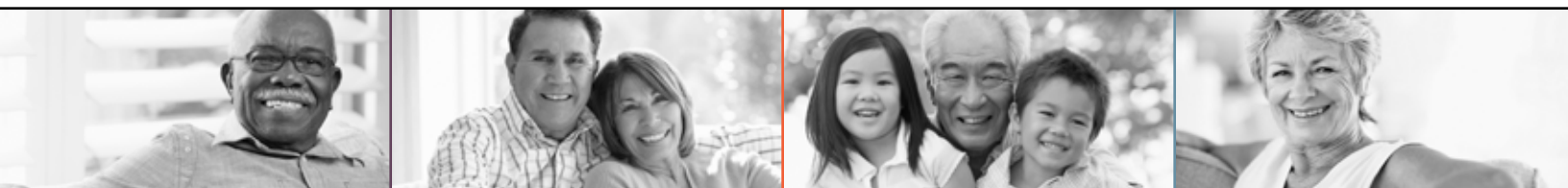




Government  
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du Canada



# 2012-2013

## Annual Report of the Canada Pension Plan

Canada

# Annual Report of the Canada Pension Plan 2012–2013

## Fiscal Year 2012–2013

ISSD-126-12-13E

Employment and Social Development Canada (ESDC\*) is responsible for the administration of the Canada Pension Plan (CPP). This report is produced by ESDC, 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 CPP in general, please visit [www.hrsdc.gc.ca](http://www.hrsdc.gc.ca) or call (free of charge from Canada and the United States):

**1-800-277-9914 (English)**

**1-800-277-9915 (French)**

**1-800-255-4786 (TTY)**

The report is also available online in printable format at [www.hrsdc.gc.ca](http://www.hrsdc.gc.ca).

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\* As of July 2013, the official names of the minister and department responsible for the Canada Pension Plan (CPP) are the Minister of Employment and Social Development and Minister for Multiculturalism, and Employment and Social Development Canada (ESDC).

The previous name of the department responsible for the CPP, Human Resources and Skills Development Canada (HRSDC), is used in this report in a historical context only.



Government  
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His Excellency  
The Governor General of Canada

May it please Your Excellency:

We have the pleasure of submitting the *Annual Report of the Canada Pension Plan* for the fiscal year 2012-2013.

Respectfully,

James M. Flaherty  
Minister of Finance

Jason Kenney  
Minister of Employment and  
Social Development



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## 2012-13 at a Glance

- The maximum pensionable earnings of the Canada Pension Plan (CPP) increased from **\$50,100** in 2012 to **\$51,100** for 2013. The contribution rate remained unchanged at **9.9 percent**.
- **5 million** beneficiaries received **5.9 million** benefits each month from the CPP, with a total annual value of **\$35.6 billion**.
- **4.2 million** CPP retirement benefits were paid each month, totalling **\$26.6 billion** annually.
- Benefits for **1 055 000** surviving spouses or common-law partners and **71 000** children of deceased contributors were paid each month, totalling **\$4.4 billion** annually.
- Benefits for **330 000** people with disabilities and **86 000** of their children were paid each month, totalling **\$4.3 billion** annually.
- **138 000** death benefits were paid annually, totalling **\$0.3 billion**.
- More than **450 000** post-retirement benefits were paid each month in early 2013, totalling **\$10 million**.
- Operating expenses amounted to **\$1.076 billion**, or **3.02 percent** of the **\$35.6 billion** in benefits. This compares favourably with operating expenses for other large pension plans.
- As at March 31, 2013, total CPP Investment Board net assets were valued at **\$183.3 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.

# Canada Pension Plan in Brief

If you have worked at 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).

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](http://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.

Individuals start contributing to the Plan at age 18, or from the Plan's beginning in 1966, whichever is later. The first \$3,500 of annual earnings are exempted from contributions. Contributions are then made on earnings between \$3,500 and \$51,100, which is the ceiling for 2013.

Employees contribute at a rate of 4.95 percent and employers match that with an equal contribution. Self-employed individuals contribute at the combined rate for employees and employers of 9.9 percent on net business income, after expenses.

While many Canadians associate the CPP with retirement pensions, the CPP also provides disability, death, survivor, children's and post-retirement 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. With the exception of the post-retirement benefit, benefits are not paid automatically—everyone must apply.

### CALCULATION OF CONTRIBUTIONS AND BENEFITS FOR 2013

Year's maximum pensionable earnings	\$51,100.00
Year's basic exemption	\$3,500.00
Year's maximum employee/employer contribution (4.95%)	\$2,356.20
Year's maximum self-employed person's contribution (9.9%)	\$4,712.40



# Benefits and Expenditures

Given the aging of our population, the number of people receiving CPP benefits has increased steadily over the past decade. As a result, expenditures have also increased. Figure 1 shows the yearly increases in benefits and expenditures during 2012–13; Figure 2 shows the percentage of expenditures by type of benefit.

## Retirement Pensions

To be eligible for a retirement pension, the applicant must have made at least one valid contribution to the Plan and reached the age of 60.

Retirement pensions represent nearly 75 percent of the total benefit amount paid out by the CPP in 2012–13. The amount of contributors' pensions depends on how much and for how long they have contributed and at what age they begin to receive the benefits. In 2013, the maximum monthly retirement pension was \$1,012.50, and the average payment in 2012–13 was \$527.56

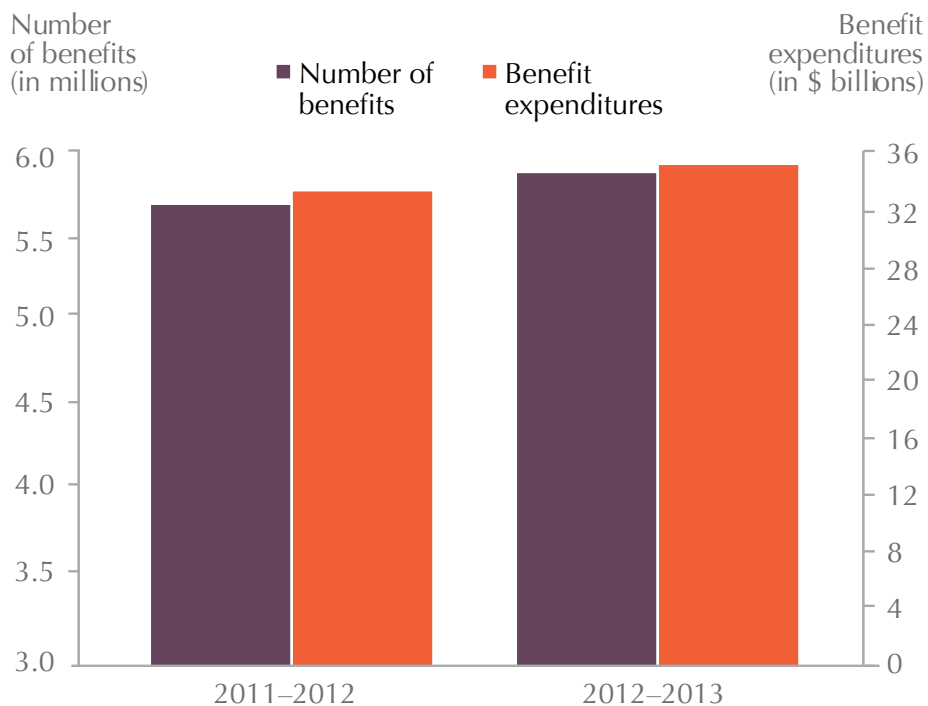
Canadians are living longer and healthier lives, and the transition from work to retirement is increasingly diverse. The CPP offers flexibility for both older workers and their employers with respect to the age of retirement. Contributors can begin receiving the CPP retirement pension as early as age 60. The monthly payment is reduced if it begins before age 65, and increased if it begins after age 65 up to age 70.

## Adjustments for Early and Late Receipt of a Retirement Pension

CPP contributors can choose the right time for their retirement based on their individual circumstances and needs. Contributors have the flexibility to take their retirement pension earlier or later than the normal age of 65. In order to ensure fair treatment of contributors and beneficiaries, those who take their retirement pension after age 65 receive a higher amount. This adjustment reflects the fact that these beneficiaries will, on average, receive their benefit for a shorter period of time. Conversely, those who take their retirement pension before age 65 receive a reduced amount, reflecting the fact that they will, on average, receive their benefit for a longer period of time.

