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CPP 40 YEARS

1966-2006

ANNUAL REPORT OF THE

CANADA PENSION PLAN

2005–06

Canada

Annual Report of the Canada Pension Plan 2005-06

Fiscal Year 2005-06

ISPB

As of February 2006, the legal names of the minister and department responsible for the Canada Pension Plan (CPP) are the Minister of Human Resources and Skills Development and the Department of Human Resources and Skills Development respectively. Operationally, the department is styled as Human Resources and Social Development Canada (HRSDC).

The names of the departments previously responsible for the CPP, namely Human Resources Development Canada (HRDC) and/or Social Development Canada (SDC), are used in this report in a historical context only.

This report is produced by Human Resources and Social Development Canada, in collaboration with: the Department of Finance, the Canada Revenue Agency, Public Works and Government Services Canada, and the Office of the Superintendent of Financial Institutions.

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Government of Canada Gouvernement du Canada

Her 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 2005-06.

Respectfully,

James M. Flaherty
Minister of Finance

Monte Solberg
Minister of
Human Resources and Social Development

Canada

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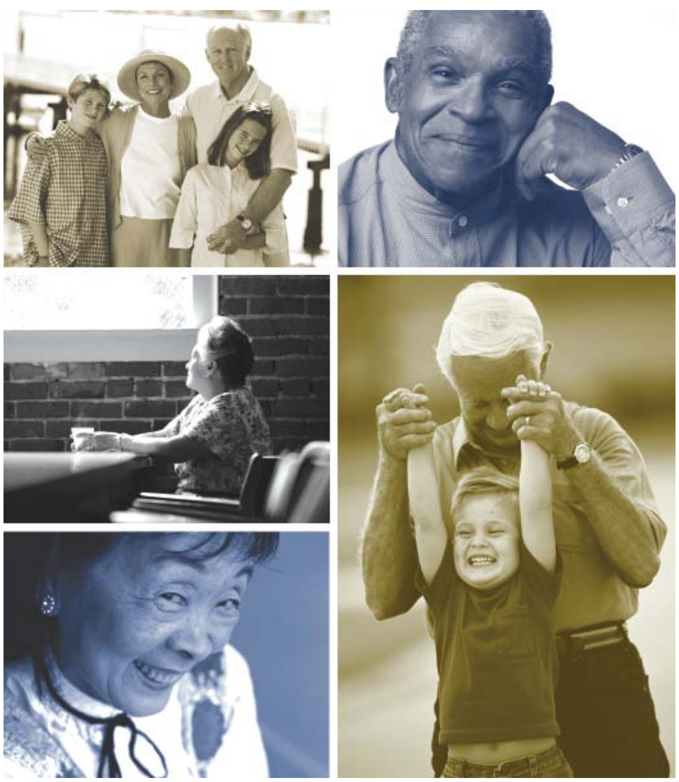
This report on the Canada Pension Plan (CPP) consolidates input from all departments involved in the administration of the Plan: Social Development Canada (SDC), the Department of Finance, the Canada Revenue Agency (CRA), Public Works and Government Services Canada (PWGSC), the Office of the Superintendent of Financial Institutions (OSFI) and the CPP Investment Board (CPPIB).

Foreword THE CANADA PENSION PLAN – 40 YEARS STRONG!

For 40 years, the CPP has been contributing to the income security of Canadians. It is a vital part of Canada's social safety net and retirement income system.

In 1966, Canadians began contributing to the CPP and Quebec Pension Plan (QPP). The plans were created to provide a measure of income protection to Canadian workers and their families. They included monthly retirement pensions, benefits for people with disabilities, dependent children, survivors and a one-time lump-sum death benefit.



Changes made over the years better meet the needs of Canadians. These include:

- introduction of full annual cost-of-living indexation (1974);
- elimination of the difference in availability of survivor benefits to male and female contributors as well as to their surviving spouses and dependent children (1975);
- elimination of the retirement and employment-earnings test to receive a retirement pension at age 65 (1975);
- social security agreements with other countries that protect pensions for new Canadians and emigrants (1978);
- exclusion of zero or low earning periods while caring for a child under the age of seven (1978);
- flexibility in receiving an actuarially adjusted retirement pension as early as age 60 or as late as age 70 (1987);
- credit splitting between spouses in the event of divorce (1978) or separation (1987);
- continuation of survivor's pensions if the surviving spouse remarries (1987);
- sharing of retirement pensions between spouses (1987);
- availability, as defined by the Indian Act, for individuals working on reserve to make CPP contributions (1988);

- major reforms to the CPP to restore the long-term financial health of the plan by moving to a new and unique financing approach that provides for the fuller funding of benefits as they accrue to the individual (1998);
- creation of the CPP Investment Board (1998); and
- extension of benefits to same-sex common-law partners (2000).

The Canada Pension Plan continues to be an important part of Canadians' life-long financial well-being. With a strong fiscal framework in place, workers and their families can be confident that the Canada Pension Plan will be there for them when they need it.

2005-06 The Year at a Glance

- Changes to the Canada Pension Plan reflect the statutory increase in maximum pensionable earnings from $41,100 for 2005 to $42,100 for 2006. The contribution rate remained unchanged at 9.9 percent.
- 4.7 million Canadians received benefits from the Canada Pension Plan (CPP), with a total value of approximately $25 billion.
- About 3.2 million people received $17.7 billion in CPP retirement pensions.
- About 960,000 surviving spouses or common-law partners and 83,000 children of deceased contributors received over $3.7 billion in CPP benefits.
- About 296,000 persons with disabilities and 89,000 of their children received almost $3.4 billion in CPP disability benefits.
- Death benefits amounted to some $0.3 billion.
- Personal Statements of Contributions were received by 534,373 individuals between the age of 18 and 70.
- Administrative costs amounted to approximately $462 million, or 1.85 percent of the $25.0 billion in benefits paid. This compares favourably with administrative costs for other large pension plans and individual RRSPs.
- On March 31, 2006, total CPP net assets were valued at approximately $101.1 billion. The assets were held in provincial, territorial and federal government bonds, the Deposit with the Receiver General for Canada, the receivables net of liabilities, domestic and foreign publicly traded equities, money market securities, inflation-linked bonds, as well as private equity, real estate and infrastructure assets. Bonds, equities and real return assets are stated at fair value.

The Canada Pension Plan IN BRIEF

Almost everyone who participates in the paid labour force in Canada contributes to the Canada Pension Plan (CPP) or to its sister plan, the Quebec Pension Plan (QPP), and will at some time benefit from their provisions.

Established by an act of Parliament in 1965 and implemented in 1966, the CPP is a jointly managed federal-provincial plan. Quebec manages and administers its own plan, the QPP, and participates in the decision making of the CPP. Benefits from either plan are based on pension credits accumulated under both. The plans are financed through mandatory contributions from employees, employers and self-employed people, as well as from investment income. (QPP information is available from the Régie des rentes du Québec at www.rrq.gouv.qc.ca.)

While it is perhaps best known for its retirement pensions, the CPP also provides disability, death, survivor and children's benefits. The CPP administers the largest long-term disability plan in Canada. Besides paying monthly benefits to eligible disabled contributors and their children, vocational rehabilitation services and return-to-work supports assist some disability beneficiaries in returning to the workforce. In addition, an amendment to the CPP was passed in May 2004 to allow CPP disability recipients who return to work to have their benefits quickly reinstated if they cannot continue working should their disability recur.

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

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

Benefits AND EXPENDITURES

The number of people receiving CPP benefits has increased steadily over the past decade. To pay for these benefits, expenditures have also increased. Figure 1 shows the yearly increases in benefits and expenditures since 2002-03. Figure 2 (next page) shows the percentage of expenditures by type of benefit.

Retirement Pensions

Retirement pensions represent 70 percent of the total benefit dollars paid out by the CPP in 2005-06. The amount of each contributor's pension depends on how much and how long he or she has contributed and at what age he or she begins to draw the benefits. In March 2006, the monthly maximum retirement pension was $844.58; the average payment was $473.94.

The CPP offers flexibility with respect to the age of retirement. Contributors can take their pension as early as the age of 60 or receive a larger pension if they wait until after they turn 65 to begin receiving it. The CPP permanently reduces the pension by 0.5 percent per month for those who take their pension before reaching age 65, reflecting the fact that these seniors will, on average, receive their benefits longer than someone who retires at the age of 65.

