





Annual Report of the Canada Pension Plan 2018–2019

The following is the Annual Report of the Canada Pension Plan for the 2018–19 fiscal year. This document is written to reflect the state of affairs as at March 31st, 2019.

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Her Excellency
The Governor General of Canada

May it please Your Excellency:

We have the pleasure of submitting the *Annual Report of the Canada Pension Plan* for the fiscal year 2018–19.

Respectfully,

The Honourable William Francis Morneau

Minister of Finance

The Honourable Deb Schulte

Minister of Seniors





2018-19 at a Glance

The maximum pensionable earnings of the Canada Pension Plan (CPP) increased from **\$55,900** in 2018 to **\$57,400** in 2019. The contribution rate for the **base CPP** remained unchanged at **9.9%**. The **CPP enhancement** began its seven-year phase-in on January 1, 2019, with a contribution rate of **0.3%**, for a combined contribution rate of **10.2** %.

CPP contributions totalled \$51.2 billion this year.

This year, **5.9 million** CPP beneficiaries were paid, representing a total annual benefit value of **\$46.5 billion** of which:



5.2 million CPP retirement pensioners were paid **\$36.2 billion*** and **1.4 million** post-retirement beneficiaries were paid **\$553 million**.



1.1 million surviving spouses or common-law partners and **63,000** children of deceased contributors were paid **\$4.8 billion**.



340,000 people with disabilities and **83,000** of their children were paid **\$4.6** billion.



166,000 death benefits totalling \$377 million were paid.



Operating expenses amounted to **\$1.8 billion**, or **3.96%** of the **\$46.5 billion** in benefits.

As at March 31, 2019, total CPP net assets were valued at **\$397.0 billion**, of which **\$392.0 billion** is managed by the CPP Investment Board.

Note:

Figures above have been rounded. A beneficiary may receive more than one type of benefit.

^{*}This amount is net of overpayments



Employees in Canada over the age of 18 contribute either to the CPP or to its sister plan, the Quebec Pension Plan (QPP).

The CPP is managed jointly by the Government of Canada and Canada's provincial governments. Quebec manages and administers its own comparable plan, the QPP, and participates in decision-making for the CPP. Benefits under either plan are based on pension credits accumulated under both plans.

As of January 1, 2019, the Plan consists of two components: the base (or original) component which began in 1966, and the enhanced component, which serves as a top-up to the base and began in 2019. (More details are available in the section **Enhancement of the Canada Pension Plan** later in this report.)

For more information on the QPP, visit the Retraite Québec website.

Contributions

The CPP is financed through mandatory contributions from employees, employers and those who are self-employed, and through the revenue earned on CPP investments.

Workers start contributing to the Plan at age 18.¹ As shown in Table 1, the first \$3,500 of annual earnings is exempted from contributions. Contributions are then made on earnings between \$3,500 and \$57,400, which is the earnings ceiling for 2019.

As of January 1, 2019, employees contribute at a rate of 5.10% (4.95 % to the base CPP and 0.15% to the CPP enhancement), and employers match that with equal contributions. Self-employed individuals contribute at the combined rate for employees and employers of 10.2% (9.9% to the base and 0.3% to the enhancement) on net business income, after expenses.

While many Canadians associate the CPP with retirement pensions, the CPP also provides disability, death, survivor, children's and post-retirement benefits. The CPP administers the largest long-term disability plan in Canada. It pays monthly benefits to eligible contributors with a disability and also to their dependent children.

Most benefit calculations are based on how much and for how long a contributor has paid into the CPP. With the exception of the post-retirement benefit, benefits are not paid automatically—everyone must apply.

¹ Workers who were older than age 18 at the inception of the Plan started contributing on January 1, 1966.



TABLE 1

CPP Contributions for 2019

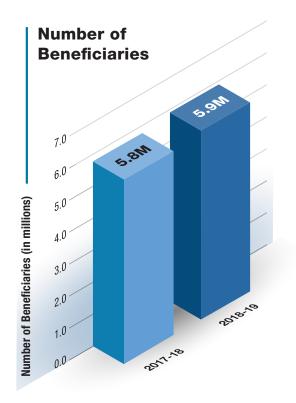
Year's maximum pensionable earnings (YMPE)	\$57,400.00
Year's basic exemption (YBE)	\$3,500.00
Year's maximum contributory earnings	\$53,900.00
Year's maximum employee and employer contributions (5.1% each)	\$2,748.90
Year's maximum self-employed person's contribution (10.2%)	\$5,497.80

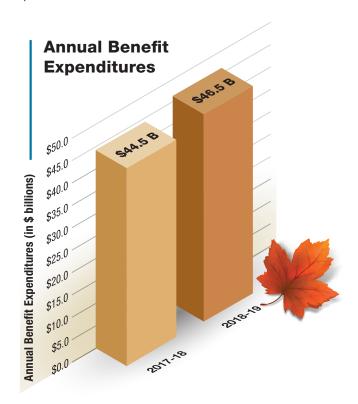
Beneficiaries and Benefits

Given the aging of our population, the number of people receiving CPP benefits has increased steadily over the past decade. As a result, expenditures on benefits have also increased.

Figure 1: CPP – Beneficiaries and Benefit Expenditures by Fiscal Year

Figure 1 shows the increase in beneficiaries and expenditures between 2017–18 and 2018–19:

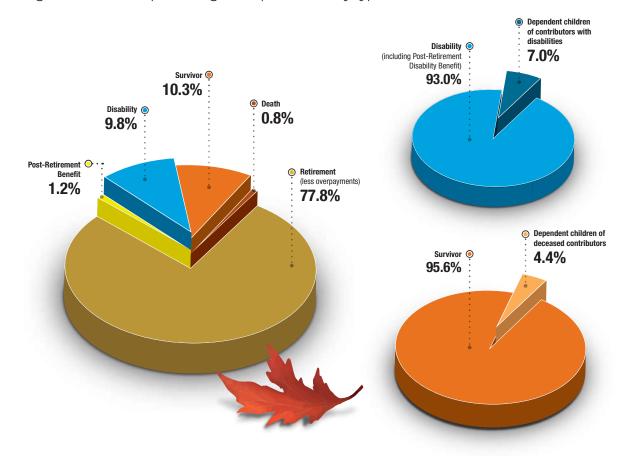




2018-19

Figure 2: CPP – Percentage of Expenditures by Benefit Type in 2018–19

Figure 2 shows the percentage of expenditures by type of benefit.



Note: Numbers may not add up to 100% due to rounding.

Retirement Benefits

The CPP provides two retirement benefits: the **CPP retirement pension** and the **post-retirement** benefit for individuals who continue to work and contribute while collecting the retirement pension. In 2018–19, retirement benefits (retirement pensions and post-retirement benefits*) represent 79.0% (\$36.8 billion) of the total benefit amount paid out (\$46.5 billion) by the CPP.

^{*}Less net overpayments



Retirement Pension

The monthly retirement pension is the CPP's primary benefit. To begin receiving a retirement pension, the applicant must have made at least one valid contribution to the Plan and must have reached the age of 60. The amount of contributors' retirement pensions depends on how much and for how long they have contributed and at what age they begin to receive their pension.

In 2018–19, the CPP paid a total of \$36.2 billion* in retirement pensions to 5.2 million pensioners. In January 2019, the maximum monthly retirement pension at age 65 was \$1,154.58. The average monthly payment in 2018–19 was \$580.68.