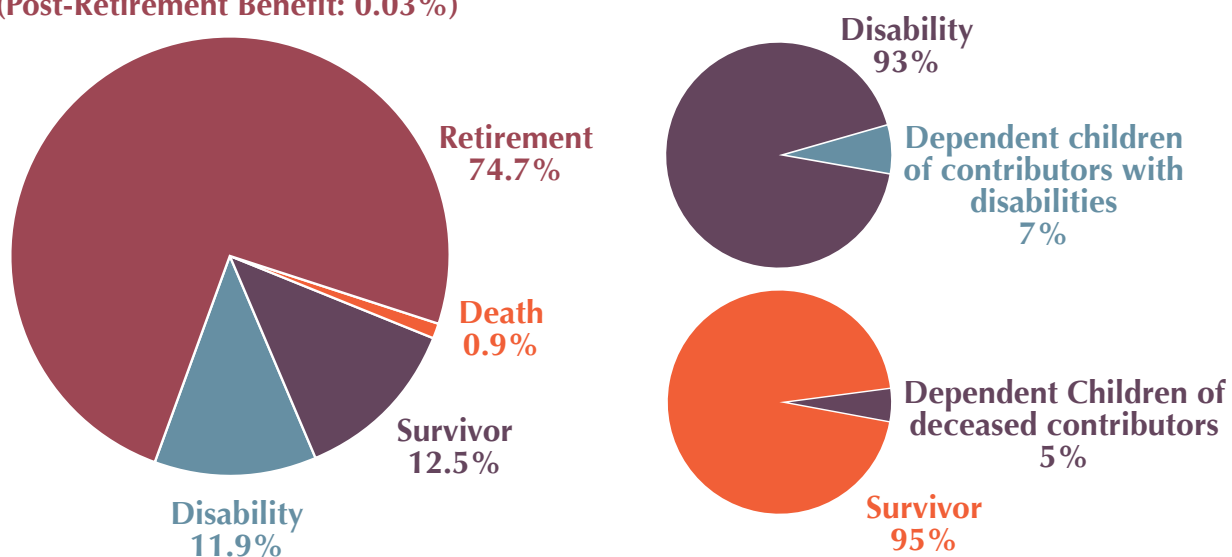
Since 2011, a gradual change in these adjustment factors has been occurring. By 2016, the adjustment factors will have reached their actuarially fair levels. The new factors will ensure that, on average, payments of retirement pensions are the same over time regardless of when individuals choose to begin their pensions.

**Figure 1: CPP – Benefits and Expenditures by Fiscal Year**



**Figure 2: CPP – Percentage of Expenditures by Benefit Type 2012-2013**

(Post-Retirement Benefit: 0.03%)



#### **Retirement pension taken before age 65:**

In 2012, the adjustment factor for early retirement began to increase. In 2012, those who started receiving their retirement pension before age 65 had the amount permanently reduced by 0.52 percent per month. The maximum reduction was 31.2 percent for those who took their retirement pension when they turned 60. In 2013, this adjustment factor is 0.54 percent per month. By 2016 it will be 0.6 percent per month, which means that a contributor who starts receiving a retirement pension at age 60 will receive 36 percent less than if it were taken at age 65.

#### **Retirement pension taken after age 65:**

In 2011, the adjustment factor for late retirement began to increase. In 2012, those who started receiving their retirement pension after age 65 had the amount permanently increased by 0.64 percent per month. In 2013 onward, the adjustment factor is 0.7 percent per month, which means that a contributor who delays receiving a retirement pension until age 70 will receive 42 percent more than if it were taken at age 65.



## Post-Retirement Benefits

The post-retirement benefit is a new CPP benefit that is payable for life. It allows CPP retirement pension beneficiaries who keep working to increase their retirement income by continuing to participate in the CPP.

Canadians working outside of Quebec who receive a CPP or QPP retirement pension began making CPP contributions toward the post-retirement benefit on January 1, 2012. These contributions are mandatory for recipients of CPP or QPP retirement pensions who are working and who are under 65 years of age. Recipients of CPP and QPP retirement pensions who are between ages 65 and 70 can choose not to contribute. No contributions are made after age 70. Contributions toward the post-retirement benefit do not create eligibility for or increase the amount of other CPP benefits. Payment of the benefit started in 2013. The maximum benefit amount for 2013 was \$25.31 per month.

## Disability Benefits

Disability benefits provide basic earnings replacement to CPP contributors who cannot work due to a severe and prolonged disability. A contributor is deemed disabled if he or she suffers from a physical or mental condition that is severe and prolonged. Dependent children of disabled beneficiaries may also be eligible for children's benefits.

In 2012–13, disability benefits were paid to 330 000 beneficiaries and to 86 000 children of beneficiaries. Disability benefits represented 12 percent of the total benefits paid out by the CPP in 2012–13.

The disability benefit includes a monthly flat rate, which was \$453.52 in 2013. It also includes an earnings-related portion, which is 75 percent of the retirement benefit that would have been earned had the contributor not become disabled. In 2013, the maximum disability benefit was \$1,212.90 per month. The average payment in 2012–13 was \$845.82.

The benefit paid to dependent children of disabled beneficiaries is a flat rate. In 2013, the amount was \$228.66 per month. To be eligible, children must be either under age 18, or between ages 18 and 25 and in full-time attendance at school or university.

## Survivor Benefits

Survivor benefits are paid to the surviving spouse or common-law partner of the contributor and his or her dependent children. The benefit amount 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 2013, there were over 1 million survivors receiving benefits. In 2012–13, survivor benefits represented nearly 13 percent of the total benefits paid out by the CPP.

The maximum survivor's pension for those under age 65 was \$556.64 per month in 2013. This includes a flat-rate portion of \$176.95 and an earnings-related portion, which is 37.5 percent of the deceased contributor's retirement pension. The maximum amount at age 65 and over was \$607.50, consisting of 60 percent of the deceased contributor's retirement pension. For 2012–13, the average payment for all survivor benefits was \$324.40.

The benefit paid to dependent children of deceased contributors is a flat rate. In 2013, the amount was \$228.66 per month. To be eligible, children must be either under age 18, or between ages 18 and 25 and in full-time attendance at school or university.

## 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 2012–13, death benefit payments represented less than one percent of the total benefits paid out by the CPP. The average payment was \$2,281.06.

## Provisions

The CPP includes provisions that help to compensate for periods when individuals may have relatively low or no earnings. Dropping low or zero earnings from the calculation of average earnings increases the amount of one's CPP benefit.

### General Drop-out

The general drop-out provision helps to offset periods of low or no earnings due to unemployment, schooling or other reasons. For benefits starting in 2012 or 2013, 16 percent, or up to 7.5 years, of lowest earnings can be dropped. In 2014, this will be raised to 17 percent.



### 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.

Until the child reaches seven years of age, every month following the birth of the child can be excluded from the benefit calculation, provided the contributor meets all criteria, including low or no earnings. It may also assist in meeting contributory requirements.

### Disability Exclusion

Periods during which individuals are disabled in accordance with the CPP or QPP legislation are not included in their contributory period. This ensures that individuals who are not able to pursue any substantially gainful work are not penalized.

### Over-65 Drop-out

This provision may help those who continue to work and contribute to the CPP after age 65. It allows periods of relatively low earnings before age 65 to be replaced by higher earnings after age 65.

### Features

The CPP also includes many progressive features that recognize family and individual circumstances. These features include pension sharing, credit splitting, portability and indexation.

### Pension Sharing

Pension sharing allows spouses or common-law partners who are together and receiving their CPP retirement pensions to share a portion of each other's pensions. If only one person is receiving a pension, it can be shared between them. The amount that is shared depends on the time the couple has lived together and their joint CPP contributory period. Pension sharing affords a measure of financial protection to the lower-earning spouse or common-law partner. Also, while it does not increase or decrease the overall pension amount 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. This 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.

### Portability

No matter how many times workers change jobs, and no matter which province they work in, CPP and QPP protection remains uninterrupted.

### Indexation

CPP payments are indexed to the cost of living. Benefit amounts are adjusted in January of each year to reflect increases in the Consumer Price Index published by Statistics Canada. This is particularly valuable given the increasing life expectancy of Canadians. While many Canadians will live longer than expected, the value of CPP benefits is protected against inflation.





# Reconsideration and Appeals Process

Clients who are not satisfied with an initial decision on their CPP application may ask the Minister of Employment and Social Development to reconsider, or administratively review, the decision. The majority of reconsideration requests pertain to disability benefit applications.

In 2012–13, Service Canada issued approximately 16 500 reconsiderations of decisions related to CPP benefits, division of pension credits and pension sharing. Of these, approximately 5 300 reconsidered decisions were issued in favour of clients.

