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ANNUAL REPORT OF THE
CANADA PENSION PLAN
2006–07



Annual Report of the Canada Pension Plan 2006–07

Fiscal Year 2006–07

ISPB-203-12-07E

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.

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 consolidates input from departments and agencies involved in the administration of the Plan: Human Resources and Social Development Canada (HRSDC), the Department of Finance, the Canada Revenue Agency (CRA), the Office of the Superintendent of Financial Institutions (OSFI) and the CPP Investment Board (CPPIB).

If you require additional copies of this report, it is available for printing at: **www.hrsdc.gc.ca**.

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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 2006–07.

Respectfully,

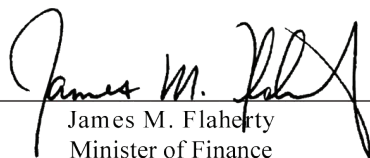

James M. Flaherty
Minister of Finance
Monte Solberg
Minister of
Human Resources and Social Development

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2006–07: The Year at a Glance

- Changes to the Canada Pension Plan (CPP) reflect the statutory increase in maximum pensionable earnings from \$42,100 for 2006 to \$43,700 for 2007. The contribution rate remained unchanged at 9.9 percent.
- The *Twenty-First Actuarial Report* projects that 12.2 million Canadians will contribute to the CPP in 2007.
- 4.1 million Canadians received 4.9 million benefits from the CPP, with a total value of approximately \$26.1 billion.
- About 3.3 million CPP retirement benefits were paid, totaling \$18.7 billion.
- Benefits for approximately 979 000 surviving spouses or common-law partners and 82 000 children of deceased contributors were paid, totalling \$3.8 billion.
- Benefits for approximately 304 000 people with disabilities and 90 000 of their children were paid, totalling \$3.4 billion.
- About 117 000 death benefits were paid, totaling \$0.3 billion.
- Personal Statements of Contributions are sent to Canadians on an ongoing basis. In 2006–07, 536 335 personal Statements of Contributions were sent to individuals between the ages of 18 and 70. An additional 19 149 were sent to individuals over 70 years of age.
- Administrative costs, including \$114 million of the CPP Investment Board's operating expenses, amounted to approximately \$574 million or 2.2 percent of the \$26.1 billion in benefits paid. Although administrative costs increased, this compares favourably with administrative costs for other large pension plans and individual registered retirement saving plans (RRSPs).
- On March 31, 2007, total CPP net assets were valued at approximately \$119.8 billion. The assets were held in: domestic and foreign public and private equities; provincial, territorial and federal government bonds; the Deposit with the Receiver General for Canada; the receivables net of liabilities; real estate; inflation-linked bonds; infrastructure; and money market securities. All 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 decision making for the CPP. Benefits from either plan are based on pension credits accumulated under both. The plans are financed through mandatory contributions from employees, employers 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 contributors with a disability and to their children, the CPP also helps some disability beneficiaries return to the workforce through vocational rehabilitation services and return-to-work supports.

Bill C-36 amended the *Canada Pension Plan* and received Royal Assent on May 3, 2007; provincial consent is expected by January 2008. The largely administrative amendments contained in this Bill modernize and enhance services for seniors and improve access for people with disabilities.

Benefit calculations are based on how much and for how long a contributor has paid into the CPP and

in some cases, the age of the beneficiary. Benefits are not paid automatically—everyone must apply and provide proof of eligibility. Benefit amounts are adjusted in January of each year 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 some 50 other nations. These agreements enable Canadians to receive public pensions from other countries and to receive CPP payments abroad. They also provide continuity of social security coverage when Canadians are temporarily working outside the country, eliminate duplicate contribution payments, and help people meet eligibility requirements for CPP and for other countries' public pensions.

MEETING THE NEEDS OF CANADIANS

For 41 years, the CPP has contributed to the income security of Canadians. It is a vital part of Canada's social safety net and retirement income system.

Over the years, changes have been made to 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-earnings 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 reforms contained in Bill C-36 will help meet the Government of Canada's commitment to improve the accountability and transparency of government operations while improving fairness, equity and services for seniors.

The CPP 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 CPP will be there for them when they need it.



Benefits and Expenditures

The number of people receiving Canada Pension Plan (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 2003–04. Figure 2 (opposite page) shows the percentage of expenditures by type of benefit.

RETIREMENT PENSIONS

Retirement pensions represent 72 percent of the total benefit dollars paid out by the CPP in 2006–07. The amount of contributors' pensions depends on how much and for how long they have contributed and at what age they begin to draw the benefits. The maximum new monthly retirement pension in 2007 was \$863.75. Based on March 2007 figures, the average payment was \$482.18.

