Government of Canada
Gouvernement du Canada

Annual Report

CANADA PENSION PLAN

2011–2012

Canada

Annual Report
Canada Pension Plan 2011–2012

Fiscal Year 2011–2012

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Human Resources and Skills Development Canada (HRSDC) is responsible for the administration of the Canada Pension Plan (CPP). This report is produced by HRSDC, in collaboration with Finance Canada, the Canada Revenue Agency, the Office of the Superintendent of Financial Institutions and the CPP Investment Board.

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

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Government of Canada Gouvernement du Canada

His Excellency

The Governor General of Canada

May it please Your Excellency:

We have the pleasure of submitting the Annual Report of the Canada Pension Plan for the fiscal year 2011–2012.

Respectfully,

James M. Flaherty
Minister of Finance

Diane Finley
Minister of Human Resources and Skills Development

Table of Contents

at a Glance

2011–2012 at a Glance

- The maximum pensionable earnings of the Canada Pension Plan (CPP) increased from **$48,300** in 2011 to **$50,100** for 2012. The contribution rate remained unchanged at **9.9 percent**.
- **4.8 million** beneficiaries received **5.6 million** benefits from the CPP, with a total value of approximately **$33.3 billion**.
- Approximately **4 million** CPP retirement benefits were paid, totalling **$24.5 billion**.
- Benefits for approximately **1 043 000** surviving spouses or common-law partners and **73 000** children of deceased contributors were paid, totalling **$4.3 billion**.
- Benefits for approximately **326 000** people with disabilities and **86 000** of their children were paid, totalling **$4.2 billion**.
- Approximately **130 000** death benefits were paid, totalling **$0.3 billion**.
- Operating expenses amounted to **$1.180 billion**, or **3.54 percent** of the **$33.3 billion** in benefits paid. This compares favourably with operating expenses for other large pension plans and individual registered retirement savings plans.
- As at March 31, 2012, total CPP Investment Board net assets were valued at **$161.6 billion**. These assets consisted primarily of public and private equities, fixed income instruments, real estate, inflation-linked bonds, infrastructure and securities.

Note: Certain figures above have been rounded.

Canada Pension Plan in Brief

If you have worked at any time since the age of 18, you have likely contributed to the Canada Pension Plan (CPP) or to its sister plan, the Quebec Pension Plan (QPP).

Implemented in 1966, the CPP is managed jointly by the federal and provincial governments. Quebec manages and administers its own comparable plan, the QPP, and participates in decision-making for the CPP. Benefits from either plan are based on pension credits accumulated under both plans.

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

Contributions

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

An employee's contribution is based on earnings from the start of the Plan in 1966 or from the time the employee reaches the age of 18. The first $3,500 of each employee's annual earnings is exempt from contributions. On earnings above $3,500, up to the 2012 ceiling of $50,100, an employee makes a contribution of 4.95 percent and an employer matches the employee's contribution with an equal contribution.

Self-employed individuals pay the combined rate for employees and employers, which is 9.9 percent if their total earnings are more than $3,500 a year. In 2012, self-employed individuals pay on annual earnings between $3,500 and $50,100.

While many Canadians associate the CPP with retirement pensions, the CPP also provides disability, death, survivor, children's benefits and a post-retirement benefit. The CPP administers the largest long-term disability plan in Canada. As well as paying monthly benefits to eligible contributors with a disability and their children, the CPP also helps some beneficiaries return to the workforce through vocational rehabilitation services and return-to-work support.

Most benefit calculations are based on how much and for how long a contributor has paid into the CPP and, in some cases, the age of the beneficiary. With the exception of the post-retirement benefit, benefits are not paid automatically—everyone must apply and provide proof of eligibility. Benefit amounts are adjusted in January of each year to reflect increases in the average cost of living, as measured by the Consumer Price Index published by Statistics Canada.

CALCULATION OF CONTRIBUTIONS AND BENEFITS FOR 2012	
Year's maximum pensionable earnings	$50,100.00
Year's basic exemption	$3,500.00
Year's maximum employee/employer contribution (4.95%)	$2,306.70
Year's maximum self-employed person's contribution rate (9.9%)	$4,613.40

Benefits and Expenditures

The number of people receiving CPP benefits has increased steadily over the past decade. As a result, expenditures have also increased. Figure 1 (page 6) shows the yearly increase in benefits and expenditures from 2010–2011 to 2011–2012; Figure 2 (page 6) shows the percentage of expenditures by type of benefit.

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

1. made at least one valid contribution to the plan; and
2. reached the age of 60.

Retirement Pensions

Retirement pensions represented about 74 percent of the total benefit amount paid out by the CPP in 2011–2012. The amount of contributors' pensions depends on how much and how long they have contributed and at what age they begin to draw the benefits. The maximum new monthly retirement pension in 2012 was $986.67; the average payment for 2011–2012 was $514.14.

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

Adjustments for Early and Late Receipt of a Retirement Pension

In 2012, those who start receiving their benefit before they turn 65 have their CPP pension permanently reduced by 0.52 percent per month (up to a maximum of 31.2 percent). This adjustment reflects the fact that these seniors will, on average, contribute less and receive their benefits longer than someone who retires at the age of 65 or older. In 2012, those who take their pension between the ages of 65 and 70 have their CPP benefit amount permanently increased by 0.64 percent per month (up to a maximum of 38.4 percent). This adjustment reflects the fact that these seniors will, on average, contribute more and receive their benefits for a shorter amount of time.

Since the beginning of 2011, a gradual change in these benefit adjustment factors has been occurring. This change will further decrease the pension for those who start receiving it before age 65, and further increase it for those who start receiving it after age 65. This will help ensure that there are no unfair advantages or disadvantages for those who receive early or late CPP retirement pensions. By 2016, the adjustment factors will have achieved actuarial neutrality. This means that CPP contributors can choose the right time for their retirement based on their individual circumstances and needs without unfairly treating those who worked longer and contributed more to the CPP.

Retirement pension taken before age 65:

Starting in 2012, the adjustment factors for early retirement will gradually increase to reach 0.6 percent per month in 2016. This means that by 2016, if contributors start receiving a CPP retirement pension at age 60, their pension amount will be 36 percent less than if taken at age 65.

Retirement pension taken after age 65:

Starting in 2011, the adjustment factors for late retirement began gradually increasing to reach 0.7 percent per month in 2013. This means that by 2013, if contributors start receiving a CPP retirement pension at age 70, their pension amount will be 42 percent more than if taken at age 65.