Clients who are not satisfied with the Minister's reconsidered decision may appeal. Prior to April 1, 2013, the first level of appeal was to a Review Tribunal, and the second level of appeal was to the Pension Appeals Board.

On April 1, 2013, the Review Tribunal and the Pension Appeals Board were replaced by the newly-formed Social Security Tribunal.

## Prior to April 1, 2013: Review Tribunal and Pension Appeals Board

The Review Tribunal was an administrative tribunal that operated at arm's length from the government. It was composed 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 were held in over 110 locations across Canada. Clients could appear on their own behalf or with representation, while a Service Canada representative would appear on behalf of the Minister. Both the hearings and the decisions were private. In 2012–13, the Office of the Commissioner of Review Tribunals received 5 297 CPP appeals and held 3 201 hearings. Tribunals issued 3 116 decisions, of which 1 183 were in favour of the client. In addition, 622 cases were resolved as a result of settlements.

If either a client or the Minister was not satisfied with a Review Tribunal decision, they could request "leave to appeal" (or permission for a hearing) to the Pension Appeals Board (PAB). The PAB was an arm's length administrative tribunal whose members were judges or former judges of provincial superior courts or federal courts. PAB hearings were held in major centres across Canada. Clients could appear on their own behalf or with representation, while the Minister was represented by a lawyer. Both the hearings and the decisions were publicly accessible.

In 2012–13, the PAB received 645 requests for leave to appeal, of which 63 percent were granted leave to proceed to a hearing. In 2012–13, the PAB issued 915 final decisions, of which 504 (or 55 percent) were decided in favour of the client.

Decisions of the PAB could be brought before the Federal Courts for judicial review.

### After April 1, 2013: Social Security Tribunal

The March 2012 Budget announced that the four existing federal social security administrative tribunals—the Review Tribunal, the PAB, the Employment Insurance Board of Referees and the Office of the Umpire—would be replaced with a single-window decision body called the Social Security Tribunal (SST). The SST would continue to provide a fair, credible and accessible appeals process, while also reducing the cost of appeals.

As of April 1, 2013, all CPP appeals for which the Tax Court of Canada does not have jurisdiction are submitted to the SST. Appeals that were filed with the Review Tribunal and PAB but not heard as of April 1, 2013, were also transferred to the SST.

Like the Review Tribunal and the PAB, the SST is an independent administrative tribunal that makes decisions at arm's length from the Minister. All decisions are made by a single Tribunal member appointed by the Governor-in-Council. Hearings may be held by way of written submissions, or by appearance of the parties via telecommunication or in person.

The SST is composed of two levels of appeal: a General Division and an Appeal Division. Clients who are not satisfied with a reconsidered decision made by the Minister may file an appeal with the General Division, where the matter will be heard completely anew and new information can be submitted.

If either a client or the Minister is not satisfied with the decision made by the General Division, they may request leave to appeal to the Appeal Division. The Appeal Division must grant leave to appeal in order for the appeal to proceed. The appeal is limited to issues of fairness or jurisdiction, and errors in law or fact, and new information cannot be submitted.

Decisions of the Appeal Division can be brought before the Federal Courts for judicial review.



# Ensuring Financial Sustainability

As joint stewards of the CPP, the federal and provincial Ministers of Finance review the CPP's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. They base their recommendations on a number of factors, including the results of an examination of the CPP by the Chief Actuary. The Chief Actuary is required under the legislation to produce an actuarial report on the CPP every three years (in the first year of the legislated ministerial triennial review of the Plan). The CPP legislation also provides that, upon request of the Minister of Finance, the Chief Actuary prepares an actuarial report any time a bill is introduced in the House of Commons 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 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 the provinces. The changes come into force only after a notice period, 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 and 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 (2010–2012) Triennial Review by the federal, provincial and territorial Ministers of Finance were announced as part of the 2012 federal Budget: *Jobs, Growth and Long-term Prosperity – Economic Action Plan 2012*, which was tabled before Parliament on March 29, 2012. The review confirmed the financial sustainability of the CPP over the long term at the current contribution rate of 9.9 percent. Canadians can count on the CPP to be there for them when they retire. The finance ministers also agreed to several technical amendments to the CPP legislation and CPP Investment Board regulations. The technical amendments include legislative changes required to modernize the CPP as part of the previous 2007–2009 Triennial Review. The technical amendments will not change the level of CPP benefits or the contribution rate.

To read the conclusions of the 2010–2012 Triennial Review in Economic Action Plan 2012, visit:  
[www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf](http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf)

## Modernization of the CPP

Changes were made to the CPP to modernize the Plan. These changes resulted from the 2007–2009 Triennial Review and formed part of the *Economic Recovery Act (stimulus)*, Chapter 31, Statutes of Canada, 2009, which received Royal Assent on December 15, 2009.

The changes, which are described in more detail under Benefits and Expenditures, include the following:

- The CPP retirement pension adjustment factors for early and late retirement are gradually being changed for those who begin receiving their pension before or after age 65. All changes will be implemented by 2016.
- By 2014, the periods of low earnings that can be excluded from the retirement benefit calculation will be increased by up to one year.
- In 2012, the work cessation test was eliminated.
- The new post-retirement benefit was introduced for people contributing to the CPP while in receipt of a CPP/QPP retirement pension. The first post-retirement benefits were paid in 2013.

To read more about the recent amendments to the CPP, visit:  
[www.servicecanada.gc.ca/eng/isp/pub/factsheets/posttrtrben.shtml](http://www.servicecanada.gc.ca/eng/isp/pub/factsheets/posttrtrben.shtml)

## 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 of December 31, 2009, and takes into account the recent changes to modernize the Plan, 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 confirmed that the work performed by the Office of the Chief Actuary (OCA) on the Report met all professional standards of practice and statutory requirements, and stated that the assumptions and methods used were 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 dealt 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.

The 26<sup>th</sup> Actuarial Report on the Canada Pension Plan, which reports on the financial status of the Plan as of December 31, 2012, is due by the end of December 2013.

To view the CPP's actuarial reviews and studies, visit the Office of the Superintendent of Financial Institutions website at [www.osfi-bsif.gc.ca](http://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 and 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 made 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), in order to achieve higher rates of return. A further amendment was included to ensure that any increase in benefits or new benefits provided under the CPP would 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. According to 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 equal to 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*.
- The introduction of incremental full funding. This means that changes to the CPP that increase or add new benefits will be fully funded. In other words, benefit costs are paid as the benefit is earned and any costs associated with benefits that are already earned and



not paid for are 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 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 financial projections of the *Twenty-fifth Actuarial Report on the Canada Pension Plan*, 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 to be less than the amount of benefits 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, as baby boomers continue to retire and benefits paid 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 the Report, the OCA provided comparisons of the assets, actuarial liabilities, resulting unfunded liabilities and the relative percentages of the assets of the CPP under two methods. The first method, referred to as the closed group method, which considers only current participants and is consistent with how pension plans are valued in the private sector, 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 method, which considers the benefits and contributions of both current and future plan participants and is consistent with the partial funding approach of the CPP, reveals that CPP assets represented 99.7 percent of the actuarial liability (with an unfunded liability of \$6.9 billion) as at December 31, 2009.

The 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 *Measuring the Financial Sustainability of the Canada Pension Plan: Actuarial Study No. 10*, is available on the Office of the Superintendent of Financial Institutions (OSFI) website at: [www.osfi-bsif.gc.ca/eng/docs/cppas10.pdf](http://www.osfi-bsif.gc.ca/eng/docs/cppas10.pdf)

If, at any time, the legislated contribution rate is lower than the minimum contribution rate, and if the Ministers of Finance do not recommend either increasing the legislated rate or maintaining 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 next triennial review in 2013–15 will examine the financial status of the CPP based on the results of the next triennial actuarial report.



# 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 operating expenditures). The CPP Account also records the amounts transferred to, or received from, the CPP Investment Board. 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 CPP Investment Board (CPPIB) invests funds not required by the CPP to pay current benefits. Operating at arm's length from the federal government, the CPPIB 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 CPPIB 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 released 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 Chief Actuary's report also indicates that CPP contributions are expected to exceed annual benefits paid until 2021, when a portion of the investment income from CPPIB will be needed to help pay benefits.

The Chief Actuary is currently undertaking a triennial review of the CPP as at December 31, 2012, and is expected to release his report in the fall of 2013.

### **CPP Assets and Cash Management**

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

The CPP administration 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 administration 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](http://www.cppib.ca).