Adjustments for Early and Late Receipt of a Retirement Pension

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

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

Retirement Pension Taken Before Age 65

For individuals who start receiving their retirement pension before age 65, the amount of their pension is permanently reduced by 0.6% per month. This means that a contributor who starts receiving a retirement pension at age 60 receives an annual retirement pension which is 36% less than if it were taken at age 65.

Retirement Pension Taken After Age 65

For individuals who start receiving their retirement pension after age 65, the amount of their pension is permanently increased by 0.7% per month that they delay. This means that a contributor who delays receiving a retirement pension until age 70 receives an annual retirement pension that is 42% higher than if it were taken at age 65.

^{*}This amount is net of overpayments.

2018-19

Table 2 shows the maximum monthly retirement payments in 2019 for pensions taken between the ages of 60 and 70 based on actuarial adjustment factors.

TABLE 2 Maximum Monthly Retirement Pension Payments Between the Ages of 60 and 70 for 2019				
Maximum Monthly Retirement Pension Before Age 65 (0.6% adjustment reduction per month)				
60	\$739	-36%		
61	\$822	-28.8%		
62	\$905	-21.6%		
63	\$988	-14.4%		
64	\$1,071	-7.2%		
Maximum Monthly Retirement Pension At Age 65				
	Maximum Monthly Retirement Pensi	on At Age 65		
65	Maximum Monthly Retirement Pensi \$1,155	No adjustment		
		No adjustment		
	\$1,155	No adjustment		
Maximum Monthly F	\$1,155 Retirement Pension After Age 65 (0.79	No adjustment diadjustment increase per month)		
Maximum Monthly F	\$1,155 Retirement Pension After Age 65 (0.7%) \$1,252	No adjustment 6 adjustment increase per month) +8.4%		
Maximum Monthly F 66 67	\$1,155 Retirement Pension After Age 65 (0.79) \$1,252 \$1,349	No adjustment adjustment increase per month) +8.4% +16.8%		

Note: Numbers above have been rounded and calculated at the date the beneficiary turns the age referred to in the table (for example, at age 60 and 0 months).

Post-Retirement Benefits

The post-retirement benefit allows CPP retirement pension beneficiaries who keep working to increase their retirement income by continuing to contribute to the CPP, even if they are already receiving the maximum CPP retirement pension.

For Canadians between the ages of 60 and 64 who receive a CPP or QPP retirement pension and work outside of Quebec, the CPP contributions toward the post-retirement benefit are mandatory, while those between the ages of 65 and 70 who receive the retirement pension while working can choose whether to continue contributing. No contributions are made after age 70. Contributions toward a post-retirement benefit do not increase the amount of other CPP benefits and they do not determine eligibility for CPP benefits, other than the post-retirement disability benefit.

For a working beneficiary, each year of contributions results in a post-retirement benefit, which is payable the following year. It is added to any previously earned post-retirement benefits. The amount of these benefits increases with the cost of living and is payable until the death of the contributor.

In 2018–19, 1.4 million CPP retirement pensioners received a total of \$553 million in post-retirement benefits. The maximum monthly amount for a single post-retirement benefit at age 65 for 2019 was \$28.86. The average monthly payment for a single post-retirement benefit in 2018–19 was \$13.39.

Disability Benefits

The CPP provides three disability benefits: the monthly CPP **disability pension** provided to working-age contributors with sufficient recent contributions who have a severe and prolonged disability; the new **post-retirement disability benefit** provided to retirement pension recipients under the age of 65 who meet the same disability criteria; and a **flat-rate benefit provided to the dependent children** of disabled beneficiaries.

In 2018–19, a total of \$4.6 billion in benefits was paid to 340,000 disabled beneficiaries and to 83,000 children of disabled beneficiaries. These benefits represented approximately 10% of the total benefits paid out by the CPP in 2018–19.

The disability pension includes a monthly flat-rate, which was \$496.36 in 2019. It also includes an earnings-related portion, which is 75% of the retirement pension that would have been earned had the contributor not become disabled. In 2019, the maximum disability pension was \$1,362.30 per month. The average monthly payment in 2018–19 was \$922.61.

The post-retirement disability benefit, introduced in 2019, is a monthly flat-rate that is provided in addition to the individual's retirement pension. The value of the post-retirement disability benefit is equal to the flat-rate component of the disability pension (\$496.36 in 2019).

The benefit paid to dependent children of disabled beneficiaries is a flat-rate. In 2019, the amount was \$250.27 per month. To be eligible, children must be under 18 years of age or under 25 and in full-time attendance at school or university.



Survivor Benefits

The CPP provides three survivor benefits: the monthly **survivor's pension**, the **flat-rate child's benefit** and the one-time, lump-sum **death benefit**. In 2018–19, survivor benefits represented 11.1% (\$5.2 billion) of the total benefits paid out by the CPP.

Survivor's pensions are paid to the surviving spouse or common-law partner of a contributor who made sufficient contributions to the Plan. The benefit amount varies depending on a number of factors, including the deceased's contributions to the Plan, the age of the surviving spouse or common-law partner and whether the survivor also receives other CPP benefits. As of 2019, survivor's pensions are no longer reduced for childless survivors who are not disabled and were under the age of 45 at the time of the contributor's death. Dependent children of deceased contributors may also be eligible for children's benefits. In 2018–19, there were 1.1 million survivors and 63,000 children of deceased contributors receiving benefits.

There are special rules used to combine the CPP survivor's pension with either the retirement or disability pension resulting in a single combined benefit. The maximum survivor's pension for those under age 65 was \$626.63 per month in 2019. This included a flat-rate portion of \$193.66 and an earnings-related portion, which is 37.5 % of the deceased contributor's retirement pension. The maximum monthly amount at age 65 and over was \$692.75, consisting of 60% of the deceased contributor's retirement pension. For 2018–19, the average monthly payment for all survivor pensions was \$336.24.

The benefit paid to dependent children of deceased contributors is a flat-rate. In 2019, the amount was \$250.27 per month. To be eligible, children must be under 18 years of age or under 25 and in full-time attendance at school or university.

The CPP death benefit is a lump-sum payment provided to the estate of the contributor. Prior to 2019, the death benefit amounted to six times the amount of the deceased contributor's monthly retirement pension, up to a maximum of \$2,500. However, as of January 1, 2019, the value of the death benefit is no longer based on earnings and is a flat-rate of \$2,500. In 2018–19, the average death benefit payment was \$2,316.77.



Benefit Summary

Table 3 below summarizes the maximum and average monthly amounts paid to beneficiaries by benefit type.

TABLE 3

Monthly Payments by Benefit Type

Benefit Type	Maximum Monthly Amount for 2019	Average Monthly Amount (in 2018–19)
Retirement pension	\$1,154.58 *	\$580.68
Post-retirement benefit	\$28.86 *	\$13.39
Disability pension	\$1,362.30	\$922.61
Survivor's pension – 65 and over	\$692.75	\$317.87
Survivor's pension – younger than 65	\$626.63	\$412.98
Death benefit (one-time payment)	\$2,500.00	\$2,316.77

^{*} at age 65

For up-to-date information on CPP amounts, refer to the CPP/OAS Quarterly Report on the **Employment and Social Development Canada website**.