Figure 1: **Benefits and Expenditures By Fiscal Year**

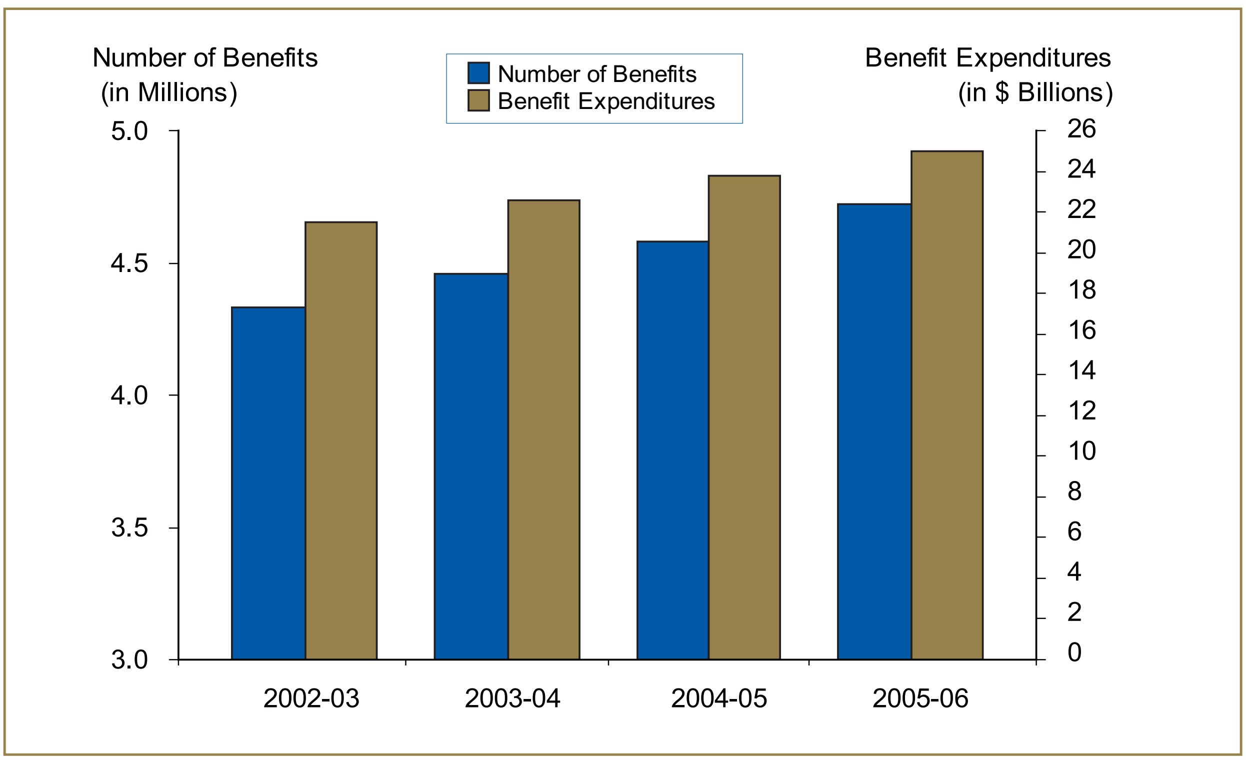
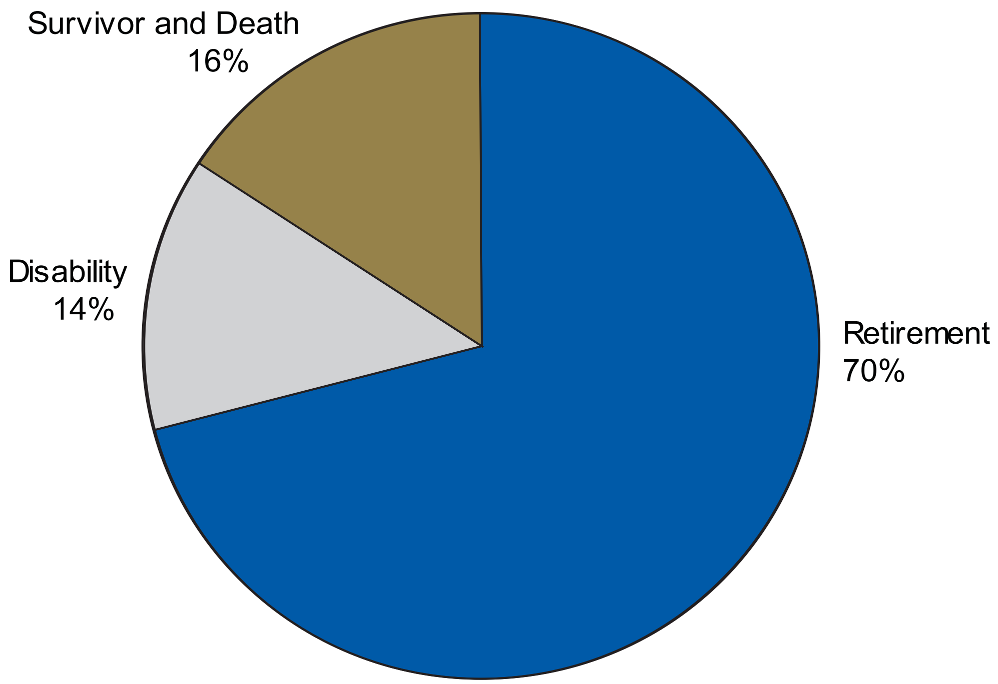


Figure 2: Percentage of Benefit Dollars Paid For 2005-06



For those who take their pension after reaching age 65, the CPP permanently increases the pension by 0.5 percent per month (up to a maximum of 30 percent), reflecting the fact that these seniors will receive their benefits for a shorter amount of time on average. The adjustments are intended to ensure that there is no advantage or disadvantage from taking the retirement benefit at a particular age. The Chief Actuary of the Canada Pension Plan completed a study on this issue in March 2003. The study is available at **www.osfi.gc.ca.**

Disability Benefits

Disability benefits, paid to eligible contributors and their children, represent 14 percent of the total benefit dollars paid out by the CPP in 2005-06. In March 2006, the maximum monthly disability benefit was $1,031.05; the average payment was $774.82. The children's monthly benefit was a flat rate of $200.47.

As part of Bill C-30, an amendment to the *Canada Pension Plan* was passed by Parliament in May 2004 to allow for automatic reinstatement of CPP disability benefits. The required provincial consent was obtained, and the reinstatement amendment came into force January 31, 2005.

This change allows CPP disability clients who return to work to have their benefits quickly restarted if they cannot continue working because their disability recurs. This entitlement is available on application, for two years after CPP disability benefits are stopped because a client returns to regular employment. The provision covers CPP disability clients who report a return to regular employment and whose benefits are stopped on or after January 31, 2005.

Survivor Benefits

Survivor benefits, paid to the surviving spouse or common-law partner of the contributor and his/her dependent children, represent 15 percent of the total benefit dollars paid out by the CPP in 2005-06. The amount of the monthly survivor's pension varies depending on a number of factors, including the age of the spouse or common-law partner at death and whether the beneficiary also receives other CPP benefits. In March 2006, the maximum monthly survivor's pension at age 65 was $506.75; the average payment was $307.75. The children's monthly benefit was a flat rate of $200.47.

Death Benefits

Death benefits represent 1 percent of the total benefit dollars paid out by the CPP in 2005-06. The death benefit is a one-time payment. The maximum payable is $2,500; the average payment in March 2006 was $2,225.97.

Other Provisions

The CPP includes provisions that compensate for periods of low earnings, namely the Child Rearing Provision (CRP) and the 15 percent general drop-out provision. The CRP allows for periods during which a person has remained at home, or has reduced their participation in the workforce to care for children under the age of seven, to be excluded from the calculation of their benefits. All of the months following the birth of the child until the child reaches their 7th birthday can be removed, provided the contributor meets all criteria, including low or no earnings.

The general drop-out provision excludes 15 percent of a person's lowest earnings to help offset periods of low or nil earning such as those incurred during unemployment, illness or schooling. The Plan has other provisions under which married or common-law spouses may either share their retirement pensions (where the union is intact) or split their credits (where the union has ended).

The Appeals Process

There are three opportunities for review of a person's CPP benefit application. Most requests for review concern an application for disability benefits.

The first opportunity involves a request to the Minister of Human Resources and Social Development (see note on inside cover of this report) for a reconsideration (or administrative review) of a decision concerning a benefit, a division of pension credits or a pension sharing.

A person who is not satisfied with the decision made at the departmental reconsideration level can appeal to a Review Tribunal. A Review Tribunal is an independent body made up of three people chosen by the Commissioner of Review Tribunals from a panel of 100 to 400 part-time members appointed by the Governor-in-Council.

In 2005-06, the Office of the Commissioner of Review Tribunals (OCRT) received 4329 appeals under the Canada Pension Plan. In that same period, the OCRT issued 3091 decisions, of which 1772 (57 percent of the total) had been decided in favour of the appellant. In addition, another 324 cases were concluded as a result of settlements offered by the Department.

The next opportunity for appeal under the Canada Pension Plan is with the Pension Appeals Board, which is an administrative tribunal at arm's length from the government. Board members are judges or former judges of the superior courts of a province or the federal courts. At this level of appeal, the claimant or the Minister must first request "leave to appeal" or permission for a hearing. In 2005-06, 83 percent of applications reviewed were granted "leave" to proceed to a hearing. Hearings are held in major centres across Canada. Travel and accommodations are provided for parties who are requested to attend the hearing. Claimants may appear on their own behalf or with representation, while the Minister is represented by a lawyer. Most of the cases concern disability benefits. The hearings and the decisions are open to the public. This past year, 53 percent of the final decisions supported the claimants.