### **CPP Fund Net Assets held by CPPIB**

As at March 31, 2013, the CPP Fund net assets totalled \$183.3 billion.

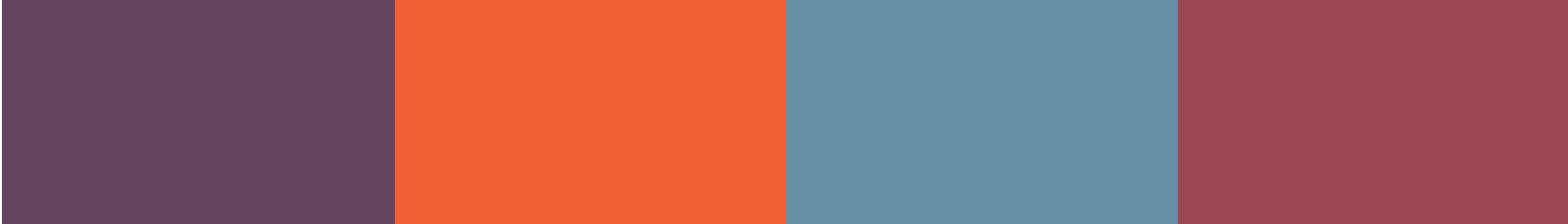
Canadian assets represented 36.7 percent of the investment portfolio and totalled \$67.4 billion. Foreign assets represented 63.3 percent of the investment portfolio and totalled \$116.1 billion.

For the 10-year period ending March 31, 2013, the Fund had an annualized rate of return of 7.4 percent or \$77.2 billion in 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 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, real estate, infrastructure and fixed income instruments.



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 real assets such as real estate—which includes retail, commercial and multi-family properties—and infrastructure.

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 since adopting its active management strategy in 2006.

## **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.



## International Agreements

Many individuals have lived and worked in Canada and in other countries.

Canada has entered into social security agreements with other countries to help people in Canada and abroad to qualify for CPP benefits and pensions from partner countries to which they would otherwise not be entitled. Further, social security agreements enable Canadian companies and their employees who are sent to work temporarily outside the country to maintain their CPP coverage and eliminate the need to contribute to the social security program of the other country for the same work.

As of March 31, 2013, Canada has social security agreements in force with 53 countries. In addition, three agreements have been signed and will enter into force once Canada and those countries have completed their respective legal procedures. Negotiations towards agreements are ongoing with many other countries. The names of countries with which Canada has concluded social security agreements are listed on the following page.



**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	Lithuania	November 1, 2006
Australia	September 1, 1989	Luxembourg	April 1, 1990
Austria	November 1, 1987	Malta	March 1, 1992
Barbados	January 1, 1986	Mexico	May 1, 1996
Belgium	January 1, 1987	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
Latvia	November 1, 2006		
In addition, social security agreements have been signed with Brazil, Bulgaria and India. They will enter into force once Canada and each of these countries have completed their respective legal procedures.			
** 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.			



# Managing the CPP

## Collecting and Recording Contributions

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.

As of April 30, 2013, there were 1 692 335 existing employer accounts. In 2012–13, the CRA conducted 47 720 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 2012–13, contributions amounted to \$41.7 billion.

## Overpayment of Benefits

Consistent with its mandate to manage the CPP effectively, ESDC has procedures in place to detect benefit overpayments. During 2012–13, overpayments totalling \$58 million were detected. During the year, a total of \$34 million in overpayments were recovered and debts of \$6 million were forgiven. All of the above figures represent a net increase of \$18 million in the accounts receivable for the year.

## Operating Expenses

In 2012–13, the cost to administer the CPP was approximately \$1.076 billion, with ESDC accounting for \$405 million. The CRA required approximately \$169 million for services to the CPP; Public Works and Government Services Canada (PWGSC) required some \$10 million. The OSFI, where the Office of the Chief Actuary is housed, and Finance Canada accounted for about \$2 million. The CPPIB reported \$490 million in operating expenses.

CPP operating expenses of \$1.076 billion in 2012–13 represent 3.02 percent of the \$35.6 billion in benefits paid. This ratio compares very favourably with that of other pension plans. In 2011–12, the operating expenses charged by ESDC were higher than the normal level due to a one-time settlement of legal proceedings of \$169 million. Therefore, the decrease of

29 percent (\$162 million) of the operating expenses charged by ESDC for 2012–13 compared to last year is due to the one-time settlement in the prior year, and a slight increase in the normal operation expenses during the year. Table 1 presents the CPP's operating expenses for the last two years.

**Table 1: CPP Operating Expenses for 2012–13 and 2011–12**

DEPARTMENT/AGENCY/CROWN CORPORATION	In millions of dollars	
	2012–13	2011–12
ESDC	405	567
CPPIB	490	440
CRA	169	159
PWGSC	10	12
OSFI/Finance Canada	2	2
<b>Total</b>	<b>1,076</b>	<b>1,180</b>



# 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 2012–13, Service Canada continued its efforts to ensure that eligible Canadians are 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.

In addition, the post-retirement benefit was incorporated into the Canadian Retirement Income Calculator to help Canadians better understand how contributions to this new benefit will further support their financial security in retirement. Individuals began making contributions towards the post-retirement benefit in January 2012, and the benefit is payable effective January 2013.

For more information on the post-retirement benefit visit:  
[https://srv111.services.gc.ca/\(mejits2loppk24qetgf0vnmm\)/INT\\_01.aspx](https://srv111.services.gc.ca/(mejits2loppk24qetgf0vnmm)/INT_01.aspx)

## Online Service Delivery

Service Canada is continually improving its self-service web-based options. Today, clients can use the internet to make inquiries, apply for a CPP retirement pension, conduct transactions and access other information on CPP benefits. CPP contributors can also view and print an official copy of their Statement of Contributions (SOC). 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 for the current year and the previous six years. 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 for users to view and update their information with the CPP program.

Since June 2005, CPP clients have been able to 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 benefits.

## Processing Benefits

In 2012–13, Service Canada processed approximately 312 000 applications for retirement benefits, and 95 percent of these benefits were paid within the first month of entitlement, exceeding the national objective (see Table 2).

During the same period, Service Canada also processed approximately 74 000 initial applications for disability benefits. Decisions were made on 80 percent of these initial applications within 120 calendar days of receipt of the completed application.

With regard to disability benefit reconsiderations, Service Canada processed approximately 14 000 requests. Eighty-four percent of all reconsideration decisions were made within 120 calendar days of receipt of the request.

The 2012–13 national results for disability benefits represent a significant improvement compared to 2011–12, where the targets were missed. These results reflect the Department's workload recovery efforts that focused on improving service levels and reducing average processing times.

A continued strong emphasis on communication with clients and their physicians helped Service Canada staff make well-informed decisions and helped disability applicants better understand the reasons for those decisions.

**Table 2: Application-processing Statistics**

NATIONAL MEASURE	NATIONAL OBJECTIVE	2012–13 NATIONAL RESULT
<b>CPP retirement applications</b> Percentage of benefits paid within the first month of entitlement	90%	95%
<b>CPP disability (initial decisions)</b> Percentage of initial decisions made within 120 calendar days of receipt of applications	75%	80%
<b>CPP disability (reconsideration decisions)</b> Percentage of reconsideration decisions made within 120 calendar days of receipt of applications	70%	84%

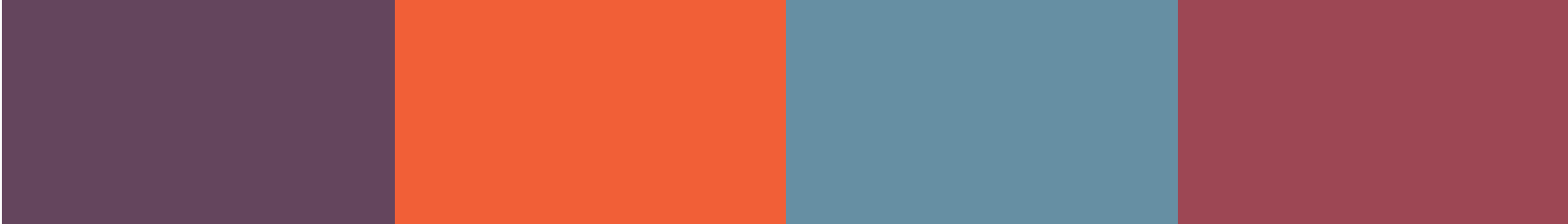
### Ensuring Program Integrity

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 in responding to the changing needs of Canadians and their families. Within this context, ESDC continues to embrace innovative ways to ensure and maintain the integrity of the CPP program.

