Government of Canada Gouvernement du Canada

2013–2014

Annual Report of the CANADA PENSION PLAN

Canada

Annual Report of the Canada Pension Plan 2013–2014

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.esdc.gc.ca.

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Government of Canada Gouvernement du Canada

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 2013–2014.

Respectfully,

Joe Oliver
Minister of Finance

Jason Kenney
Minister of Employment
and Social Development

Canada

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2013 – 2014 at a Glance

- The maximum pensionable earnings of the Canada Pension Plan (CPP) increased from **$51,100** in 2013 to **$52,500** for 2014. The contribution rate remained unchanged at **9.9 percent**.
- **5.2 million** CPP beneficiaries were paid, representing a total annual benefit value of **$37.3 billion**.
- **4.4 million** CPP retirement pensioners were paid **$28.2 billion** this year.
- **1.1 million** surviving spouses or common-law partners and **70 000** children of deceased contributors were paid **$4.5 billion** this year.
- **330 000** people with disabilities and **85 000** of their children were paid **$4.3 billion** this year.
- **136 000** death benefit recipients were paid **$0.3 billion** this year.
- **630 000** post-retirement beneficiaries were paid **$85 million** this year.
- Operating expenses amounted to **$1.1 billion**, or **2.91 percent** of the **$37.3 billion** in benefits.
- As at March 31, 2014, total CPP net assets were valued at **$223.2 billion**, of which **$219.1 billion** is managed by the CPP Investment Board.

Note: 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**.

Contributions

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

Workers 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 is exempted from contributions. Contributions are then made on earnings between $3,500 and $52,500, which is the earnings ceiling for 2014.

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.

Contributions for 2014	
Year's maximum pensionable earnings	$52,500.00
Year's basic exemption	$3,500.00
Year's maximum contributory earnings	$49,000.00
Year's maximum employee/employer contribution (4.95%)	$2,425.50
Year's maximum self-employed person's contribution (9.9%)	$4,851.00

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 beneficiaries and expenditures during 2013–2014; Figure 2 shows the percentage of expenditures by type of benefit.

Retirement Pensions

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

Retirement pensions represent nearly 76 percent ($28.2 billion) of the total benefit amount paid out ($37.3 billion) by the CPP in 2013–2014. 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 2014, the maximum monthly retirement pension was $1,038.33, and the average payment in 2013–2014 was $535.96.

Adjustments for Early and Late Receipt of a Retirement Pension

Canadians are living longer and healthier lives, and the transition from work to retirement is increasingly diverse. The CPP offers flexibility for older workers who are making the transition to retirement.

CPP contributors can choose the right time for their retirement pension 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 was implemented to modernize the CPP. 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 – Beneficiaries and Expenditures by Fiscal Year

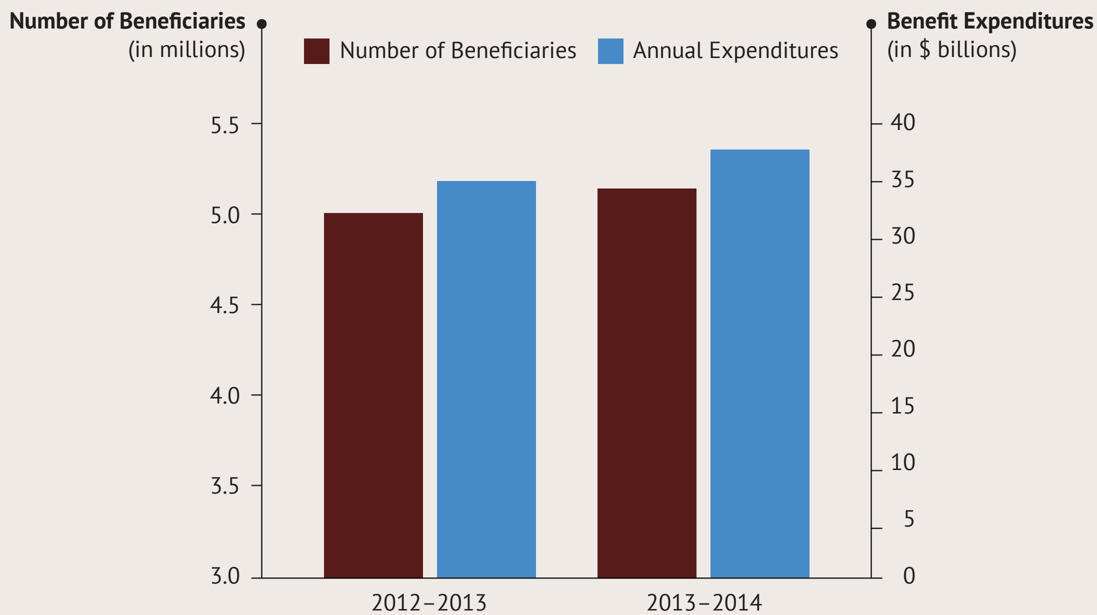
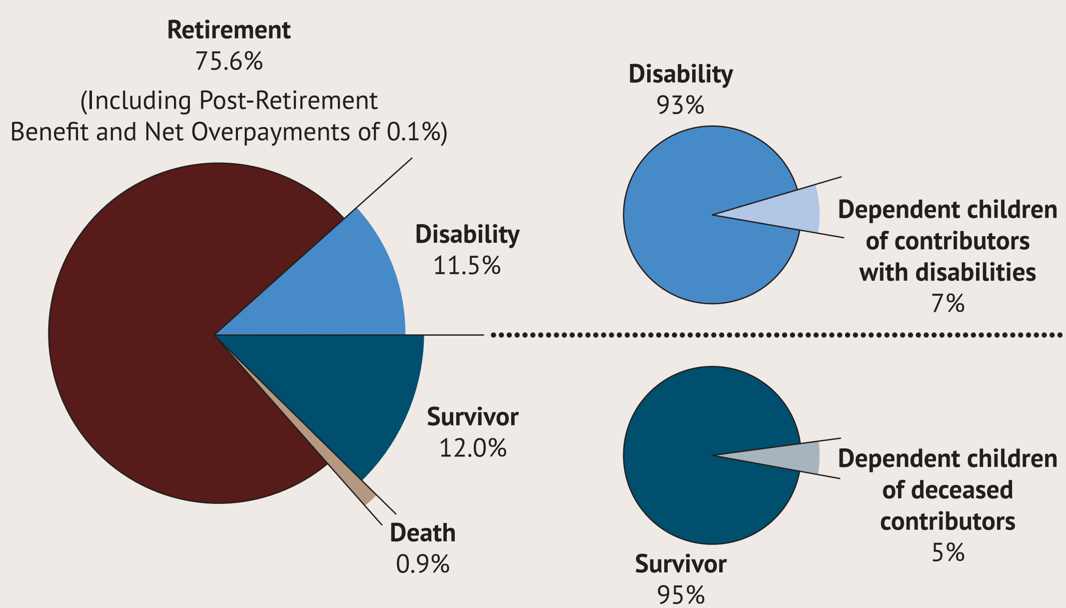