Benefit Protection Provisions

The CPP includes provisions that help to compensate for periods when individuals may have relatively low or no earnings. Under the base CPP, dropping periods of low or no earnings from the calculation of average earnings increases the amount of one's CPP benefit. The enhanced component of the CPP also provides similar protection by means of "drop-in" provisions that credit individuals with earnings in certain circumstances.

General Drop-Out

In the base component of the CPP, the general drop-out provision helps to offset periods of low or no earnings due to unemployment, schooling or other reasons. Up to 17% of a person's contributory period with the lowest earnings, representing a maximum of eight years, can be dropped from the benefit calculation. This increases the benefit amount for most people.



Over-65 Drop-Out

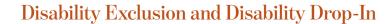
In the base component of the CPP, the over-65 drop-out provision allows periods of relatively low earnings before age 65 to be replaced by higher earnings after age 65. It may help to increase the benefit amounts of individuals who continue to work and make CPP contributions after reaching age 65, but do not yet receive the CPP retirement pension.

The value of the enhanced component of CPP benefits is based on an individual's best 40 years of earnings. This calculation largely duplicates the effects of the general drop-out and over-65 drop-out. For example, it means that the seven years with the lowest earnings will be excluded from the calculation of the benefit for an individual who contributed to the enhancement between the ages of 18 and 65. Similarly, an individual who continues to work and contribute after age 65 will be able to use those earnings to determine the value of their benefit, replacing earlier years with lower earnings.

Child Rearing Provisions

In the base component of the CPP, the child rearing drop-out provision excludes from the calculation of benefits the periods during which contributors remained at home, or reduced their participation in the workforce, to care for children under the age of seven. Every month until the child reaches seven years of age can be excluded from the benefit calculation for a contributor who is eligible for this provision. In addition to increasing the amount of benefits, this provision may also assist those applying for survivor or disability benefits in meeting the contributory requirements for eligibility.

In the enhanced component of the CPP, the child rearing drop-in provision will provide credits to the parents of young children who remained at home or reduced their participation in the labour force to care for children under the age of seven—specifically, a credit dropped in for every year in which the parent provides care for a child under seven years of age, if this credit is higher than the parent's actual earnings in that year. The value of the credit is based on the parent's earnings in the five years before the birth or adoption of the child. These dropped in credits will increase the parent's average earnings, which will increase the value of the enhanced component of their CPP benefits.



In the base component of the CPP, periods during which individuals are disabled in accordance with the CPP legislation are not included in their contributory period. This ensures that individuals who are not able to pursue any substantially gainful work are not penalized.

In the enhanced component of the CPP, individuals who become disabled in 2019 or later will have a credit "dropped in" for the months that they are disabled in accordance with the CPP legislation. The value of the credit is based on the individual's earnings in the six years before becoming disabled. These credits will be used to calculate the individual's retirement pension or any subsequent survivor's pension.

Other Features

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

Pension Sharing

Pension sharing allows spouses or common-law partners who are together and receiving their CPP retirement pensions to share a portion of each other's pensions. This feature also allows one pension to be shared between them even if only one person has contributed to the Plan. The amount that is shared depends on the time the couple has lived together and their joint CPP contributory period. Pension sharing affords a measure of financial protection to the lower-earning spouse or common-law partner. Also, while it does not increase or decrease the overall pension amount paid, it may result in tax savings. Each person is responsible for any income tax that may be payable on the pension amount they receive.

Credit Splitting

When a marriage or common-law relationship ends, the CPP credits accumulated by the couple during the time they lived together can be divided equally between them, if requested by or on behalf of either spouse or common-law partner. This is called "credit splitting." Credits can be split even if only one partner contributed to the Plan. Credit splitting may increase the amount of CPP benefits payable, or even create eligibility for benefits. It may also reduce the amount of benefits for one of the former partners. Credit splitting permanently alters the Record of Earnings, even after the death of a former spouse or common-law partner.

Portability

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

Indexation

CPP payments are indexed to the cost of living. Benefit amounts are adjusted in January of each year to reflect increases in the Consumer Price Index published by Statistics Canada. As CPP beneficiaries age, the value of their CPP benefit is protected against inflation.

CPP Enhancement

The Government of Canada worked with the provinces and territories to strengthen the retirement income system by enhancing the CPP. Following the signing of a historic agreement in principle by Canada's Ministers of Finance, the CPP enhancement took effect on January 1, 2019.

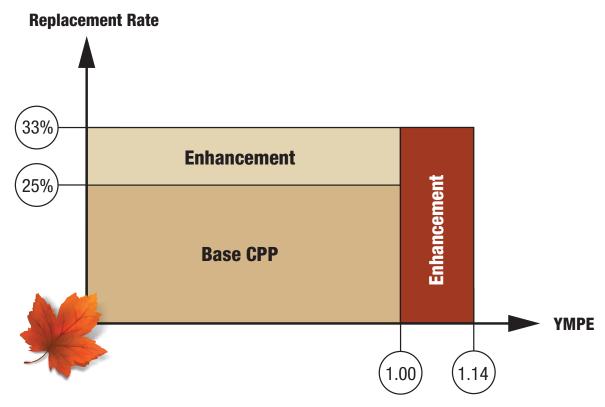
The CPP enhancement was designed to complement the base, or original, CPP. It serves as a top-up to the original part of the Plan, which first began in 1966. The CPP enhancement was designed to be fully funded, which means that benefits under the enhancement will build up gradually over time as individuals work and make contributions. Each year of contributions to the enhanced CPP will allow workers to accrue partial additional benefits. Fully enhanced benefits will generally become available after about 40 years of making contributions.

As illustrated in Figure 3, the fully enhanced CPP retirement pension will replace one-third of a contributor's eligible average earnings, up from one-quarter today. The upper limit of eligible earnings covered by the CPP will also increase by 14%. Together, these changes once fully implemented will increase the maximum retirement pension by about 50%.

The enhancement will not affect eligibility for CPP benefits or the amount of benefits that individuals are already receiving. Individuals who do not work and do not contribute to the CPP in 2019 or later will not be affected by the enhancement.

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Figure 3: Illustration of Enhancement Replacement Rate



The enhancement will also increase post-retirement benefits as well as disability and survivor's pensions based on an individual's contributions.

Contributions under the CPP Enhancement

The enhancement's implementation is being phased in over the next seven years. The changes to contributions are illustrated in Figure 4 and include the following key elements:

- The CPP contribution rate that is applied to the current eligible earnings range (from \$3,500 to the upper limit, which is set at \$57,400 in 2019) will increase by two percentage points compared to the base CPP. This means the contribution rate will gradually increase to 11.9% by 2023 (shared equally by employers and employees, while self-employed individuals contribute at the full rate).
- In 2024, workers will begin contributing on an additional range of earnings. This range will start at the current earnings limit, called the Year's Maximum Pensionable Earnings (YMPE), and will extend to a new limit which is 14% higher by 2025, phased in over two years. The contribution rate on earnings in this new range will be 8% (shared equally by employers and employees, with self-employed individuals contributing at the full rate).