To ensure the accuracy of benefit payments, the security and privacy of personal information and the overall quality of service, ESDC continues 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 be delivered to the right person, for the right amount, for the intended purpose and at the right time—is a cornerstone of ESDC’s service commitment. Enhanced and modernized integrity-related activities within the CPP program are essential to meeting these expectations and ensuring the public’s trust and confidence in the effective management of this program.



These activities consist of risk-analysis measures, which ensure that appropriate and effective controls are in place and that the causes of incorrect payments are understood. Integrity-related activities also include reviews of benefit entitlements and investigations to address situations in which clients are receiving benefits to which they are not entitled.

Integrity-related activities also detect and correct existing incorrect payments, reduce program costs by avoiding incorrect payments in future and identify systemic impediments to clients receiving their correct and full benefit entitlement.

As part of its efforts to address overpayment situations, ESDC has a program-integrity function that investigates suspected client error and fraud. By recovering overpayments and avoiding future incorrect payments, these integrity activities resulted in \$7.6 million in accounts receivables as overpayments and prevented an estimated \$7.5 million from being incorrectly paid in 2012–13. A further estimated \$63.6 million has been prevented from being incorrectly paid for future years after 2012–13. The recovered overpayments are credited to the CPP, thereby enhancing the long-run sustainability of the Plan.

In 2011, ESDC adopted the Identity Management Policy Suite, which aims to enhance program integrity while safeguarding and streamlining identity management processes in a manner that mitigates risks to personal and organizational security, and enables well-managed citizen-centered service delivery.

This Identity Management Policy Framework provides guiding principles for ESDC organizations delivering services, benefits or programs, including the CPP. It assists them in the implementation of sound identity management practices across multiple service delivery channels (in-person, phone, mail and online).

The Identity Management Policy Suite will also help reduce costs, inefficiencies and the risk of errors, as well as improve the service experience for CPP clients. The mitigation of risks associated with false or inaccurate claims regarding the true identity of an individual or an organization is fundamental to the integrity of the CPP program.



## Looking to the Future

Since it began in 1966, the CPP has continually adapted to social and economic changes in order to respond to the evolving needs of Canadians. The Plan will continue to do so in the future. The measures to modernize the CPP that were contained in the 2009 *Economic Recovery Act (stimulus)* will be fully implemented by 2016. In the 2013–2015 Triennial Review of the CPP, federal and provincial Ministers of Finance will again review the CPP's financial state and determine whether changes are required to benefits and/or contribution rates.

Given the increasing CPP workload volumes and changing service expectations of Canadians, Service Canada is developing a service improvement strategy for the CPP, in order to improve service and generate administrative efficiencies. The strategy will leverage work undertaken as part of government-wide reviews and will propose to remove ink-based signature requirements for the CPP to enable fully automated processing of CPP retirement applications.



# Canada Pension Plan

Consolidated Financial Statements for the  
year ended March 31, 2013


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

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The consolidated financial statements of the Canada Pension Plan are prepared in accordance with Canadian public sector accounting standards by the management of Human Resources and Skills Development Canada. 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 significant accounting policies are identified in Note 2 to the financial statements. The financial information presented throughout the Annual Report is consistent with the financial statements.


To fulfill its accounting and reporting responsibilities, management has developed and maintains books of account, financial and management controls, information systems and management practices. These systems are designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Canada Pension Plan* the *Canada Pension Plan Investment Board Act* and the *Financial Administration Act* and their accompanying regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, conducts an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provides a report to the Minister of Employment and Social Development.



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Alain P. Séguin, MBA, CPA, CGA  
Chief Financial Officer  
Human Resources and  
Skills Development Canada



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Ian Shugart  
Deputy Minister  
Human Resources and  
Skills Development Canada

Gatineau, Canada  
August 28, 2013





## INDEPENDENT AUDITOR'S REPORT

To the Minister of Employment and Social 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 2013, 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.

.../2

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 2013, 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.

A handwritten signature in black ink, appearing to read "Michael Ferguson".

Michael Ferguson, CPA, CA  
FCA (New Brunswick)  
Auditor General of Canada

28 August 2013  
Ottawa, Canada



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

	2013	2012
	(in millions of dollars)	
<b>Financial assets</b>		
Cash (Note 3)	92	151
Receivables (Note 4)	4,999	4,764
Investments (Note 6)	208,971	176,038
Amounts receivable from pending trades (Note 6)	2,580	2,052
	<b>216,642</b>	183,005
<b>Liabilities</b>		
Payables and accrued liabilities (Note 8)	910	786
Investment liabilities (Note 6)	24,301	13,695
Amounts payable from pending trades (Note 6)	3,779	2,587
	<b>28,990</b>	17,068
<b>Financial assets available for benefit payments</b>	<b>187,652</b>	165,937
<b>Non-financial assets</b>		
Other assets	72	59
<b>Assets available for benefit payments</b>	<b>187,724</b>	165,996

Actuarial obligation in respect of benefits (Note 13)  
Contractual Obligations (Note 14)  
Contingent liabilities (Note 15)

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

Approved by:



Alain P. Séguin, MBA, CPA, CGA  
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 2013 (Note 9)	Actual 2013 (in millions of dollars)	Actual 2012
<b>Revenues</b>			
Contributions	40,154	<b>41,655</b>	38,925
Net investment income (Note 10)			
Realized gains	-	<b>4,406</b>	2,163
Unrealized gains	-	<b>8,003</b>	3,449
Interest income	-	<b>2,582</b>	2,675
Dividend income	-	<b>1,722</b>	1,792
Other income	-	<b>985</b>	737
Transaction costs	-	<b>(177)</b>	(228)
Investment management fees	-	<b>(782)</b>	(650)
	8,609	<b>16,739</b>	9,938
	48,763	<b>58,394</b>	48,863
<b>Expenses</b>			
Pensions and benefits			
Retirement	26,349	<b>26,624</b>	24,527
Survivor	4,208	<b>4,221</b>	4,093
Disability	3,998	<b>3,948</b>	3,888
Disabled contributor's child	312	<b>305</b>	303
Death	310	<b>313</b>	296
Orphan	237	<b>221</b>	218
Post-Retirement	-	<b>10</b>	-
Net overpayments (Note 4)	-	<b>(52)</b>	(37)
	35,414	<b>35,590</b>	33,288
Operating expenses (Note 12)	953	<b>1,076</b>	1,180
	36,367	<b>36,666</b>	34,468
Net increase in assets available for benefit payments	12,396	<b>21,728</b>	14,395
<b>Assets available for benefit payments, beginning of year</b>	165,996	<b>165,996</b>	151,601
<b>Assets available for benefit payments, end of year</b>	178,392	<b>187,724</b>	165,996

*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

	<b>Budget 2013</b>	<b>Actual 2013</b>	Actual 2012
	(Note 9)	(in millions of dollars)	
Net increase in assets available for benefit payments	12,396	<b>21,728</b>	14,395
Changes in other assets	-	<b>(13)</b>	(12)
Increase in financial assets available for benefit payments	12,396	<b>21,715</b>	14,383
<b>Financial assets available for benefit payments, beginning of year</b>	165,937	<b>165,937</b>	151,554
<b>Financial assets available for benefit payments, end of year</b>	178,333	<b>187,652</b>	165,937

*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

	2013	2012
	(in millions of dollars)	
<b>Operating activities</b>		
<b>Cash receipts</b>		
Contributions	41,428	37,900
Interest on operating balance	3	2
<b>Cash payments</b>		
Pensions and benefits	(35,633)	(33,262)
Operating expenses	(891)	(922)
<b>Cash flows from operating activities</b>	<b>4,907</b>	<b>3,718</b>
<b>Financing activities</b>		
Issuance of debt	38,480	11,857
Repayment of debt	(31,394)	(10,997)
Payment of interest on debt	(71)	(347)
<b>Cash flows from financing activities</b>	<b>7,015</b>	<b>513</b>
<b>Investing activities</b>		
Dividends on investments	1,627	1,656
Interest on investments	2,449	3,121
Other investment income	818	644
Investment management fees	(442)	(638)
Transaction costs	(181)	(218)
<b>Purchases</b>		
Equities	(113,201)	(76,759)
Real Assets	(3,990)	(6,161)
Bonds & Inflation-linked bonds	(138,111)	(42,657)
Money market securities and absolute return strategies	(1,504,954)	(877,524)
Other debts	(7,681)	(8,894)
Premises and equipment	(39)	(27)
<b>Disposals</b>		
Equities	108,950	77,709
Real Assets	951	1,793
Bonds & Inflation-linked bonds	130,840	44,759
Money market securities and absolute return strategies	1,505,552	876,061
Other debts	5,431	3,021
<b>Cash flows used in investing activities</b>	<b>(11,981)</b>	<b>(4,114)</b>
<b>Net increase (decrease) in cash</b>	<b>(59)</b>	<b>117</b>
<b>Cash, beginning of year</b>	<b>151</b>	<b>34</b>
<b>Cash, end of year</b>	<b>92</b>	<b>151</b>

*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, 2013

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### 1. Authority, Objective and Responsibilities

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

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965. The CPP 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 (RRQ), a comparable program. The CPP'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 Minister of Employment and Social Development is responsible for the administration of the CPP, under the legislation *Canada Pension Plan*; 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*. It acts in the best interests of the beneficiaries and contributors under the Act.