Figure 2

CPP – Percentage of Expenditures by Benefit Type 2013–2014



Retirement pension taken before age 65: Since 2012, the adjustment factor for early retirement has been increased on an annual basis; this annual increase will continue until 2016. In 2014, those who started receiving their retirement pension before age 65 had the amount permanently reduced by 0.56 percent per month. The maximum reduction was 33.6 percent for those who took their retirement pension when they turned 60. 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: From 2011 to 2013, the adjustment factor for late retirement was increased annually. Those who started receiving their retirement pension after age 65 had the amount permanently increased by 0.57 percent per month in 2011, by 0.64 percent per month in 2012 and by 0.7 percent per month in 2013. This 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 monthly benefit amount for 2014 was $25.96. In 2013–2014, 630 000 CPP retirement pensioners received a post-retirement benefit.

Disability Benefits

Disability benefits provide partial earnings replacement to CPP contributors who cannot work due to a severe and prolonged disability resulting from a physical or mental condition. Dependent children of disabled beneficiaries may also be eligible for children's benefits.

In 2013–2014, disability benefits were paid to 330 000 beneficiaries and to 85 000 children of beneficiaries. Disability benefits represented approximately 12 percent of the total benefits paid out by the CPP in 2013–2014.

The disability benefit includes a monthly flat rate, which was $457.60 in 2014. 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 2014, the maximum disability benefit was $1,236.35 per month. The average monthly payment in 2013–2014 was $857.17.

The benefit paid to dependent children of disabled beneficiaries is a flat rate. In 2014, the amount was $230.72 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 2013–2014, there were nearly 1.1 million survivors receiving benefits. In 2013–2014, survivor benefits represented 12 percent of the total benefits paid out by the CPP.

The maximum survivor's pension for those under age 65 was $567.91 per month in 2014. This includes a flat-rate portion of $178.54 and an earnings-related portion, which is 37.5 percent of the deceased contributor's retirement pension. The maximum monthly amount at age 65 and over was $623.00, consisting of 60 percent of the deceased contributor's retirement pension. For 2013–2014, the average monthly payment for all survivor benefits was $326.54.

The benefit paid to dependent children of deceased contributors is a flat rate. In 2014, the amount was $230.72 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 2013–2014, death benefit payments represented less than 1 percent of the total benefits paid out by the CPP. The average payment was $2,284 in 2013–2014.

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 periods 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. As a result, this increases the benefit amount. For benefits starting in 2014, up to 17 percent of lowest earnings, representing a maximum of eight years, can be dropped from the benefit calculation.

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. The provision 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 to increase the benefit amounts of workers who continue to work and make CPP contributions after reaching age 65, but do not yet receive the CPP retirement pension. 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. This feature also allows one pension to be shared between them even if only one person has contributed to the Plan. 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 contributed to 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 coverage 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. As CPP beneficiaries age, the value of their CPP benefit 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 2013–2014, Service Canada issued approximately 15 500 reconsiderations of decisions related to CPP benefits, division of pension credits and pension sharing. Of these, approximately 5 000 reconsidered decisions were issued in favour of clients.

Clients who are not satisfied with the Minister's reconsidered decision may appeal to the Social Security Tribunal (SST). The SST is an independent administrative tribunal that makes fair and impartial quasi-judicial decisions on appeals related to the *Canada Pension Plan,* the *Old Age Security Act* and the *Employment Insurance Act*.

The tribunal began its operations on April 1, 2013, and was created to simplify and streamline appeal decisions by offering a single point of contact for submitting an appeal.

The SST includes two levels of appeal:

- The **General Division,** which includes the Income Security Section for CPP and Old Age Security (OAS) appeals, and the Employment Insurance Section for Employment Insurance appeals.
- The **Appeal Division** makes decisions on appeals from the General Division.

Before April 1, 2013, Income Security appeals were filed with either the Office of the Commissioner of Review Tribunals (OCRT) or the Pension Appeals Board (PAB). On April 1, 2013, appeals that were filed with the OCRT and the PAB, but not heard, were transferred to the SST, which resulted in a large volume of Income Security appeals for both the Appeal Division and the General Division. This is in addition to all new appeals received throughout the year.

All General Division-Income Security cases were subject to the "Notice of Readiness" 365-day process provided for in the SST Regulations. During the 365-day period, parties had 365 days (from April 1, 2013, for OCRT cases) to continue to file documents related to the case. As a result, the SST could not schedule a hearing unless both parties confirmed they were ready to proceed. Therefore, the SST was required to wait for the parties to confirm readiness, and only a few confirmed that they were ready to proceed before the end of March 2014.

This process has been changed as of April 1, 2014. Since then, older cases are generally being assigned first and are being processed as quickly and as efficiently as possible, while ensuring an independent and thorough review of all appeals.

All appeals are assigned and reviewed by a single Tribunal Member, who is appointed by the Governor in Council following a rigorous selection process. Tribunal Members decide on a case-by-case basis whether hearings will be conducted by telephone, videoconference, written questions and answers or in person.

If a party is unsatisfied with the decision made by the General Division, a leave to appeal may be brought to the Appeal Division.

In 2013–2014, the General Division-Income Security Section received 10 817 Income Security cases[1], with 1 089 concluded as of March 31, 2014. The Appeal Division-Income Security Section received 644 cases[2], with 372 concluded as of March 31, 2014. These statistics reflect Income Security cases, as the SST's reporting system does not currently provide a breakdown of the data between CPP and OAS cases.

The SST is committed to processing all of its caseloads as efficiently and effectively as possible. It expects to achieve significant progress by the end of its second year, as it continues to develop and improve its systems and operational processes.

[1] Includes 7 224 cases transferred from the OCRT on April 1, 2013.

[2] Includes 447 cases transferred from the PAB on April 1, 2013.

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 to ensure a high degree of portability of QPP and CPP benefits across Canada.

Triennial Review

Reviewing the CPP every three years is the responsibility of federal and provincial Ministers of Finance.