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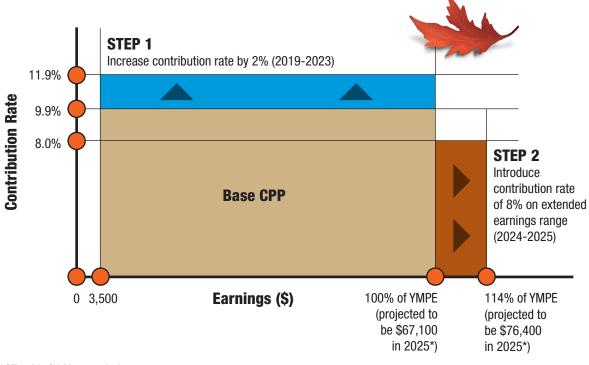


Figure 4: Illustration of Phase-In of Contributions

More information on the CPP enhancement is available by visiting the **Canada Pension Plan Enhancement** page.

International Social Security Agreements

Many individuals have lived or worked in Canada and in other countries. Consequently, Canada has entered into social security agreements with other countries to help people in Canada and abroad to qualify for CPP benefits and pensions from partner countries. Further, social security agreements enable Canadian companies and their employees who are sent to work temporarily outside of Canada to continue to contribute to the CPP and eliminate the need to contribute to the social security program of the other country for the same work.

As of March 31, 2019, Canada has concluded social security agreements with 60 countries, of which 59 are in force (see Table 4). Negotiations towards social security agreements are ongoing with many other countries.

^{*} Office of the Chief Actuary projection



Canada has concluded social security agreements with the following countries:

TABLE 4

Social Security Agreements

Country Name	Date of Agreement	Country Name	Date of Agreement
Antigua and Barbuda	January 1, 1994	Latvia	November 1, 2006
Australia	September 1, 1989	Lithuania	November 1, 2006
Austria	November 1, 1987	Luxembourg	April 1, 1990
Barbados	January 1, 1986	Malta	March 1, 1992
Belgium	January 1, 1987	Mexico	May 1, 1996
Brazil	August 1, 2014	Morocco	March 1, 2010
Bulgaria	March 1, 2014	Netherlands	October 1, 1990
Chile	June 1, 1998	New Zealand	May 1, 1997
China*	January 1, 2017	North Macedonia (Republic of)	November 1, 2011
Croatia	May 1, 1999	Norway	January 1, 1987
Cyprus	May 1, 1991	Peru	March 1, 2017
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	Romania	November 1, 2011
Finland	February 1, 1988	Saint Lucia	January 1, 1988
France	March 1, 1981	Saint Vincent and	November 1, 1998
Germany	April 1, 1988	the Grenadines	
Greece	May 1, 1983	Serbia	December 1, 2014
Grenada	February 1, 1999	Slovak Republic	January 1, 2003
Hungary	October 1, 2003	Slovenia	January 1, 2001
Iceland	October 1, 1989	Spain	January 1, 1988
India	August 1, 2015	St. Kitts and Nevis	January 1, 1994
Ireland	January 1, 1992	Sweden	January 1, 1986
Israel*	September 1, 2003	Switzerland	October 1, 1995
Italy	January 1, 1979	Trinidad and Tobago	July 1, 1999
Jamaica	January 1, 1984	Turkey	January 1, 2005
Japan	March 1, 2008	United Kingdom*	April 1, 1998
Jersey and Guernsey	January 1, 1994	United States of America	August 1, 1984
Korea	May 1, 1999	Uruguay	January 1, 2002

^{*}The social security agreements with China, Israel and the United Kingdom provide an exemption from the obligation to contribute to the social security system of the other country for employers and their employees temporarily posted abroad. These agreements do not contain provisions concerning eligibility for pension benefits.

In addition, a social security agreement has been signed with Albania. It will enter into force once legal procedures have been completed in both countries.



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 contributory 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, 2019, the CRA reported that there are 1,783,991 employer accounts. In 2018–19, the CRA conducted 45,281 examinations to promote compliance with the requirements to withhold, report and remit employer source deductions. For 2018–19, employers and employees account for approximately 95% of contributions, and the remaining 5% comes from the self-employed. In 2018–19, contributions amounted to \$51.2 billion.

Services to Contributors and Beneficiaries

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

In 2018–19, Service Canada continued its efforts to ensure that eligible Canadians are receiving public pension benefits to which they are entitled, and to encourage them to actively plan and prepare for their own retirement. Information on the CPP is available on the Internet, by phone, in person at Service Canada Centres and through scheduled and community outreach.

Service Canada promotes the use of online services through:

- targeted mailing of inserts, including seasonal mailing such as at tax-filing season;
- messaging added to correspondence to Canadians;
- messaging promoted through the Government of Canada website; and
- messaging provided by telephone through its pensions call centre network or by employees providing information in person at Service Canada Centres.

Service Canada continues to advance its e-service agenda through enhancements in the online My Service Canada Account. CPP clients can easily access their personal information securely online. My Service Canada Account provides a single point of access for people to apply for a CPP retirement pension. In 2018–19, approximately 135,000 people, representing 43% of all applications, applied for their CPP retirement pension online.

Using My Service Canada Account, CPP clients can make enquiries, conduct transactions and, if they live in Canada, update their mailing address, telephone numbers and direct deposit information online. CPP clients can also view and print copies of their tax slips for the current year and the previous six years, view and print an official copy of their Statement of Contributions, view the last two years of their payments, print a benefit attestation letter, apply for a Federal Voluntary Tax Deduction and add, modify or delete their consent to communicate information related to an authorized person to act on their behalf. More information is available by visiting the **Service Canada page**.

Service Canada continues to implement a comprehensive CPP Service Improvement Strategy where Canadians will increasingly have more user-friendly electronic services and benefit from faster resolution of issues.

Processing Benefits

Service Canada continues to deliver the CPP through a network of 10 processing centres located across the country. In 2018–19, Service Canada:

- processed over 7.3 million transactions, including 1.6 million transactions to put clients into pay for the first time and to renew benefits and another 5.7 million benefit adjustments/account revisions;
- made over 69 million payments valued at \$46.5 billion to approximately 5.9 million beneficiaries, including \$4.6 billion to 423,000 CPP disability beneficiaries;
- supported more than 135,000 Canadians to apply for CPP retirement benefits online and fully automated the adjudication of more than 920,000 new post-retirement benefits; and
- answered 2.4 million CPP and Old Age Security enquiries through its specialized call centre agents and resolved 3.1 million calls through its interactive voice response system.

The timely payment of CPP benefits remains a priority. Overall, Service Canada aims to pay eligible clients their CPP retirement pension within their first month of entitlement with an objective of achieving this 90% of the time. In 2018–19, the Department exceeded this objective and put 96% of clients in pay for their first month of entitlement (see Table 5).

Following a comprehensive review, the Department implemented, in October 2016, the new and revised Canada Pension Plan disability service standards for speed and timeliness aimed at supporting client-centric service delivery. Since their implementation, the service standards have represented a significant commitment to enhance the delivery of Canada Pension Plan disability, particularly for people with a terminal illness or a grave condition (see Table 5).

2018–19 Processing Results

Application for Canada Pension Plan Disability Benefits

- Service Canada's goal is to make a decision on applications for Canada Pension Plan disability benefits within 120 calendar days of receiving a complete application. Service Canada aims to meet this standard 80% of the time (revised from 75% prior to October 2016).
- In 2018–19, Service Canada met this standard 63% of the time, and the average processing time was 102 calendar days, well below the 120 calendar day commitment.

Canada Pension Plan Disability Benefits for Applicants with a Terminal Illness

- Service Canada's goal is to make a decision for applicants with a terminal illness within 5 business days of receiving a complete terminal illness application. Service Canada aims to meet this standard 95% of the time. This service standard reflects the unique circumstances of terminally ill clients.
- In 2018–19, Service Canada met this standard 91% of the time, and the average processing time was 4 business days, below the 5 business day commitment.