In accordance with the *Canada Pension Plan*, the financial activities of the CPP are recorded in the CPP Account (Note 3). The financial transactions affecting the Account are governed by the *Canada Pension Plan* and its regulations. The CPP's investments are held by the CPPIB. The Canada Pension Plan Investment Board (CPPIB) was established pursuant to the *Canada Pension Plan Investment Board Act (CPPIB 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 CPPIB's transactions are governed by the *CPPIB 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. The financial statements of the CPPIB are audited annually by an external firm and are included in its annual report.

As stated in the *Canada Pension Plan* and *CPPIB Act*, 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 CPP contributors 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 is reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. The maximum new monthly pension payable at age 65 in 2013 is \$1,012.50 (2012 – \$986.67).

## Canada Pension Plan

### Notes to Consolidated Financial Statements

for the year ended March 31, 2013

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**Post-Retirement benefits** – A post-retirement benefit (PRB) pension is payable to each retirement pension recipient who has continued to work and has made contributions to the PRB while between the ages of 60 and 70, according to provisions of Bill C-51 of 2009. The PRB payments to eligible contributors came into effect on January 1<sup>st</sup>, 2013. The maximum monthly PRB in 2013 is \$25.31.

**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 2013 is \$1,212.90 (2012 – \$1,185.50).

**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 2013 is \$607.50 (2012 – \$592.00).

**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 2013 is \$228.66 (2012 – \$224.62).

**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 2013 is \$2,500 (2012 – \$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 2013 is 1.8 percent (2012 – 2.8 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 consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

## **Canada Pension Plan**

### **Notes to Consolidated Financial Statements**

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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, pricing models and other accepted industry valuation methods.

#### **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.

Following the legislative change brought by the Bill C-51 of 2009, CPP contributions toward the new PRB are being collected. As of January 1, 2012, Canadians working outside of Quebec who receive CPP or RRQ retirement benefits began making contributions to the PRB. Contributions are mandatory for CPP or RRQ retirement pension recipients aged 60-65. Those between the ages of 65-70 can choose not to contribute. The PRB becomes payable the year after contributions are made.

#### **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 right 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, other 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 and Sold under 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.

Securities sold under repurchase agreements are accounted for as collateralized borrowing because they represent the sale of securities effected with a simultaneous agreement to buy them back at a specified price



## **Canada Pension Plan**

### **Notes to Consolidated Financial Statements**

for the year ended March 31, 2013

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at a specified future date. The securities sold continue to be recognized as an investment of the CPP, through CPPIB, with any changes in fair value recorded as net gain (loss) on investments (see note 10).

Reverse repurchase and repurchase agreements are carried on the schedule of investments (see note 6) at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is included in investment income (see note 10).

#### ***h) Securities Sold Short***

Securities sold short represent securities that are sold, but not owned, by the CPP, through the CPPIB. The CPP, through the CPPIB, has an obligation to cover these short positions, which are accounted for as an investment liability based on the fair value of the securities sold. Collateral is pledged to the counterparty, when appropriate (see note 6i). Interest and dividend expense on securities sold short are included in investment income (see note 10).

#### ***i) Translation of Foreign Currencies***

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

#### ***j) Pensions and Benefits***

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

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

Tax deductions due to CRA consist primarily of voluntary and non-resident taxes withheld from pensions and benefit payments to CPP beneficiaries (see note 8).

#### ***l) Net Overpayments***

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

#### ***m) Operating Expenses***

Operating expenses are recorded as incurred.

#### ***n) 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.

#### ***o) Measurement Uncertainty***

The preparation of consolidated financial statements in accordance with 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 revenues 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.

# Canada Pension Plan

## Notes to Consolidated Financial Statements

for the year ended March 31, 2013

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### ***p) Future Changes in Accounting Standards***

#### **Financial Instruments**

The Public Sector Accounting Board (PSAB) has recently issued new sections that are required to be applied concurrently to fiscal years beginning on or after April 1, 2015. The CPP is currently analyzing the impact of these new standards on its consolidated financial statements:

##### **(i) Financial Instruments**

The new section 3450 (financial instruments) establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Items within the scope of the section are assigned to one of two measurement categories: fair value, cost or amortized cost. Fair value measurement will apply to portfolio investments in equity instruments that are quoted in an active market. Other financial assets and financial liabilities will generally be measured at cost or amortized cost, unless the entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, then the entity may include those items in the fair value category. Until an item is derecognized, gains and losses arising as a result of fair value remeasurement will be reported in the Consolidated Statement of Remeasurement Gains and Losses.

##### **(ii) Foreign Currency Translation**

The revised section 2601 (foreign currency translation) requires that remeasurement gains and losses on foreign currency translation be reported in a new Consolidated Statement of Remeasurement Gains and Losses until such time as the financial instrument is derecognized, at which point, the accumulated remeasurement gain and loss is recognized in the Consolidated Statement of Operations.

##### **(iii) Financial Statement Presentation**

The revised section 1201 (financial statements presentation) establishes the general principles and information standards applicable to consolidated financial statements. It requires that remeasurement gains and losses be reported in a new statement. Also, the assets available for benefit payments will be presented as the total of the net increase in assets available for benefit payments for the year and the accumulated remeasurement gains and losses.

#### **International Financial Reporting Standards**

The CPPIB, which is a significant component of the CPP consolidated financial statements, is set to transition to International Financial Reporting Standards (IFRS) for the fiscal year starting April 1, 2014. Any adjustments made by CPPIB in its financial statements upon transition to IFRS will need to be analyzed by the CPP to determine whether or not a PSAS conforming adjustment is necessary.

### **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 *Canada Pension Plan* to record the contributions, interest, pensions, benefits and operating expenses of the CPP. It also records the amounts transferred to or received from the CPPIB. As at March 31, 2013, the deposit with the Receiver General for Canada in the CPP Account is \$68 million (2012 – \$138 million) and CPPIB's cash is \$24 million (2012 – \$13 million) for a total of \$92 million (2012 – \$151 million).

**Canada Pension Plan**  
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#### 4. Receivables

Receivables are comprised of the following:

	2013	2012
	(in millions of dollars)	
Contributions	4,847	4,620
Régime de rentes du Québec	106	109
Beneficiaries		
Balance of pensions and benefits overpayments	134	116
Allowance for doubtful accounts	(88)	(81)
	4,999	4,764

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 \$58 million (2012 – \$41 million) were established and debts totalling \$6 million (2012 – \$4 million) were forgiven as per the remission provisions of the *Canada Pension Plan*. A further \$34 million (2012 – \$33 million) was recovered through collection of payments and withholdings from beneficiaries.

#### 5. Investment Activities Risk Management

The CPP, through the investment activities carried out by CPPIB, is exposed to a variety of financial risks as a result of its investment activities. These risks include 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 and 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. It 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.

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

- (i) **Market Risk:** Market risk (including currency risk, interest rate risk and other 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 or investment liabilities in various currencies.

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

(in millions of dollars)		2013		2012	
Currency	Net Exposure	% of Total	Net Exposure	% of Total	
United States Dollar	62,098	57	55,090	56	
Euro	14,985	14	13,413	14	
British Pound Sterling	8,184	8	8,933	9	
Australian Dollar	5,671	5	4,689	5	
Japanese Yen	5,330	5	4,166	4	
Hong Kong Dollar	2,581	2	2,326	2	
Swiss Franc	1,251	1	969	1	
Chilean Pesos	1,206	1	-	-	
Brazilian Real	854	1	613	1	
Other	6,733	6	7,387	8	
	108,893	100	97,586	100	

**Interest Rate Risk:** Interest rate risk is the risk that the fair value or future cash flows of an investment or investment related liability will fluctuate because of changes in market interest rates.