On December 3, 2013, the Minister of Finance tabled in Parliament the *Twenty-sixth Actuarial Report on the Canada Pension Plan,* prepared by the Office of the Chief Actuary (OCA), which stated that over the long term, the Plan remains sustainable at the current contribution rate of 9.9 percent. The Finance Ministers will base their 2013–2015 triennial review on a number of factors, including the conclusions of the *Twenty-sixth Actuarial Report on the Canada Pension Plan*.

Modernization of the CPP

Changes made to the CPP legislation in 2009 to modernize the Plan and to strengthen its financial sustainability are scheduled to be fully implemented by 2016. 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 are increased by up to one year, for a total general drop-out of up to eight years.
- In 2012, the work cessation test was eliminated.
- The new post-retirement benefit was introduced in 2012 for people contributing to the CPP while in receipt of a CPP/QPP retirement pension.

To read more about the recent amendments to the CPP, visit: **www.servicecanada.gc.ca/eng/services/pensions/cpp/publications/changes.shtml**

Actuarial Reporting

The *Twenty-sixth Actuarial Report on the Canada Pension Plan* presents the financial status of the CPP as of December 31, 2012, and takes into account the recent changes to modernize the Plan, as well as the actual demographic and economic trends since December 31, 2009. According to the Report, the CPP is expected to meet its obligations and remain financially sustainable over the long term under the current 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-sixth Actuarial Report on the Canada Pension Plan*. The external panel's findings confirmed that the work performed by the OCA on the Report met all professional standards of practice and statutory requirements, and stated that the assumptions and methods used were 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 reporting process, including data, methodology, assumptions and communication of results. 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-sixth 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 next triennial Actuarial Report on the Canada Pension Plan, which reports on the financial status of the Plan as of December 31, 2015, is due by December 2016.

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/Eng/oca-bac/Pages/default.aspx**

Funding Approach

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

However, demographic and economic developments, as well as changes to benefits and an increase in disability claims 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 the past 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 financial 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-sixth 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 income 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 for 2016 and thereafter in the *Twenty-sixth 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-sixth Actuarial Report on the Canada Pension Plan,* the full-funding rate was determined to be 0.01 percent for 2013 and thereafter. According to CPP Regulations regarding the calculation of the Plan's contribution rates, if the full-funding rate is less than 0.02 percent, then it is deemed to be zero. As a result, the full-funding rate under the *Twenty-sixth Actuarial Report on the Canada Pension Plan* is deemed to be zero, and the funding of the most recent amendments to the CPP is provided entirely by the steady-state rate. The minimum contribution rate required to fund the CPP, which is the sum of the steady-state and full-funding rates, is thus equal to the steady-state rate of 9.84 percent for 2016 and thereafter.

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-sixth 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 2022, 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 2023 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. The goal of the financing policy is to ensure the long-term financial sustainability of the CPP by stabilizing the ratio of assets to expenditures under the steady-state rate. As such, 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 over time. The OCA examined this in the *Twenty-sixth Actuarial Report on the Canada Pension Plan*.

In the Report, the OCA provided comparisons of the assets, actuarial liabilities, resulting asset shortfall and relative percentages of the assets of the CPP under two measuring approaches. The first, referred to as the "open group approach," 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 99.6 percent of the actuarial liability (with an asset shortfall of $8.9 billion) as at December 31, 2012. The second, referred to as the "closed group approach," which considers only current participants and is consistent with how pension plans are valued in the private sector, reveals that CPP assets represented 17.4 percent of the actuarial liability (with an asset shortfall of $829.8 billion) as at December 31, 2012.

The open group approach 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 *Assessing the Sustainability of the Canada Pension Plan through Actuarial Balance Sheets – Actuarial Study No. 13*, which describes the open group approach in more detail, is available on the website of the Office of the Superintendent of Financial Institutions at:

www.osfi-bsif.gc.ca/Eng/oca-bac/as-ea/Pages/ascpp.aspx

Actuarial Study No. 13 updates an earlier study, Actuarial Study No. 10, and is based on the results of the *Twenty-sixth Actuarial Report on the Canada Pension Plan*.

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 be suspended until the following triennial review. By law, any further enhancement of the CPP must be fully funded. The 2013–2015 triennial review will examine the financial status of the CPP based on the results of the *Twenty-sixth Actuarial Report on the Canada Pension Plan*.

Financial Accountability

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

CPP Account

A separate account, the CPP Account, has been established in the accounts of the Government of Canada to record the financial elements of the CPP (i.e. contributions, interest, earned pensions and other benefits paid, as well as administrative expenditures). The CPP Account also records the amounts transferred to, or received from, the 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 CPP Investment Board 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 Hong Kong, London, New York and São Paulo. The CPPIB is legislated to manage funds transferred from the CPP in the best interests of CPP contributors and beneficiaries. The CPPIB has a long-term investment horizon. Accordingly, it invests CPP assets to achieve a maximum rate of return, without undue risk of loss. The CPPIB must also consider the factors that affect the CPP's funding and its ability to meet its financial obligations.

According to the *Twenty-sixth Actuarial Report on the Canada Pension Plan,* the Chief Actuary reaffirmed that the CPP remains sustainable at the current contribution rate of 9.9 percent throughout the 75-year period of his report. The report also indicates that CPP contributions are expected to exceed annual benefits paid until 2023, when a portion of the investment income from the CPPIB will be needed to help pay CPP benefits.

CPP Assets and Cash Management

The 2004 legislation (Bill C-3) 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.com**.

CPP Net Assets

As at March 31, 2014, the CPP net assets totalled $223.2 billion. The Government of Canada held $4.1 billion to meet CPP financial needs. The remaining $219.1 billion is managed by the CPPIB. Canadian assets represented 31 percent ($68 billion) and foreign assets represented 69 percent ($151.1 billion) of the CPPIB's investment portfolio.

For the 10-year period ending March 31, 2014, the Fund held by CPPIB had an annualized rate of return of 7.1 percent or $95.1 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 province, 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 worked in Canada and in other countries. Consequently, 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. Furthermore, 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, 2014, Canada has social security agreements in force with 54 countries. In addition, three new agreements have been signed and will enter into force once legal procedures have been completed. 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	Latvia	November 1, 2006
Australia	September 1, 1989	Lithuania	November 1, 2006
Austria	November 1, 1987	Luxembourg	April 1, 1990
Barbados	January 1, 1986	Malta	March 1, 1992
Belgium	January 1, 1987	Mexico	May 1, 1996
Bulgaria	March 1, 2014	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 of America	August 1, 1984
Korea	May 1, 1999	Uruguay	January 1, 2002

In addition, social security agreements have been signed with Brazil, India and Peru. They will enter into force once legal procedures have been completed.