Canada Pension Plan Disability Benefits for Applicants with a Grave Condition

- Service Canada's goal is to make a decision for applicants with a grave condition within 30 business days of receiving a complete application. Service Canada aims to meet this standard 80% of the time. This service standard reflects the unique circumstances of clients with a grave condition.
- Service Canada prioritized processing these requests and met this standard 84% of the time. The average processing time was 24 calendar days, below the 30 calendar day commitment.

Canada Pension Plan Disability Benefit Reconsiderations

- Service Canada's goal is to make a decision within 120 calendar days of receiving a reconsideration request. Service Canada aims to meet this standard 80% of the time (revised from 70% prior to October 2016).
- Service Canada met this standard 70% of the time, and the average processing time was 109 calendar days, below the 120 calendar day commitment.



TABLE 5

Canada Pension Plan (CPP) Service Standards

Service Standard	National Objective	2018–19 National Results	Average Processing Time
CPP retirement pension applications Pay benefits within the first month of entitlement	90%	96%	23 calendar days
CPP disability benefit applications Initial disability decisions are made within 120 calendar days of receiving a complete application	80%	63%	102 calendar days
CPP disability benefits for applicants with a terminal illness Decisions for applicants with a terminal illness are made within 5 business days of receiving a complete terminal illness application	95%	91%	4 business days
CPP disability benefits for applicants with a grave medical condition Decisions for applicants with a grave condition are made within 30 calendar days of receiving a complete application	80%	84%	24 calendar days
CPP disability benefit reconsiderations Decisions on reconsideration requests are made within 120 calendar days of receiving the reconsideration request	80%	70%	109 calendar days

Appeals Process

Clients who are not satisfied with the Minister's reconsideration decisions pertaining to CPP benefits may appeal to the Social Security Tribunal of Canada (SST).

The SST is an independent administrative tribunal that makes quasi-judicial decisions on appeals related to the *Canada Pension Plan*, the *Old Age Security Act* and the *Employment Insurance Act*.

The SST is divided into two separate divisions: the **General Division** and the **Appeal Division**. The General Division is composed of two different sections: Income Security (CPP and OAS) and Employment Insurance.

The General Division Income Security is responsible for hearing new CPP appeals, and the Appeal Division hears appeals from the General Division.



General Division Income Security

In 2018–19, the General Division Income Security Section received 2,233 new appeals related to CPP benefits. As of March 31, 2019, the General Division Income Security Section concluded 2,875 appeals related to CPP benefits.²

Appeal Division

In 2018–19, the Appeal Division received 272 appeals of decisions from the General Division Income Security Section related to CPP benefits. As of March 31, 2019, the Appeal Division concluded 370 appeals related to CPP benefits.³

Ensuring Program Integrity

To ensure the accuracy of benefit payments, the security and privacy of personal information and the overall quality of service, ESDC continues to enhance the efficiency, accuracy and integrity of its operations.

Meeting the expectations of Canadians—that government services and benefits are delivered to the right person, for the right amount, for the intended purpose and at the right time while ensuring responsible stewardship of program funds and protecting personal information—is a cornerstone of ESDC's service commitment. Enhanced and modernized integrity-related activities within the CPP are essential to meeting these expectations and ensuring the public's trust and confidence in the effective management of this program.

Integrity-related activities detect and correct existing incorrect payments, reduce program costs by preventing incorrect payments and identify systemic impediments to clients receiving their correct and full benefit entitlement. These activities consist of risk-based analysis measures, which ensure that appropriate and effective controls are in place and that the causes of incorrect payments are identified and mitigated. Integrity-related activities also make use of modern analytical techniques to improve business intelligence and ensure that errors and fraud are managed throughout the program's life cycle.

As part of its effort to address overpayment situations, ESDC conducts reviews of benefit entitlements and investigations to address situations in which clients are suspected of receiving benefits to which they are not entitled. Through the recovery of overpayments and prevented future incorrect payments, these activities resulted in \$15.5 million in accounts receivable as overpayments and prevented an estimated \$11.7 million from

² From April 1, 2013, to March 31, 2019, 17,724 CPP appeals have been concluded. (This does not include the 6,929 CPP appeals transferred from the Office of the Commissioner of Review Tribunals and subsequently concluded.)

From April 1, 2013, to March 31, 2019, 2,053 appeals related to CPP benefits have been concluded. (This does not include the 466 CPP appeals transferred from the Pension Appeals Board and subsequently concluded.)

being incorrectly paid in 2018–19. A further estimated \$70.4 million has been prevented from being incorrectly paid for future years after 2018–19. The recovered overpayments are credited to the CPP, thereby helping to maintain the longterm sustainability of the Plan.

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.

This is why the Department has a sound Identity Management Policy aimed at establishing and implementing integrated and consistent practices for the management of clients' identity across multiple service delivery channels (in person, phone, mail and online). It aims to enhance program integrity while safeguarding and streamlining identity management processes. Under this policy, clients know what is expected from them when asked to confirm their identity. A consistent approach to identity management enhances data integrity and quality, improves security and the protection of personal information, and enhances the service experience for clients by reducing errors and eliminating inefficiencies, which could impact wait times for benefits.

Ensuring Financial Sustainability

As joint stewards of the CPP, Canada's 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. This process is referred to as the CPP triennial review. The Ministers of Finance base their recommendations on a number of factors, including the results of an examination of the CPP by the Chief Actuary of Canada. 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 from the federal 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 or the rate of contributions and changes to the *Canada Pension Plan Investment Board Act* 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 provinces have provided formal consent to the changes by way of Orders in Council. Quebec participates in decision-making regarding changes to the CPP legislation to ensure a high degree of portability of QPP and CPP benefits across Canada.



Funding Approach

When it was introduced in 1966, the CPP was designed as a pay-as-you-go plan with a small reserve. This meant that the benefits for one generation would be paid largely from the contributions of later generations. This approach made sense under the demographic and economic circumstances of the time, due to the rapid growth in wages and labour force participation as well as the low rates of return on investments. However, demographic and economic developments, as well as changes to benefits and an increase in disability claims in the following three decades, resulted in significantly higher costs. Starting in the mid-1980s, the finances of the CPP came under increasing pressure as assets declined and increases in contribution rates became necessary. In 1993, it was projected that the pay-as-you-go rate would be 14.2% by 2030 and that the reserve fund would be depleted by 2015. Continuing to finance the CPP on a pay-as-you-go basis would have meant imposing a heavy financial burden on the future Canadian workforce. This was deemed unacceptable by the federal and provincial governments.