Decisions of the Pension Appeals Board may be brought to the Federal Courts for Judicial Review. The Federal Courts either uphold the decision or return it to the Pension Appeals Board for a new review.

Ensuring Financial Sustainability

As joint stewards of the CPP, the federal and provincial ministers of Finance review the Plan'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 Plan 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 year before the legislated ministerial review of the Plan). The CPP legislation also requires the Chief Actuary to prepare an actuarial report any time a Bill is introduced in Parliament that, in the view of the Chief Actuary, has a material impact on the estimates in the most recent triennial actuarial report. This reporting ensures that the long-term financial implications of proposed Plan changes are given timely consideration.

Changes to the CPP legislation governing the general level of benefits, the rate of contributions or the investment policy framework can be made only through an act of Parliament. All such changes require the agreement of at least two thirds of the participating provinces, representing at least two thirds of the population. The changes come into force only after two years' notice, unless all the provinces waive this requirement, and after Provincial Orders-in-Council confirming the changes have been passed. Quebec participates in decision-making regarding changes to the CPP legislation, even though it administers its own plan. It is important that Quebec be involved in changes to the CPP to ensure the portability of QPP and CPP benefits across Canada.

Federal/Provincial/Territorial (FPT) Ministers of Finance completed the 2004-2006 triennial review of the CPP in June 2006. Ministers based their review on a number of factors, including the conclusions of the *Twenty-First Actuarial Report* on the Canada Pension Plan, prepared by the Chief Actuary of the Canada Pension Plan for the purpose of the review. They concluded that the Plan is on sound financial footing and can be sustained at the current contribution rate of 9.9 percent into the foreseeable future. Further information on this and previous reviews of the Plan can be found at **www.cpp-rpc.gc.ca.**

FPT Ministers further recommended two changes to the CPP: to allow long-term contributors to the CPP (that is, those with 25 years or more of contributions) to be eligible for the disability benefit if they have valid contributions in three, instead of four, of the last six years; and to establish guidelines for the operation of an existing financing provision in the CPP to fully fund any new benefits or benefit enhancements. Ministers agreed to make best efforts to implement these changes as soon as possible.

Actuarial Reporting

The *Twenty-First Actuarial Report* was tabled in Parliament by the Minister of Finance in December 2004. The report presented the financial status of the Plan as at December 31, 2003 and provides information to evaluate the Plan's financial sustainability over a long period, assuming Plan provisions remain unchanged. The findings of the report were an important element in the federal and provincial finance ministers' triennial financial review of the CPP for 2004-2006. The previous triennial financial review of the Plan by ministers had been based on the findings of the *Eighteenth Actuarial Report* (as at December 31, 2000). Since that report, the Canada Pension Plan was subject to a series of amendments, whose financial implications were outlined in the *Nineteenth* and *Twentieth Actuarial Reports*.

Federal and provincial finance ministers have endorsed peer reviews of the triennial review. For this purpose, 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-First Actuarial Report*. The findings of the independent panel indicate that the report was competently prepared, the assumptions used in the Actuarial Report are reasonable and as a result, the conclusions of the Chief Actuary that the CPP is financially stable are well supported. It also stated that the Report meets current professional standards of actuarial practice and uses data and methodologies that are appropriate and reasonable. In addition to its conclusions, the panel made a number of recommendations regarding the preparation of future actuarial reports. The GAD concluded that the work done by the panel adequately addressed the issues. As a result, Canadians can have confidence in the results of the *Twenty-First Actuarial Report* and the conclusions reached by the Chief Actuary about the long-term financial health of the Plan.

The Office of the Chief Actuary (OCA) will study the panel's recommendations and give them due consideration in the preparation of future triennial actuarial reports. Since the first peer review, the OCA has developed a strong peer review process for its work. The panel's report and recommendations, as well as the actuarial reports and previous peer reviews can be found at **www.osfi.gc.ca.** The next statutory Actuarial Report as at December 31, 2006 is to be made public by the end of 2007. In preparation for that report, the OCA held a one-day seminar on the demographic and economic outlook for Canada to get opinions from a wide range of individuals with relevant expertise. The seminar was held in March 2006.

A Fair Approach to Funding

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 economic, financial and demographic circumstances of the time. The period was characterized by a rapid growth in wages and labour-force participation, and low rates of return on investments.

However, demographic and economic developments and changes to benefits in the 30 years that followed resulted in significantly higher costs. When federal and provincial finance ministers began their five-year statutory review of the CPP finances in 1996, contribution rates, already legislated to rise to 10.1 percent by 2016, were expected to have to rise again – to 14.2 percent by 2030 – to continue to finance the Plan on a pay-as-you-go basis.

Continuing to finance the Plan on a pay-as-you-go basis would have meant imposing a heavy financial burden on Canadians in the workforce 25 years down the road, which was deemed unacceptable by the federal and provincial governments. Therefore, in 1997, after extensive consultations with Canadians, they agreed instead to change the funding approach of the Plan to a hybrid of pay-as-you-go and full funding. Under full funding, each generation pays for its own benefits.

Steady-state Financing

To reduce the burden on future generations, the federal and provincial governments introduced "steady state" financing as part of the 1997 reform agreement. This approach requires that contribution rates be set no lower than the lowest rate expected to ensure the long-term financial stability of the Plan without recourse to further rate increases. At the time of the reforms, this was determined to be 9.9 percent. Therefore, under steady-state financing, the contribution rate was scheduled to increase incrementally (from 5.6 percent in 1996) to 9.9 percent in 2003, and to remain at this level thereafter.

According to the Chief Actuary of Canada, steady-state financing will generate a level of contributions that exceeds the benefits paid until 2022. Funds not immediately required to pay benefits will be transferred to the CPP Investment Board for investment.

Plan assets will accumulate rapidly over this period and over time will help pay the growing costs that are expected as more and more "baby boomers" begin to collect their retirement pension.

In 2022 and thereafter, when most of the baby boomers will have retired, and benefits paid begin to exceed contributions, investment revenues from the CPP accumulated assets will provide the funds necessary to make up the difference. However, contributions will remain the main source of funding for benefits.

The steady-state financing approach has moved the CPP away from pay-as-you-go financing (with a small reserve) towards fuller funding. By 2025, the Plan is expected to be about 25 percent pre-funded (i.e., Plan assets cover about 25 percent of obligations) compared to about 7 percent funded at the time of the 1997 agreement. The move to steady-state financing and the other changes agreed to in 1997 have reduced the relative size of the Plan's unfunded liability (obligations not covered by assets) in a manner that is fair across generations. Moving to full-funding, which would have eventually eliminated the unfunded liability, would have created unfairness across the generations. During the transition, contributors of some generations would have had to pay much higher contributions than others—they would have had to pay for the benefits of current retirees and for the development of a reserve to cover their own pensions. Continuing with a pay-as-you-go approach would also have been unfair, as it would have meant a sharp increase in the contribution rate over the coming decades.

According to the *Twenty-First Actuarial Report,* as at December 31, 2003, the Plan is 12 percent funded. This results in an unfunded liability of $516.3 billion. The relative size of the unfunded liability will decline over time as Plan assets grow more rapidly than Plan liabilities over the next few decades. Thereafter, Plan assets will grow at least as quickly as liabilities. The evolution of the funding level and the projected growth rates of assets and liabilities are better measures of the future financial health of the CPP than is the notion of the unfunded liability at a particular point in time.

A partially funded CPP not only balances the two approaches to funding, but also contributes to diversifying the funding of Canada's retirement income system, which includes:

- the Old Age Security program, funded by federal government revenues, and
- private savings, including tax-deferred, fully funded employer-sponsored pension plans and registered retirement savings plans (RRSPs).

A diversified funding approach allows Canada's retirement income system to be less vulnerable to changes in economic and demographic conditions than are systems in countries that use a single funding approach. In addition, the Canadian approach to pension provision, based on a mix of public and private pensions, is an effective way to provide for retirement income needs, according to international organizations.

FINANCIAL Accountability

Since 1999-2000, the CPP has used the accrual basis of accounting for revenues and expenditures. This method gives administrators a detailed financial picture and allows accurate matching of revenue and expenditures in the year in which they occur.

As at March 31, 2006, total CPP net assets were valued at approximately $101.1 billion. The Plan's net assets are composed of contributions and investment income that have accumulated since the Plan's inception in 1966, less benefit and administrative expenditures over the same period. According to the Chief Actuary, Plan net assets are expected to increase appreciably over the next 20 years.

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 Plan: contributions, interest, pensions and other benefits paid, and administrative expenditures. The CPP Account also records the amounts transferred to or received from both the CPP Investment Fund and the CPP Investment Board. Spending authority is limited to the Plan's net assets. The CPP assets are not part of the federal government's revenues and expenditures.