** 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 March 31, 2014, there were 1 729 890 existing employer accounts. In 2013–2014, the CRA conducted 47 075 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 2013–2014, contributions amounted to $43 billion.

Overpayment of Benefits

Consistent with its mandate to manage the CPP effectively, ESDC has procedures in place to detect benefit overpayments. During 2013–2014, overpayments totalling $53 million were detected, $36 million in overpayments were recovered and debts of $4 million were forgiven. The above figures represent a net increase of $13 million in the accounts receivable for the year.

Operating Expenses

CPP operating expenses of $1.085 billion in 2013–2014 represent 2.91 percent of the $37.3 billion in benefits paid.

Table 1 presents the CPP's operating expenses for the last two years.

Table 1:
CPP Operating Expenses for 2013–2014 and 2012–2013

Department/Agency/Crown Corporation	In millions of dollars	
	2013–2014	2012–2013
Employment and Social Development Canada	328	405
CPP Investment Board[3]	576	490
Canada Revenue Agency	169	169
Public Works and Government Services Canada	9	10
Office of the Superintendent of Financial Institutions (where the Office of the Chief Actuary is housed)/ Finance Canada	3	2
Total	1 085	1 076

[3] The operating expenses for the CPPIB do not include the transaction costs and investment management fees since these are presented as net investment income (loss). For more details, refer to "Canada Pension Plan Consolidated Statement of Operations" on page 36.

Improving Service Delivery

Within ESDC, 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 2013–2014, 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. Service Canada is advancing its e-service agenda through enhancements in the secure online My Service Canada Account that will position Service Canada to further leverage electronic service offerings.

Service Canada continued to implement the Bill C-51 legislative amendments to the CPP program. This included the first payments of the new CPP post-retirement benefit, with 99 percent of adjudications completed automatically. Groundwork was also undertaken to develop a multi-year service improvement strategy for the CPP which will, among other activities, streamline business operations, enhance e-service delivery and increase processing automation.

Further efforts were made to streamline application processes for the disability benefit by piloting a two-step application process to determine if the applicant has sufficient years and contribution amounts to meet the eligibility requirements for a disability benefit before the client completes an application for benefits, or the Department requests any medical information from doctors/clinics. To help expedite the application process for those most in need, the Department also implemented network-wide new processes for gravely ill and terminally ill Canadians.

Online Service Delivery

Service Canada is continually improving its self-service Web-based options. Clients can now use the Internet to make enquiries, 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. In 2013–2014, for example, approximately 86 000 individuals applied for their CPP retirement benefits 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. Enhancements to the My Service Canada Account will further promote self-serve options for clients within the secure online tool.

Since 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 for the application of benefits within the next few years.

Processing Benefits

In 2013–2014, Service Canada processed approximately 278 000 applications for retirement benefits, and 97 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 68 000 initial applications for disability benefits. Decisions were made on 81 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 13 100 requests. Eighty percent of all reconsideration decisions were made within 120 calendar days of receipt of the request.

Table 2:
Application-processing Statistics

National Measure	National Objective	2013-2014 National Result
CPP retirement applications Percentage of benefits paid within the first month of entitlement	**90%**	**97%**
CPP disability (initial decisions) Percentage of initial decisions made within 120 calendar days of receipt of applications	**75%**	**81%**
CPP disability (reconsideration decisions) Percentage of reconsideration decisions made within 120 calendar days of receipt of applications	**70%**	**80%**

The 2013–2014 national results for disability benefits represent the second year of strong results after the targets were missed in 2011–2012. These results reflect the Department's ongoing workload recovery efforts that focused on improving service levels and reducing the 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.

Ensuring Program Integrity

Income security is essential to the quality of life and well-being of Canadians. The current environment of fiscal restraint along with 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 $8.8 million in accounts receivable as overpayments and prevented an estimated $7.3 million from being incorrectly paid in 2013–2014.

A further estimated $58.8 million has been prevented from being incorrectly paid for future years after 2013–2014. The recovered overpayments are credited to the CPP, thereby helping to maintain the long-term 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.

Given the increasing CPP workload volumes and changing service expectations of Canadians, Service Canada is continuing to develop a 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, 2014

Canada Pension Plan
Management's Responsibility for Financial Statements

The consolidated financial statements of the Canada Pension Plan are prepared in accordance with Canadian public sector accounting standards by the management of Employment and Social 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.

Alain P. Séguin, MBA, CPA, CGA Chief Financial Officer Employment and Social Development Canada	Ian Shugart Deputy Minister Employment and Social Development Canada

Gatineau, Canada
August 27, 2014

Auditor General of Canada
Vérificateur général du Canada

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 2014, 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

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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 2014, 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.

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

27 August 2014
Ottawa, Canada

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

	2014	2013
	(in millions of dollars)	
Financial assets		
Cash (Note 3)	**167**	92
Receivables (Note 4)	**4,519**	4,999
Investments (Note 6)	**251,728**	208,971
Amounts receivable from pending trades (Note 6)	**2,251**	2,580
	258,665	216,642
Liabilities		
Payables and accrued liabilities (Note 8)	**927**	910
Investment liabilities (Note 6)	**32,877**	24,301
Amounts payable from pending trades (Note 6)	**1,979**	3,779
	35,783	28,990
Financial assets available for benefit payments	**222,882**	187,652
Non-financial assets		
Tangible capital assets	**327**	72
Assets available for benefit payments	**223,209**	187,724

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
Employment and Social Development Canada

Ian Shugart
Deputy Minister
Employment and Social Development Canada

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

	Budget 2014	Actual 2014	Actual 2013
	(Note 9)	(in millions of dollars)	
Revenues			
Contributions	42,914	**43,181**	41,655
Net investment income (Note 10)			
Realized gains		**6,099**	4,406
Unrealized gains		**19,987**	8,003
Interest income		**2,834**	2,582
Dividend income		**1,872**	1,722
Other income		**1,084**	985
Transaction costs		**(216)**	(177)
Investment management fees		**(947)**	(782)
	9,302	**30,713**	16,739
	52,216	**73,894**	58,394
Expenses			
Pensions and benefits			
Retirement	28,297	**28,188**	26,624
Survivor	4,356	**4,248**	4,221
Disability	4,166	**4,002**	3,948
Disabled contributor’s child	328	**300**	305
Death	316	**333**	313
Orphan	235	**217**	221
Post-Retirement	-	**85**	10
Net overpayments (Note 4)	-	**(49)**	(52)
	37,698	**37,324**	35,590
Operating expenses (Note 12)	1,025	**1,085**	1,076
	38,723	**38,409**	36,666
Net increase in assets available for benefit payments	13,493	**35,485**	21,728
Assets available for benefit payments, beginning of year	187,724	**187,724**	165,996
Assets available for benefit payments, end of year	201,217	**223,209**	187,724