FIGURE 1: CPP – Benefits and Expenditures By Fiscal Year

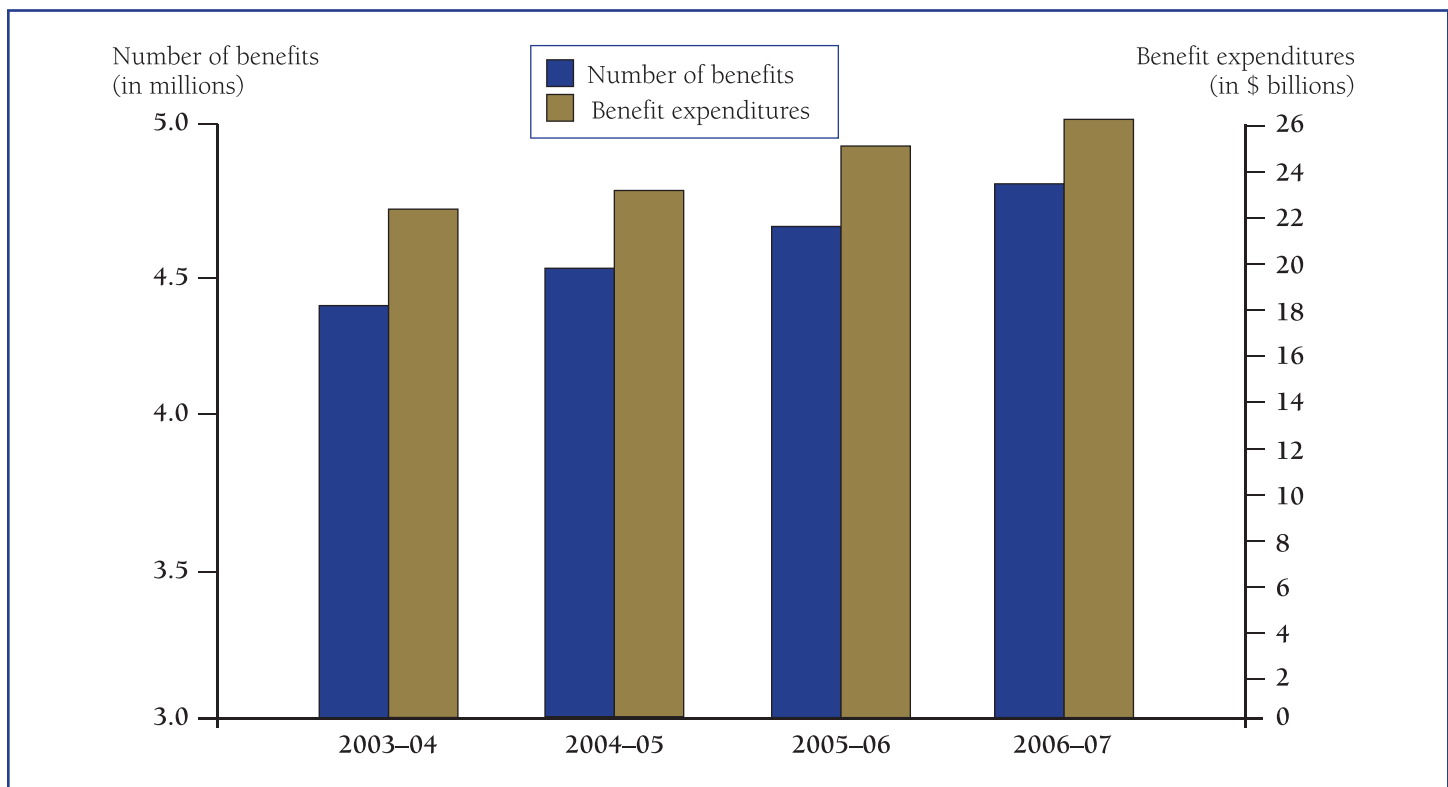
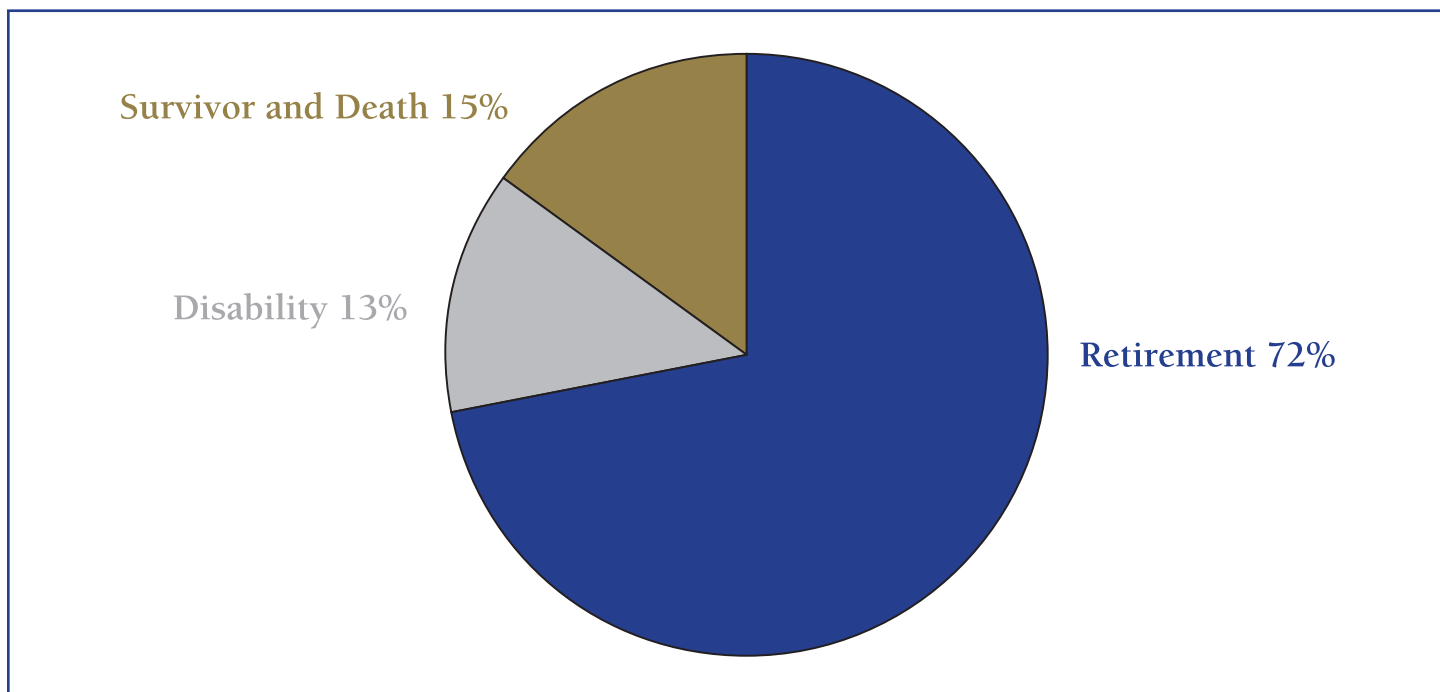


FIGURE 2: CPP – Percentage of Benefit Dollars Paid For 2006–07



The CPP offers flexibility with respect to the age of retirement. Contributors can take their flexible pension as early as age 60 or as late as age 70. The CPP permanently reduces the pension by 0.5 percent per month (up to a maximum of 30 percent) for those who take their pension before reaching age 65. This reflects the fact that these seniors will, on average, receive their benefits longer than someone who retires at the age of 65. 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). This reflects the fact that these seniors will receive their benefits for a shorter period 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 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 13 percent of the total benefit dollars paid out by the CPP in 2006–07. The maximum new monthly disability benefit in 2007 was \$1,053.77. Based on March 2007 figures, the average payment was \$787.62. The children's monthly benefit was a flat rate of \$204.68.

SURVIVOR BENEFITS

Survivor benefits, paid to the surviving spouse or common-law partner of the contributor and his/her dependent children, represent 14 percent of the total benefit dollars paid out by the CPP in 2006–07. 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. The maximum new monthly survivor's benefit in 2007 at age 65 was \$518.25. Based on March 2007 figures, the average payment was \$313.37. The children's monthly benefit was a flat rate of \$204.68.

DEATH BENEFITS

Death benefits represent 1 percent of the total benefit dollars paid out by the CPP in 2006–07. The death benefit is a one-time payment. The maximum payable in 2007 was \$2,500. Based on March 2007 figures, the average payment was \$2,240.32.

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 excludes from the calculation of benefits the periods when contributors have remained at home, or have reduced their participation in the workforce to care for children under the age of seven. All months following the birth of the child until the child

reaches seven years of age 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 earnings, 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 disability benefit applications.

1. 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 pension sharing.
2. A person who is not satisfied with the decision made at the departmental reconsideration level can appeal to a Review Tribunal, the first level of a two-tier formal appeal process. 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.

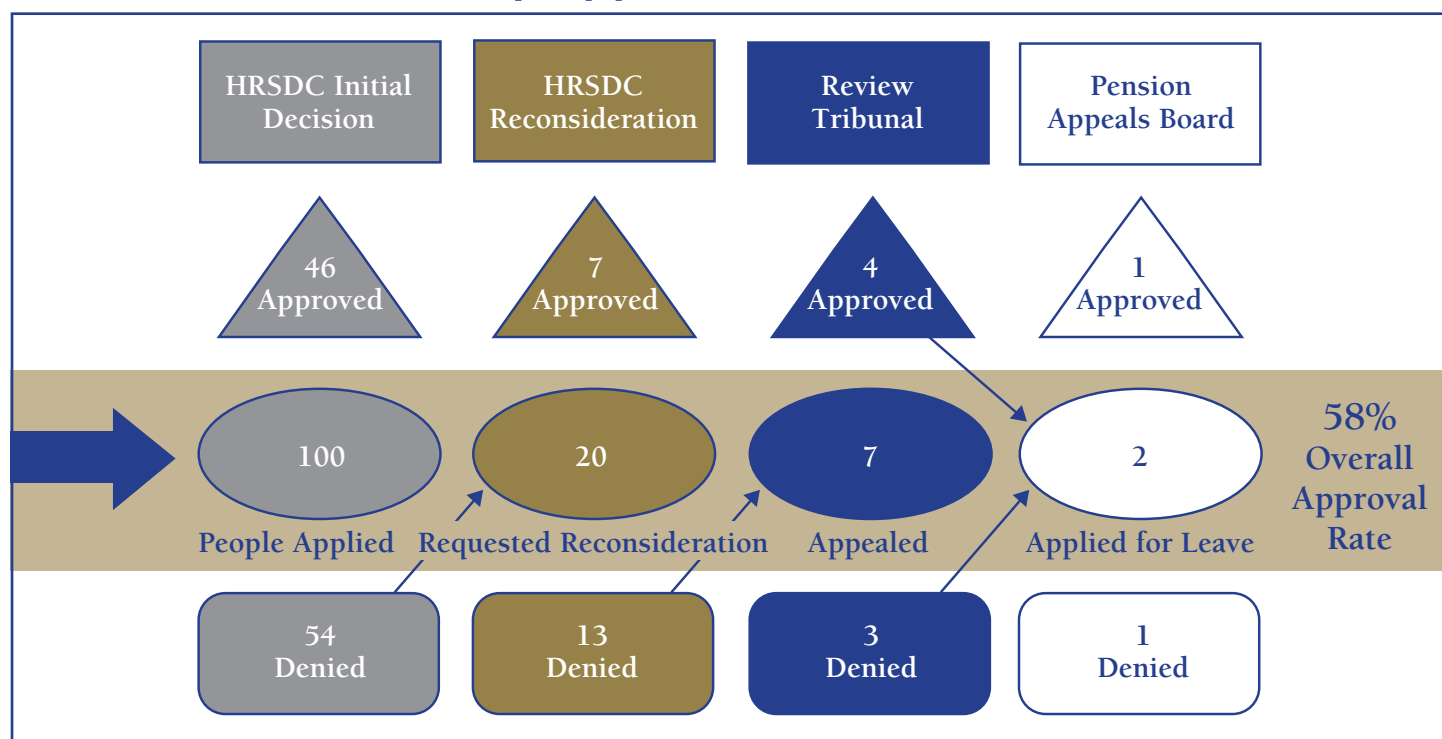
In 2006–07, the Office of the Commissioner of Review Tribunals (OCRT) received 4800 appeals under the CPP and held 3641 hearings. For appeals heard in that same period, the OCRT issued 2903 decisions, of which 1653 decisions (57 percent of the total) were decided in favour of the appellant. In addition, another 390 cases were concluded as a result of settlements offered by the Department.