Prior to the coming into force of Bill C-3 *(An Act to Amend the Canada Pension Plan and the Canada Pension Plan Investment Board Act)*, the Canada Pension Plan Investment Board was responsible for investing net new funds, while the CPP Account's operating balance and bond portfolio were managed by the Government of Canada. The amended legislation provides for the transfer of CPP assets that were previously administered by the federal government to the CPP Investment Board (CPPIB), beginning in 2004. These assets consist of the bonds held by the CPP Investment Fund and a portion of the deposit with the Receiver General for Canada. The CPPIB and the federal government have signed an agreement governing the transfer of the assets. The bonds are being transferred to the CPPIB over a three-year period that started in May 2004. Funds on Deposit with the Receiver General for Canada were fully transferred to the CPPIB over a period of twelve months that began in September 2004.

CPP Assets and Cash Management

The agreement between CPPIB and the federal government also stipulated that the CPP would transfer any excess cash, once the benefit and administration expenses had been paid, to the CPPIB in order to gain a better return. The CPP produces cash flow forecasts to determine the funds to be transferred to or from the CPPIB and these are updated regularly.

The CPP works closely with the CPPIB, various government departments and banks to coordinate these transfers and to put in place a tightly controlled process. A control framework is in place to ensure that the transfer process is followed properly and that all controls put in place are respected. For instance, the CPP obtains confirmations from all critical points during the transfers and can therefore follow the cash from one site to the next.

Since September 2004, the CPP has been transferring between $200 and $800 million to the CPPIB each week and receiving between $1.5 and $2 billion from CPPIB at the end of each month to cover the main benefit payments.

CPP Investment Board

The CPP Investment Board was created by an Act of Parliament in December 1997 to invest funds not required by the Canada Pension Plan to pay current benefits.

The Board is independent of the CPP. It operates at arm's length from government and is overseen by an independent board of directors. Its legislated mandate is to manage funds transferred from the CPP in the best interests of the contributors and beneficiaries of the Plan. The Board is to invest CPP assets with a view to achieving a maximum rate of return, without undue risk of loss. The CPPIB must also consider the factors that affect the Plan's funding and its ability to meet its financial obligations.

The CPPIB has a long-term investment horizon. In his most recent report, the Chief Actuary of Canada estimates that contribution revenues will exceed CPP benefit payments and expenses well into the future, and that the CPP will not need money from investment income until 2022.

Further information on the Board's mandate, governance structure and investment policy can be found at **www.cppib.ca.**

CPP Investments

As at March 31, 2006, CPP investments consisted of $27.8 billion of fixed income securities, $4.4 billion of private equity and $8.5 billion of inflation-linked bonds, real estate and infrastructure and $57.3 billion in publicly traded stocks.

The CPP fund earned $13.1 billion for a return of 15.5 percent for the fiscal year ending March 31, 2006.

Investing for our Future

The CPP Investment Board believes that publicly traded equities will outperform fixed income assets over the long term. Consequently, the CPP Investment Board will continue to invest in publicly traded equities or stocks so that CPP assets are allocated in a way that reflects the long-term funding requirements of the Plan.

To complement its $57.3 billion public equity portfolio, which is mostly passive, the CPP Investment Board has expanded into private equities primarily through externally managed funds that provide venture capital and expansion financing to private companies. These investments are made through limited partnerships or pooled funds managed by investment firms in Canada and around the world.

As at March 31, 2006, private equity fund commitments by the CPPIB were approximately $13.3 billion, of which $4.4 billion has been drawn. These commitments are managed by more than 50 different external fund managers.

Like other major pension funds, the CPP Investment Board is looking for opportunities to increase investments in real return assets, such as real estate and infrastructure, because their value over time will likely track and surpass the general rate of inflation.

In compliance with its statutory requirement to hold a public meeting in each participating province at least once every two years, the CPPIB held public meetings in every province in January 2001, June 2002, September and October 2004. The next meetings are scheduled for 2006.

MANAGING the CPP

Collecting and Recording Contributions

Contributions to the CPP are paid on earnings between a minimum and a maximum amount. The minimum (which remains constant) is $3,500 and the maximum is adjusted annually to reflect the growth in the average Canadian industrial wage. The maximum amount of pensionable earnings as of January 1, 2006, was $42,100 (up from $41,100 in 2005). Contributions stop once a contributor reaches the age of 70 or begins to receive a CPP retirement pension or disability benefit.

The contribution rate in 2006 is 9.9 per cent, equally split between employees and employers. People who are self-employed pay the full 9.9 percent. Employers and employees make approximately 94 percent of contributions; the remaining 6 percent comes from the self-employed. In 2005-06, contributions amounted to $30.1 billion.

All CPP contributions are remitted to the Canada Revenue Agency (CRA). CRA also assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4 slips. To verify that contribution requirements are being met, CRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit. There are approximately 1.5 million existing employer accounts. During 2005-06, CRA conducted 53,228 audits, concentrating on files with irregularities.

Overpayment of Benefits

Consistent with its mandate to manage the CPP effectively, SDC has procedures in place to detect benefit overpayments. During 2005-06, overpayments totaling $53 million were detected. Of this amount, $45 million was recovered and remission was granted of debts totaling $4 million.

2004 Budget Changes

In 2004, the rules governing contributions to the Canada Pension Plan were amended. They now allow a new employer who immediately succeeds another as a result of a change in business structure, to take into account the contributions the predecessor employer made for that same employee when determining amounts due. This change was extended to situations where self-employed individuals become employees of a corporation controlled by them or vice versa. The new rules apply for every year after 2003.

Before this change, when a business was restructured – notably as a result of a winding up and immediate reconstitution under a different legal structure (e.g., where a limited partnership is reconstituted as a corporation) or the acquisition of a major portion of the employer's property or of a distinct part of the employer's business (e.g., where a distinct division of a business is sold to another enterprise) – employees were treated as if they had new employers. Employers were required to begin withholding CPP contributions anew and they could not take into account the contributions withheld at source by the previous employer – even if there had been no interruption of service by the employee.

Other amendments clarify the annual employers' contributions amount required under the Act and specify that only amounts remitted in excess may be refunded to the employer.

These changes ensure harmonization of contribution requirements between the Canada Pension Plan and the Quebec Pension Plan. Further information about these changes can be obtained by contacting the Canada Revenue Agency at 1 800 959-5525.

Administrative Costs

In 2005-06, it cost approximately $462 million to administer the CPP, with SDC accounting for the largest portion at $269 million and HRSDC $21 million. CRA required approximately $101 million and Public Works and Government Services Canada (PWGSC) some $16 million, for services to the CPP. The Office of the Superintendent of Financial Institutions (OSFI), where the Office of the Chief Actuary is housed, accounted for about $1 million. The CPPIB reported $54 million in operating expenses.

CPP administrative expenses in 2005-06 represent 1.85 percent of the $25.0 billion in benefits paid. This ratio compares very favourably with that of other pension plans. CPP administrative costs also compare favourably with those of RRSPs. Table 3 presents the CPP's administrative expenditures for the last three years.

Table 1: CPP Administrative Costs 2003-04 to 2005-06

	Expenditures (in $ millions)		
Department/Agency	**2003-04**	**2004-05**	**2005-06**
SDC (formerly included with HRDC)	-	263	269
HRSDC (formerly included with HRDC)	-	10	21
Former HRDC	309	-	-
CRA	85	96	101
CPPIB operating expenses	19	31	54
PWGSC	15	16	16
OSFI	1	1	1
Finance Canada	.4	.3	.3
Total	429.4	417.3	462.3

Improved Service Delivery – Service Canada

The goal of Service Canada (SC) is to provide better, one-stop service to more Canadians in more communities, delivered with the right service attitude. Over time, it will bring federal services and benefits together, making it easier for Canadians to get more of the help they need in one place, whether by phone, on the Internet or in person.

Service Canada will integrate services from a number of federal departments to form a single service-delivery network. Over the next three years, Service Canada will continue to enhance and introduce more services with the goal of continuous improvement in service delivery and client satisfaction.

Reaching out to Canadians

During 2005-06, Service Canada (SC) continued its efforts to help Canadians better understand public pensions and the retirement income system, and to encourage them to actively plan and prepare for their own retirement. Information on the CPP is available in print, on the Internet, in person at local offices, by phone, and at electronic kiosks in government offices and public buildings. Personalized contact with clients continued to receive high priority. In 2005-06, SC issued personal CPP Statements of Contributions to 534,373 individuals between the ages of 18 and 70. The statements were accompanied by information on the retirement income system in Canada.

Delivering Service

In 2005-06, SC continued to modernize CPP program delivery. With the multi-year Information Technology Renewal project, staff now have access to a consolidated view of complete CPP and OAS client and benefit information, benefit payment history and lifetime CPP contributions. In addition, fully automated adjudication (determination of eligibility calculations of entitlement) has been introduced for CPP retirement benefits. Capabilities for automated adjudication of additional benefits will continue over the next several years. At the same time, SC continues to focus on maintaining the existing CPP information technology systems.

Processing Benefits

CPP services are offered in person, by telephone, online and by mail. In 2005-06, a total of 608,886 CPP applications were processed. This included 223,969 retirement applications, 91 percent of which were paid within the first month of entitlement. During the same period, the department processed 67,602 disability applications. Decisions on 71 percent of all CPP disability applications, which are complex and require medical information, were made within 120 calendar days of receipt of the completed application. Improved communication with clients and their physicians helped staff make well-informed decisions and helped CPP disability applicants better understand the reasons for decisions.