**Other Price Risk:** Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices arising primarily from equity price risk, commodity price risk and credit spread 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 through 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 balance sheet 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 manages liquidity risk through its ability to raise funds through the issuance of commercial paper, transacting in securities sold under repurchase agreements and drawing on unsecured credit facilities (see note 6 and 7). The CPPIB also has 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 17). In order to manage liquidity risk associated with this short-term cash management program, certain assets are segregated and managed separately. 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.

**Canada Pension Plan**  
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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 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:

	2013	2012
	(in millions of dollars)	
<b>Equities</b>		
Canada	7,039	7,246
Foreign developed markets	64,486	52,684
Emerging markets	10,313	9,582
<b>Total Equities</b>	<b>81,838</b>	<b>69,512</b>
<b>Fixed income</b>		
Bonds	52,331	40,899
Inflation-linked bonds	424	1,050
Other debts	10,215	9,263
Money market securities	19,991	18,347
<b>Total Fixed income</b>	<b>82,961</b>	<b>69,559</b>
<b>Absolute return strategies</b>	<b>9,028</b>	<b>6,915</b>
<b>Real assets</b>		
Private real estate	21,840	18,996
Infrastructure	11,069	9,427
<b>Total Real assets</b>	<b>32,909</b>	<b>28,423</b>
<b>Investment receivables</b>		
Securities purchased under reverse repurchase agreements	630	-
Accrued interest	725	578
Derivatives receivables	742	880
Dividends receivables	138	171
<b>Total Investment receivables</b>	<b>2,235</b>	<b>1,629</b>
<b>Total Investments</b>	<b>208,971</b>	<b>176,038</b>
<b>Investment liabilities</b>		
Securities sold under reverse repurchase agreements	(2,180)	-
Securities sold short	(9,715)	(8,596)
Debt financing liabilities	(9,543)	(2,408)
Debt on private real estate properties	(1,918)	(1,880)
Derivatives liabilities	(945)	(811)
<b>Total Investment liabilities</b>	<b>(24,301)</b>	<b>(13,695)</b>
Amounts receivable from pending trades	2,580	2,052
Amounts payable from pending trades	(3,779)	(2,587)
<b>Net Investments</b>	<b>183,471</b>	<b>161,808</b>

## **Canada Pension Plan**

### **Notes to Consolidated Financial Statements**

for the year ended March 31, 2013

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#### **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, 2013, public equities include fund investments with a fair value of \$3,657 million (2012 – \$2,811 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, 2013, private equities include direct investments with a fair value of \$9,803 million (2012 – \$6,676 million).

#### **b) Fixed Income**

- (i) Bonds consist of non-marketable and 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 its 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 more 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 subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

- (ii) Other debt consists of investments in direct private debt, asset-backed securities, intellectual property, royalties, distressed mortgage funds and private debt funds.

#### **c) Absolute Return Strategies**

Absolute return strategies consist of investments in funds and internally managed portfolios 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 and the internally managed portfolios could include, but are not limited to, equities, fixed income securities and derivatives.

#### **d) Real 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 managed on behalf of the CPPIB by investment managers primarily through co-ownership arrangements. As at March 31, 2013, these investments include assets of \$21,840 million (2012 - \$18,996 million) and \$1,918 million of secured debt (2012 - \$1,880 million). The terms to maturity of the undiscounted principal repayments of the secured debt vary from less than a year to more than ten years.

## Canada Pension Plan

### Notes to Consolidated Financial Statements

for the year ended March 31, 2013

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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, 2013, infrastructure includes direct investments with a fair value of \$10,883 million (2012 – \$9,116 million).

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

The terms to maturity of the securities purchased under reverse repurchase agreements, as at March 31, 2013, are as follows: within 1 month, \$630 million (2012 - \$nil); 1 month to 1 year, \$nil (2012 - \$nil).

The terms to maturity of the securities sold under repurchase agreements, as at March 31, 2013, are as follows: within 1 month, \$2,180 million (2012 - \$nil); 1 month to 1 year, \$nil (2012 - \$nil).

#### **f) Derivative Contracts**

A derivative contract 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 negotiated in over-the-counter markets. The CPPIB uses different types of derivative instruments, which include equity, foreign exchange, interest rate, credit, commodity and other derivative 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 as shown 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) Securities Sold Short**

As at March 31, 2013, securities sold short of \$9,715 million (2012 - \$8,596 million) are considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.

#### **h) Debt Financing Liabilities**

The terms to maturity of the undiscounted principal repayments of the debt financing liabilities as at March 31, 2013, are as follows: within 1 month, \$3,387 million (2012 - \$1,189 million), 1 month to 6 months \$4,410 million (2012 - \$909 million) and 7 months to 1 year, \$1,754 million (2012 - \$315 million).



## Canada Pension Plan

### Notes to Consolidated Financial Statements

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#### i) 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:

	2013	2012
	(in millions of dollars)	
Assets held as collateral on:		
Reverse repurchase agreements <sup>1</sup>	630	-
Over-the-counter derivative transactions <sup>1</sup>	93	200
Other debt	1,009	-
Assets pledged as collateral on:		
Repurchase agreements	(2,183)	-
Securities sold short	(10,752)	(10,937)
Debt on private real estate properties	(2,230)	(2,008)
Guarantees (see note 15c)	(177)	(141)
	<b>(13,610)</b>	<b>(12,886)</b>

<sup>1</sup> The fair value of the collateral held that may be sold or repledged as at March 31, 2013 is \$1,651 million (2012 - \$143 million). The fair value of collateral sold or repledged as at March 31, 2013 is \$630 million (2012 - \$nil).

## 7. Credit Facilities

The CPPIB maintains \$1.5 billion (2012 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2013, the total amount drawn on the credit facilities is \$nil (2012 - \$nil).

## 8. Payables and Accrued Liabilities

Payables and accrued liabilities are comprised of the following:

	2013	2012
	(in millions of dollars)	
Operating expenses	405	413
Pensions and benefits payable	366	241
Tax deductions due to Canada Revenue Agency	139	132
	<b>910</b>	<b>786</b>

## 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 2012–2013 Report on Plans and Priorities, tabled in Parliament in May 2012 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:

(in millions of dollars)	Investment Income (Loss) <sup>1</sup>	Net Gain (Loss) on Investments <sup>2,3,4</sup>	2013	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
			Total Investment Income (Loss)			
<b>Equities</b>						
Canada	67	724	791	(12)	(10)	769
Foreign developed markets	1,174	7,182	8,356	(309)	(44)	8,003
Emerging markets	254	260	514	(57)	(7)	450
	<b>1,495</b>	<b>8,166</b>	<b>9,661</b>	<b>(378)</b>	<b>(61)</b>	<b>9,222</b>
<b>Fixed income</b>						
Bonds	1,488	1,209	2,697	-	-	2,697
Inflation-linked bonds	70	(1)	69	-	-	69
Other debt	646	625	1,271	(47)	(4)	1,220
Money market securities <sup>5</sup>	321	1,183	1,504	(287)	(37)	1,180
Debt financing liabilities	(30)	(174)	(204)	-	-	(204)
	<b>2,495</b>	<b>2,842</b>	<b>5,337</b>	<b>(334)</b>	<b>(41)</b>	<b>4,962</b>
<b>Real assets</b>						
Private real estate	867	896	1,763	(67)	(40)	1,656
Infrastructure	429	505	934	(3)	(35)	896
	<b>1,296</b>	<b>1,401</b>	<b>2,697</b>	<b>(70)</b>	<b>(75)</b>	<b>2,552</b>
<b>Interest on operating balance</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>
	<b>5,289</b>	<b>12,409</b>	<b>17,698</b>	<b>(782)</b>	<b>(177)</b>	<b>16,739</b>

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(in millions of dollars)	2012					Net Investment Income (Loss)
	Investment Income (Loss) <sup>1</sup>	Net Gain on Investments <sup>2,3,4</sup>	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	
<b>Equities</b>						
Canada	303	(2,352)	(2,049)	(40)	(16)	(2,105)
Foreign developed markets	866	2,292	3,158	(285)	(43)	2,830
Emerging markets	177	(534)	(357)	(37)	(6)	(400)
	1,346	(594)	752	(362)	(65)	325
<b>Fixed income</b>						
Bonds	1,481	3,174	4,655	-	-	4,655
Inflation-linked bonds	148	483	631	-	-	631
Other debt	516	109	625	(21)	(2)	602
Money market securities <sup>5</sup>	541	594	1,135	(194)	(31)	910
Debt financing liabilities	(15)	-	(15)	-	-	(15)
	2,671	4,360	7,031	(215)	(33)	6,783
<b>Real assets</b>						
Private real estate	756	1,178	1,934	(69)	(116)	1,749
Infrastructure	429	668	1,097	(4)	(14)	1,079
	1,185	1,846	3,031	(73)	(130)	2,828
<b>Interest on operating balance</b>	2	-	2	-	-	2
	5,204	5,612	10,816	(650)	(228)	9,938

<sup>1</sup> Includes interest income, dividends, private real estate operating income (net of interest expense), interest expense on the debt financing liabilities and other investment-related income and expenses.