3. The next opportunity for appeal under the CPP is with the Pension Appeals Board (PAB)—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 2006–07, 82 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 a 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, 49 percent of final decisions supported the claimants.

Decisions of the PAB may be brought to the Federal Court or Federal Court of Appeal for Judicial Review. The Federal Court either upholds a decision or returns it to the PAB for a new review.

Process of CPP Disability Applications 2006–07



Ensuring Financial Sustainability

As joint stewards of the Canada Pension Plan (CPP), federal and provincial Finance ministers 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 first year of the legislated ministerial triennial 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 has a material impact, in the view of the Chief Actuary, 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 included 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 and territorial Finance ministers completed the 2004–06 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 CPP, prepared by the Chief Actuary 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. Details on this and previous reviews of the Plan can be found at www.cpp-rpc.gc.ca.

Federal, provincial and territorial Finance ministers recommended two changes to the CPP: the first was to allow long-term CPP contributors (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; the second change was to establish guidelines for the operation of an existing financing provision in the CPP to fully fund new benefits or benefit enhancements. Ministers agreed to make best efforts to implement these changes as soon as possible. These proposed changes were included in Bill C-36, which was tabled in the House of Commons in November 2006 and received Royal Assent in May 2007. The financial implications of Bill C-36 are outlined in the *Twenty-Second Actuarial Report*, which was tabled in the House of Commons in December 2006 and supplements the *Twenty-First Actuarial Report*. Bill C-36 will come into force once formal approval by at least two-thirds of the provinces, representing two-thirds of the population, is completed. This process is expected to be completed by the end of 2007.

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 review of the CPP for 2004–06.

Federal and provincial Finance ministers have endorsed peer reviews. 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 Actuarial Report was competently prepared, that the assumptions used in the report are reasonable and that the Chief Actuary's conclusion that the CPP is financially stable is 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 *Twenty-Third Actuarial Report* as at December 31, 2006, is to be made public by the end of 2007.

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 as well as changes to benefits in the following 30 years 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, amendments were put into effect in 1998 to gradually raise the level of CPP funding by increasing contribution rates over the short term, reducing the growth of benefits over the long term, and investing cash flows in the private markets through the CPP Investment Board (CPPIB) to achieve higher rates of return. A further amendment was included to ensure that stakeholders consider the full funding of any new or increased benefits provided under the Plan.

The reform package agreed to by the federal and provincial governments in 1997 included significant changes to the Plan's financing and funding provisions. The package included:

- the introduction of steady-state funding to replace pay-as-you-go financing, in order to build a reserve of assets (equivalent over time to about five years of benefit expenditures or about 25 percent of Plan liabilities). Investment earnings on this pool of assets would help to pay benefits when the large cohort of baby boomers retires.
- the introduction of incremental full funding, where changes to the CPP that increase or add new benefits would be fully funded. In other words, their costs would be paid as the benefit was earned and any costs associated with benefits that were paid but not earned would be amortized and paid for over a defined period of time, consistent with common actuarial practice.

Both of these funding objectives were introduced to improve fairness and equity across generations. The move to steady-state funding eases some of the contribution burden on future generations. Under full funding, each generation that receives benefit enrichments is more likely to pay for them in full and not pass on the cost to future generations.

At the time of the reforms, the minimum contribution rate that met these new financing objectives and ensured the long-term financial stability of the Plan was determined to be 9.9 percent. Therefore, 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.

FINANCING

According to the Chief Actuary, the new financing will generate a level of contributions that exceeds the level of benefits paid until 2022. Funds not immediately required to pay benefits will be transferred to the CPPIB for investment. The investment income from 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 pensions. In 2022 and thereafter, when most 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 new financing 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 with about 7 percent funded at the time of the 1997 agreement. This new financing and 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, it also contributes to diversifying the funding of Canada's retirement income system, which also includes:

- the Old Age Security (OAS) 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.



Financial Accountability

Since 1999–2000, the Canada Pension Plan (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, 2007, total CPP net assets were valued at approximately \$119.8 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, as well as administrative expenditures. The CPP Account also records the amounts transferred to or received from both the CPP Investment Fund and the CPP Investment Board (CPPIB). 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 CPPIB 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 certain specified CPP assets, currently administered by the federal government, to the CPPIB. These assets consist of the remaining portfolio of non-marketable federal, provincial and territorial bonds that have been transferred to the CPPIB at a rate of 1/36th every month since May 1, 2004. The last 1/36th, totaling \$630 million at fair market value as at March 31, 2007, was transferred to the CPPIB on April 1, 2007.

CPP ASSETS AND CASH MANAGEMENT

The agreement between CPPIB and the federal government also stipulated that the CPP would transfer any excess cash to the CPPIB, once the benefit and administration expenses had been paid, 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 continues to work closely with the CPPIB, various government departments and banks to coordinate these transfers and to manage a tightly controlled process. A control framework is in place to ensure that the transfer process is followed correctly and that all controls 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 million and \$1.2 billion to the CPPIB

each week and receiving approximately \$1.5 to \$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 CPP to pay current benefits.

The CPPIB 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 invests CPP assets to achieve a maximum rate of return, without undue risk of loss. The CPPIB must also consider the factors that affect the 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 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 CPPIB mandate, governance structure and investment policy can be found at www.cppib.ca.

CPP INVESTMENTS

As at March 31, 2007, CPP investments totaled \$116.6 billion. These investments consisted of \$67.5 billion of public equities, \$8.1 billion of private equities, \$29.3 billion of fixed income securities, and \$11.7 billion of real estate, inflation-linked bonds and infrastructure.

The CPP fund earned \$13.1 billion for a return of 12.9 percent for the fiscal year ending March 31, 2007.

INVESTING FOR OUR FUTURE

Due to its focus on a long-term investment horizon and the diversity necessary to outperform benchmarks, the CPPIB will maintain a stronger weighting in equities and alternative asset classes over fixed income assets. As well, CPP assets are allocated in a way that reflects the long-term funding requirements of the Plan.