Table 2: Application Processing Statistics

National measures	Objective	2005-06 National
CPP Retirement applications paid on time*	85%	91%
CPP Disability Initial decisions made within 120 calendar days	75%	71%
CPP Disability Reconsideration decisions made within 120 calendar days	70%	69%

** "On time" refers to when benefits were paid out within one month of the application being received.*

Table 3: Telephone Service Statistics

National measures	Objective	2005-06 National
Clients served by a service agent within 180 seconds of placing a call*	95%	93%

** The objective is to serve clients within 180 seconds for 95 percent of calls.*

Looking to the Future – Service Canada

Information Technology Renewal Delivery System (ITR-DS)

Our systems were designed decades ago for a mail and paper-based operation. Updating our information systems that help deliver benefits is part of Service Canada's (SC) planned service delivery improvements. By replacing aging legacy systems with new technology, SC will transform from a paper organization to an electronic one. Staff will work with one tool for both CPP and OAS. The new system will standardize and automate benefit adjudication and entitlements and support new modes of service delivery. The new system is being developed in stages and substantial new functionality is already available. For example, staff now has access to automated tools for the CPP Retirement pension, which ensures accurate benefit payments to clients.

The system will also support better decision making by improving the information available to clients and staff through faster and more up-to-date technology. These improvements will further reduce the paper burden and the complexity of the application process.

Online Service Delivery

SC has taken steps to implement a number of self-service web-based options. They will allow clients to access a wider range of inquiries and client transactions online. They will also provide more integrated information on related benefits.

View and Update Personal Information
As of June 2005, CPP clients can access their personal information securely online. Using this service, they can view and update their mailing address and direct deposit information, and view their monthly payment amount. In coming years, enhancements will continue, allowing clients to view and update more information.

Streamlined and Automated CPP Statement of Contributions
Since April 2003, CPP contributors have been able to submit an online request to have their Statement of Contributions mailed to them. As of May 2005, clients can also view and print their personalized CPP Statement of Contributions information.

Tax Information Slips Online
Since 2004, CPP clients have been able to view their CPP T4 slips online, starting with those for the 2003 taxation year. They can also choose to stop having paper tax slips mailed to them, and to view and print their T4 slips online instead.

To increase the use of online services, SC has promoted awareness of the services and has encouraged clients to try them. Activities include: targeted mailing of promotional inserts in existing mass mailings, the inclusion of promotional messages within standard client correspondence, and improved navigation to the 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 use of online services is anticipated when the next generation of seniors begins to apply for pension benefits.

The next step in the transition to an electronic based organization is the implementation of the "My Service Canada Account". This online service will provide a single entry-point for several applications, including the CPP View and Update Personal Information, the online Statement of Contributions and the Tax information slips online.

Simplifying the Application Process

SC has reviewed its current retirement benefit application processes so that clients can apply for benefits through streamlined, client-driven and more efficient service.

The result was a simplified CPP Retirement application form with an integrated Child Rearing Provision section. Further, most applicants no longer need to prove their date of birth with documentary evidence since the department now validates age through an electronic exchange with the Social Insurance Registry.

Future plans include similar improvements for other CPP benefits such as the Death, Survivor and Disability benefits.

Reaching all Canadians

Service Canada programs help millions of people in Canada every day. The Department's primary objective is that every Canadian receives the benefits to which he or she is entitled under its programs in a timely way.

The Internet has a tremendous ability to reach Canadians. Service Canada leads the development of a cross departmental website called Canada Benefits (**www.canadabenefits.gc.ca**). The site's mandate is to provide central access to government-wide benefit programs and services for individuals.

The Canada Benefits site provides access to federal, provincial and territorial programs and services. These include, among others, public pensions, employment insurance benefits and housing grants. The award-winning website supports the "citizen-first" principle, where information is organized according to the needs of Canadians and not the structures of government. For example, an interactive tool called the "Benefits Finder" provides citizens with a listing of programs and services relevant to their circumstances.

Through the Canada Benefits site and other means of communication, SC has been able to reach more Canadians than ever. Based on the firm conviction that all Canadians deserve financial security, SC strives to make them aware of the benefits available and helps them obtain those to which they are entitled.

Through 2005-06, SC worked closely with the voluntary sector, 'first-point-of-contact' service providers, and others, not only to help Canadians get benefits to which they are entitled, but also to lower the barriers experienced by vulnerable populations such as seniors with a low income, the homeless, those who experience low literacy and people with disabilities. Other partnership work this year extended our reach even further into communities through organizations that serve Aboriginal people and new Canadians and through the National Homelessness Initiative.

Over the past several years, the department has made a concerted effort to tell Canadians what they can expect from their public pensions and how they should prepare for their retirement. Striving to communicate as directly as possible, the CPP will continue improving and personalizing its programs to reach its clients.

Canada Pension Plan

Consolidated Financial Statements for the year ended March 31, 2006

Management’s responsibility for financial statements

The consolidated financial statements of the Canada Pension Plan have been prepared in accordance with Canadian generally accepted accounting principles for the public sector, by the management of Service Canada with the concurrence of the management of Human Resources and Social Development Canada (the Department).

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

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

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

Sylvie C. Lafontaine, CA
Chief Financial Officer
Service Canada

Sherry Harrison, CMA
Comptroller
Human Resources and
Social Development Canada

Maryantonett Flumian
Deputy Head
Service Canada

Janice Charette
Deputy Minister
Human Resources and
Social Development Canada

August 18, 2006

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Human Resources and Social Development

I have audited the consolidated statement of net assets of the Canada Pension Plan as at March 31, 2006 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of Human Resources and Social Development. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Canada Pension Plan as at March 31, 2006 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
August 18, 2006

Canada Pension Plan

Consolidated Statement of Net Assets
As at March 31

	2006	2005
	(in millions of dollars)	
Assets		
Cash - Deposit with Receiver General for Canada	**151**	2,771
Receivables (Note 7)	**3,439**	2,363
Investments (Schedule, Note 3)	**99,196**	78,885
Other Assets	**12**	7
	102,798	84,026
Liabilities		
Accounts payable	**41**	53
Pensions and benefits payable	**62**	52
Tax deductions due to Canada Revenue Agency	**96**	84
Investment liabilities (Schedule, Note 3)	**775**	279
Due to brokers (Note 3)	**703**	147
	1,677	615
Net assets	**101,121**	83,411

Contingencies (Note 13)

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

Approved by:

Sylvie C. Lafontaine, CA
Chief Financial Officer
Service Canada

Sherry Harrison, CMA
Comptroller
Human Resources and
Social Development Canada

Maryantonett Flumian
Deputy Head
Service Canada

Janice Charette
Deputy Minister
Human Resources and
Social Development Canada

Canada Pension Plan

Consolidated Statement of Changes in Net Assets
for the year ended March 31

	2006	2005
	(in millions of dollars)	
Net assets, beginning of year	**83,411**	72,511
Increase		
Contributions	**30,117**	28,941
Investment income (Note 9)		
Interest income	**2,185**	2,431
Realised gains	**6,448**	1,742
Unrealised gains	**3,239**	1,212
Dividend income	**1,031**	736
Other income	**165**	38
Investment management fees	**(36)**	(20)
	13,032	6,139
	43,149	35,080
Decrease		
Pensions and benefits		
Retirement	**17,698**	16,822
Survivors	**3,466**	3,333
Disability	**3,111**	2,926
Disabled contributor's child	**269**	258
Death	**264**	249
Orphan	**218**	216
Net overpayments	**(49)**	(41)
	24,977	23,763
Operating expenses (Note 10)	**462**	417
	25,439	24,180
Net increase in net assets	**17,710**	10,900
Net assets, end of year	**101,121**	83,411

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

Canada Pension Plan

Consolidated Schedule of Investments
for the year ended March 31

	2006	2005
Equities	(in millions of dollars)	
Canadian equities		
Public markets	**20,003**	21,044
Private markets	**628**	512
	20,631	21,556
Non-Canadian equities		
Public markets	**27,743**	12,646
Private markets	**3,822**	2,394
	31,565	15,040
Total equities (Cost 2006 – $43,994; 2005 – $32,141)	**52,196**	36,596
Real return assets		
Public markets real estate	**1,178**	384
Private markets real estate	**3,676**	638
Inflation-linked bonds	**3,837**	-
Private markets infrastructure	**350**	230
Total real return assets (Cost 2006 – $8,635; 2005 – $1,222)	**9,041**	1,252
Nominal fixed income		
Bonds (Note 3)	**26,452**	27,841
Money market securities	**10,356**	12,067
Total nominal fixed income (Cost 2006 – $34,634; 2005 – $36,954)	**36,808**	39,908
Total investments	**98,045**	77,756
Investment receivables		
Accrued interest	**764**	803
Derivatives receivables	**259**	240
Dividends receivables	**128**	86
Total investment receivables (Cost 2006 – $641; 2005 – $340)	**1,151**	1,129
Total investments and investments receivable	**99,196**	78,885
Investments liabilities		
Debt on real estate properties	**(664)**	(242)
Derivatives liabilities	**(111)**	(37)
Total investments liabilities (Cost 2006 – $666; 2005 – $234)	**(775)**	(279)
Total net investments	**98,421**	78,606

1. Description of the Canada Pension Plan

a) Description of the CPP

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

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

The Minister of Human Resources and Social Development is responsible for the administration of the *Canada Pension Plan* (the CPP Act); the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels and funding policy. The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan*, and its interest in any debt securities transferred to it, in the best interests of the beneficiaries and contributors under that Act.