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

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

	Budget 2014	**Actual 2014**	Actual 2013
	(Note 9)	(in millions of dollars)	
Net increase in assets available for benefit payments	13,493	**35,485**	21,728
Changes in other assets	-	**(255)**	(13)
Increase in financial assets available for benefit payments	13,493	**35,230**	21,715
Financial assets available for benefit payments, beginning of year	187,652	**187,652**	165,937
Financial assets available for benefit payments, end of year	201,145	**222,882**	187,652

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

	2014	2013
	(in millions of dollars)	
Operating activities		
Cash receipts		
Contributions	**43,659**	41,428
Dividends on investments	**1,644**	1,627
Interest on investments	**2,899**	2,452
Other investment income	**926**	818
Cash payments		
Pensions and benefits	**(37,284)**	(35,633)
Operating expenses	**(1,075)**	(891)
Investment management fees	**(338)**	(442)
Transaction costs	**(198)**	(181)
Payment of interest on debt	**(76)**	(71)
Cash flows from operating activities	**10,157**	9,107
Capital Activities		
Acquisition of tangible capital assets	**(286)**	(39)
Cash flows used in capital activities	**(286)**	(39)
Financing activities		
Issuance of debt	**36,405**	38,480
Repayment of debt	**(36,401)**	(31,394)
Cash flows from financing activities	**4**	7,086
Investing activities		
Purchases		
Equities	**(95,553)**	(113,201)
Real assets	**(6,079)**	(3,990)
Bonds and inflation-linked bonds	**(329,463)**	(138,111)
Money market securities and absolute return strategies	**(2,543,342)**	(1,504,954)
Other debts	**(7,229)**	(7,681)
Disposals		
Equities	**94,746**	108,950
Real assets	**2,884**	951
Bonds and inflation-linked bonds	**326,986**	130,840
Money market securities and absolute return strategies	**2,542,212**	1,505,552
Other debts	**5,038**	5,431
Cash flows used in investing activities	**(9,800)**	(16,213)
Net increase (decrease) in cash	**75**	(59)
Cash, beginning of year	**92**	151
Cash, end of year	**167**	92

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

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 CPP Investment Board (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 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 2014 is $1,038.33 (2013 – $1,012.50).

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 1st, 2013. The maximum new monthly PRB at age 65 in 2014 is $25.96 (2013 – $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 2014 is $1,236.35 (2013 – $1,212.90).

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 2014 is $623.00 (2013 – $607.50).

Disabled contributor's child and orphan benefits – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or a child of a deceased contributor is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 2014 is $230.72 (2013 – $228.66).

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 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, in 2014, of $2,500 (2013 – $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 2014 is 0.9 percent (2013 – 1.8 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.

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 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, net operating 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 included in net investment income (loss).

f) Investment Management Fees

Investment management fees are paid to investment managers for externally managed investments. Investment management fees are expensed as incurred and included in net investment income (loss).

g) Securities Purchased under Reverse Repurchase Agreements and Sold under Repurchase Agreements

Securities purchased under reverse repurchase agreements represent the purchase of securities 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 the 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 with a simultaneous agreement to buy them back at a specified price at a specified future date. The securities sold continue to be recognized as an investment of the CPP, through the CPPIB, with any changes in fair value recorded as net gain (loss) on investments and included in investment income (loss). Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is included in investment income (loss) (refer to 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 (refer to Note 7). Interest and dividend expense on securities sold short are included in investment income (loss) (refer to 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 recorded as net gain (loss) on investments and included in investment income (loss) (refer to Note 10).

j) Pensions and Benefits

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

k) Tax Deductions Due to the Canada Revenue Agency

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

l) Net Overpayments

Net overpayments comprise 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. Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. 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. Measurement uncertainty exists in these consolidated financial statements. Actual results could significantly differ from those estimates.

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, 2016. 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 and 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, adopted International Financial Reporting Standards (IFRS) as of April 1, 2014. While there is no impact on assets available for benefit payments as a result of CPPIB's IFRS adoption, CPPIB's incremental financial statement disclosures related to investments, investment receivables and investment liabilities will need to be analyzed by the CPP to ensure its continuous compliance with PSAS.

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, 2014, the deposit with the Receiver General for Canada in the CPP Account is $140 million (2013 – $68 million) and the CPPIB's cash is $27 million (2013 – $24 million) for a total of $167 million (2013 – $92 million).

4. Receivables

Receivables comprise the following:

	2014	2013
	(in millions of dollars)	
Contributions	**4,368**	4,847
Régime de rentes du Québec	**116**	106
Beneficiaries		
Balance of pensions and benefits overpayments	**147**	134
Allowance for doubtful accounts	**(112)**	(88)
	4,519	4,999

Contributions receivable represent the estimated amount to be collected from the CRA relating to contributions earned at year end and adjusted for tax returns not yet assessed. The amount includes an estimate that takes into consideration the number of contributors and the average contribution to be received which is based on the average earning and the CPP contribution rate. On an annual basis, the model used to make the estimate is reviewed. The difference between the estimate and the actual amount has not been significant in the past.

The CPP has procedures to detect overpayments. During the year, overpayments totalling $53 million (2013 – $58 million) were established and debts totalling $4 million (2013 – $6 million) were forgiven as per the remission provisions of the *Canada Pension Plan*. A further $36 million (2013 – $34million) was recovered through collection of payments and withholdings from beneficiaries.

5. Investment Activities Risk Management

The CPP, through the investment activities carried out by the CPPIB, is exposed to a variety of financial risks. 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 included 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.

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

(in millions of dollars)	**2014**		2013	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
United States Dollar	**83,612**	**58**	62,098	57
Euro	**22,241**	**15**	14,985	14
British Pound Sterling	**9,380**	**7**	8,184	8
Australian Dollar	**7,222**	**5**	5,671	5
Japanese Yen	**6,966**	**5**	5,330	5
Hong Kong Dollar	**2,285**	**2**	2,581	2
South Korean Won	**1,468**	**1**	1,189	1
Chilean Pesos	**1,459**	**1**	1,206	1
Brazilian Real	**1,017**	**1**	854	1
Swiss Franc	**843**	**1**	1,251	1
Other	**6,389**	**4**	5,544	5
	142,882	**100**	108,893	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, and transacting in securities sold under repurchase agreements (refer to Notes 6 and 7).