Alongside the mostly passive \$67.5 billion public equity portfolio, the CPPIB has unfunded commitments of approximately \$11.7 billion for private equity and \$1.7 billion for real estate and infrastructure.

Initially, as the private equity program grew, private equity investments were made through external fund managers. More recently, the CPPIB has expanded its capabilities to invest both through external funds and as a principal investor.

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

Legislation requires that the CPPIB hold public meetings at least every two years in each of the nine included provinces in the CPP. The purpose of these meetings is to present the most recent annual report and to provide the public with the opportunity to ask questions about the policies, operations and future plans of the CPPIB. The last meetings were held in June, November and December of 2006.



Managing the CPP

COLLECTING AND RECORDING CONTRIBUTIONS

Contributions to the Canada Pension Plan (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, 2007, was \$43,700 (up from \$42,100 in 2006). 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 2007 is 9.9 percent, 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 2006–07, contributions amounted to \$32.4 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 2006–07, CRA conducted 50 129 examinations, concentrating on files with irregularities.

OVERPAYMENT OF BENEFITS

Consistent with its mandate to manage the CPP effectively, HRSDC has procedures in place to detect benefit overpayments. During 2006–07, overpayments totaling \$29 million were detected. Of this amount, \$22 million was recovered and remission was granted of debts totaling \$4 million.

ADMINISTRATIVE COSTS

In 2006–07, the cost to administer the CPP was approximately \$574 million, with SDC accounting for the largest portion at \$293 million and HRSDC at \$17 million. CRA required approximately \$135 million and Public Works and Government Services Canada (PWGSC) some \$14 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 \$114 million in operating expenses.

CPP administrative expenses in 2006–07 represent 2.2 percent of the \$26.1 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 1 (next page) presents the CPP's administrative expenditures for the last three years.

TABLE 1: CPP Administrative Costs 2004–05 to 2006–07

Department/Agency	Expenditures (in \$ millions)		
	2004–05	2005–06	2006–07
SDC (formerly included with HRDC)	263	269	293
HRSDC (formerly included with HRDC)	10	21	17
CRA	96	101	135
CPPIB operating expenses	31	54	114
PWGSC	16	16	14
OSFI	1	1	1
Total	417	462	574

Improved Service Delivery

Service Canada

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

Service Canada is just a call, click or visit away. Our service delivery network consists of in-person offices, a national telephone information service at 1 800 O-Canada, and online services at servicecanada.gc.ca.

Among the biggest computer users in the world, Canadians are also among the biggest users of the Internet for government services. For example, Canadians increasingly use the Internet to carry out their transactions for Employment Insurance (EI), Canada Pension Plan (CPP) and other benefit programs.

At servicecanada.gc.ca, Canadians can find information on topics for seniors, apply for programs and benefits electronically, or find a list of Service Canada Centre locations near them. The information can be found by subject, department or alphabetically.

REACHING OUT TO CANADIANS

During 2006–07, Service Canada 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 continues to receive high priority. In 2006–07, Service Canada issued personal CPP Statements of Contributions to 536 335 individuals between the ages of 18 and 70. The statements were accompanied by information on the retirement income system in Canada and on how to apply for benefits online. An additional 19 149 personal Statements of Contributions were issued to individuals over age 70. The Statements were accompanied by an application form for a CPP retirement pension.

Recognizing Canada's diversity, Service Canada extended its reach to multilingual communities by providing information on its programs and services, including the CPP, in a number of languages other than English and French. These multilingual services were added to the 587 points of service, ranging from Service Canada Centres to outreach sites in rural and remote areas.

In 2006–07, Service Canada also initiated a client segmentation concept for services (e.g. seniors, workers, youth, families and children, and Aboriginal people). The segmentation approach allows Service Canada to better understand the needs of Canadians and to integrate its services according to similarities and trends identified within these groups.

DELIVERING SERVICE

In 2006–07, Service Canada 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, as well as simple maintenance actions. In addition, fully automated adjudication (determination of eligibility and calculations of entitlement) has been introduced for CPP retirement benefits, and development is nearing completion for the remainder of CPP benefits, with implementation targeted for 2008–09. At the same time, Service Canada continues to focus on maintaining the existing CPP information technology systems.

In an effort to improve service delivery, Service Canada increased the number of points of service available, from 416 in March 2006 to 587 as of March 2007. These points of service include 327 Service Canada Centres, 204 outreach sites in rural and remote locations, and 56 community offices. In addition, Canadians were provided with more convenient and extended hours of service through the 1 800 O-Canada call centre; Service Canada Centres are open for business from Monday to Friday from 8:30 a.m. to 4:00 p.m.; and Canadians can find the CPP information they need day or night at servicecanada.gc.ca.

PROCESSING BENEFITS

In 2006–07, a total of 614 173 CPP applications were processed. This included 233 830 retirement applications, 93 percent of which were paid within the first month of entitlement. During the same period, the department processed 63 860 disability initial applications. Decisions on 87 percent of all CPP disability initial applications, which are complex and require medical information, were made within 120 calendar days of receipt of the completed application. Improved communication with clients and their physicians helped staff make well-informed decisions and helped CPP disability applicants better understand the reasons for decisions.

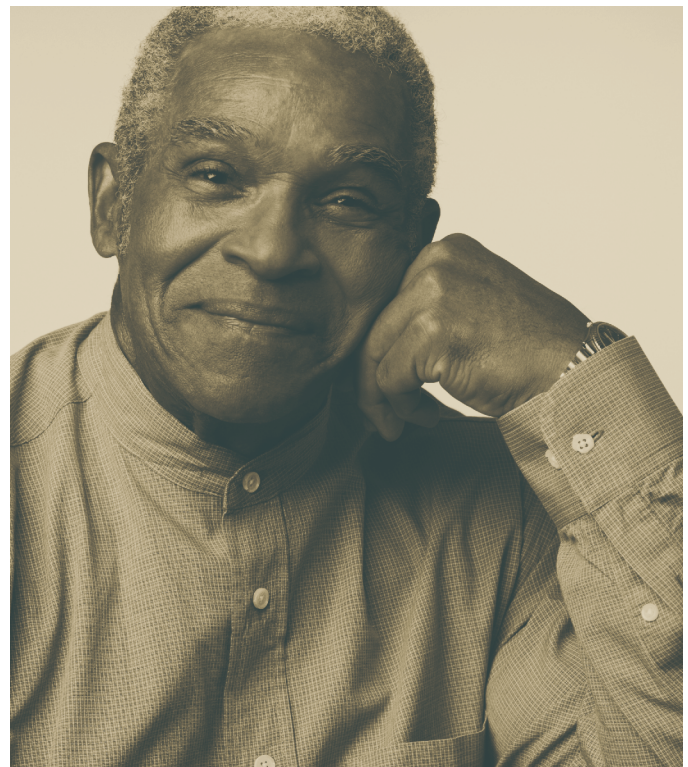


TABLE 2: Application Processing Statistics

National measures	Objective	2006–07 National
CPP retirement applications paid within the first month of entitlement	85%	93%
CPP disability initial decisions made within 120 calendar days	75%	87%
CPP disability reconsideration decisions made within 120 calendar days	70%	82%

TABLE 3: Telephone Service Statistics

National measures	Objective	2006–07 National
Clients served by a service agent within 180 seconds of placing a call*	95%	85%

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

Looking to the Future

Service Canada

INFORMATION TECHNOLOGY RENEWAL DELIVERY SYSTEM (ITR-DS)

Current systems supporting delivery of the Canada Pension Plan (CPP) program were designed decades ago for a mail and paper-based operation. Updating information systems that help deliver benefits is part of Service Canada's planned service delivery improvements. Replacing aging legacy systems with new automated and rules-assisted technology will enable the evolution 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 while supporting new modes of service delivery. The new system is being developed in stages, and substantial new capabilities are already available. For example, staff can now process the majority of new CPP retirement benefits through the new rules-based system, ensuring accurate benefit payments to clients. Clients can also apply online for their CPP retirement benefits.