In accordance with the CPP Act, the financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 8). The Plan's investments are held by the CPP Investment Fund (Note 4) and the CPP Investment Board (CPPIB). The financial transactions affecting the Account and the Investment Fund are governed by the CPP Act and regulations. The Investment Board's transactions are governed by the *Canada Pension Plan Investment Board Act* and the accompanying regulations. The CPP Investment Board's assets are to be invested 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.

The CPP Investment Board and its subsidiaries are exempt from Part I under paragraphs 149(I)(d) and 149 (I)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board 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 CPP Investment Board is designed to operate at arm's length from the government. It is required to be accountable to the public, Parliament (through the federal Minister of Finance), and the provinces. It provides regular reports of its activities and the results achieved.

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

b) Financing

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

The CPP was designed initially to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, CPP is now intended to be funded on a "steady-state" basis – that is, combined contributions of 9.9% of pensionable earnings are expected to provide a capitalization level of 25% of the Plan's liability by the year 2025.

The CPP Act provides that an actuarial report shall be prepared every three years for purposes of the review of the financial state of the CPP by the Minister of Finance and his provincial counterparts. The Twenty-first Actuarial Report of the Chief Actuary of the Office of the Superintendent of Financial Institutions was tabled on December 8, 2004. The report concluded that the CPP is financially sound and the 9.9% combined employee-employer contribution rate reached in 2003 is expected to be sufficient to sustain the Plan in the face of an aging population.

A number of assumptions such as long term rate of return on assets, inflation rate, mortality rates, increase in salary and benefit rates, among other things, were used in the twenty first actuarial report. These assumptions reflect best estimates of future economic and demographic events. The next actuarial report as at December 31, 2006 is expected to be completed by December 2007.

c) Net assets of the Plan

The net assets of the Plan are composed of the deposit with the Receiver General for Canada, bonds and other net assets held on behalf of the CPP by the Government of Canada (GoC) and investments held by the CPPIB. They represent funds accumulated for the payment of pensions, benefits and operating expenses. This amount does not cover the actuarial present value of accrued pensions and benefits.

As at March 31, 2006, the value of net assets of the Plan is $101.1 billion (2005 – $83.4 billion). This amount represents approximately 4.0 times the total of pensions and benefits in 2006 (2005 - 3.5 times). According to the twenty first Actuarial Report, this is expected to grow to 5.6 times by 2021.

d) Pensions and benefits

Retirement pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum new monthly pension payable at age 65 in 2006 is $844.58 (2005 – $828.75).

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum new monthly disability benefit in 2006 is $1,031.05 (2005 – $1,010.23).

Survivor's benefits – A survivor's benefit is payable to the spouse or common-law partner (the beneficiary) of a deceased contributor, according to the provisions of the Act. For a beneficiary under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A beneficiary between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For beneficiaries aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum new monthly benefit payable to a beneficiary in 2006 is $506.75 (2005 – $497.25).

Disabled contributor's child and orphan benefits – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or a child of contributor who is deceased 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 2006 is $200.47 (2005 – $195.96).

Death benefits – According to the provisions of the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earnings in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2006 is $2,500 (2005 – $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 2006 is 2.3% (2005 – 1.7%).

2. Significant accounting policies

a) Basis of presentation

These consolidated financial statements are presented on a consolidated basis. They include the consolidated financial position and the consolidated changes in net assets of the CPP Investment Board and CPP. These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector and conform to the disclosure and accounting requirements of the CPP Act.

These consolidated financial statements do not provide information on the actuarial estimates required to meet future obligations of the CPP since the CPP Act does not require that the pensions and benefits be pre-funded.

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

b) 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 the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value is determined as follows:

(i) Quoted market prices for publicly traded equities and unit values for public equity funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities. In the case where quoted market prices are not reliable, such as those for securities that are not sufficiently liquid to be used as a basis for fair value, fair value is determined using accepted industry valuation methods.

(ii) In the case of private equity and infrastructure investments, where quoted market prices are not available, fair value is determined based on carrying values and other relevant information reported by external managers of the investments. These carrying values are determined by the external managers using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows and third party transactions, or other events which would suggest a significant change in the value of the investment. On a quarterly basis, when there is evidence of a significant change in fair value, the valuation is adjusted as appropriate. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity and infrastructure investments unless there is evidence of a significant change in value.

(iii) The fair value of private markets real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics. On a quarterly basis, when there is evidence of a significant change in fair value, the valuation is adjusted as appropriate. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate investments unless there is evidence of a significant change in value.

(iv) Fair value for over-the-counter derivatives such as swaps and forward contracts is determined based on the quoted market prices for underlying assets. Fair value for exchange-traded futures is based on quoted market prices.

(v) Quoted market prices are used to represent the fair value for inflation-linked bonds.

(vi) Quoted market prices are used to represent the fair value for public markets real estate.

(vii) Fair value for non-marketable federal, provincial and territorial bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketability and rollover provisions of the bonds.

(viii) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value.

c) Contributions

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

d) Investment income recognition

Investment income is recorded on the accrual basis and includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income and net operating income from private markets real estate investments.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the difference between the fair value and cost of the investments at the end of the year. The current year unrealized gains and losses represent the year-over-year change in this difference.

e) Translation of foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the year end are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses are included in investment income.

f) Pensions and benefits

Pensions and benefits are recorded when payable.

g) Tax deductions due to Canada Revenue Agency

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

h) Net overpayments

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

i) Operating expenses

Operating expenses are recorded in the year to which they relate.

j) Use of estimates

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

k) Cash flow statement

It is management's opinion that a cash flow statement for the CPP Account is not necessary since information concerning operating activities, and their effects on the balance of the account with the Receiver General for Canada, are readily apparent in the Consolidated Statement of Changes in Net Assets.

3. Investments, investment receivables and investment liabilities

The CPP Investment Board has established investment policies in accordance with the CPPIB regulations which set out the manner in which their assets shall be invested. In setting the policies, the CPP Investment Board takes into consideration certain assets which are held outside of the CPP Investment Board and which are in the process of being transferred to the CPP Investment Board as set out in the following paragraph.

The CPP Act and an administrative agreement between Her Majesty the Queen in right of Canada and the CPP Investment Board (the “Agreement”) together provide for the transfer of certain specified CPP assets, currently administered by the federal government, to the CPP Investment Board. These assets, totalling $9.4 billion at fair market value as at March 31, 2006, consist of a portfolio of non-marketable federal, provincial and territorial bonds to be transferred to the CPP Investment Board in 36 instalments over a period that began May 1, 2004 and ends on April 1, 2007 (see Note 3d). The assets also included a cash operating reserve which was transferred to the CPP Investment Board in 12 equal installments over a period that began in September 2004 and ended in August 2005.

a) Derivative contracts

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indexes, interest rates or currency exchange rates.

The CPP Investment Board uses derivatives to replicate the returns of Canadian equities, Non-Canadian equities and Non-Canadian inflation-linked bonds, and to manage asset weights and currency exposure. The CPP Investment Board has swaps outstanding to exchange money market interest payments for equity and inflation-linked bond payments. The CPP Investment Board also uses exchange-traded futures contracts and foreign exchange forwards to either increase or reduce exposure to underlying equity market or currency movements.
All derivative contracts have a term to maturity of one year or less. Notional amounts of derivative contracts are used to compute the cash flows and for determining the fair value of the contracts. Notional amounts are not recorded as assets or liabilities on the Consolidated Statement of Net Assets.

The notional amounts and fair value of derivative contracts held as at March 31 are as follows:

	2006		2005	
	(in millions of dollars)			
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Equity swaps	**8,874**	**169**	5,918	206
Equity futures	**1,047**	**(2)**	6,061	(6)
Foreign exchange forwards	**6,184**	**(14)**	2,094	3
Inflation-linked bond swaps	**126**	**(5)**	-	-
Total	**16,231**	**148**	14,073	203

b) Private equity investments

Private equity investments are generally made through ownership in limited partnership arrangements with a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity.

The CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the general partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between 1% and 2% of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. During the year ended March 31, 2006, management fees of $87 million (2005 – $70 million) were included in the capital advanced to the limited partnerships and recorded as part of the cost of the investment. As discussed more fully in Note 2b, the carrying values of these investments are reviewed quarterly and any resulting adjustments are reflected as unrealized gains or losses in investment income (see Note 9).

c) Real return assets

The CPP Investment Board obtains exposure to real estate through investments in publicly traded securities and privately held real estate. Private markets real estate investments are held by a wholly-owned subsidiary and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at March 31, 2006, the subsidiary's share of these investments includes assets of $3,676 million (March 31, 2005 – $638 million) and $664 million of liabilities related to mortgage debt (March 31, 2005 – $242 million), with a weighted average fixed interest rate of 6.94% and terms to maturity of one to 21 years.