The CPPIB maintains $1.5 billion (2013 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2014, the total amount drawn on the credit facilities is $nil (2013 – $nil). 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 and marketable bonds.

The CPPIB is also exposed to liquidity risk through its responsibility for providing cash management services to the CPP (refer to 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.

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 its 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 the 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 relate, are as follows:

	2014	2013
	(in millions of dollars)	
Equities		
Canada	**8,464**	7,039
Foreign developed markets	**85,238**	64,486
Emerging markets	**11,068**	10,313
Total Equities	**104,770**	81,838
Fixed income		
Bonds	**55,258**	52,755
Other debt	**13,883**	10,215
Money market securities	**19,663**	19,991
Total Fixed income	**88,804**	82,961
Absolute return strategies	**12,243**	9,028
Real assets		
Real estate	**27,397**	21,840
Infrastructure	**13,244**	11,069
Total Real assets	**40,641**	32,909
Investment receivables		
Securities purchased under reverse repurchase agreements	**3,221**	630
Accrued interest	**907**	725
Derivative receivables	**1,010**	742
Dividends receivables	**132**	138
Total Investment receivables	**5,270**	2,235
Total Investments	**251,728**	208,971
Investment liabilities		
Securities sold under repurchase agreements	**(5,230)**	(2,180)
Securities sold short	**(14,874)**	(9,715)
Debt financing liabilities	**(9,654)**	(9,543)
Debt on real assets	**(2,057)**	(1,918)
Derivative liabilities	**(1,062)**	(945)
Total Investment liabilities	**(32,877)**	(24,301)
Amounts receivable from pending trades	**2,251**	2,580
Amounts payable from pending trades	**(1,979)**	(3,779)
Net Investments	**219,123**	183,471

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, 2014, public equities include fund investments with a fair value of $6,000 million (2013 – $3,657 million).

(ii) Private equity investments are generally made directly or through ownership in limited partnership funds. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity. As at March 31, 2014, the fair value of private equities is $15,037 million (2013 – $ 9,803 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. These provisions 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.

(iii) Money market securities consist of cash, term deposits, treasury bills and commercial paper.

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, real estate funds and publicly traded securities.

Private real estate investments are managed on behalf of the CPPIB by investment managers primarily through co-ownership arrangements. As at March 31, 2014, real estate investments include assets of $27,397 million (2013 - $21,840 million) and $1,936 million of secured debt (2013 - $1,918 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.

(ii) Infrastructure investments are generally made directly, but can also occur through limited partnership funds that have a typical term of 10 years. As at March 31, 2014, infrastructure includes direct investments with a fair value of $13,090 million (2013 – $10,883 million) and $121 million of secured debt (2013 – $nil).

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

Reverse repurchase and repurchase agreements are carried at the amounts at which the securities were initially acquired or sold, which together with accrued interest income or expense, approximate fair value due to the short-term nature of these securities.

The terms to maturity of the securities purchased under reverse repurchase agreements, as at March 31, 2014, are as follows: within 1 year, $3,221 million (2013 – $630 million); 1 year to over 10 years, $nil (2013 – $nil).

The terms to maturity of the securities sold under repurchase agreements, as at March 31, 2014, are as follows: within 1 year, $5,231 million (2013 – $2,180); 1 year to over 10 years, $nil (2013 – $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 futures and forwards, swaps, options and warrants.

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 manage or adjust exposures to, interest rate, currency, credit and other market risks without directly purchasing or selling the underlying instrument.

g) *Securities Sold Short*

As at March 31, 2014, securities sold short of $14,874 million (2013 – $9,715 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

Debt financing liabilities are recorded at the amount originally issued, which, together with accrued interest expenses, approximate fair value due to the short-term nature of these liabilities. The terms to maturity of the undiscounted principal repayments of the debt financing liabilities as at March 31, 2014, are as follows: within 1 year, $9,663 million (2013 – $9,551 million), and 1 year to over 10 years, $nil (2013 – $nil).

i) Debt on real assets

Debt on real assets is a long term debt on real estate and infrastructure investments. In 2014, the weighted average interest rate is 4.5% (2013 – 4.9%).

The terms to maturity of the debt on real assets, as at March 31, 2014, are as follows: within 1 year, $204 million (2013 – $34 million); 1 year to 5 years, $121 million (2013 – $220 million); 6 to 10 years, $1,713 million (2013 – $1,601 million) and over 10 years, $9 million (2013 – $45 million). Approximately $1,678 million of the total debt on real assets relates to a loan that matures on April 1, 2022 and the majority of the remaining balance relates to commercial mortgages.

7. Collateral

Collateral transactions are conducted to support CPPIB's investment activities 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:

	2014	2013
	(in millions of dollars)	
Assets held as collateral on:		
Reverse repurchase agreements[1]	**3,221**	630
Over-the-counter derivative transactions[1]	**134**	93
Other debt	**1,129**	1,009
Assets pledged as collateral on:		
Repurchase agreements	**(5,227)**	(2,183)
Securities sold short	**(14,690)**	(10,752)
Debt on private real estate properties	**(2,605)**	(2,230)
Guarantees (refer to Note 15c)	**-**	(177)
	(18,038)	(13,610)

[1] The fair value of the collateral held that may be sold or repledged as at March 31, 2014 is $4,371 million (2013 - $1,651 million). The fair value of collateral sold or repledged as at March 31, 2014 is $3,216 million (2013 - $630 million).

8. Payables and Accrued Liabilities

Payables and accrued liabilities are comprised of the following:

	2014	2013
	(in millions of dollars)	
Operating expenses	**350**	405
Pensions and benefits payable	**425**	366
Tax deductions due to the Canada Revenue Agency	**152**	139
	927	910

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 *2013-2014 Report on Plans and Priorities*, tabled in Parliament in March 2013 and amounts forecasted by the Office of the Superintendent of Financial Institutions.