Amendments were therefore made in 1997 to gradually raise the level of CPP funding. Changes were implemented to: increase the contribution rates over the short term; reduce the growth of benefits over the long term; and invest cash flows not needed to pay benefits in the financial markets through the new CPP Investment Board (CPPIB) in order to achieve higher rates of return. A further amendment was included to ensure that any increase in benefits or new benefits provided under the CPP would be fully funded. The reform package agreed to by the federal and provincial governments in 1997 included:

- The introduction of steady-state funding This replaced pay-as-you-go financing to build a reserve of assets and stabilize the ratio of assets to expenditures over time. According to the most recent triennial actuarial report on the CPP, the Twenty-seventh Actuarial Report on the Canada Pension Plan as at 31 December 2015, the level of assets under steady-state funding is projected to stabilize at a level equal to about six years of expenditures until 2030, then gradually grow to about seven years. Investment income from this pool of assets will help pay benefits as the large cohort of baby boomers retires. Steady-state funding is based on a constant contribution rate that finances the CPP without the full-funding requirement for increased or new benefits.
- The introduction of incremental full funding This means that changes to the CPP that increase or add new benefits are fully funded. In other words, benefit costs are paid as benefits are 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. The sum of the steady-state and full funding rates is the minimum contribution rate required to fund the CPP. The minimum contribution rate was determined to be 9.79% for 2019 and thereafter in the Twenty-seventh Actuarial Report on the Canada Pension Plan as at 31 December 2015.

If, at any time, the minimum contribution rate is higher than the legislated contribution rate, and if the Ministers of Finance do not recommend either to increase the legislated rate or maintain it, then automatic provisions would be triggered to sustain the CPP. An increase in the legislated rate would be phased in over three years, and benefit indexation would be suspended until the following triennial review.

The dual funding objectives for the CPP of steady-state and full funding 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.

In keeping with the dual funding nature of the Plan, the new enhanced portion of the CPP will be fully funded in order to ensure fairness across generations. The CPP enhancement, which commenced in 2019, is designed so that the new legislated additional contributions along with projected investment income will be sufficient to fully pay the projected benefits. The Chief Actuary determines the additional minimum contribution rates required to meet this objective. Regulations describing how the minimum rates are determined for the CPP enhancement have been formulated. These regulations, together with those for determining the minimum rates for the core or "base" CPP (the CPP prior to 2019), are provided in the *Calculation of Contribution Rates Regulations, 2018*, which were pre-published in the *Canada Gazette*.⁴

Regulations concerning what happens if the CPP enhancement is not sustainable under the legislated additional contribution rates have been formulated in the *Additional Canada Pension Plan Sustainability Regulations*, which were also pre-published in the *Canada Gazette*. These new regulations will apply only in the event that the additional minimum contribution rates deviate to a certain extent from their respective legislated rates and no action is taken by the Ministers of Finance to address the deviation.

Both the Calculation of Contribution Rates Regulations, 2018 and the Additional Canada Pension Plan Sustainability Regulations will come into force once formal consent is received from all the provinces.

Actuarial Reporting on the Financial State of the CPP

The most recent triennial actuarial report on the CPP, the *Twenty-seventh Actuarial Report* on the Canada Pension Plan as at 31 December 2015, prepared by the Office of the Chief Actuary (OCA), was tabled by the federal Minister of Finance in Parliament on September 27, 2016. This report was in respect of the base component of the CPP only, since the CPP enhancement had not yet commenced.

⁴ Canada Gazette, Part I, Volume 152, Issue No. 42, October 20, 2018

⁵ Ibid.

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According to the financial projections of this triennial actuarial report, the annual amount of contributions paid by Canadians into the base component of the CPP is expected to exceed the annual amount of benefits paid out until 2020 inclusive, and to be less than the amount of benefits thereafter.

Funds not immediately required to pay benefits are to be transferred to the CPPIB for investment. Assets under the base component of the CPP are expected to accumulate rapidly over the following decades and, over time, will help pay for benefits as more and more baby boomers begin to collect their retirement pensions. In 2021 and thereafter, as baby boomers continue to retire and benefits paid begin to exceed contributions, investment income from the accumulated assets will provide the funds necessary to make up the difference. However, contributions will remain the main source of funding for benefits.

The report confirms that the current contribution rate of 9.9% is expected to remain sufficient, along with projected investment income, to financially sustain the base component of the Plan over the long term.

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-seventh Actuarial Report on the Canada Pension Plan as at 31 December 2015.* The external panel's findings confirmed that the work performed by the OCA on the Report met all statutory requirements. The OCA also met all professional standards of practice, except that the study on the determination of the actuarial adjustment factors, mentioned in the Report, should have been published at the same time as the Report. The study on the actuarial adjustment factors has since been published. The external panel also stated that the assumptions and methods used for the Report were reasonable.

In addition to these main conclusions, the panel made a number of recommendations regarding the preparation and review of future actuarial reports. The GAD affirmed that the reviewers carried out a sufficiently thorough review and that the work was adequate and reasonable. As a result, Canadians can have confidence in the results of the *Twenty-seventh Actuarial Report on the Canada Pension Plan as at 31 December 2015* and the conclusions reached by the Chief Actuary about the long-term financial sustainability of the base component of the Plan.

A supplemental report, the Twenty-eighth Actuarial Report supplementing the Twenty-seventh Actuarial Report on the Canada Pension Plan as at 31 December 2015, was tabled in Parliament on October 28, 2016. This report was prepared by the Chief Actuary to show the effect of the Additional CPP Account introduced under Bill C-26 – An Act to amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act, which enacted the CPP enhancement and came into force on March 3, 2017.

⁶ The Canada Pension Plan adjustment factors are specified in the 27th Actuarial Report on the Canada Pension Plan as at 31 December 2015 – Actuarial Study No. 18 which was published by the Office of the Chief Actuary (OCA) in April 2017. The study is available on the OCA website at: http://www.osfibsif.gc.ca/Eng/Docs/ocaas18.pdf

The report confirms that the legislated first additional contribution rate of 2.0% and second additional contribution rate of 8.0% are sufficient, along with projected investment income, to fully pay the projected expenditures of the CPP enhancement over the long term.

In addition, a subsequent supplemental report, the *Twenty-ninth Actuarial Report* supplementing the *Twenty-seventh and Twenty-eighth Actuarial Reports on the* Canada Pension Plan as at 31 December 2015, was tabled in Parliament on May 1, 2018. This supplemental report was prepared by the Chief Actuary to show the long-term financial implications of changes to CPP benefits as proposed under Bill C-74 – Budget Implementation Act, 2018, No. 1, introduced in Parliament on March 27, 2018, and given Royal Assent on June 21, 2018. These reforms were agreed to in principle by Canada's Ministers of Finance in December 2017 as part of the 2016-2018 Triennial Review of the Plan. The supplemental report confirms that the changes would not require increases to the legislated contribution rates. These reforms were unanimously approved by the provincial governments and took effect in 2019 when the CPP enhancement began.

The next triennial actuarial report on the CPP, which will report on the financial state of each of the Plan's components (the base and CPP enhancement) as of December 31, 2018, is due by December 2019.

To view the CPP's actuarial reports, reviews and studies, visit the Office of the Chief Actuary.

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 Accounts

Two separate accounts, the CPP Account and the Additional CPP Account, have been established in the accounts of the Government of Canada to record the financial elements of the base CPP and the enhanced CPP respectively (such as contributions, interest, earned pensions and other benefits paid, as well as administrative expenditures). The CPP accounts also record the amounts transferred to, or received from, the CPPIB. Spending authority, as per sections 108(4) and 108.2(4) of the CPP legislation, is limited to the CPP net assets, which includes both accounts. It is important to note, however, that funds cannot be transferred between accounts such that the base CPP will be wholly funded from the CPP Account, while the enhancement will be funded from the Additional CPP Account. The CPP assets are not part of the federal government's revenues and expenditures.

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In keeping with An Act to amend the Canada Pension Plan and the Canada Pension Plan Investment Board Act, 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 Accounts' operating balances are managed by the Government of Canada.