Figure 1: CPP – Benefits and Expenditures by Fiscal Year

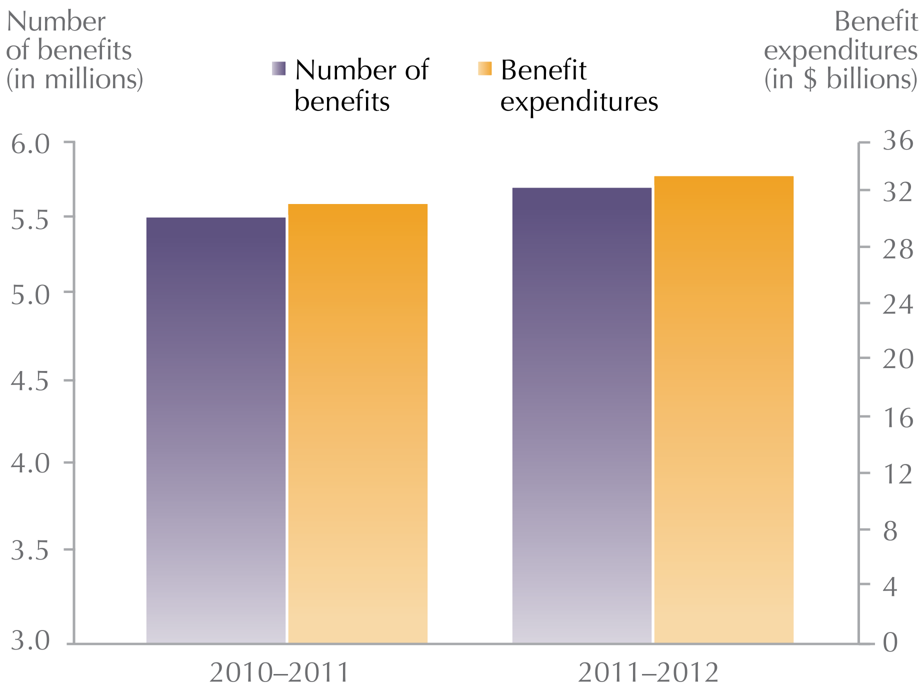
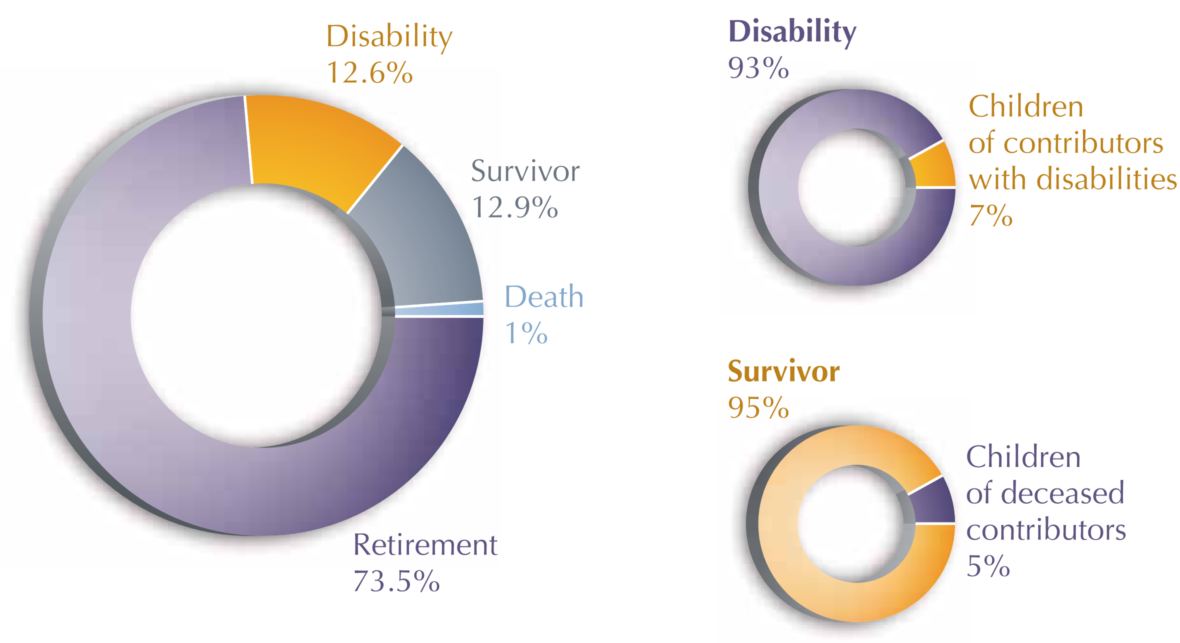


Figure 2: CPP – Percentage of Expenditures by Benefit Type 2011–2012



Disability Benefits

Disability benefits provide basic earnings replacement to CPP contributors who cannot work due to a severe and prolonged disability. A contributor is deemed disabled if he or she suffers from a physical or mental condition that is severe and prolonged. Dependent children of contributors may also be eligible for children's benefits. Disability benefits represented about 13 percent of the total benefits paid out by the CPP in 2011–2012.

In 2011–2012, disability benefits were paid to an average of 326 000 beneficiaries and to 86 000 children of beneficiaries. The benefit includes a monthly flat rate, which was $445.50 in 2012. It also includes an earnings-related portion (75 percent of the retirement benefit that would have been earned had the contributor not become disabled). In 2012, the maximum monthly payment for new disability benefits was $1,185.50. The average payment in 2011–2012 was $826.86. The children's benefit was a flat-rate amount of $224.62 per month in 2012, paid out for eligible children under the age of 18. To be eligible for CPP Disability children's benefits, those aged 18 to 25 must be enrolled in full-time post-secondary education.

Survivor Benefits

Survivor benefits, paid to the surviving spouse or common-law partner of the contributor and his or her dependent children, represented about 13 percent of the total benefits paid out by the CPP in 2011–2012. The benefit amount varies depending on a number of factors, including the age of the surviving spouse or common-law partner at the time of the contributor's death and whether the survivor also receives other CPP benefits.

The maximum new monthly survivor pension for those under age 65 was $543.82 in 2012. This includes a flat-rate portion of $173.82 and an earnings-related portion (37.5 percent of the deceased contributor's retirement pension). The maximum amount at age 65 and over was $592.00, consisting of 60 percent of the deceased contributor's retirement pension.

For 2011–2012, the average payment for all survivor benefits was $319.01. The children's benefit was a flat-rate amount of $224.62 per month, paid out for eligible children under the age of 18. To receive the children's benefit, those aged 18 to 25 must be enrolled in full-time post-secondary education.

Post-Retirement Benefits

The Post-Retirement Benefit (PRB) is a new lifetime benefit that allows CPP Retirement working beneficiaries to increase their retirement income by continuing to participate in the CPP. The PRB is payable for life, and fully indexed, meaning that benefit rises with increases in the cost of living, even if the contributor already draws the maximum pension from the CPP or the QPP.

Canadians working outside of Quebec who receive a CPP or QPP retirement pension began making CPP contributions toward the post-retirement benefit on January 1, 2012. These contributions are mandatory for recipients of CPP or QPP retirement pensions who are working and who are under 65 years of age. Recipients of CPP and QPP retirement pensions who are at least 65 but under 70 years of age, can choose not to contribute. Contributions to the PRB will not create eligibility for, or increase the amount of, other CPP benefits. Contributions are not required at age 70. The benefit will be paid to contributors starting in 2013.

Death Benefits

The CPP death benefit is a lump-sum payment that amounts to six times the amount of the deceased contributor's monthly retirement pension, up to a maximum of $2,500. In 2011–2012, death benefit payments represented one percent of the total benefits paid out by the CPP. The average payment was $2,274.20.

Provisions

General Drop-out Provision

The CPP includes provisions that help compensate for periods of work interruption that are characterized by low or zero earnings. Until 2012, up to 15 percent (equal to 7 years of a 47-year-career period on which the CPP is based) was excluded from the benefit calculation. The general drop-out provision is gradually being increased to 17 percent, which equals 8 years, by 2014.

Child Rearing Provision

The Child Rearing Provision excludes from the calculation of benefits the periods during which contributors have remained at home, or have reduced their participation in the workforce, to care for children under the age of seven. Until the child reaches seven years of age, every month following the birth of the child can be excluded from the benefit calculation, provided the contributor meets all criteria, including low or no earnings.

Pension Sharing

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

Credit Splitting

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

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

Reconsideration and Appeals Process

There are three opportunities to request a review of, or appeal a decision on, a CPP application. The first level is a request to review or reconsider a decision. The second level is an appeal. The third level is an application for leave to appeal.

Level 1

A client may make a request to the Minister of Human Resources and Skills Development for reconsideration or administrative review of an initial application. In 2011–2012, Service Canada issued 13 660 reconsiderations of decisions related to CPP benefits, division of pension credits or pension sharing. There were 5 130 decisions issued in favour of clients.

Level 2

If the decision made at the reconsideration level is unsatisfactory, a client can appeal to the Review Tribunal. The Review Tribunal is an administrative tribunal that operates at arm's length from the government. It is made up of three people chosen by the Commissioner of Review Tribunals from a panel of 100 to 400 part-time members appointed by the Governor in Council.

Hearings are held in over 110 locations across Canada, and travel and accommodations are provided for parties requested to attend a hearing. Claimants may appear on their own behalf or with representation. A Service Canada representative acts on behalf of the Minister. Neither the hearing nor the decisions are open to the public. In 2011–2012, the Office of the Commissioner of Review Tribunals received 4 769 appeals under the CPP and held 3 580 hearings. The tribunal issued 3 668 decisions, of which 1 396 were in favour of the appellants. In addition, 85 cases were concluded as a result of settlements.

Level 3

If the decision made by the Review Tribunal is unsatisfactory, a client or the Minister may request leave to appeal (permission for a hearing) to the Pension Appeals Board (PAB). The PAB is an arm's length administrative tribunal whose members are judges or former judges of provincial superior courts or federal courts. Similar to Review Tribunal hearings, PAB hearings are held in major 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; the Minister is represented by a lawyer. Both the hearings and the decisions are open to the public.