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:

	2014					
(in millions of dollars)	Investment Income (Loss)[1]	Net Gain (Loss) on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities						
Canada	**49**	**2,851**	**2,900**	**(9)**	**(14)**	**2,877**
Foreign developed markets	**1,422**	**16,737**	**18,159**	**(320)**	**(48)**	**17,791**
Emerging markets	**228**	**1,167**	**1,395**	**(108)**	**(7)**	**1,280**
	1,699	**20,755**	**22,454**	**(437)**	**(69)**	**21,948**
Fixed income						
Bonds	**1,695**	**(1,607)**	**88**	**-**	**-**	**88**
Other debt	**662**	**1,208**	**1,870**	**(83)**	**(6)**	**1,781**
Money market securities[5]	**263**	**2,085**	**2,348**	**(311)**	**(40)**	**1,997**
Debt financing liabilities	**(33)**	**(704)**	**(737)**	**-**	**-**	**(737)**
	2,587	**982**	**3,569**	**(394)**	**(46)**	**3,129**
Real assets						
Private real estate	**967**	**3,003**	**3,970**	**(113)**	**(74)**	**3,783**
Infrastructure	**534**	**1,346**	**1,880**	**(3)**	**(27)**	**1,850**
	1,501	**4,349**	**5,850**	**(116)**	**(101)**	**5,633**
Interest on operating balance	**3**	**-**	**3**	**-**	**-**	**3**
	5,790	**26,086**	**31,876**	**(947)**	**(216)**	**30,713**

The notes are on the following page.

	2013					
(in millions of dollars)	Investment Income (Loss)[1]	Net Gain (Loss) on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities						
Canada	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
	1,495	8,166	9,661	(378)	(61)	9,222
Fixed income						
Bonds	1,558	1,208	2,766	-	-	2,766
Other debt	646	625	1,271	(47)	(4)	1,220
Money market securities[5]	321	1,183	1,504	(287)	(37)	1,180
Debt financing liabilities	(30)	(174)	(204)	-	-	(204)
	2,495	2,842	5,337	(334)	(41)	4,962
Real assets						
Private real estate	867	896	1,763	(67)	(40)	1,656
Infrastructure	429	505	934	(3)	(35)	896
	1,296	1,401	2,697	(70)	(75)	2,552
Interest on operating balance	3	-	3	-	-	3
	5,289	12,409	17,698	(782)	(177)	16,739

1 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.
2 Includes realized gains and losses from investments, and unrealized gains and losses on investments held at the end of the year.
3 Includes foreign exchange gains of $9.7 billion (2013 – losses of $519 million).
4 Includes net unrealized gains of $10,203 million (2013 – $4,073 million) which represents the change in fair value on those investments where the fair value is derived primarily from assumptions based on non-observable market data.
5 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 12 months ended March 31, 2014, undetected overpayments and underpayments are estimated to be $ 0.3 million and $ 99.7 million respectively ($5 million and $56 million in 2012-13). These estimates are used by the CPP to assess the quality and accuracy of decisions and to continuously improve its systems and practices for 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.

12. Operating Expenses

	2014	2013
	(in millions of dollars)	
General operating expenses	**413**	386
Personnel related costs	**626**	651
Professional and consulting fees	**46**	39
	1,085	1,076

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 contributory earnings, and self-employed workers pay the full amount.

The CPP is managed by the federal and provincial Ministers of Finance. The CPP's financial state is reviewed by the federal, provincial and territorial Ministers of Finance 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 Finance Ministers to either increase or maintain the rate, 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 made 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 financial markets through the establishment of the CPPIB to achieve a 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 mainly operating on a "steady-state" basis, i.e. based on a lowest steady-state contribution rate that generally stabilizes the ratio of assets to expenditures over the long term. Steady-state funding along with incremental full funding for new or enhanced benefits improve fairness and equity across generations and ensure the long-term financial sustainability of the CPP.

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 federal Minister of Finance and his or her provincial counterparts. The most recent triennial report, the *Twenty-sixth Actuarial Report* on the CPP as at December 31, 2012, was tabled in Parliament on December 3, 2013. The next triennial actuarial report as at December 31, 2015, is expected to be tabled by December 2016.

In the *Twenty-sixth Actuarial Report*, the minimum contribution rate was determined to be 9.84 percent of contributory earnings for the year 2016 and thereafter (9.86 percent before 2023 and 9.85 percent for the year 2023 and thereafter in the *Twenty-Fifth Actuarial Report*). 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 over the period 2013 to 2022. Thereafter, a portion of investment income (27 percent in 2050) will be required to make up the difference between contributions and expenditures. Under the current legislated contribution rate of 9.9 percent, the total assets are expected to grow to $300 billion by the end of 2020 (i.e. 5.2 times the following year's annual expenditures).

A number of assumptions were used in the *Twenty-sixth Actuarial Report* for the projections of the CPP's revenues and expenditures over the long projection period of 150 years. These assumptions represent the best estimates according to the Chief Actuary's professional judgement relating to demographic, economic, and other factors such as the ones shown in the table below:

	As at 31 December 2012		**As at 31 December 2009**	
	Male	Female	Male	Female
Canadian life expectancy				
at birth in 2013 (2009 – in 2010)	86.1 years	89.1 years	85.4 years	88.3 years
at age 65 in 2013 (2009 – in 2010)	20.9 years	23.3 years	20.2 years	22.6 years
Retirement rates for cohort at age 60	34% (2016+)	38% (2016+)	38% (2016+)	41% (2016+)
CPP disability incidence rates (per 1,000 eligible)	3.30 (2017+)	3.75 (2017+)	3.40 (2015+)(1)	3.79 (2015+)(1)
Total fertility rate	1.65 (2015+)		1.65 (2015+)	
Net migration rate	0.60% of population for 2017+		0.58% of population for 2023+	
Participation rate (age group 15-69)	76.8% (2030)		75.2% (2030)	
Employment rate (age group 15-69)	72.1% (2030)		70.6% (2030)	
Unemployment rate	6.0% (2023+)		6.1% (2022+)	
Rate of increase in prices	2.2% (2021+)		2.3% (2019+)	
Real-wage increase	1.2% (2020+)		1.3% (2019+)	
Real rate of return	4.0% (2019+)		4.0% (2017+)(2)	

1 The ultimate disability incidence rates assumption of the 25th CPP Actuarial Report has been adjusted based on the 2012 eligible population in order to compare with the assumption for this 26th CPP Actuarial Report on the same basis.

2 For the 26th CPP Actuarial Report, the real rate of return assumption is net of all investment expenses, including CPPIB operating expenses. On a comparable basis, the ultimate real rate of return assumption of the 25th CPP Actuarial Report would be restated as 3.9% to reflect this improvement in the methodology.