CPP Investment Board

Created by an Act of Parliament in 1997, the CPP Investment Board (CPPIB) is a professional investment management organization with a critical purpose to help provide a foundation on which Canadians build financial security in retirement. The CPPIB invests the assets of the CPP not currently needed to pay pension, disability and survivor benefits.

The CPPIB is accountable to Parliament and to Canada's Ministers of Finance. However, the CPPIB is governed independently from the CPP and operates at arm's length from governments. The CPPIB's legislated mandate is to maximize investment returns without undue risk of loss. In doing so, it is required to act in the best interest of contributors and beneficiaries, and take into account the factors that may affect the funding of the CPP and its ability to meet its financial obligations.

The CPPIB is headquartered in Toronto with offices in Hong Kong, London, Luxembourg, Mumbai, New York, São Paulo and Sydney.

For more information on the CPPIB's mandate, governance structure and investment policy, visit the **Canada Pension Plan Investment Board** website.

CPP Assets and Cash Management

Pursuant to section 108.1 of the *Canada Pension Plan* and an administrative agreement between the CPP and the CPPIB, amounts not required to meet specified obligations of the CPP are transferred weekly to the CPPIB in order to gain a better return. The cash flow forecasts of the CPP determine the amount to be transferred to or from the CPPIB, and these forecasts are updated regularly.

ESDC 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, ESDC obtains confirmation at all critical transfer points and can therefore monitor the cash flow from one point to the next.



CPP Net Assets

As at March 31, 2019, the CPP net assets totalled \$397.0 billion. The Government of Canada held \$5.0 billion of these assets to meet CPP pensions, benefits and operating expenses obligations. The remaining \$392.0 billion is managed by the CPPIB. In terms of net assets, the CPP Fund ranks as one of the world's largest retirement funds.

For the 10-year period ending March 31, 2019, the Fund held by the CPPIB had an annualized net nominal rate of return of 11.1%. Over that 10-year period, the CPPIB has contributed \$239.0 billion in cumulative net income to the Fund, after all CPPIB costs.

Investing for Our Future

In 2006, the CPPIB made the strategic decision to move progressively away from largely index-based investments towards the more active selection of investments in order to capitalize on its comparative advantages. The CPPIB benefits from the CPP Fund's exceptionally long investment horizon, certainty of assets and scale. It has also developed a world-class investment team, which is complemented with top-tier external partners that support its internal capabilities. The CPPIB takes a disciplined, prudent, long-term approach to managing the total portfolio.

In managing the Fund, the CPPIB pursues a diverse set of investment programs that stabilize performance and contribute to the long-term sustainability of the CPP. The CPPIB ensures that the Fund has both asset and geographic diversification to make the Fund more resilient to single-market volatility. In order to build a diversified portfolio of CPP assets, the CPPIB invests in public equities, private equities, real estate, infrastructure and fixed income instruments. The CPPIB's investments have become increasingly international, benefitting from positive global growth in the world's largest investment markets, and having greater resiliency during periods of slow growth within specific regions.

CPPIB Reporting

The CPPIB reports its financial performance on a quarterly and annual basis. Legislation requires the CPPIB to hold public meetings every two years in each province, excluding Quebec, which operates the separate 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.

Other Expenses

CPP expenses consist of pensions and benefits paid, operating expenses and benefit overpayments as detailed in the CPP Consolidated Statement of Operations for the year ended March 31, 2019.

Operating Expenses

CPP operating expenses of \$1.841 billion in 2018–19 represent 3.96% of the \$46.5 billion in benefits paid. Table 6 presents the CPP's operating expenses for the last two years.

TABLE 6

CPP Operating Expenses for 2018–19 and 2017–18

Department/Agency/Crown Corporation	In millions of dollars	
Department/Agency/Grown Corporation	2018–19	2017–18
CPP Investment Board (CPPIB)*	1,203	1,053
Employment and Social Development Canada	378	369
Canada Revenue Agency	207	190
Treasury Board Secretariat	32	33
Administrative Tribunals Support Service of Canada	13	14
Public Services and Procurement Canada	5	6
Office of the Superintendent of Financial Institutions (where the Office of the Chief Actuary is housed)/Finance Canada	3	3
Total	1,841	1,668

^{*}The operating expenses for the CPPIB do not include the transaction costs and investment management fees since these are presented as part of net investment income (loss). For more details, refer to the "Canada Pension Plan Consolidated Statement of Operations" and in the Financial Statements of the CPPIB's Annual Report.



Consistent with its mandate to manage the CPP effectively, ESDC has procedures in place to detect benefit overpayments. During 2018–19, overpayments totalling \$91 million were detected, \$88 million in overpayments were recovered and debts of \$37 million were forgiven. The above figures represent a net decrease of \$34 million in the accounts receivable for the year.

Looking to the Future

While workers need to apply in order to receive their CPP retirement pension, some eligible seniors either apply late or not at all and miss out on receiving their retirement pensions. To help Canadian workers receive the full value of the pension to which they contributed, the CPP is introducing measures starting in 2020 to proactively enroll CPP contributors who are 70 years old or older but who have not yet applied to receive their retirement pension.

Since some Canadians may prefer not to receive a CPP retirement pension—as it could reduce federal and provincial income-tested benefits—this measure will also extend the window to cancel receipt of the retirement pension period from 6 months to 12 months. This will ensure that Canadians who choose not to receive a CPP retirement pension are not disadvantaged by proactive enrollment.

The Canada Pension Plan is reviewed by Ministers of Finance every three years to ensure that it continues to meet the evolving needs of Canadians. The 2019-2021 Triennial Review will begin in late 2019, following the tabling of the *Thirtieth Actuarial Report on the Canada Pension Plan as at December 31, 2018.*





Employment and Social Development Canada

Canada Pension Plan

Emploi et Développement social Canada

Canada Pension Plan

Consolidated Financial Statements for the year ended March 31, 2019

Canada Pension Plan Management's Responsibility for Financial Statements

The consolidated financial statements of the Canada Pension Plan are prepared in accordance with the Canada Pension Plan by the management of Employment and Social Development Canada. Management is responsible for determining that the applicable financial reporting framework is acceptable and is responsible for the integrity and objectivity of the information in the consolidated financial statements, including the amounts which must, of necessity, be based on best estimates and judgment. The significant accounting policies are identified in Note 2 to the consolidated financial statements. The financial information presented throughout the Annual Report is consistent with the consolidated financial statements.

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

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

Mark Perlman, CPA, CMA

/ Chief Financial Officer

Employment and Social Development Canada

Graham Flack Deputy Minister

Employment and Social Development Canada

Gatineau, Canada August 27, 2019





Office of the Bureau du
Auditor General vérificateur général
of Canada du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Families, Children and Social Development

Opinion

We have audited the consolidated financial statements of the Canada Pension Plan, which comprise the consolidated statement of financial position as at 31 March 2019, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Canada Pension Plan for the year ended 31 March 2019 are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* for the *Audit of the Consolidated Financial Statements* section of our report. We are independent of the Canada Pension Plan in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter-Basis of Accounting

We draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared to assist management of the Canada Pension Plan in complying with the financial reporting provisions of the *Canada Pension Plan* legislation. As a result, the consolidated financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Canada Pension Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Canada Pension Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Canada Pension Plan's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Canada Pension Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Canada Pension Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Canada Pension Plan to cease to continue as a going concern.