In 2011–2012, the PAB received 731 requests for "leave to appeal." Seventy-four percent of applications received were granted "leave to proceed to a hearing." In 2011–2012, the PAB issued 678 final decisions, of which 350 (52 percent) were decided in favour of the claimants.

Decisions of the PAB may be brought before the Federal Court or Federal Court of Appeal for judicial review. The federal courts either uphold a decision or return it to the PAB for a new hearing.

Ensuring Financial Sustainability

As joint stewards of the CPP, the federal and provincial Ministers of Finance review the CPP's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. They base their recommendations on a number of factors, including the results of an examination of the CPP by the Chief Actuary. The Chief Actuary is required under the legislation to produce an actuarial report on the CPP every three years (in the first year of the legislated ministerial triennial review of the Plan). The CPP legislation also provides that, upon request of the Minister of Finance, the Chief Actuary prepares an actuarial report any time a bill is introduced in the House of Commons that has, in the view of the Chief Actuary, a material impact on the estimates in the most recent triennial actuarial report. This reporting ensures that the long-term financial implications of proposed Plan changes are given timely consideration by the Ministers of Finance.

Changes to the CPP legislation governing the level of benefits, the rate of contributions or the investment policy framework can be made only through an Act of Parliament. Any such changes also require the agreement of at least two-thirds of the provinces, representing at least two-thirds of the population of all the provinces. The changes come into force only after a notice period, unless all of the provinces waive this requirement, and only after provincial Orders in Council have provided formal consent by the provinces to the federal legislation enacting the changes. Quebec participates in decision-making regarding changes to the CPP legislation, even though it administers its own comparable plan. When the CPP and QPP were established, it was considered important that Quebec be involved in changes to the CPP to ensure a high degree of portability of QPP and CPP benefits across Canada.

Triennial Review

The results of the most recent Triennial Review by the federal, provincial and territorial Ministers of Finance were announced as part of the 2012 federal Budget: *Jobs, Growth and Long-term Prosperity – Economic Action Plan 2012*, which was tabled before Parliament on March 29, 2012. The review confirmed the financial sustainability of the CPP over the long term at the current contribution rate of 9.9 percent. Canadians can count on the CPP to be there for them when they retire. The finance ministers also agreed to several technical amendments to the CPP legislation and CPP Investment Board regulations. The technical amendments include legislative changes required to modernize the CPP as part of the previous 2007–2009 triennial review. The technical amendments will not change the level of CPP benefits or the contribution rate.

To read the conclusions of the triennial review in Economic Action Plan 2012, visit **www.budget.gc.ca/2012/plan/chap4-eng.html#a15**

Modernization of the CPP

The recent changes made to the CPP as part of the previous 2007–2009 Triennial Review formed part of the *Economic Recovery Act (stimulus)*, Chapter 31, Statutes of Canada, 2009 (Bill C-51), which received Royal Assent on December 15, 2009.

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

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

To read more about the recent amendments to the CPP, visit **www.hrsdc.gc.ca/eng/oas-cpp/legislation/bill_c51/index.shtml**

Actuarial Reporting

The *Twenty-fifth Actuarial Report on the Canada Pension Plan* was tabled in the House of Commons on November 15, 2010. The Report presents the financial status of the CPP as at December 31, 2009, and takes into account the recent changes to modernize the Plan, as well as the actual demographic and economic experience since December 31, 2006. According to the Report, the CPP is expected to meet its obligations and remain financially sustainable over the long term under a contribution rate of 9.9 percent.

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

The next Triennial Actuarial Report on the Canada Pension Plan, which will report on the financial status of the Plan as at 31 December 2012, is expected to be released in November 2013.

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

Funding Approach

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

However, demographic and economic developments, as well as changes to benefits in the following three decades, resulted in significantly higher costs. When federal, provincial and territorial ministers of finance began their review of the CPP's finances in 1996, contribution rates, already legislated to rise to 10.1 percent by 2016, were expected to rise again—to 14.2 percent by 2030—to continue to finance the CPP on a pay-as-you-go basis. Continuing to finance the CPP on the same basis as in previous years would have meant imposing a heavy financial burden on the future Canadian workforce. This was deemed unacceptable by the participating governments.

Amendments were therefore put into effect in 1998 to gradually raise the level of CPP funding by: increasing contribution rates over the short term, reducing the growth of benefits over the long term, and investing cash flows not needed to pay benefits in the private markets through the CPP Investment Board (CPPIB) to achieve higher rates of return. A further amendment was included to ensure that any increase in benefits or new benefits provided under the CPP would be fully funded. The reform package agreed to by the federal and provincial governments in 1997 included:

- the introduction of steady-state funding. This replaced pay-as-you-go financing to build a reserve of assets and stabilize the ratio of assets to expenditures over time. According to the *Twenty-fifth Actuarial Report on the Canada Pension Plan*, the level of assets under steady-state funding is projected to stabilize at a level equal to about five years of expenditures. Investment earnings from this pool of assets will help pay benefits as the large cohort of baby boomers retires. Steady-state funding is based on a constant rate that finances the CPP without the full-funding requirement for increased or new benefits. The steady-state rate was determined to be 9.84 percent in the *Twenty-fifth Actuarial Report on the Canada Pension Plan*; and

- the introduction of incremental full funding. This means that changes to the CPP that increase or add new benefits will be fully funded. In other words, benefit costs are paid as the benefit is earned and any costs associated with benefits that are already earned and not paid for are amortized and paid for over a defined period of time, consistent with common actuarial practice. In the *Twenty-fifth Actuarial Report on the Canada Pension Plan*, the full-funding rate was determined to be 0.02 percent for 2010–22, and 0.01 percent thereafter. The minimum contribution rate required to fund the CPP is the sum of the steady-state and full-funding rates. The minimum contribution rate was determined to be 9.86 percent before 2023, and 9.85 percent from 2023 onward.

Both of these funding objectives were introduced to improve fairness across generations. The move to steady-state funding eases some of the contribution burden on future generations. Under full funding, each generation that receives benefit enrichments is more likely to pay for them in full and not pass on the cost to future generations. These full-funding requirements were made operational through new regulations that came into effect with the passage of An Act to amend the *Canada Pension Plan and the Old Age Security Act* (2008).

Financing

According to the Chief Actuary, the annual amount of contributions paid by Canadians into the CPP is expected to exceed the annual amount of benefits paid out up to and including 2020, and to be less than the amount of benefits thereafter. Funds not immediately required to pay benefits will be transferred to the CPPIB for investment. Plan assets are expected to accumulate rapidly over this period and, over time, will help pay for benefits as more and more baby boomers begin to collect their retirement pensions. In 2021 and thereafter, as the baby boomers continue to retire and benefits paid begin to exceed contributions, investment income from the accumulated assets will provide the funds necessary to make up the difference; however, contributions will remain the main source of funding for benefits.

The amended financing policy moved the CPP away from pay-as-you-go financing (with a small reserve) toward fuller funding. Although the unfunded liability may be used as a measure of the CPP's financial status, the key measure of the financial health of the CPP is the adequacy and stability of the CPP's steady-state contribution rate and, thus, the legislated rate. The Office of the Chief Actuary (OCA) examined this in the *Twenty-fifth Actuarial Report on the Canada Pension Plan*.

In the Report, the OCA provided comparisons of the assets, actuarial liabilities, resulting unfunded liabilities, and the relative percentages of the assets of the CPP under two methods. The first method, referred to as the closed group method, which considers only current participants and is consistent with how pension plans are valued in the private sector, reveals that CPP assets represented 14.5 percent of the actuarial liability (with an unfunded liability of $748 billion) as at December 31, 2009. The second method, referred to as the open group method, which considers the benefits and contributions of both current and future plan participants and is consistent with the partial funding approach of the CPP, reveals that CPP assets represented 99.7 percent of the actuarial liability (with an unfunded liability of $6.9 billion) as at December 31, 2009.

The open group measure is viewed by the OCA as being the most appropriate in the context of the CPP and confirms the financial sustainability of the CPP under a 9.9 percent contribution rate. A study, titled *Measuring the Financial Sustainability of the Canada Pension Plan: Actuarial Study No. 10*, available on the Office of the Superintendent of Financial Institutions (OSFI) website, presents more details with respect to both the open and closed group measures.