The system will improve the information available to clients and enhance the services that can be provided by staff. These improvements will further reduce the paper burden and the complexity of the application process, simplify the management of CPP contributions and support the relationship between staff and clients. In 2006–07, changes were introduced to Parliament through Bill C-36 that will position Service Canada for the next steps forward. One key change allows electronic applications and alternatives to client-supplied paper copies of

evidentiary materials. Regulatory changes will have to be completed in 2007–08 in order to proceed with the development of new processes.

ONLINE SERVICE DELIVERY

Service Canada is implementing and continually improving on a number of self-service Web-based options. Clients will be able to make a wider range of inquiries and execute more transactions online, as well as access more integrated information on related benefits. Wider promotion of the Web-based CPP retirement application has led to increased usage.

View and Update Personal Information

Since June 2005, CPP clients have been able to access their personal information securely online. They can view and update mailing addresses, phone numbers and direct deposit information, as well as view their monthly payment amounts. In coming years, further enhancements will be made to allow clients to view and update more information. Bill C-36, which received Royal Assent in May 2007, will enable these activities to progress.

Streamlined and Automated CPP Statement of Contributions

CPP contributors can submit an online request to have their Statement of Contributions mailed to them. They can also view and print their personalized CPP Statement of Contributions information. With Bill C-36, the online version of a client's Statement of Contributions is now considered a legal document unless otherwise

contested. Clients will now be able to use the online service to request that an official copy be mailed to them more frequently than was permitted in the past.

Tax Information Slips Online

CPP clients can view their CPP T4 slips online, starting with those for the 2003 taxation year, including amendments. Clients can also choose to stop having paper tax slips mailed to them, and to view and print their T4 slips online instead.

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

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

The result is 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.

In the future, more improvements will be sought for the retirement application processes. Service Canada will also review and modify current application processes for other benefits such as death, survivor and disability. These improvements will reduce the requirements for additional data, provide options for making applications electronically, and consolidate some existing processes to increase timeliness, reduce paperwork and avoid duplication.

Bill C-36 and related regulatory changes will provide the foundation upon which to build these services.

REACHING ALL CANADIANS

In 2006–07, the Partnerships and Engagement Division of Human Resources and Social Development Canada (HRSDC) conducted a national review with regional representatives and service delivery partners to better understand the barriers to CPP and OAS benefit take-up among priority populations (immigrants, Aboriginal people and homeless and near-homeless seniors). This review has helped HRSDC and Service Canada to connect directly with partner service providers who are closer to the most difficult-to-reach populations. The department is developing several promising pilot initiatives to build partnerships with these service providers.

Over the past several years, HRSDC 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 with clients and through partners, the department will continue to improve and personalize its program.





Canada Pension Plan

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

Canada Pension Plan

Management's responsibility for financial statements

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

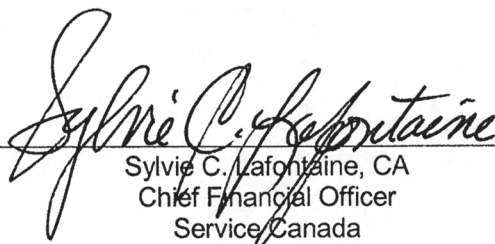
Management is responsible for the integrity and objectivity of the information in the financial statements, including the amounts which must, of necessity, be based on best estimates and judgement. The financial information presented throughout the Annual Report is consistent with the financial statements.

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*, the *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.

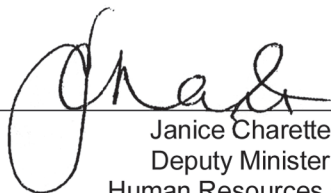
The Auditor General of Canada, the external auditor of the Canada Pension Plan, has conducted an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and has reported to the Minister of Human Resources and Social Development .



Sherry Harrison, CMA
Comptroller
Human Resources and
Social Development Canada



Sylvie C. Lafontaine, CA
Chief Financial Officer
Service Canada



Janice Charette
Deputy Minister
Human Resources and
Social Development Canada

August 17, 2007



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, 2007 and the consolidated statements of changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the management of Human Resources and 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, 2007 and the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
August 17, 2007

Canada Pension Plan

Consolidated Statement of Net Assets

As at March 31

	2007	2006
	(in millions of dollars)	
Assets		
Cash (Note 8)	56	155
Receivables (Note 7)	5,946	3,439
Investments (Schedule, Note 3)	118,094	99,196
Other Assets	15	8
	124,111	102,798
Liabilities		
Accounts payable	148	41
Pensions and benefits payable	74	62
Tax deductions due to Canada Revenue Agency	100	96
Investment liabilities (Schedule, Note 3)	1,382	775
Amounts payable from pending trades (Schedule, Note 3)	2,576	703
	4,280	1,677
Net assets	119,831	101,121

Contingencies (Note 13)

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

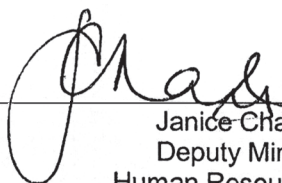
Approved by:



Sherry Harrison, CMA
Comptroller
Human Resources and
Social Development Canada



Sylvie C. Lafontaine, CA
Chief Financial Officer
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

	2007	2006
	(in millions of dollars)	
Net assets, beginning of year	101,121	83,411
Increase		
Contributions	32,355	30,117
Net Investment income (Note 9)		
Realized gains	9,540	6,448
Unrealized (losses)/gains	(542)	3,239
Interest income	1,988	2,185
Dividend income	1,666	1,031
Other income	417	165
Investment management fees	(25)	(36)
	13,044	13,032
	45,399	43,149
Decrease		
Pensions and benefits		
Retirement	18,679	17,698
Survivors	3,573	3,466
Disability	3,137	3,111
Disabled contributor's child	273	269
Death	260	264
Orphan	218	218
Net overpayments	(25)	(49)
	26,115	24,977
Operating expenses (Note 10)	574	462
	26,689	25,439
Net increase in net assets	18,710	17,710
Net assets, end of year	119,831	101,121

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

Canada Pension Plan

Consolidated Statement of Cash Flow for the year ended March 31

	2007	2006
	(in millions of dollars)	
Operating Activities		
<i>Cash receipts</i>		
Contributions	32,107	29,310
Interest on investments	2,146	2,274
Dividends on investments	1,627	989
Other investment income	1,297	2,357
<i>Cash payments</i>		
Pensions and benefits	(26,151)	(24,974)
Operating expenses	(437)	(496)
Investment management fees	(37)	(27)
Cash Flows from Operating Activities	10,552	9,433
Financing Activities		
Issuance of debt	703	441
Repayment of debt	(235)	(10)
Payment of interest on debt	(64)	(28)
Cash Flows from Financing Activities	404	403
Investing Activities		
<i>Purchases</i>		
Equities	(81,422)	(35,258)
Inflation sensitive investments	(4,834)	(8,718)
Fixed income investments	(6,011)	(17,046)
Money market securities	(294,842)	(332,728)
Premises and equipment	(9)	(4)
<i>Disposals</i>		
Equities	80,231	27,801
Inflation sensitive investments	2,347	1,307
Fixed income investments	3,520	17,623
Money market securities	289,965	334,569
Cash Flows used in Investing Activities	(11,055)	(12,454)
Net (decrease) in Cash	(99)	(2,618)
Cash at beginning of year	155	2,773
Cash at end of year	56	155