Included in the private markets real estate are investments in joint ventures. The CPP Investment Board's proportionate share of the fair value of assets and liabilities in joint ventures at March 31, 2006 is $3,312 million (March 31, 2005 – $481 million) and $664 million (March 31, 2005 – $242 million), respectively. The proportionate share of the revenues and expenses in joint ventures for the year ended March 31, 2006 is included in investment income (see Note 9) and totals $273 million (March 31, 2005 – $63 million) and $183 million (March 31, 2005 – $44 million), respectively.

Infrastructure investments are generally made directly or through limited partnership arrangements. The investments represent ownerships in entities that invest in infrastructure assets. Management fees for limited partnership infrastructure investments are treated similarly to private equity management fees as discussed in Note 3b. During the year ended March 31, 2006, management fees included in the capital advanced to the limited partnerships were $5.4 million (March 31, 2005 – $1.8 million).

Inflation-linked bonds provide for an average effective yield of 4.8% and the terms to maturity are as follows:

			Terms to Maturity		
(in millions of dollars)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
Inflation-linked bonds	-	429	623	2,785	3,837

Bonds

The following table provides information on disposals, re-investments, unrealized gains (losses) of bonds:

Provincial, territorial and Canada bonds
(in millions of dollars)

	March, 31 2005 at cost	Disposals	Re-Investments	**March, 31 2006 at cost**	**March, 31 2006 at fair value**	March, 31 2005 at fair value
Newfoundland and Labrador	**633**	51	24	**606**	**662**	698
Prince Edward Island	**140**	8	10	**142**	**154**	155
Nova Scotia	**1,079**	92	92	**1,079**	**1,168**	1,196
New Brunswick	**834**	46	46	**834**	**906**	921
Quebec	**96**	6	7	**97**	**106**	108
Ontario	**10,233**	1,214	1,372	**10,391**	**11,287**	11,377
Manitoba	**883**	126	-	**757**	**821**	997
Saskatchewan	**978**	113	20	**885**	**964**	1,095
Alberta	**2,883**	283	141	**2,741**	**2,983**	3,253
British Columbia	**3,778**	185	75	**3,668**	**4,043**	4,234
Yukon Territory	**4**	-	-	**4**	**4**	4
	21,541	2,124	1,787	**21,204**	**23,098**	24,038
Canada	**3,335**	240	-	**3,095**	**3,354**	3,803
Provincial, territorial and Canada bonds	**24,876**	**2,364**	**1,787**	**24,299**	**26,452**	**27,841**
CPP Investment Fund's share	**17,275**	1,289	397	**8,355**	**9,164**	19,334
CPP Investment Board's share	***7,601**	1,075	1,390	**15,944**	**17,288**	8,507
	24,876	**2,364**	**1,787**	**24,299**	**26,452**	**27,841**

***** CPP transferred to CPP Investment Board bonds with a cost of $8,028 million during the year ending March 31, 2006 ($7,697 million – 2005)

The transfer to the CPP Investment Board of the CPP portfolio of non-marketable federal, provincial and territorial bonds began on May 1, 2004. Bonds of $9.2 billion based on fair market value at the time of transfer were transferred during the year ended March 31, 2006.

The non-marketable bonds issued by the provinces and territories and purchased by the CPP prior to 1998 contained a rollover provision which will permit these issuers, at their option, to roll over the bonds for a further 20-year term at a rate based on capital markets borrowing rates existing at the time of rollover. The non-marketable bonds are also redeemable at the option of the issuers for redemption amounts calculated in accordance with Section 110 of the *Canada Pension Plan*.

During the year, all disposals of bonds were made, at maturity date, at face value. The bonds are redeemable in whole or in part before maturity. The provinces and territories are permitted to redeem their bonds held by the CPP Investment Fund prior to their maturity at a value equivalent to market value. No bonds were redeemed by the provinces and the territories prior to maturity during the year ended March 31, 2006 (2005 – none).

Effective June 2005, the Agreement was amended to permit the CPP Investment Board to purchase replacement bonds directly from a province or territory upon the maturity of the non-marketable bonds issued by the provinces and territories prior to 1998, subject to the relevant province or territory having entered into an agreement with the CPP Investment Board. The maximum term of such securities is 30 years including rollover periods. The issuer may elect to have the CPP Investment Board purchase a replacement debt security or securities in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions which will permit the issuer, at its option, to roll over the debt security 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 at the option of the provinces or territories prior to maturity. Agreements between the CPP Investment Board and the relevant provinces or territories were effective commencing July 1, 2005.

The following schedule presents the fair value of the bonds by maturity dates and the average annual rate of return on bonds currently held based on current effective yields for similar type bonds:

	2006		2005	
	(in millions of dollars)			
	Investments at fair value	**Effective yield**	Investments at fair value	Effective yield
Investments maturing				
Within 1 year	**2,837**	**4.71%**	2,332	5.26 %
1 – 5 years	**11,965**	**5.02%**	10,467	5.01 %
Over 5 years	**11,650**	**5.17%**	15,042	5.54 %
Total – Investments	**26,452**		27,841	
Average effective yield on investments		**5.05%**		5.32 %

d) Commissions

Commissions are paid to brokers on purchases and sales of publicly traded equities. Commissions on purchases are included as part of the cost of publicly traded equities. Commissions on sales are deducted from realized gains and added to losses as a cost of disposition. During the year ended March 31,2006, the CPP Investment Board paid total brokerage commissions of $28 million (2005 – $11 million).

e) Securities lending

The CPP Investment Board participates in a securities lending program to enhance portfolio returns. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned. As at March 31, 2006, the CPP Investment Board's investments include securities loaned with an estimated fair value of $1,847 million (March 31, 2005 – $1,423 million). The fair value of collateral received in respect of the securities loaned is $1,942 million (March 31, 2005 – $1,496 million).

4. Investments held by the CPP Investment Fund

The Canada Pension Plan Investment Fund was established in the accounts of Canada by the CPP Act to record the Plan's investments in bonds of the provinces, territories and Canada. The CPP Investment Fund's bond portfolio is administered by the federal Department of Finance.

In accordance with the amended legislation and the related administrative agreement, the bonds held by the CPP Investment Fund are transferred to the CPP Investment Board. As at March 31, 2006, 23/36th of the Investment Fund has been transferred for approximately $18 billion (2005 – 11/36th for approximately $8.8 billion). Once all the bonds are transferred to the CPP Investment Board in April 2007, the CPP Investment fund will cease to exist.

For further bond details see Note 3d.

5. Investment risks

Investments, investment receivables and investment liabilities may be exposed to one or more of the following risks:

CURRENCY RISK. The CPP is exposed to currency risk through holdings of investments, investment receivables and investment liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against foreign currencies can result in a positive or negative effect on the fair value of investments. The net underlying currency exposures, after allocating foreign currency derivatives, are as follows:

(in millions of dollars)	**2006**		2005	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
Canadian Dollar	**65,326**	**66**	62,223	79
United States Dollar	**17,353**	**18**	7,804	10
Euro	**5,900**	**6**	3,464	4
Japanese Yen	**3,370**	**4**	1,256	2
British Pound Sterling	**3,269**	**3**	2,086	3
Swiss Franc	**1,090**	**1**	340	-
Australian Dollar	**895**	**1**	462	1
Other	**1,218**	**1**	971	1
	98,421	**100**	78,606	100

INTEREST RATE RISK. Interest rate risk refers to the effect on the fair value of investments and investment liabilities due to fluctuations in interest rates. The fair value of the bonds and debt on real estate investments is directly affected by changes in interest rates.

MARKET RISK. Market risk is the risk that the value of an investment will be adversely affected by changes in market prices, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The CPP Investment Board manages market risk by investing across a wide spectrum of asset classes and investment strategies to earn a diversified risk premium at the total fund, based on asset mix and risk limits established in the investment policies.

CREDIT RISK. The CPP limits credit risk by dealing with counterparties that have a minimum credit rating of A or R-1 (short-term) as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Credit exposure is limited to maximum amounts as specified in the investment policies.

LIQUIDITY RISK. The CPP is exposed to liquidity risk through its responsibility to pay benefits on a timely basis.

6. Credit facilities

The CPP Investment Board maintains $1.5 billion (March 31, 2005 - $1.6 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2006, the total amount drawn on the credit facilities is $nil (March 31, 2005 – $nil).

7. Receivables

	2006	2005
	(in millions of dollars)	
Receivables		
Contributions	**3,085**	2,278
Régime des rentes du Québec	**49**	30
Beneficiaries		
Balance of pensions and benefits overpayments	**86**	82
Allowance for doubtful accounts	**(50)**	(46)
Due from brokers	**255**	19
Other	**14**	-
	3,439	2,363

The Department has procedures to detect overpayments. During the year, overpayments totalling $53 million (2005 – $46 million) were established and remissions of debts totalling $4 million (2005 – $5 million) were granted. A further $45 million was recovered (2005 – $41 million).