If, at any time, the legislated contribution rate is lower than the minimum contribution rate, and if the ministers of finance do not recommend either increasing the legislated rate or maintaining it, then legislative provisions would apply to sustain the CPP. An increase in the legislated rate would be phased in over three years and benefit indexation would possibly be suspended until the following triennial review. By law, any further enhancement of the CPP must be fully funded. The next triennial review (2013–15) will examine the financial status of the CPP based on the results of the next triennial actuarial report on the Canada Pension Plan.

Financial Accountability

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

CPP Account

A separate account, the CPP Account, has been established in the accounts of the Government of Canada to record the financial elements of the CPP (i.e. contributions, interest, earned pensions and other benefits paid, as well as administrative expenditures). The CPP Account also records the amounts transferred to, or received from, the CPP Investment Board. Spending authority is limited to the CPP's net assets. The CPP assets are not part of the federal government's revenues and expenditures.

In keeping with An *Act to Amend the Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* (Bill C-3), which came into force on April 1, 2004, the CPPIB is responsible for investing the remaining funds after the CPP operational needs have been met. The CPP Account's operating balance is managed by the Government of Canada.

CPP Investment Board

Created by an Act of Parliament in 1997, the CPP Investment Board (CPPIB) invests funds not required by the CPP to pay current benefits. As a Crown corporation operating at arm's length from the federal government, it is governed and managed independently of the CPP. Although it functions within the private-sector financial markets, the CPPIB was specifically designed by the federal, provincial and territorial ministers of finance to maintain significant public accountability. It is a professional investment management organization, headquartered in Toronto, with offices in London and Hong Kong. The CPPIB is legislated to manage funds transferred from the CPP in the best interests of CPP contributors and beneficiaries. The CPPIB invests CPP assets to achieve a maximum rate of return, without undue risk of loss. It must also consider the factors that affect the CPP's funding and its ability to meet its financial obligations.

The CPPIB has a long-term investment horizon. The Chief Actuary of Canada conducts a financial review of the CPP every three years. According to his latest triennial review released in November 2010, the Chief Actuary reaffirmed that the CPP remains sustainable at the current contribution rate of 9.9 percent throughout the 75-year period of his report. The report also indicates that CPP contributions are expected to exceed annual benefits paid until 2020, providing a nine-year period before a portion of the investment income from the CPPIB will be needed to help pay pensions.

CPP Assets and Cash Management

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

The CPP continues to work closely with the CPPIB, various government departments and banks to coordinate these transfers and manage a tightly controlled process. A control framework is in place to ensure that the transfer process is followed correctly and that all controls are effective. For instance, the CPP obtains confirmation at all critical transfer points and can therefore monitor the cash flow from one point to the next.

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

CPPIB Net Assets

As at March 31, 2012, the CPPIB net assets totalled $161.6 billion. The net investments were valued at $161.8 billion.

Canadian assets represented 40.2 percent of the investment portfolio and totalled $65.1 billion. Foreign assets represented 59.8 percent of the investment portfolio and totalled $96.7 billion.

For the 10-year period ending March 31, 2012, the Fund had an annualized rate of return of 6.2 percent or $59.4 billion in cumulative investment income.

Investing for our Future

To fulfill its multi-generational mandate of helping to meet the long-term funding requirements of the CPP, the CPPIB focuses on its long-term investment horizon.

The CPPIB investment strategy includes diversifying the portfolio broadly by asset class, by geographic areas and by active and passive investment programs. Investments are made in five major risk-return categories: public equities, private equities, fixed income, real estate and infrastructure.

Like other major pension funds, the CPPIB looks for opportunities to allocate a portion of its assets in investments that track and surpass the general rate of inflation. These include real assets such as real estate—which includes retail, commercial and multi-family properties—and infrastructure.

The CPPIB draws on internal expertise and partnerships with external investment managers to build its global portfolio. To manage the increased complexity and geographic reach of its investment programs, the CPPIB has significantly expanded its team of specialized investment professionals since adopting its active management strategy in 2006.

CPPIB Reporting

The CPPIB reports on a quarterly basis. Legislation requires the CPPIB to hold public meetings at least every two years in each of the nine provinces participating in the CPP (excluding Quebec, which operates the QPP). The purpose of these meetings is for the CPPIB to present its most recent annual report and to provide the public with the opportunity to ask questions about the policies, operations and future plans of the CPPIB.

International Agreements

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

As of March 31, 2012, social security agreements have been in force with 53 countries. In addition, three agreements have been signed with three other countries and will enter into force once those countries have completed their respective legal procedures. Negotiations towards agreements are ongoing with many other countries. The names of countries with which Canada has concluded social security agreements are listed on the following page.

International Social Security Agreements

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

* Signed but not yet in force.

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

Managing the CPP

Collecting and Recording Contributions

All CPP contributions are remitted to the Canada Revenue Agency (CRA). The CRA also assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits and reconciles reports and T4 slips. To verify that contribution requirements are met, the CRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit.

As of March 31, 2012, there were 1 659 411 existing employer accounts. In 2011–2012, the CRA conducted 48 342 examinations to promote compliance with the requirements to withhold, report and remit employer source deductions. Employers and employees account for approximately 94 percent of contributions and the remaining 6 percent comes from the self-employed. In 2011–2012, contributions amounted to $38.9 billion.

Overpayment of Benefits

Consistent with its mandate to manage the CPP effectively, HRSDC has procedures in place to detect benefit overpayments. During 2011–2012, overpayments totalling $41 million were detected. During the year, a total of $33 million in overpayments were recovered and debts of $4 million were forgiven. All of the above figures represent a net increase of $4 million in the accounts receivable for the year.

Operating Expenses

In 2011–2012, the cost to administer the CPP was $1.180 billion, with HRSDC accounting for the largest portion at $567 million. The CRA required approximately $159 million for services to the CPP; Public Works and Government Services Canada (PWGSC) required some $12 million. OSFI, where the Office of the Chief Actuary is housed, and Finance Canada accounted for about $2 million. The CPPIB reported $440 million in operating expenses.

CPP operating expenses of $1.180 billion in 2011–2012 represent 3.54 percent of the $33.3 billion in benefits paid. This ratio compares very favourably with that of other pension plans. CPP operating expenses also compare favourably with those of Registered Retirement Savings Plans (RRSPs). The 60 percent ($213 million) increase in the operating expenses charged by HRSDC was due to the increase in its normal operations, changes emanating from the *Economic Recovery Act (stimulus)*, and a one-time settlement of legal proceedings ($169 million) during the year. Increases in operating expenses charged by other entities remain comparable to previous years with the exception of CPPIB's 34 percent increase. Table 1 presents the CPP's operating expenses for the last two years.

Table 1: CPP Operating Expenses for 2011–12 and 2010–2011

EXPENSES (IN $ MILLIONS)		
Department/Agency/Crown Corporation	**2011–2012**	**2010–2011**
HRSDC	567	354
CPPIB	440	328
CRA	159	155
PWGSC	12	11
OSFI/Finance Canada	2	2
Total	1,180	850

Note: Certain figures above have been rounded.

Improving Service Delivery

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

In 2011–2012, Service Canada continued its efforts to ensure that eligible Canadians are receiving public pensions and to encourage Canadians to actively plan and prepare for their own retirement. Information on the CPP is available in print, on the Internet, in person, at local offices, by phone and at electronic kiosks in government offices and public buildings. Personalized contact with clients continues to receive high priority.

During the 2011–2012 fiscal year, Service Canada issued personal CPP Statements of Contributions (SOCs) to approximately 1.04 million contributors aged 59 to 64 years and 66 to 69 inclusive. The SOCs were accompanied by a letter informing the contributors about the retirement income system in Canada, as well as an insert explaining the effect recent changes to the Canada Pension Plan may have on these clients. This insert also promoted the use of Service Canada's website and online services.

In addition, the post-retirement benefit was incorporated into the Canadian Retirement Income Calculator in 2011–2012 to help Canadians better understand how contributions to this new benefit will further support their financial security in retirement.