Canada Pension Plan

Consolidated Schedule of Investments for the year ended March 31

	2007	2006
	(in millions of dollars)	
Equities		
Canada		
Public equities	14,800	20,003
Private equities	667	455
	15,467	20,458
Foreign		
Public equities	36,656	27,743
Private equities	7,436	3,995
Pooled funds	260	-
	44,352	31,738
Total equities	59,819	52,196
Nominal fixed income		
Bonds (Note 3d)	28,481	26,452
Money market securities	15,561	10,356
Total nominal fixed income	44,042	36,808
Inflation-sensitive assets		
Public real estate	1,409	1,178
Private real estate	5,441	3,676
Inflation-linked bonds	3,802	3,837
Infrastructure	2,181	350
Total inflation-sensitive assets	12,833	9,041
Total investments	116,694	98,045
Investment receivables		
Accrued interest	714	764
Derivatives receivables	519	259
Dividends receivables	167	128
Total investment receivables	1,400	1,151
Total investments and investments receivable	118,094	99,196
Investments liabilities		
Debt on private real estate properties	(1,174)	(664)
Derivatives liabilities	(208)	(111)
Total investments liabilities	(1,382)	(775)
Amounts receivable from pending trades	2,477	255
Amounts payable from pending trades	(2,576)	(703)
Net investments	116,613	97,973

Canada Pension Plan

Notes to consolidated financial statements March 31, 2007

1. Description of the Canada Pension Plan

a) Description of the Canada Pension Plan

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

The CPP began operations in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates the Régime 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 Canada Pension Plan Investment Board (CPPIB) was established pursuant to the *Canada Pension Plan Investment Board Act*. The CPPIB is a federal Crown corporation, all of its shares are owned by her Majesty the Queen in right of Canada.

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

In accordance with the CPP Act, the financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 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 achieve a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and its ability to meet its financial obligations on any given business day.

The CPP Investment Board and its subsidiaries are exempt from Part I income tax under paragraphs 149(1)(d) and 149 (1) (d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the 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 employer-employee contributions of 9.9% of pensionable earnings. While the net asset value does not cover the actuarial present value of accrued pensions and benefits, it is expected to provide a capitalization level of 25% of the Plan's liability by the year 2025 as per the last triennial Actuarial Report issued in 2004.

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 most recent triennial report, the Twenty-first Actuarial Report of the Chief Actuary as at December 31, 2003, 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.

The CPP Act also provides that whenever a bill amending the CPP Act is introduced that would materially affect the estimates of the most recent triennial report, the Chief Actuary will prepare a report, using the same assumptions and basis as the triennial report, presenting how this bill would affect the estimates of the last triennial report. Following the introduction of Bill C-36, an act amending the CPP Act to relax the contributory requirements for disability and disabled contributors' child benefits, the Twenty-second Actuarial Report of the Chief Actuary as at December 31, 2003 was tabled on December 4, 2006. This report concludes that the CPP remains financially sound and that the 9.9% combined employer-employee contribution rate is expected to be sufficient to sustain the Plan.

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 and Twenty-second Actuarial Reports. These assumptions reflect best estimates of future economic and demographic events. The next triennial 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 and investments held by the CPPIB. They represent funds accumulated for the payment of pensions, benefits and operating expenses.

As at March 31, 2007, the value of net assets of the Plan is \$119.8 billion (2006 – \$101.1 billion). This amount represents approximately 4.6 times the total of pensions and benefits in 2007 (2006 - 4.0 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 2007 is \$863.75 (2006 – \$844.58).

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 2007 is \$1,053.77 (2006 – \$1,031.05).

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 2007 is \$518.25 (2006 – \$506.75).

Disabled contributor's child and orphan benefits – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or a child of a 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 2007 is \$204.68 (2006 – \$200.47).

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 2007 is \$2,500 (2006 – \$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 2007 is 2.1% (2006 – 2.3%).

2. Significant accounting policies

a) Basis of presentation

These financial statements are presented on a consolidated basis. They include the consolidated net assets, the consolidated changes in net assets and the consolidated cash flows of the CPP and the CPP Investment Board. 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 and pooled 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 available or 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) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows and third party transactions, or other events that would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined

based on carrying values and other relevant information reported by external managers using accepted industry valuation methods. In the first year of ownership, cost, which includes capitalized management fees, 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) Quoted market prices are used to represent the fair value for marketable bonds. Where quoted market prices are not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.
- (iv) Fair value for non-marketable Canadian federal, provincial and territorial government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketable and rollover provisions of the bonds.
- (v) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value.
- (vi) Quoted market prices are used to represent the fair value for public real estate investments.
- (vii) The fair value of private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private real estate investments unless there is evidence of a significant change in value.
- (viii) Quoted market prices are used to represent the fair value for inflation-linked bonds.
- (ix) Fair value for exchange-traded derivatives, which include equity, bond and interest futures, is based on quoted market prices. Fair value for over-the-counter derivatives, which include equity swaps, inflation-linked bond swaps and foreign exchange forward contracts, is determined based on the quoted market prices for underlying instruments.

c) Contributions

Contributions include CPP contributions earned for the year. The Canada Revenue Agency (CRA) collects contributions and measures them using the assessment of tax returns. In determining the amount of contributions earned for the year, the 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

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 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 denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year end date with any resulting gain or loss being 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, contingencies 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) Future Changes in accounting policy

In April 2005, the CICA issued section 3855, Financial Instruments – Recognition and Measurement, which is effective for fiscal years beginning on or after October 1, 2006. As the CPP Investment Board qualifies as an Investment Company and it reports its investments at fair value in accordance with AcG-18, Investment Companies, only certain aspects of section 3855 are applicable to the CPP Investment Board.

Effective April 1, 2007, the CPP Investment Board will adopt the fair value measurement considerations of section 3855. The impact to the CPP Investment Board is a change in the way certain investments are valued, expensing of transaction costs when incurred and applying the effective interest method in accounting for interest income on bonds. On April 1, 2007, the investments of the CPP Investment Board will be remeasured to reflect the new valuation standards. This transition adjustment is not expected to have a material impact on the CPP Investment Board's financial position.

The adoption of the new standard by CPPIB is not expected to have a material impact on the Canada Pension Plan's financial statements.

3. Investments 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 that are held outside of the CPP Investment Board and that 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 consist of the remaining portfolio of non-marketable federal, provincial and territorial bonds that have been transferred to the CPP Investment Board at the rate of 1/36th every month since May 1, 2004. The last 1/36th, totalling \$630 million (including \$16 million of accrued interest) at fair market value as at March 31, 2007, will be transferred to the CPP Investment Board on April 1, 2007 (see Note 3d).

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 fair value of these contracts is reported as derivative receivables and derivative liabilities on the consolidated schedule of Investments. Derivative exposure includes the fair value plus the notional amount of the contract.

The CPP Investment Board uses the following types of derivative instruments as described below:

Equity and inflation-linked bond swaps

Swaps are over-the-counter contractual agreements between two counterparties to exchange financial returns with predetermined conditions based on notional amounts. Swaps are used for yield enhancement purposes or to adjust exposures to certain equities and inflation-linked bonds without directly purchasing or selling the underlying asset. Swap contracts create credit risk exposure due to the possible inability of counterparties to meet the terms of the contracts. There is also risk arising from exposure to movements in equity values, interest rates and foreign rates, as applicable (see Note 5).

Equity, interest rate and bond futures

Futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of equities, interest rate sensitive financial instruments or bonds at a predetermined price and date in the future. Futures are used to adjust exposure to specified equities, interest rate sensitive financial instruments and bonds without directly purchasing or selling the underlying asset. The primary risks associated with futures contracts are related to the exposure to movements in equity values, interest rates and foreign exchange rates, as applicable. Credit risk on exchange-traded futures is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligations of both counterparties (see Note 5).