8. Canada Pension Plan Account

The CPP Account was established in the accounts of Canada by the CPP Act to record the contributions, interest, pensions, benefits and operating expenses of the Plan. It also records the amounts transferred to or received from the CPP Investment Fund and the CPP Investment Board.

In accordance with the amended legislation and the related agreement, funds on deposit with the Receiver General for Canada have been transferred to the CPP Investment Board on a monthly basis as explained in Note 3. As at March 31, 2006, all of the funds have been transferred (approximately $6.5 billion). As at March 31, 2006, the Deposit with the Receiver General for Canada is $151 million (2005 - $2,771 million).

9. Investment income

Investment income is reported net of external investment management fees. Investment management fees in respect of public markets investments are expensed as incurred. These fees include an incentive portion that fluctuates with investment performance. Investment management fees for private market real estate investments are deducted by the asset manager before the CPP Investment Board receives its share of net operating income from the properties. For a discussion of private equity and infrastructure management fees, see Notes 3b and 3c.

Investment income by asset class, net of external investment management fees and after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

	2006	2005
	(in millions of dollars)	
Canadian equities [1,7]		
Public markets	**7,567**	3,827
Private markets [2]	**(25)**	70
	7,542	3,897
Non-Canadian equities		
Public markets	**3,054**	398
Private markets [2]	**597**	311
	3,651	709
Less : Public markets external investment management fees	**(30)**	(16)
	11,163	*4,590*
Real return assets		
Public markets real estate [3]	**298**	53
Private markets real estate [4]	**183**	48
Less : Private markets real estate external investment management fees	**(6)**	(4)
	177	44
Inflation-linked bonds	**57**	**-**
Private markets infrastructure	**(8)**	(2)
	524	*95*
Nominal Fixed Income [5]		
Bonds	**1,283**	1,315
Money market securities	**41**	10
	1,324	*1,325*
Interest on operating balance	***21***	*129*
Total investment income, net of external investment management fees [6]	**13,032**	6,139

1 Includes unrealized gains of $3,715 million (2005 – unrealized gains of $2,141 million), realized gains of $6,449 million net of external investment management fees (2005 – realized gains of $1,729 million net of external investment management fees), dividends of $993 million (2005 – $717 million) and securities lending income of $6 million (2005 – $3 million).

2 As described more fully in Note 2b, the carrying values of private equity investments are reviewed quarterly and any resulting adjustments are reflected as unrealized gains or losses in investment income.

3 Includes unrealized gains of $260 million (2005 – unrealized gains of $30 million), realized losses of $0.3 million (2005 – realized gains of $3.7 million) and dividends of $38 million (2005 – $19.6 million).

4 Includes private markets real estate operating income of $110 million (2005 – $37 million), which is net of debt interest of $42 million (2005 – $23 million), and unrealized gains of $73 million (2005 – unrealized gains of $11 million).

5 Includes interest income of $2,185 million (2005 – $2,431 million), realized losses of $31 million (2005 – realized losses of $7 million) and unrealized losses of $809 million (2005 – unrealized losses of $970 million).

6 Includes foreign exchange losses of $1,679 million (2005 – foreign exchange losses of $867 million).

7 In fiscal 2006, as a result of the removal of the foreign property restrictions under the *Income Tax Act (Canada)*, the CPP Investment Board elected to change its method of accounting for the cost of public markets equity investments from a total portfolio average cost basis to an individual portfolio-based approach. The change resulted in a reclassification of $443 million from realized gains to unrealized gains in fiscal 2006.

10. Operating expenses

	2006	2005
	(in millions of dollars)	
General operating expenses	**222**	205
Salaries and benefits	**232**	206
Professional and consulting fees	**8**	6
Total Operating expenses	**462**	417

11. Net Assets and Changes in Net Assets for accountability purposes

The administration of the Canada Pension Plan's assets and activities is split between various federal departments and the Canada Pension Plan Investment Board. The CPPIB is now responsible for managing the majority of the Plan's assets, while the Government of Canada, 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 each the GoC and the CPPIB.

	2006			**2005**		
	GoC	CPPIB	**Total**	GoC	CPPIB	**Total**
	(in millions of dollars)					
Assets	12,750	90,048	**102,798**	24,998	59,028	**84,026**
Liabilities	161	1,516	**1,677**	167	448	**615**
Net assets	12,589	88,532	**101,121**	24,831	58,580	**83,411**
Income :						
Contributions	30,117	-	**30,117**	28,941	-	**28,941**
Investment income	839	12,193	**13,032**	1,125	5,014	**6,139**
	30,956	12,193	**43,149**	30,066	5,014	**35,080**
Expenses :						
Pensions and benefits	24,977	-	**24,977**	23,763	-	**23,763**
Operating expenses	408	54	**462**	386	31	**417**
	25,385	54	**25,439**	24,149	31	**24,180**
Increase in net assets	5,571	12,139	**17,710**	5,917	4,983	**10,900**

Pursuant to Section 108.1 of the *CPPIB Act* and the Agreement dated as of April 1, 2004, amounts not required to meet specified obligations of the CPP are transferred to the CPPIB. The funds originate from employer and employee contributions to the CPP, proceeds of maturing and redeemed government bonds held by the GoC on behalf of the CPP and interest income generated from this portfolio.

CPP transfers include an interest in the bond portfolio administered by the GoC for the CPP and a portion of the amount on 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 expenses and benefits. In accordance with the Agreement dated April 1, 2004, the 12 monthly payments to the CPPIB of a portion of the amount on deposit with the Receiver General were used to reduce the payments to the CPP for expenses and benefits as noted previously.

During the year ended March 31, 2006, the total of $34.5 billion transferred to the CPPIB includes bonds of $9.2 billion based on fair market value at the time of transfer and cash of $25.3 billion. During the same year a total of $16.7 billion (net of the amount on deposit with Receiver General transferred to CPPIB of $2.7 billion) was returned to the CPP to meet its liquidity requirements.

Transaction total for the year

	2006	2005
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB, beginning of year	**57,296**	29,824
Transfers of bonds titles and accrued interest	**9,201**	8,804
Transfers of funds to CPPIB	**25,298**	18,668
Accumulated transfers to CPPIB, end of year	**91,795**	57,296
Accumulated transfers from CPPIB, beginning of year	**(6,669)**	-
Transfers of funds from CPPIB	**(16,686)**	(6,669)
Accumulated transfers from CPPIB, end of year	**(23,355)**	(6,669)
Accumulated net transfers to CPPIB	**68,440**	50,627

12. Commitments

The CPP Investment Board has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2006, the remaining commitments total $8.3 billion (March 31, 2005 – $5.4 billion).

As at March 31, 2006, the CPPIB has made lease commitments of $26.0 million (March 31, 2005 – $20 million) over the next eight years.

13. Contingencies

a) Appeals relating to the payment of pensions and benefits
At March 31, 2006, there were 8,226 (8,331 in 2005) appeals relating to the payment of CPP pensions and benefits. These contingencies are estimated at an amount of $36 million ($33 million in 2005). Any award made in favour of beneficiaries will be accounted for as an expense of the period in which the amount becomes determinable.

b) Class action
A class action was filed against the CPP for discrimination against survivors whose same-sex common-law partners died on or after April 17, 1985 and before January 1, 1998. On November 26, 2004, the Court of Appeal for Ontario ruled that eligible class members, whose partners died between April 17, 1985 and January 1, 1998, will be entitled to receive pension payments. On January 25, 2005, both the government and counsel for the class members sought leave to appeal to the Supreme Court of Canada. Both requests for leave were granted on June 23, 2005. On May 16, 2006, the case was heard by the Supreme Court of Canada. The decision of the Supreme Court is expected later this year.

On July 12, 2005, the Ontario Superior Court endorsed the agreement of the Government of Canada and the counsel for the class members to pay interim Survivor's Pensions to class members who currently have an active and complete application with the department. Where the CPP eligibility criteria are met, the interim payment may have a maximum retroactive date of January 1st, 2003. In the event that the Supreme Court of Canada reverses the decisions of the lower courts, these interim payments would have to be reimbursed to the CPP. The ultimate contingency involved in this class action is estimated at an amount between $71 and $132 million.

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

14. Related party transactions

In addition to the information already disclosed in the other notes to the consolidated financial statements, the CPP has $3,085 million (2005 - $2,278 million) of contributions receivable from the Canada Revenue Agency and accounts receivable of $14 million (2005 – accounts payable of $32 million) from the Government of Canada for the administration of the Plan.

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

Transaction total for the year

	2006	2005
	(in millions of dollars)	
Pension and benefit delivery, accommodation and corporate services		
Social Development Canada	**269**	263
Human Resources and Skills Development Canada	**21**	10
	290	273
Collection of contributions		
Canada Revenue Agency	**101**	96
Cheque issue and computer services		
Public Works and Government Services Canada	**16**	16
Actuarial services		
Office of the Superintendent of Financial Institutions	**1**	1
	408	386

15. Comparative figures

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