Online Service Delivery

Service Canada is continually improving its self-service Web-based options. Today, clients can use the Web to make inquiries, apply for a CPP retirement benefit, conduct transactions, and access other information on CPP benefits. CPP contributors can also view and print an official copy of their SOCs. The contributors can use this online service to request copies of their SOCs by mail. Further, CPP recipients can view and print copies of their tax slips for the current year and the previous six years. These online improvements have led to an increase in the number of Canada Pension Plan retirement applications made online.

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

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

Service Canada has promoted the use of online services through:

- targeted mailing of promotional inserts in existing mass mailings;
- promotional messages within standard client correspondence; and
- improved navigation to online services on the Service Canada home page.

Seasonal promotional activities are also undertaken where appropriate, such as promoting the online tax slip service during the tax-filing season. A significant increase in the use of online services is anticipated when the next generation of seniors begins to apply for benefits.

Processing Benefits

In 2011–2012, Service Canada processed close to 300 000 applications for retirement benefits, and 96 percent of these benefits were paid within the first month of entitlement, exceeding the national objective (see Table 2).

During the same period, Service Canada also processed approximately 74 000 initial applications for CPP Disability. Decisions were made on 65 percent of these initial applications within 120 calendar days of receipt of the completed application. An increase in difficult-to-diagnose cases continues to add complexity to the adjudication process and is one of the factors contributing to the results falling below the national objective.

Workload recovery efforts have been put in place to improve service levels, and these will continue into the coming year.

With regard to CPP Disability reconsiderations, Service Canada processed 13 660 requests. Sixty-seven percent of all reconsideration decisions were made within 120 calendar days of receipt of the request—a rate almost at the national objective.

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

Table 2: Application-processing Statistics

NATIONAL MEASURE	NATIONAL OBJECTIVE	2011–2012 NATIONAL RESULT
CPP retirement applications Percentage of benefits paid within the first month of entitlement	90%	96%
CPP disability (initial decisions) Percentage of initial decisions made within 120 calendar days of receipt of applications	75%	65%
CPP disability (reconsideration decisions) Percentage of reconsideration decisions made within 120 calendar days of receipt of applications	70%	67%

Ensuring Program Integrity

Income security is essential to the quality of life and well-being of Canadians. The current economic environment and an aging population pose new challenges in responding to the changing needs of Canadians and their families. Within this context, HRSDC continues to embrace innovative ways to ensure and maintain the integrity of the CPP program.

To ensure the accuracy of benefit payments, the security and privacy of personal information and the overall quality of service, HRSDC is working to modernize the CPP program and further enhance the efficiency, accuracy and integrity of its operations.

Meeting the expectations of Canadians—that government services and benefits be delivered to the right person, for the right amount, for the intended purpose, and at the right time—is a cornerstone of HRSDC's service commitment. Enhanced and modernized integrity-related activities within the CPP and OAS programs are essential to meeting these expectations and ensuring the public's trust and confidence in the effective management of these programs.

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

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

As part of its efforts to address overpayment situations, HRSDC has a program-integrity function that investigates suspected client error and fraud. By recovering overpayments and avoiding future incorrect payments, these activities resulted in an estimated $35.85 million in savings in 2011–2012.

In 2011, HRSDC adopted the Identity Management Policy Suite. These policies aim to safeguard, streamline and enhance the integrity of identity information and processes related to the programs and benefits administered by HRSDC—including the CPP.

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

Looking to the Future

Following the successful implementation of the legislative changes outlined in the *Economic Recovery Act (stimulus)* (Bill C-51), Service Canada continued to optimize the capabilities of its new information technology platform, the Information Technology Renewal Delivery Systems, throughout 2011–2012.

Changes to the CPP arising from the last triennial review are being implemented over a six-year period that began on January 1, 2011. Preparatory work was completed to ensure readiness for the implementation of the remaining legislative changes.

In the face of growing demographic pressures, Service Canada is developing additional options to enhance service in relation to the delivery of CPP benefits. The options will focus on the best methods of responding to citizens' changing service expectations, while increasing efficiencies.

Canada Pension Plan

Consolidated Financial Statements for the year ended March 31, 2012

Canada Pension Plan
Management's Responsibility for Financial Statements

The Consolidated Financial Statements of the Canada Pension Plan have been prepared in accordance with Canadian public sector accounting standards by the management of Human Resources and Skills Development Canada (the Department).

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

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

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

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

Gatineau, Canada
August 29, 2012

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Human Resources and Skills Development

I have audited the accompanying consolidated financial statements of the Canada Pension Plan, which comprise the consolidated statement of financial position as at 31 March 2012, and the consolidated statement of operations, consolidated statement of changes in financial assets available for benefit payments and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

.../2

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Canada Pension Plan as at 31 March 2012, and the results of its operations, changes in its financial assets available for benefit payments, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Michael Ferguson, FCA
Auditor General of Canada

29 August 2012
Ottawa, Canada

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

	2012	2011
	(in millions of dollars)	
Financial assets		
Cash (Note 3)	**151**	34
Receivables (Note 4)	**4,764**	3,737
Investments (Note 6)	**176,038**	151,472
Amounts receivable from pending trades (Note 6)	**2,052**	1,085
	183,005	156,328
Liabilities		
Payables and accrued liabilities (Note 8)	**786**	514
Investment liabilities (Note 6)	**13,695**	2,585
Amounts payable from pending trades (Note 6)	**2,587**	1,675
	17,068	4,774
Financial assets available for benefit payments	**165,937**	151,554
Non-financial assets		
Other assets	**59**	47
Assets available for benefit payments	**165,996**	151,601

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

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

Approved by:

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

Ian Shugart
Deputy Minister
Human Resources and
Skills Development Canada

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

	Budget 2012	Actual 2012	Actual 2011
	(Note 9)	(in millions of dollars)	
Revenues			
Contributions	**38,252**	**38,925**	37,069
Net investment income (Note 10)			
Realized gains	**-**	**2,163**	2,929
Unrealized gains	**-**	**3,449**	9,159
Interest income	**-**	**2,675**	2,246
Dividend income	**-**	**1,792**	1,428
Other income	**-**	**737**	471
Transaction costs	**-**	**(228)**	(173)
Investment management fees	**-**	**(650)**	(500)
	7,561	**9,938**	15,560
	45,813	**48,863**	52,629
Expenses			
Pensions and benefits			
Retirement	**24,659**	**24,527**	23,184
Survivor	**4,000**	**4,093**	3,986
Disability	**3,729**	**3,888**	3,679
Disabled contributor's child	**301**	**303**	297
Death	**308**	**296**	269
Orphan	**225**	**218**	218
Net overpayments (Note 4)	**-**	**(37)**	(35)
	33,222	**33,288**	31,598
Operating expenses (Note 12)	**747**	**1,180**	850
	33,969	**34,468**	32,448
Net increase in assets available for benefit payments	**11,844**	**14,395**	20,181
Assets available for benefit payments, beginning of year	**151,601**	**151,601**	131,420
Assets available for benefit payments, end of year	**163,445**	**165,996**	151,601

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

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

	Budget 2012	Actual 2012	Actual 2011
	(Note 9)	(in millions of dollars)	
Net increase in assets available for benefit payments	**11,844**	**14,395**	20,181
Changes in other assets	**-**	**(12)**	(6)
Increase in financial assets available for benefit payments	**11,844**	**14,383**	20,175
Financial assets available for benefit payments, beginning of year	**151,554**	**151,554**	131,379
Financial assets available for benefit payments, end of year	**163,398**	**165,937**	151,554

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

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

	2012	2011
	(in millions of dollars)	
Operating activities		
Cash receipts		
Contributions	**37,900**	37,327
Interest on operating balance	**2**	2
Cash payments		
Pensions and benefits	**(33,262)**	(31,604)
Operating expenses	**(922)**	(796)
Cash flows from operating activities	**3,718**	4,929
Financing activities		
Issuance of debt	**11,857**	10,878
Repayment of debt	**(10,997)**	(9,777)
Payment of interest on debt	**(347)**	(235)
Cash flows from financing activities	**513**	866
Investing activities		
Dividends on investments	**1,656**	1,328
Interest on investments	**3,121**	2,722
Other investment income	**644**	378
Investment management fees	**(638)**	(497)
Transaction costs	**(218)**	(166)
Purchases		
Equities	**(76,759)**	(70,032)
Real Assets	**(6,161)**	(8,337)
Bonds & Inflation-linked bonds	**(42,657)**	(26,518)
Money market securities and absolute return strategies	**(877,524)**	(591,808)
Other debts	**(8,894)**	(3,712)
Premises and equipment	**(27)**	(21)
Disposals		
Equities	**77,709**	67,807
Real Assets	**1,793**	1,543
Bonds & Inflation-linked bonds	**44,759**	25,777
Money market securities and absolute return strategies	**876,061**	593,900
Other debts	**3,021**	1,695
Cash flows used in investing activities	**(4,114)**	(5,941)
Net increase (decrease) in cash	**117**	(146)
Cash, beginning of year	**34**	180
Cash, end of year	**151**	34

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

1. Authority, Objective and Responsibilities

a) Description of the Canada Pension Plan

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965. The CPP is administered by the Government of Canada and the participating provinces.