Foreign exchange forward contracts

Foreign exchange forward contracts are over-the-counter contractual agreements negotiated between two counterparties to exchange a specified amount of one currency for a specified amount of a second currency on a predetermined date in the future. Foreign exchange forward contracts are used to manage exposures to currencies other than the Canadian dollar. The primary risks associated with foreign exchange forward contracts arise from exposure to movements in foreign exchange rates and from the possible inability of counterparties to meet the terms of the contract (see Note 5).

All derivative contracts have a term of maturity of one year or less.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the returns and fair value of the contracts and are a measure of the exposure to the asset class to which the contract relates. They are not recorded as assets or liabilities on the balance sheet. Notional amounts do not represent the potential gain or loss associated with the market risk and are not indicative of the credit risk associated with a derivative contract.

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

	As at March 31, 2007				For the Year Ended March 31, 2007	
(in millions of dollars)	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value	Average Gross Positive Fair Value ¹	Average Gross Negative Fair Value ¹
Equity swaps	14,435	373	(134)	239	274	(156)
Equity futures	1,797	1	(2)	(1)	4	(4)
Foreign exchange forward contracts	19,170	145	(72)	73	132	(147)
Inflation-linked bond swaps	-	-	-	-	-	-
Interest rate and bond futures	-	-	-	-	-	(1)
Total	35,402	519	(208)	311	410	(308)

	As at March 31, 2006				For the Year Ended March 31, 2006	
(in millions of dollars)	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value	Average Gross Positive Fair Value ¹	Average Gross Negative Fair Value ¹
Equity swaps	8,874	213	(44)	169	93	(45)
Equity futures	1,047	1	(3)	(2)	3	(15)
Foreign exchange forward contracts	6,184	45	(59)	(14)	24	(43)
Inflation-linked bond swaps	126	-	(5)	(5)	4	(5)
Interest rate and bond futures	-	-	-	-	-	-
Total	16,231	259	(111)	148	124	(108)

¹ Determined using month-end values

b) Private equity investments

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

With respect to limited partnership arrangements, 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, 2007, management fees of \$131 million (2006 – \$87 million) were paid to the limited partnerships and recorded as part of the cost of the investments. 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) Inflation-sensitive assets

- i. The CPP Investment Board obtains exposure to real estate through investments in publicly-traded securities and privately held real estate.

Private 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, 2007, the subsidiary's share of these investments includes assets of \$5,441 million (2006 – \$3,676 million) and \$1,174 million of secured debt (2006 – \$664 million), with a weighted average fixed interest rate of 6.2 per cent and terms to maturity of one to 20 years.

Included in the private real estate are investments in joint ventures. The CPP Investment Board's proportionate interest in joint ventures at March 31 is summarized as follows:

Proportionate share of net assets (in millions of dollars)	2007	2006
Assets	4,790	3,312
Liabilities	(1,174)	(664)
	3,616	2,648
Proportionate share of net income (in millions of dollars)	2007	2006
Revenue	484	273
Expenses	(325)	(183)
	159	90

- ii. The terms to maturity of the inflation-linked bonds as at March 31 are as follows:

2007						2006		
Terms to Maturity								
(in millions of dollars)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average Effective Yield	Total	Average Effective Yield
Inflation-linked bonds	-	332	560	2,910	3,802	3.3%	3,837	4.8%

- iii. Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. Direct investments do not have management fees, while 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, 2007, management fees paid to the limited partnerships were \$4.7 million (2006 – \$5.4 million).

d) Bonds

Bonds consist of marketable and non-marketable bonds as follows:

	2007	2006
	(in millions of dollars)	
Marketable bonds		
Government of Canada	2,200	-
Provincial	1,110	-
Government corporations	920	-
Total marketable bonds	4,230	-
Non-marketable bonds		
Government of Canada	1,888	3,354
Provincial and territorial	22,363	23,098
Total non-marketable bonds	24,251	26,452
Total bonds	28,481	26,452

The following table provides information on disposals, re-investments, unrealized gains(losses) of non-marketable bonds held by the CPP for the CPP Investment Board and the CPP:

Non-marketable bonds (in millions of dollars)						
	March, 31 2006 at cost	Disposals	Re- Investments	March, 31 2007 at cost	March, 31 2007 at fair value	March, 31 2006 at fair value
CPP Investment Fund's share	8,355	600	-	563	614	9,164
CPP Investment Board's share	*15,944	2,275	1,120	21,981	23,637	17,288
	24,299	2,875	1,120	22,544	24,251	26,452

* CPP transferred to CPP Investment Board bonds with a cost of \$7,193 million during the year ending March 31, 2007 (\$8,028 million – 2006).

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 \$8 billion based on fair market value at the time of transfer were transferred during the year ended March 31, 2007.

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 Act*.

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, 2007 (2006 – 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:

	2007		2006	
	(in millions of dollars)			
	Investments at fair value	Effective yield	Investments at fair value	Effective yield
Investments maturing				
Within 1 year	2,125	4.87 %	2,837	4.71 %
1 – 5 years	9,396	4.95 %	11,965	5.02 %
Over 5 years	12,730	4.98 %	11,650	5.17 %
Total – Investments	24,251		26,452	
Average effective yield on investments		4.96 %		5.05 %

e) 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, 2007, the CPP Investment Board paid total brokerage commissions of \$39 million (2006 – \$28 million).

f) Securities lending

The CPP Investment Board engages in securities lending to enhance portfolio returns. Credit risk associated with securities lending 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, 2007, the CPP Investment Board's investments include securities loaned with an estimated fair value of \$3,047 million (2006 – \$1,847 million). The fair value of collateral received in respect of the securities loaned is \$3,202 million (2006 – \$1,942 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 being transferred to the CPP Investment Board over a three year period. As at March 31, 2007, 35/36th of the Investment Fund has been transferred to the CPP Investment Board. The fair value of the bonds at the moment of the transfers total up to approximately \$26 billion (2006 – 23/36th for approximately \$18 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 risk management

Investments may be exposed to a variety of financial risks: price risk (including currency risk, interest rate risk and market risk), credit risk and liquidity risk. The CPP Investment Board manages financial risks in accordance with the *Canada Pension Plan Investment Board Act*, regulations and the investment policies. In addition, derivatives are used, where applicable, to manage certain risk exposures (See Note 3a).

Currency Risk: The CPP is exposed to currency risk through holdings of investments in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments. The net underlying currency exposures, after allocating foreign currency derivatives, as at March 31 are as follows:

(in millions of dollars)		2007		2006	
Currency	Net Exposure	% of Total	Net Exposure	% of Total	
Canadian Dollar	69,559	59	63,802	66	
United States Dollar	23,502	20	18,771	19	
Euro	8,744	7	5,900	6	
Japanese Yen	5,299	5	3,370	3	
British Pound Sterling	4,166	4	3,266	3	
Swiss Franc	1,167	1	760	1	
Australian Dollar	1,799	2	893	1	
Other	2,378	2	1,211	1	
	116,614	100	97,973	100	

Interest Rate Risk: Interest rate risk refers to the effect on the fair value of investments due to fluctuations in market interest rates. The fair value of the CPP marketable, non-marketable and inflation-linked bonds and debt on private real estate properties is directly affected by changes in interest rates. At March 31, 2007, should nominal interest rates have increased/decreased by 1%, the fair value of the bonds would decrease/increase by 7% (2006 – 7%).

Market Risk: Market risk is the risk that the value of an investment will fluctuate as a result of 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 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 risk limits established in the investment policies.

Credit Risk: Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. 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 to any single counterparty is limited to maximum amounts as specified in the investment policies.

