022+)		6.3% (2006+)	
Rate of increase in prices	2.3% (2019+)		2.5% (2016+)	
Real-wage differential	1.3% (2019+)		1.3% (2015+)	
Real rate of return	4.0% (2017+)		4.2% (2016+)	

An independent panel of qualified actuaries reviewed the *Twenty-Fifth Actuarial Report* on the CPP, confirming that the work was performed in accordance with professional standards of practice and that the actuarial methods and assumptions used were reasonable.

A variety of tests were performed to measure the sensitivity of the long-term projected financial position of the Plan to future changes in the demographic and economic environments. Key best-estimate assumptions were varied individually to measure the potential impact on the financial status of the Plan. These tests show that the minimum contribution rate could deviate significantly from its best-estimate of 9.85 percent if other than best-estimate assumptions were to materialize.

The *Twenty-Fifth Actuarial Report* measures the actuarial obligation under two different methodologies, a closed group approach and an open group approach. The closed group includes only current participants of the Plan, with no new entrants permitted and no new benefits accrued. The open group approach, introduced for the first time in the *Twenty-Fifth Actuarial Report* for the CPP, takes into consideration all current and future participants of the Plan, including their future contributions and associated benefits, to determine whether current assets and future contributions will be sufficient to pay for all future expenditures.

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The CPP was never intended to be a fully-funded plan. With the current legislated combined contribution rate of 9.9 percent, the table below presents the unfunded obligation and the assets to actuarial obligation ratio under these two methodologies at valuation dates of the current and last actuarial reports:

(in billions of dollars)	Open Group	Closed Group	Closed Group
	As at December 31, 2009		As at December 31, 2006
Actuarial obligation	1,995.0	874.8	733.5
Assets available for benefit payments	1,988.1	126.8	113.6
Unfunded obligation	6.9	748.0	619.9
Assets to actuarial obligation ratio	99.7%	14.5%	15.5%

According to the *Twenty-Fifth Actuarial Report*, although the relative size of the unfunded obligation under the closed group may be used as a measure of the Plan's financial status, the key financial measure for evaluating the sustainability of the Plan is the adequacy and stability of the steady-state contribution rate over time. Due to the CPP's long-term and enduring nature, if the Plan's sustainability is to be measured based on its unfunded obligation, the open group approach that includes both future contributions and future benefits with respect to both current and future participants provides the more appropriate assessment of the Plan's financial status. Using the open group approach, the Chief Actuary confirms that the Plan is and will continue, on the basis of the assumptions selected, to meet its financial obligations and is sustainable over the 75-year projection period.

The assets available for benefit payments consist of the deposit with the Receiver General for Canada and investments held by the CPPIB. These assets represent funds accumulated for the payment of pensions, benefits and operating expenses. As at March 31, 2011, the value of the Plan's assets available for benefit payments is $151.6 billion (2010 – $131.4 billion). This amount represents approximately 4.6 times the 2012 planned total pension and benefit expenses of $33.2 billion (2010 – 4.2 times). According to the *Twenty-Fifth Actuarial Report*, the ratio of assets to the following year's expenditures is expected to be at 4.7 times by 2020 and 5.2 times by 2050.

13. Commitments

The CPPIB has committed to enter into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at March 31, 2011, the commitments total $16.3 billion (2010 – $18.0 billion).

As at March 31, 2011, the CPPIB has made lease and other commitments of $37.7 million (2010 – $39.5 million) that will be paid over the next seven years.

14. Contingent Liabilities

a) Appeals relating to the payment of pensions and benefits

At March 31, 2011, there were 9 204 (7 449 in 2010) appeals relating to the payment of CPP disability benefits. These contingencies are reasonably estimated, using historical information, at an amount of $73 million ($72 million in 2010), which was recorded as an accrued liability in the CPP 2010–11 financial statements.

b) Other claims and legal proceedings

In the normal course of operations, the CPP is involved in various claims and legal proceedings.

In 2004, medical adjudicators (MAs) filed human rights complaints with the Canadian Human Rights Commission (CHRC) alleging gender discrimination. The complaint was upheld and, in May 2009, the Canadian Human Rights Tribunal (CHRT) ordered that the discriminatory practice be redressed. It also found that the MAs had not established that they had suffered lost wages as a result of the discriminatory practice.

The complainants and the CHRC challenged the CHRT's decision on the lost wages and pain and suffering. The application was allowed by the Federal Court, which set aside the CHRT's decision on compensation for lost wages and compensation for pain and suffering and referred these matters back to a new panel of the CHRT for redetermination.

While the total amount claimed in these actions may be material, their outcomes are not determinable. As such, no allowance was recognized in the financial statements for the 2010–11 and 2009–10 fiscal years for these claims and legal proceedings.

c) Guarantees

As part of certain investment transactions, CPPIB has agreed to guarantee, as at March 31, 2011, up to $0.6 billion (2010 – $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.

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

As stated in Note 4, the CPP has $3,595 million (2010 – $3,854 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.

Canada Pension Plan
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for the year ended March 31, 2011

Transactions for the year

	2011	2010
	(in millions of dollars)	
Pension and benefit delivery, accommodation and corporate services		
Human Resources and Skills Development Canada	**354**	329
Collection of contributions and investigation services		
Canada Revenue Agency and Royal Canadian Mounted Police	**155**	154
Cheque issue and computer services		
Public Works and Government Services Canada	**11**	13
Actuarial services		
Office of the Superintendent of Financial Institutions and Department of Finance	**2**	2
	522	498

16. Supplementary Information

The administration of the CPP's assets and activities is shared between various Government of Canada (GoC) departments and the CPPIB. The CPPIB is responsible for investing the majority of the CPP's assets, while the 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.

	2011			2010		
(in millions of dollars)	**GoC**	**CPPIB**	**Total**	GoC	CPPIB	Total
Financial assets	**3,760**	**154,029**	**157,789**	4,164	131,600	135,764
Non-financial assets	**-**	**47**	**47**	-	41	41
Liabilities	**355**	**5,880**	**6,235**	374	4,011	4,385
Assets available for benefit payments	**3,405**	**148,196**	**151,601**	3,790	127,630	131,420
Income						
Contributions	**37,069**	**-**	**37,069**	36,276	-	36,276
Investment income	**2**	**15,558**	**15,560**	1	16,218	16,219
	37,071	**15,558**	**52,629**	36,277	16,218	52,495
Expenses						
Pensions and benefits	**31,598**	**-**	**31,598**	30,363	-	30,363
Operating expenses	**522**	**328**	**850**	498	236	734
	32,120	**328**	**32,448**	30,861	236	31,097
Increase in assets available for benefit payments	**4,951**	**15,230**	**20,181**	5,416	15,982	21,398

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, 2011, a total of $30.9 billion was transferred to the CPPIB and a total of $25.5 billion was returned to the CPP to meet its liquidity requirements.

Activities during the year

	2011	2010
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB, beginning of year	**212,512**	182,204
Transfers of funds to CPPIB	**30,851**	30,308
Accumulated transfers to CPPIB, end of year	**243,363**	212,512
Accumulated transfers from CPPIB, beginning of year	**(109,443)**	(85,282)
Transfers of funds from CPPIB	**(25,515)**	(24,161)
Accumulated transfers from CPPIB, end of year	**(134,958)**	(109,443)
Net accumulated transfers to CPPIB	**108,405**	103,069

17. Comparative Information

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