The CPP began operations in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates the Régime de rentes du Québec (RRQ), a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death. The CPP is financed by contributions and investment returns. Employers and employees pay contributions equally to the CPP. Self-employed workers pay the full amount.

The Canada Pension Plan Investment Board (CPPIB) was established pursuant to the *Canada Pension Plan Investment Board Act.* The CPPIB is a federal Crown corporation and all of its shares are owned by Her Majesty the Queen in right of Canada.

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

In accordance with the *CPP* Act, the financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 3). The financial transactions affecting the Account are governed by the *CPP* Act and its regulations. The Plan's investments are held by the CPPIB. The CPPIB's transactions are governed by the *Canada Pension Plan Investment Board Act* and its accompanying regulations. The CPPIB's assets are to be invested with a view to achieving a maximum rate of return without undue risk of loss, with regard to the factors that may affect the funding of the CPP and its ability to meet its financial obligations on any given business day.

The CPPIB and its wholly-owned subsidiaries are exempt from Part I income tax under paragraphs 149(1)(d) and 149 (1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPPIB and its subsidiaries are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The CPPIB is designed to operate at arm's length from the government. It is required to be accountable to the public, Parliament (through the federal Minister of Finance) and the provinces. It provides regular reports of its activities and the results achieved. The financial statements of the CPPIB are audited annually by an external firm and are included in their annual report.

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

b) Pensions and Benefits

Retirement pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25 percent of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. The reduction is currently 31.2% at age 60 but will gradually increase over the next four years to a 36% reduction in 2016.

The increase is currently 38.4% at age 70 but will increase to 42% in 2013. The maximum new monthly pension payable at age 65 in 2012 is $986.67 (2011 – $960.00).

Post Retirement Benefits – A post-retirement benefit (PRB) pension is payable to each retirement pension recipient who has continued to work and has made contributions to the PRB while between the ages of 60 and 70, according to provisions of Bill C-51, which received Royal Assent on December 15, 2009. The PRB payments will begin in 2013.

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75 percent of the earned retirement pension. The maximum new monthly disability benefit in 2012 is $1,185.50 (2011 – $1,153.37).

Survivor's benefits – A survivor's benefit is payable to the spouse or common-law partner (the beneficiary) of a deceased contributor, according to the provisions of the Act. For a beneficiary under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5 percent of the deceased contributor's earned retirement pension. A beneficiary between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For beneficiaries aged 65 and over, the benefit is equal to 60 percent of the retirement pension granted to the deceased contributor. The maximum new monthly benefit payable to a beneficiary in 2012 is $592.00 (2011 – $576.00).

Disabled contributor's child and orphan benefits – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or a child of a deceased contributor is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 2012 is $224.62 (2011 – $218.50).

Death benefits – According to the provisions of the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts to either 10 percent of the maximum pensionable earnings in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2012 is $2,500 (2011 – $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 2012 is 2.8 percent (2011 – 1.7 percent).

2. Significant Accounting Policies

a) Basis of Presentation

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

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

b) Valuation of Investments, Investment Receivables and Investment Liabilities

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent arm's length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, pricing models and other accepted industry valuation methods.

c) Contributions

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

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

d) Investment Income

Income from investments is recognized on an accrual basis and includes realized gains and losses from investments, changes in unrealized gains and losses on investments, dividend income, interest income and other income. Dividend income is recognized on the ex-dividend date, which is when the right to receive the dividend has been established. Interest income is recognized using the effective interest rate method. Distributions received from limited partnerships and funds are recognized as interest income, dividend income, other income, realized gains and losses from investments or return of capital, as appropriate.

e) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and recorded as a component of net investment income.

f) Investment Management Fees

Investment management fees are paid to investment managers for externally managed investments. Investment management fees are expensed as incurred and recorded as a component of net investment income.

g) Securities Purchased under Reverse Repurchase Agreements

Securities purchased under reverse repurchase agreements represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price at a specified future date and are accounted for as an investment receivable. These securities are not recognized as an investment of the CPP. The fair value of securities to be resold under these reverse repurchase agreements is monitored and additional collateral is obtained when appropriate to protect against credit exposure. In the event of counterparty default, the CPP, through CPPIB, has the right to liquidate the collateral held. Reverse repurchase agreements are presented at Note 6 at the amounts at which the securities were initially acquired. Interest earned on reverse repurchase agreements is included in investment income (see note 10).

h) Securities Sold Short

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

i) Translation of Foreign Currencies

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

j) Pensions and Benefits

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

k) Tax Deductions due to Canada Revenue Agency

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

l) Net Overpayments

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

m) Operating Expenses

Operating expenses are recorded as incurred.

n) Other claims and legal actions

The CPP records an allowance for claims and legal proceedings when it is likely that there will be a future payment and a reasonable estimate can be made.

o) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with PSAS requires management to make certain estimates and assumptions that affect the reported values of assets and liabilities as at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated contributions, allowance for doubtful accounts, contingent liabilities, actuarial obligation in respect of benefits and fair values of investments since these determinations include estimates of expected future cash flows, rates of return and the impact of future events. Actual results could differ from those estimates.

p) *Future Changes in Accounting Standards*

Financial Instruments

The Public Sector Accounting Board (PSAB) has recently issued new sections that are required to be applied concurrently to fiscal years beginning on or after April 1, 2012. The CPP is currently analyzing the impact of these new standards on its consolidated financial statements:

(i) ***Financial Instruments***

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

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

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

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

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

International Financial Reporting Standards

The CPPIB, which is a significant component of the CPP consolidated financial statements, may be transitioning to International Financial Reporting Standards (IFRS) for the fiscal year starting April 1, 2014. The CPP will assess the impact of the CPPIB's change in accounting framework on its financial statements and will review any restatements made to CPPIB's financial information.

3. Cash

Cash consists of the total cash held by the CPP Account and the CPPIB. The CPP Account was established in the accounts of Canada by the *CPP* Act to record the contributions, interest, pensions, benefits and operating expenses of the Plan. It also records the amounts transferred to or received from the CPPIB. As at March 31, 2012, the deposit with the Receiver General for Canada in the CPP Account is $138 million (2011 – $23 million) and CPPIB's cash is $13 million (2011 – $11 million) for a total of $151 million (2011 – $34 million).

4. Receivables

Receivables are comprised of the following:

	2012	2011
	(in millions of dollars)	
Contributions	**4,620**	3,595
Régime de rentes du Québec	**109**	104
Beneficiaries		
Balance of pensions and benefits overpayments	**116**	112
Allowance for doubtful accounts	**(81)**	(74)
	4,764	3,737

Contributions receivable represent the estimated amount to be collected from CRA relating to contributions earned at year end and adjusted for tax returns not yet assessed.

The CPP has procedures to detect overpayments. During the year, overpayments totalling $41 million (2011 – $37 million) were established and debts totalling $4 million (2011 – $3 million) were forgiven as per the remission provisions of the *CPP* Act. A further $33 million (2011 – $33 million) was recovered through collection of payments and withholdings from beneficiaries.