Liquidity Risk: Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet commitments as they come due. The CPP is exposed to liquidity risk through its responsibility to pay benefits on a timely basis. The CPP mitigates liquidity risk through its unsecured credit facilities (see Note 6).

6. Credit facilities

The CPP Investment Board maintains \$1.5 billion (2006 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2007, the total amount drawn on the credit facilities is \$nil (2006 - \$nil).

7. Receivables

	2007 (in millions of dollars)	2006
Receivables		
Contributions	3,333	3,085
Régime des rentes du Québec	100	49
Beneficiaries		
Balance of pensions and benefits overpayments	89	86
Allowance for doubtful accounts	(53)	(50)
Amounts receivable from pending trades	2,477	255
Other	-	14
	5,946	3,439

The Department has procedures to detect overpayments. During the year, overpayments totalling \$29 million (2006 - \$53 million) were established and remissions of debts totalling \$4 million (2006 - \$4 million) were granted. A further \$22 million was recovered (2006 - \$45 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. As at March 31, 2007, the Deposit with the Receiver General for Canada is \$54 million (2006 - \$151 million) and CPPIB's cash is \$2 million (2006 - \$4 million) for a total of \$56 million (2006 - \$155 million) in the consolidated statement of net assets and the consolidated statement of cash flow.

9. Net investment income

Investment income is reported net of external investment management fees. Investment management fees in respect of publicly-traded investments are expensed as incurred. These fees include an incentive portion that fluctuates with investment performance. Investment management fees for private real estate

investments are deducted by the asset manager before the CPP Investment Board receives its share of net operating income from the properties (See Notes 3b and 3c).

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

	2007	2006
	(in millions of dollars)	
Equities¹		
Canada		
Public equities	3,175	7,567
Private equities	77	(13)
	3,252	7,554
Foreign		
Public markets	4,955	3,054
Private markets	1,837	585
Pooled funds	(1)	-
	6,791	3,639
Less : External investment management fees ²	(10)	(30)
	10,033	11,163
Nominal Fixed Income³		
Bonds	1,431	1,283
Money market securities	98	41
	1,529	1,324
Inflation-sensitive assets		
Public real estate ⁴	453	298
Private real estate ⁵	855	183
Inflation-linked bonds	30	57
Infrastructure	150	(8)
	1,488	530
Less: External investment management fees ²	(15)	(6)
	1,473	524
Interest on operating balance	9	21
Total net investment income⁶	13,044	13,032

1 Includes unrealized losses of \$922 million (2006 – unrealized gains of \$3,715 million), realized gains of \$9,333 million net of external investment management fees (2006 – realized gains of \$6,449 million net of external investment management fees), dividends of \$1,615 million (2006 – \$993 million) and securities lending income of \$7 million (2006 – \$6 million).

2 Investment management fees do not include capitalized management fees of \$131 million (2006 – \$87 million) for private equities and \$4.7 million (2006 – \$5.4 million) for infrastructure.

3 Includes interest income of \$1,988 million (2006 – \$2,185 million), realized losses of \$75 million (2006 – realized losses of \$31 million) and unrealized losses of \$375 million (2006 – unrealized losses of \$809 million).

4 Includes unrealized gains of \$133 million (2006 – unrealized gains of \$260 million), realized gains of \$269 million (2006 – realized losses of \$0.3 million) and dividends of \$51 million (2006 – \$38 million).

5 Includes private markets real estate operating income of \$230 million (2006 – \$110 million), which is net of interest expense of \$63 million (2006 – \$42 million), unrealized gains of \$622 million (2006 – unrealized gains of \$73 million) and realized gains of \$3 million (2006 – \$nil).

6 Includes foreign exchange gains of \$1,053 million (2006 – foreign exchange losses of \$1,679 million).

10. Operating expenses

	2007	2006
	(in millions of dollars)	
General operating expenses	257	222
Salaries and benefits	304	232
Professional and consulting fees	13	8
Total Operating expenses	574	462

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

The administration of the Canada Pension Plan's assets and activities is shared between various government of Canada's departments and the Canada Pension Plan Investment Board (CPPIB). The CPPIB is responsible for investing 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.

	2007			2006		
	GoC	CPPIB	Total	GoC	CPPIB	Total
	(in millions of dollars)					
Assets	4,152	119,959	124,111	12,750	90,048	102,798
Liabilities	256	4,024	4,280	161	1,516	1,677
Net assets	3,896	115,935	119,831	12,589	88,532	101,121
Income :						
Contributions	32,355	-	32,355	30,117	-	30,117
Investment income	256	12,788	13,044	839	12,193	13,032
	32,611	12,788	45,399	30,956	12,193	43,149
Expenses :						
Pensions and benefits	26,115	-	26,115	24,977	-	24,977
Operating expenses	460	114	574	408	54	462
	26,575	114	26,689	25,385	54	25,439
Increase in net assets	6,036	12,674	18,710	5,571	12,139	17,710

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 investment services to the CPP, including periodic return, on at least a monthly basis of funds required to meet expenses and benefits.

During the year ended March 31, 2007, a total of \$33.5 billion was transferred to the CPPIB which include bonds of \$8.0 billion based on fair market value at the time of transfer and cash of \$25.5 billion. During the same year a total of \$18.8 billion was returned to the CPP to meet its liquidity requirements.

Transaction total for the year

	2007	2006
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB, beginning of year	91,795	57,296
Transfers of bonds titles and accrued interest	8,018	9,201
Transfers of funds to CPPIB	25,476	25,298
Accumulated transfers to CPPIB, end of year	125,289	91,795
Accumulated transfers from CPPIB, beginning of year	(23,355)	(6,669)
Transfers of funds from CPPIB	(18,765)	(16,686)
Accumulated transfers from CPPIB, end of year	(42,120)	(23,355)
Accumulated net transfers to CPPIB	83,169	68,440

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, 2007, the remaining commitments total \$13.4 billion (2006 – \$8.3 billion).

As at March 31, 2007, the CPPIB has made lease commitments of \$54.9 million (2006 – \$26 million) over the next seven years.

13. Contingencies

a) Appeals relating to the payment of pensions and benefits

At March 31, 2007, there were 7,996 (8,226 in 2006) appeals relating to the payment of CPP pensions and benefits. These contingencies are estimated at an amount of \$88 million (\$79 million in 2006). 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 March 1, 2007, the Supreme Court of Canada rendered its decision and ruled that class members are entitled to receive CPP survivor's pension. The arrears payment is limited to 11 months. It is expected that

the parties will appear before the Ontario Superior Court of Justice to resolve outstanding administrative issues, including the interest rates to be applied.

An amount of \$13.5 million was recognized in the CPP 2006-07 financial statements for the estimated obligation at March 31, 2007.

c) Other claims and legal proceedings

In the normal course of operations, the CPP is involved in various claims and legal proceedings other than the class action described in 13b). While the total amount claimed in these actions may be significant, their outcomes are not determinable. The CPP records an allowance for claims and legal proceedings when it is likely that there will be a future payment and a reasonable estimate of the loss can be made. No such allowance was recognized in the financial statements for the 2006-07 and 2005-06 fiscal years for these claims and legal proceedings.

d) 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 \$3,333 million (2006 - \$3,085 million) of contributions receivable from the Canada Revenue Agency.

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

Transaction total for the year

	2007	2006
	(in millions of dollars)	
Pension and benefit delivery, accommodation and corporate services		
Social Development Canada	293	269
Human Resources and Skills Development Canada	17	21
	310	290
Collection of contributions		
Canada Revenue Agency	135	101
Cheque issue and computer services		
Public Works and Government Services Canada	14	16
Actuarial services		
Office of the Superintendent of Financial Institutions	1	1
	460	408

15. Comparative figures

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