An independent panel of qualified actuaries reviewed the *Twenty-sixth 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 9.84 percent if other than best-estimate assumptions were to materialize.

The *Twenty-sixth Actuarial Report* measures the actuarial obligation under an open group approach, and provides information under a closed group approach in a footnote. The open group approach 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 closed group includes only current participants of the CPP, with no new entrants permitted and no new benefits accrued. The choice of the methodology used to produce a social security system's balance sheet is mainly determined by the system's financing approach. Under the partial funding financing approach of the CPP, in any given year, current contributors allow the use of their contributions to pay current beneficiaries' benefits. This financial arrangement creates claims for current and past contributors to contributions of future contributors. As such, the most appropriate assessment of the financial sustainability of partially funded plans by means of their balance sheets should reflect these claims. The open group approach does account explicitly for these claims by considering the benefits and contributions of both the current and future plan participants. In comparison, the closed group approach does not reflect these claims, since only current participants are considered.

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 asset excess (shortfall) and the assets to actuarial obligation ratio under open and closed approaches at valuation dates of the current and previous actuarial reports:

	As at December 31, 2012		**As at December 31, 2009**	
(in billions of dollars)	Open Group	Closed Group	Open Group	Closed Group
Actuarial obligation	2,254.7	1,004.9	1,995.0	874.8
Assets available for benefit payments	2,245.8	175.1	1,988.1	126.8
Asset Shortfall	(8.9)	(829.8)	(6.9)	(748.0)
Assets to actuarial obligation ratio	99.6%	17.4%	99.7%	14.5%

According to the *Twenty-sixth Actuarial Report*, the CPP is intended to be long-term and enduring in nature, a fact that is reinforced by the federal, provincial, and territorial governments' joint stewardship through the established strong governance and accountability framework of the CPP. Therefore, if the CPP's financial sustainability is to be measured based on its asset excess or shortfall, it should be done on an open group basis that reflects the partially funded nature of the CPP, that is, its reliance on both future contributions and invested assets as a means of financing its future expenditures. Using the open group approach, the Chief Actuary confirms that the CPP, on the basis of the assumptions selected, will continue to meet its financial obligations and is sustainable in the long term.

The assets available for benefit payments represent the funds accumulated for the payment of pensions, benefits, and operating expenses. As at March 31, 2014, the value of the CPP's assets available for benefit payments is $223.2 billion (2013 – $187.7 billion). This amount represents approximately 5.6 times the 2015 planned expenditures of $40.5 billion (2013 – 4.9 times). According to the *Twenty-sixth Actuarial Report*, the ratio of assets to the following year's expenditures is expected to reach 5.2 times by 2020 (*Twenty-fifth Actuarial Report – 4.7 times)* and 5.9 times by 2075 (*Twenty-fifth Actuarial Report – 5.2 times)*.

14. Contractual Obligations

The CPP, through the 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, 2014, the contractual obligations total $27.9 billion (2013 – $20.7 billion).

As at March 31, 2014, the CPP, through the CPPIB, has made lease and other contractual obligations of $165.9 million (2013 – $197.0 million) that will be paid over the next 11 years.

15. Contingent Liabilities

a) Appeals relating to the payment of pensions and benefits

At March 31, 2014, there were 13,195 (12,623 in 2013) appeals relating to the payment of CPP disability benefits. These contingencies are reasonably estimated, using historical information, at an amount of $175.3 million ($107.5 million in 2013), which was recorded as an accrued liability in the CPP 2013-14 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 it 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.

In October 2011 and on July 31, 2012 respectively, the CHRT endorsed the settlement entered into by the parties on the outstanding issues of damages for pain and suffering and for wage loss.

The total expense was revised to $139 million ($184 million in 2012-13). Out of the $139 million, payments of $14 million were made during the current fiscal year. As of March 31, 2014, no amount remains payable to ESDC.

On June 27, 2014, a group of individuals filed a motion before the CHRT challenging one aspect of the Settlement Agreement endorsed by the CHRT in the above matter. The potential financial impact and the outcome of this claim are not determinable.

c) Guarantees

As part of certain investment transactions, the CPPIB agreed to guarantee, as at March 31, 2014, up to $1.5 billion (2013 – $1.4 billion) to other counterparties in the event certain investee 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, 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 $4,368 million (2013 – $4,847 million) of contributions receivable from the Canada Revenue Agency.

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

Transactions for the year

	2014	2013
	(in millions of dollars)	
Pension and benefit delivery, accommodation and corporate services		
Employment and Social Development Canada	**328**	405
Collection of contributions and investigation services		
Canada Revenue Agency	**169**	169
Cheque issue and computer services		
Public Works and Government Services Canada	**9**	10
Actuarial services		
Office of the Superintendent of Financial Institutions and Department of Finance	**3**	2
	509	586

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.

	2014			2013		
(in millions of dollars)	**GoC**	**CPPIB**	**Total**	GoC	CPPIB	Total
Financial assets	**4,659**	**254,006**	**258,665**	5,067	211,575	216,642
Non-financial assets	**-**	**327**	**327**	-	72	72
Liabilities	**542**	**35,241**	**35,783**	607	28,383	28,990
Assets available for benefit payments	**4,117**	**219,092**	**223,209**	4,460	183,264	187,724
Income						
Contributions	**43,181**	**-**	**43,181**	41,655	-	41,655
Investment income	**3**	**30,710**	**30,713**	3	16,736	16,739
	43,184	**30,710**	**73,894**	41,658	16,736	58,394
Expenses						
Pensions and benefits	**37,324**	**-**	**37,324**	35,590	-	35,590
Operating expenses	**509**	**576**	**1,085**	586	490	1,076
	37,833	**576**	**38,409**	36,176	490	36,666
Net increase in assets available for benefit payments	**5,351**	**30,134**	**35,485**	5,482	16,246	21,728

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, 2014, a total of $34 billion was transferred to the CPPIB and a total of $29 billion was returned to the CPP to meet its liquidity requirements.

Activities during the year

	2014	2013
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB, beginning of year	**307,330**	275,648
Transfers of funds to CPPIB	**34,332**	31,682
Accumulated transfers to CPPIB, end of year	**341,662**	307,330
Accumulated transfers from CPPIB, beginning of year	**(189,599)**	(163,299)
Transfers of funds from CPPIB	**(28,638)**	(26,300)
Accumulated transfers from CPPIB, end of year	**(218,237)**	(189,599)
Net accumulated transfers to CPPIB	**123,425**	117,731

18. Comparative Information

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