5. Investment Activities Risk Management

The CPP, through the investment activities carried out by CPPIB, is exposed to a variety of financial risks as a result of its investment activities. These risks include market risk, credit risk and liquidity risk. The CPPIB manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the investment policies approved by the board of directors at least once every fiscal year. This framework contains risk limits and risk management provisions that govern investment decisions and has been designed to achieve the mandate of the CPPIB which is to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

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

(i) ***Market Risk:*** Market risk (including currency risk, interest rate risk and other price risk) is the risk that the fair value or future cash flows of an investment or investment liability will fluctuate because of changes in market prices and rates.

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

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

(in millions of dollars)	**2012**		2011	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
United States Dollar	**55,090**	**57**	42,419	54
Euro	**13,413**	**14**	12,005	15
British Pound Sterling	**8,933**	**9**	7,689	10
Australian Dollar	**4,689**	**5**	4,743	6
Japanese Yen	**4,166**	**4**	4,173	5
Hong Kong Dollar	**2,326**	**2**	1,576	2
Swedish Krona	**1,695**	**2**	1,266	2
Other	**7,274**	**7**	4,950	6
	97,586	**100**	78,821	100

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

Other Price Risk: Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices arising primarily from equity price risk, commodity price risk and credit spread risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

(ii) ***Credit Risk:*** Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations, or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPPIB's most significant exposure to credit risk is through its investment in debt securities and over-the-counter derivatives (as discussed in note 6f). The carrying amounts of these investments as presented in Note 6 represent the maximum credit risk exposure at the consolidated statement of financial position date.

(iii) ***Liquidity Risk:*** Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet investment commitments and investment liabilities as they come due. The CPPIB mitigates liquidity risk through its unsecured credit facilities (see note 7) available in the amount of $1.5 billion (2011 - $1.5 billion) and the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly-traded equities, money market securities, marketable bonds and inflation-linked bonds.

The CPPIB is also exposed to liquidity risk through its responsibility for providing cash management services to the CPP (see note 17). In order to manage liquidity risk associated with this short-term cash management program, certain assets are segregated and managed separately. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective of ensuring the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

6. Investments and Investment Liabilities

As stated in Note 1, the role of the CPPIB is to invest the assets with a view to achieving a maximum rate of return without undue risk of loss, with regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day. To achieve their mandate, the CPPIB has established investment policies in accordance with its regulations. These set out the manner in which their assets shall be invested and their financial risks managed and mitigated through the Risk/Return Accountability Framework.

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

	2012	2011
	(in millions of dollars)	
Equities		
Canada	**7,246**	10,261
Foreign developed markets	**52,684**	43,691
Emerging markets	**9,582**	6,743
Total Equities	**69,512**	60,695
Fixed income		
Bonds	**40,899**	37,208
Inflation-linked bonds	**1,050**	299
Other debts	**9,263**	6,008
Money market securities	**18,347**	17,625
Total Fixed income	**69,559**	61,140
Absolute return strategies	**6,915**	4,464
Real assets		
Private real estate	**18,996**	11,368
Infrastructure	**9,427**	9,404
Total Real assets	**28,423**	20,772
Investment receivables		
Securities purchased under reverse repurchase agreements	**-**	2,500
Accrued interest	**578**	657
Derivatives receivables	**880**	1,117
Dividends receivables	**171**	127
Total Investment receivables	**1,629**	4,401
Total Investments	**176,038**	151,472
Investment liabilities		
Securities sold short	**(8,596)**	-
Debt financing liabilities	**(2,408)**	(1,394)
Debt on private real estate properties	**(1,880)**	(508)
Derivatives liabilities	**(811)**	(683)
Total Investment liabilities	**(13,695)**	(2,585)
Amounts receivable from pending trades	**2,052**	1,085
Amounts payable from pending trades	**(2,587)**	(1,675)
Net Investments	**161,808**	148,297

a) Equities

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

(i) Public equity investments are made directly or through funds. As at March 31, 2012, public equities include fund investments with a fair value of $2,811 million (2011 – $2,665 million).

(ii) Private equity investments are generally made directly or through ownership in limited partnership arrangements, which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity. As at March 31, 2012, private equities include direct investments with a fair value of $6,676 million (2011 – $5,565 million).

b) Fixed Income

(i) Bonds consist of marketable and non-marketable bonds.

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them by the Act which permit each issuer, at its option, to roll over the bonds on maturity for a further 20-year term at a rate based on capital markets borrowing rates for that province existing at the time of rollover. The non-marketable bonds are also redeemable before maturity at the option of the issuers.

In lieu of exercising its statutory rollover right described in the preceding paragraph, agreements between the CPPIB and the provinces permit each province to repay the bond and concurrently cause the CPPIB to purchase a replacement bond or bonds in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions that permit the issuer, at its option, to roll over the bond for successive terms of not less than five years and subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

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

c) Absolute Return Strategies

Absolute return strategies consist of investments in funds and internally managed portfolios whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indices. The underlying securities of the funds and the internally managed portfolios could include, but are not limited to, equities, fixed income securities and derivatives.

d) Real Assets

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

Private real estate investments are managed on behalf of the CPPIB by investment managers primarily through co-ownership arrangements. As at March 31, 2012, these investments include assets of $18,996 million (2011 - $11,368 million) and secured debt of $1,880 million (2011 - $508 million). The terms to maturity of the undiscounted principal repayments of the secured debt vary from less than a year to more than ten years.

(ii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. As at March 31, 2012, infrastructure includes direct investments with a fair value of $9,116 million (2011 – $7,899 million).

e) Securities Purchased under Reverse Repurchase Agreements

As at March 31, 2012, the securities purchased under reverse purchase agreements of $nil (2011 - $2,500 million) have an average effective yield of nil% (2011 – 2.7%).

f) Derivative Contracts

A derivative contract is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors. Derivatives are transacted through regulated exchanges or are negotiated in over-the-counter markets. The CPPIB uses different types of derivative instruments, which include equity contracts, foreign exchange contracts, interest rate contracts and credit contracts.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts. They are not recorded as assets or liabilities on the Consolidated Statement of Financial Position. Notional amounts do not necessarily represent the amount of potential market risk or credit risk arising from a derivative contract.

The fair value of these contracts is reported as derivative receivables and derivative liabilities on the schedule of investments included above.

The CPPIB uses derivatives to generate value-added investment returns and to limit or adjust market, credit, interest rate, currency, and other financial exposures without directly purchasing or selling the underlying instrument.

g) Securities Sold Short

As at March 31, 2012, securities sold short of $8,596 million (2011 - $nil) are considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions. The securities sold short have a weighted average interest rate of 0.19% (2011 – nil%).

h) Debt Financing Liabilities

The terms to maturity of the undiscounted principal repayments of the debt financing liabilities as at March 31, 2012, are: $1,189 million (less than 30 days, 2011 - $857 million), $909 million (from 1 to 6 months, 2011 - $539 million) and $315 million (from 7 months to 1 year, 2011 - $nil).

i) Collateral

Collateral transactions are conducted under the terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged as at March 31, is as follows:

	2012	2011
	(in millions of dollars)	
Assets held as collateral on:		
Reverse repurchase agreements[1]	**-**	2,561
Over-the-counter derivative transactions[1]	**200**	135
Assets pledged as collateral on:		
Over-the-counter derivative transactions	**-**	-
Securities sold short	**(10,937)**	-
Debt on private real estate properties	**(2,008)**	-
Guarantees (see note 15c)	**(141)**	(132)
	(12,886)	2,564

[1] The fair value of the collateral held that may be sold or repledged as at March 31, 2012, is $143 million (2011 – $2,588 million). The fair value of the collateral sold or repledged as at March 31, 2012, is $nil (2011 — $nil).

7. Credit Facilities

The CPPIB maintains $1.5 billion (2011 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2012, the total amount drawn on the credit facilities is $nil (2011 – $nil).

8. Payables and Accrued Liabilities

Payables and accrued liabilities are comprised of the following:

	2012	2011
	(in millions of dollars)	
Operating expenses	**413**	170
Pensions and benefits payable	**241**	221
Tax deductions due to Canada Revenue Agency	**132**	123
	786	514

9. Comparison of Results against Budget

The budget amounts included in the Consolidated Statement of Operations and the Consolidated Statement of Change in Financial Assets Available for Benefit Payments are derived from the amounts that were originally budgeted in the Human Resources and Skills Development Canada *2011–2012 Report on Plans and Priorities*, tabled in Parliament in March 2011 and amounts forecasted by the Office of the Superintendent of Financial Institutions.