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

<sup>3</sup> Includes foreign exchange losses of \$519 million (2012 – gains of \$495 million).

<sup>4</sup> Includes net unrealized gains of \$1,969 million (2012 – unrealized gains of \$1,768 million) which represents the change in fair value estimated on direct investments in private equities, infrastructure, private real estate, private debt, intellectual property, royalties and certain derivatives, where the fair value is derived primarily from assumptions based on non-observable market data.

<sup>5</sup> Includes absolute return strategies, consisting of investments in funds and internally managed portfolios.

## 11. Estimated Overpayments and Underpayments of Benefits

In order to measure the accuracy of CPP benefit payments, the CPP relies on a Quality program (the CPP Payment Accuracy Review) which estimates, through statistical extrapolation, the most likely value of incorrect benefit payments.

For benefits paid during the twelve months ended March 31, 2013, undetected overpayments and underpayments are estimated to be \$ 5 million and \$ 56 million respectively (\$ 2 million and \$64 million in 2011-12). These estimates are used by the CPP to assess the quality and accuracy of decisions and to continuously improve its systems and practices processing CPP benefits.

The actual overpayments established during the year, as indicated in Note 4, are not directly linked to the above noted estimated overpayments and underpayments of benefits for the same period.

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**Notes to Consolidated Financial Statements**  
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## **12. Operating Expenses**

	<b>2013</b>	<b>2012</b>
	(in millions of dollars)	
General operating expenses	<b>386</b>	479
Personnel related costs	<b>651</b>	668
Professional and consulting fees	<b>39</b>	33
	<b>1,076</b>	1,180

## **13. 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 CPP's financial state is reviewed by these ministers every three years, following the receipt of an actuarial valuation report prepared by the Chief Actuary of Canada, 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 CPP. 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 *Canada Pension Plan* 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 CPP 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 CPP 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 CPP.

## Canada Pension Plan

### Notes to Consolidated Financial Statements

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The *Canada Pension Plan* 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 CPP'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 CPP 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 CPP. 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

## Canada Pension Plan

### Notes to Consolidated Financial Statements

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the CPP, 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 CPP, including their future contributions and associated benefits, to determine whether current assets and future contributions will be sufficient to pay for all future expenditures.

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)	<b>Open Group</b> As at December 31, 2009	<b>Closed Group</b> As at December 31, 2006	<b>Closed Group</b> As at December 31, 2006
<b>Actuarial obligation</b>	1,995.0	874.8	733.5
<b>Assets available for benefit payments</b>	1,988.1	126.8	113.6
<b>Unfunded obligation</b>	6.9	748.0	619.9
<b>Assets to actuarial obligation ratio</b>	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 CPP's financial status, the key financial measure for evaluating the sustainability of the CPP 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 CPP'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 CPP's financial status. Using the open group approach, the Chief Actuary confirms that the CPP 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 represent funds accumulated for the payment of pensions, benefits and operating expenses. As at March 31, 2013, the value of the CPP's assets available for benefit payments is \$187.7 billion (2012 – \$166.0 billion). This amount represents approximately 5.0 times the 2014 planned total pension and benefit expenses of \$37.7 billion (2012 – 4.7 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.

## 14. Contractual Obligations

The CPP, through CPPIB, has committed to enter into contractual obligations related to the funding of investments. These contractual obligations 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, 2013, the contractual obligations total \$20.7 billion (2012 – \$16.6 billion).

As at March 31, 2013, the CPP, through CPPIB, has made lease and other contractual obligations of \$197.0 million (2012 – \$126.3 million) that will be paid over the next 12 years.

**Canada Pension Plan**  
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## **15. Contingent Liabilities**

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

At March 31, 2013, there were 12,623 (10,369 in 2012) appeals relating to the payment of CPP disability benefits. These contingencies are reasonably estimated, using historical information, at an amount of \$107.5 million (\$88.5 million in 2012), which was recorded as an accrued liability in the CPP 2012–13 financial statements.

### ***b) Other claims and legal proceedings***

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

Starting in 2004, 417 medical adjudicators (MAs) filed human rights complaints with the Canadian Human Rights Commission (CHRC) alleging gender discrimination. The complaint was upheld by the Canadian Human Rights Tribunal (CHRT) in 2007, which ordered that the discriminatory practice cease and directed the parties to attempt to negotiate a settlement of the appropriate measures to redress the practice. These negotiations were not successful and in May 2009, the CHRT ordered that a new nursing (NU) subgroup be created in the Health Services Group and that the MAs be placed in this group. It also ordered that damages be paid to two MAs for pain and suffering, but did not order compensation for wage loss.

The complainants and the CHRC challenged the CHRT's decision on the issues of lost wages and pain and suffering. The application was allowed by the Federal Court, which set aside the CHRT's decision and referred the matters back to the CHRT for redetermination. An appeal by the Attorney General of Canada of the Federal Court decision was unsuccessful.

The parties have since settled the outstanding issues of damages for wage loss and for pain and suffering. The settlement of the pain and suffering issue and the settlement of the wage loss issue were endorsed by the CHRT in October 2011 and on July 31, 2012 respectively.

The allowance was revised to \$184 million (\$169 million in 2011-12) due to an additional \$15 million recorded as a liability. Payments of \$151 million were made to settle a portion of the claims and legal proceedings in the current fiscal year. As of March 31, 2013, an amount of \$33 million remains payable to HRSDC.

### ***c) Guarantees***

As part of certain investment transactions, the CPPIB agreed to guarantee, as at March 31, 2013, up to \$1.4 billion (2012 - \$0.2 billion) to other counterparties in the event certain subsidiaries and other entities default under the terms of loan and other related agreements.

### ***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 these 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.

## **16. Related Party Transactions**

As stated in Note 4, the CPP has \$4,847 million (2012 – \$4,620 million) of contributions receivable from the Canada Revenue Agency.



# Canada Pension Plan

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

### Transactions for the year

	2013	2012
	(in millions of dollars)	
Pension and benefit delivery, accommodation and corporate services		
Human Resources and Skills Development Canada	405	567
Collection of contributions and investigation services		
Canada Revenue Agency	169	159
Cheque issue and computer services		
Public Works and Government Services Canada	10	12
Actuarial services		
Office of the Superintendent of Financial Institutions and Department of Finance	2	2
	586	740

## 17. 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.

	2013			2012		
(in millions of dollars)	GoC	CPPIB	Total	GoC	CPPIB	Total
Financial assets	5,067	211,575	216,642	4,902	178,103	183,005
Non-financial assets	-	72	72	-	59	59
Liabilities	607	28,383	28,990	542	16,526	17,068
Assets available for benefit payments	4,460	183,264	187,724	4,360	161,636	165,996
Income						
Contributions	41,655	-	41,655	38,925	-	38,925
Investment income	3	16,736	16,739	2	9,936	9,938
	41,658	16,736	58,394	38,927	9,936	48,863
Expenses						
Pensions and benefits	35,590	-	35,590	33,288	-	33,288
Operating expenses	586	490	1,076	740	440	1,180
	36,176	490	36,666	34,028	440	34,468
Increase in assets available for benefit payments	5,482	16,246	21,728	4,899	9,496	14,395

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Pursuant to Section 108.1 of the *Canada Pension Plan* 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, 2013, a total of \$31.7 billion was transferred to the CPPIB and a total of \$26.3 billion was returned to the CPP to meet its liquidity requirements.

#### Activities during the year

	2013	2012
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB, beginning of year	275,648	243,363
Transfers of funds to CPPIB	31,682	32,285
Accumulated transfers to CPPIB, end of year	307,330	275,648
Accumulated transfers from CPPIB, beginning of year	(163,299)	(134,958)
Transfers of funds from CPPIB	(26,300)	(28,341)
Accumulated transfers from CPPIB, end of year	(189,599)	(163,299)
Net accumulated transfers to CPPIB	117,731	112,349

## 18. Comparative Information

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