10. Net Investment Income

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

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

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

2011 (in millions of dollars)	Investment Income (Loss)[1]	Net Gain on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities						
Canada	265	3,374	3,639	(19)	(14)	3,606
Foreign developed markets	905	4,699	5,604	(245)	(26)	5,333
Emerging markets	130	657	787	(29)	(4)	754
	1,300	8,730	10,030	(293)	(44)	9,693
Fixed income						
Bonds	1,415	145	1,560	-	-	1,560
Inflation-linked bonds	153	199	352	-	-	352
Other debt	278	468	746	(15)	(5)	726
Money market securities[5]	145	1,004	1,149	(109)	(37)	1,003
Debt financing liabilities	(10)	-	(10)	-	-	(10)
	1,981	1,816	3,797	(124)	(42)	3,631
Real assets						
Private real estate	451	916	1,367	(77)	(58)	1,232
Infrastructure	370	667	1,037	(6)	(29)	1,002
	821	1,583	2,404	(83)	(87)	2,234
Interest on operating balance	2	-	2	-	-	2
	4,104	12,129	16,233	(500)	(173)	15,560

1 Includes interest income, dividends, private real estate operating income (net of interest expense), interest expense on the debt financing liabilities, and other investment-related income and expenses.
2 Includes realized gains and losses from investments, and unrealized gains and losses on investments held at the end of the year.
3 Includes foreign exchange gains of $495 million (2011 – losses of $1,403 million).
4 Includes net unrealized gains of $1,768 million (2011 – unrealized gains of $1,307 million), which represents the change in fair value estimated on direct investments in private equities, infrastructure, private real estate, private debt, intellectual property and certain derivatives, where the fair value is derived primarily from assumptions based on non-observable market data.
5 Includes absolute return strategies, consisting of investments in funds and internally managed portfolios.

11. Estimated Overpayments and Underpayments of Benefits

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

For benefits paid during the twelve months ended March 31, 2012, undetected overpayments and underpayments are estimated to be $2 million and $64 million respectively. These estimates are used by the CPP to assess the quality and accuracy of decisions and to continuously improve its systems and practices processing CPP benefits.

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

12. Operating Expenses

	2012	2011
	(in millions of dollars)	
General operating expenses	**554**	349
Salaries and benefits	**593**	470
Professional and consulting fees	**33**	31
	1,180	850

13. Actuarial obligation in respect of benefits

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

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

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

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

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

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

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

In the *Twenty-Fifth Actuarial Report*, the minimum contribution rate required to fund both the steady-state funding (at 9.84 percent) and the incremental full funding (at 0.02 percent before 2023 and 0.01 percent for 2023 and thereafter), was determined to be 9.86 percent of pensionable earnings before 2023 and 9.85 percent from 2023 onward. This report confirms that, on the basis of the assumptions selected, the current legislated combined employer-employee contribution rate of 9.9 percent is and will continue to be sufficient to pay for future expenditures and to accumulate assets worth $275.1 billion (i.e. 4.7 times the following year's annual expenditures) until 2020 when a portion of investment income will be used to pay for benefits. By 2050, 29 percent of investment income will be required to pay for benefits that exceed contributions.

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

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

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

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

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

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

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

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

The assets available for benefit payments represent funds accumulated for the payment of pensions, benefits and operating expenses. As at March 31, 2012, the value of the Plan's assets available for benefit payments is $166.0 billion (2011 – $151.6 billion). This amount represents approximately 4.7 times the 2013 planned total pension and benefit expenses of $35.4 billion (2011 – 4.6 times). According to the *Twenty-Fifth Actuarial Report*, the ratio of assets to the following year's expenditures is expected to be at 4.7 times by 2020 and 5.2 times by 2050.

14. Contractual Obligations

The CPP, through CPPIB, has committed to enter into contractual obligations related to the funding of investments. These contractual obligations are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at March 31, 2012, the contractual obligations total $16.6 billion (2011 – $16.3 billion).

As at March 31, 2012, the CPP, through CPPIB, has made lease and other contractual obligations of $126.3 million (2011 – $37.7 million) that will be paid over the next 13 years.

15. Contingent Liabilities

a) Appeals relating to the payment of pensions and benefits

At March 31, 2012, there were 10,369 (9,204 in 2011) appeals relating to the payment of CPP disability benefits. These contingencies are reasonably estimated, using historical information, at an amount of $88.5 million ($73 million in 2011), which was recorded as an accrued liability in the CPP 2011–12 financial statements.

b) Other claims and legal proceedings

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

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

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

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

An allowance of $169 million was estimated and recognized in the 2011–12 financial statements and recorded as a liability for these claims and legal proceedings.

c) Guarantees

As part of certain investment transactions, the CPPIB has agreed to guarantee, as at March 31, 2012, up to $0.2 billion (2011 - $0.6 billion) to other counterparties in the event certain subsidiaries and other entities default under the terms of loan and other related agreements.

d) Indemnifications

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

16. Related Party Transactions

As stated in Note 4, the CPP has $4,620 million (2011 – $3,595 million) of contributions receivable from the Canada Revenue Agency.

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

Transactions for the year

	2012	2011
	(in millions of dollars)	
Pension and benefit delivery, accommodation and corporate services		
Human Resources and Skills Development Canada	**567**	354
Collection of contributions and investigation services		
Canada Revenue Agency	**159**	155
Cheque issue and computer services		
Public Works and Government Services Canada	**12**	11
Actuarial services		
Office of the Superintendent of Financial Institutions and Department of Finance	**2**	2
	740	522

17. Supplementary Information

The administration of the CPP's assets and activities is shared between various Government of Canada (GoC) departments and the CPPIB. The CPPIB is responsible for investing the majority of the CPP's assets, while the GoC through various federal departments, manages the remainder of the assets, as well as the collection of the CPP contributions and the administration and payments of the CPP benefits. For accountability purposes, the following table presents summary information on the levels of assets and liabilities and sources of income and expenses managed by the GoC and the CPPIB respectively.

		2012			2011	
(in millions of dollars)	**GoC**	**CPPIB**	**Total**	GoC	CPPIB	Total
Financial assets	**4,902**	**178,103**	**183,005**	3,760	152,568	156,328
Non-financial assets	**-**	**59**	**59**	-	47	47
Liabilities	**542**	**16,526**	**17,068**	355	4,419	4,774
Assets available for benefit payments	**4,360**	**161,636**	**165,996**	3,405	148,196	151,601
Income						
Contributions	**38,925**	**-**	**38,925**	37,069	-	37,069
Investment income	**2**	**9,936**	**9,938**	2	15,558	15,560
	38,927	**9,936**	**48,863**	37,071	15,558	52,629
Expenses						
Pensions and benefits	**33,288**	**-**	**33,288**	31,598	-	31,598
Operating expenses	**740**	**440**	**1,180**	522	328	850
	34,028	**440**	**34,468**	32,120	328	32,448
Increase in assets available for benefit payments	**4,899**	**9,496**	**14,395**	4,951	15,230	20,181

Pursuant to Section 108.1 of the *CPP* Act and the Agreement dated as of April 1, 2004, amounts not required to meet specified obligations of the CPP are transferred weekly to the CPPIB. The funds originate from employer and employee contributions to the CPP and interest income generated from the deposit with the Receiver General.

In September 2004, the CPPIB assumed responsibility for providing cash management services to the CPP, including periodic return, on at least a monthly basis, of funds required to meet CPP pension, benefits and operating expenses obligations.

During the year ended March 31, 2012, a total of $32.3 billion was transferred to the CPPIB and a total of $28.3 billion was returned to the CPP to meet its liquidity requirements.

Activities during the year

	2012	2011
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB, beginning of year	**243,363**	212,512
Transfers of funds to CPPIB	**32,285**	30,851
Accumulated transfers to CPPIB, end of year	**275,648**	243,363
Accumulated transfers from CPPIB, beginning of year	**(134,958)**	(109,443)
Transfers of funds from CPPIB	**(28,341)**	(25,515)
Accumulated transfers from CPPIB, end of year	**(163,299)**	(134,958)
Net accumulated transfers to CPPIB	**112,349**	108,405

18. Comparative Information

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