Obtain sufficient appropriate audit evidence regarding the financial information of the
entities or business activities within the Canada Pension Plan to express an opinion on
the consolidated financial statements. We are responsible for the direction, supervision,
and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Marise Bédard, CPA, CA

Principal

for the Interim Auditor General of Canada

Ottawa, Canada 27 August 2019



Canada Pension Plan Consolidated Statement of Financial Position

As at March 31

	2019	2018
	(in million	ns of dollars)
Financial assets		
Cash (Note 4)	251	115
Receivables (Note 5)	5,415	5,377
Investments (Note 7)	494,567	428,827
Pending trades receivable (Note 7)	4,692	2,613
Other	75	
	505,000	436,932
Liabilities		
Payables and accrued liabilities (Note 9)	1,168	1,214
Investment liabilities (Note 7)	102,864	72,641
Pending trades payable (Note 7)	4,401	2,477
	108,433	76,332
Financial assets available for benefit payments	396,567	360,600
Non-financial assets		
Premises, equipment and others	449	397
Assets available for benefit payments	397,016	360,997

Actuarial obligation in respect of benefits (Note 14) Contractual obligations and commitments (Note 15) Contingent liabilities (Note 16)

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

Approved by:

Mark Perlman, CPA, CMA Chief Financial Officer

Employment and Social Development Canada

Graham Flack Deputy Minister

Employment and Social Development Canada



Canada Pension Plan Consolidated Statement of Operations

for the year ended March 31

	Budget 2019	Actual 2019	Actual 2018
	(Note 10)	(in million	s of dollars)
Revenues			
Contributions	49,903	51,184	48,435
Net investment income	40,000	01,104	40,400
Realized gains	_	33,046	7,301
Unrealized (losses) gains	_	(8,875)	25,036
Interest income	-	3,261	3,074
Dividend income	-	6,358	3,391
Other income	-	1,491	1,132
Investment management fees	-	(1,586)	(1,738)
Transaction costs	-	(477)	(401)
	16,008	33,218	37,795
	65,911	84,402	86,230
Expenses			
Pensions and benefits			
Retirement	37,051	36,286	34,560
Survivor	4,578	4,586	4,493
Disability	4,457	4,263	4,133
Disabled contributor's child	338	320	311
Death	366	377	368
Orphan	223	211	209
Post-Retirement	-	553	440
Net overpayments (Note 5)	-	(54)	(54)
	47,013	46,542	44,460
Operating expenses (Note 12)	1,769	1,841	1,668
	48,782	48,383	46,128
Net increase in assets available for benefit payments	17,129	36,019	40,102
Assets available for benefit payments, beginning of year	360,997	360,997	320,895
Assets available for benefit payments, end of year	378,126	397,016	360,997

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	Actual	Actual
	2019	2019	2018
	(Note 10)	(in million	s of dollars)
Net increase in assets available for benefit payments	17,129	36,019	40,102
Changes in non-financial assets	-	(52)	(1)
Increase in financial assets available for benefit payments	17,129	35,967	40,101
Financial assets available for benefit payments,			
beginning of year	360,600	360,600	320,499
Financial assets available for benefit payments, end of			
year	377,729	396,567	360,600

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

	2019	2018
	(in milli	ons of dollars)
Operating activities		
Cash receipts		
Contributions	51,151	47,746
Interest on investments	4,537	3,157
Dividends on investments	4,772	2,981
Other investment income	1,347	1,682
Cash payments		
Pensions and benefits	(46,549)	(44,471)
Operating expenses	(1,953)	(1,658)
Investment management fees	(1,001)	(867)
Transaction costs	(450)	(387)
Payment of interest on debt	(452)	(240)
Cash flows from operating activities	11,402	7,943
Capital activities		
Acquisition of premises and equipment	(59)	(28)
Cash flows used in capital activities	(59)	(28)
Financing activities		
Issuance of debt	36,784	60,494
Repayment of debt	(30,929)	(55,539)
Cash flows from financing activities	5,855	4,955
Investing activities		
Purchases	(3,015,044)	(3,681,090)
Disposals	2,997,982	3,668,161
Cash flows used in investing activities	(17,062)	(12,929)
Net increase (decrease) in cash	136	(59)
Cash, beginning of year	115	174
Cash, end of year	251	115

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 (GoC) and the 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 Québec Pension Plan (QPP), a comparable program. The CPP's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death. The CPP is financed by contributions and investment returns. Employers and employees pay contributions equally to the CPP. Self-employed workers pay the full amount.

On December 15, 2016, the Canada Pension Plan, the Canada Pension Plan Investment Board Act (CPPIB Act) and the Income Tax Act (Canada) were amended to reflect the CPP enhancement. The CPP enhancement will be implemented through a phased-in approach over a 7-year period which began on January 1, 2019. It will bring a higher income replacement rate and increase the range of pensionable earnings covered.

The Minister of Families, Children and Social Development is responsible for the administration of the CPP, under the *Canada Pension Plan*; the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels and funding policy. CPP Investment Board (CPPIB) is responsible for managing the amounts that are being transferred under section 108.1 and 108.3 of the *Canada Pension Plan*. It acts in the best interests of the beneficiaries and contributors under the *Canada Pension Plan*.

In accordance with the Canada Pension Plan, the financial activities of the CPP are recorded in the CPP Account and the Additional CPP Account (Note 3). The financial transactions affecting the Accounts are governed by the Canada Pension Plan and its regulations. The CPP transfers to CPPIB amounts that are not immediately needed to pay CPP pensions, benefits and operating expenses, and CPPIB invests these amounts. Pursuant to subsections 112(1) and 112(2) of the Canada Pension Plan, one set of annual financial statements is presented on a consolidated basis to include the accounts of the CPP and CPPIB.

CPPIB was established pursuant to the *CPPIB Act*. CPPIB is a federal Crown corporation and all of its shares are owned by Her Majesty the Queen in right of Canada. CPPIB's transactions are governed by the *CPPIB Act* and its accompanying regulations. 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.

CPPIB and its wholly-owned subsidiaries are exempt from Part I income tax under paragraph 149(1)(*d*) of the *Income Tax Act (Canada)* on the basis that all of the shares of 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.

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 CPPIB are audited annually by an external firm and are included in its annual report.

As stated in the *Canada Pension Plan*, changes to the *CPPIB Act* and major changes to the *Canada Pension Plan* require the agreement of at least two-thirds of the provinces, representing at least two-thirds of the population of all the provinces.



for the year ended March 31, 2019

b) Pensions and Benefits

Retirement pensions – According to the provisions of the *Canada Pension Plan*, a retirement pension is payable to CPP contributors who have made at least one valid contribution to the Plan. The monthly pension consists of three components: (i) a base component equal to 25% of the contributor's average monthly pensionable earnings below the annual threshold during the pensionable period; (ii) a first additional component equal to 8.33% of the average of the contributor's 480 highest monthly pensionable earnings during the pensionable period, which began in January 2019; and (iii) a second additional component equal to 33.33% of the average of the contributor's 480 highest monthly additional pensionable earnings during the pensionable period, which begins in January 2024.

The normal age to begin collecting the retirement pension is 65, however, contributors can either elect to take an actuarially-reduced pension as early as age 60, or an actuarially-increased pension as late as age 70. The maximum monthly pension payable at age 65 in 2019 is \$1,154.58 (2018 – \$1,134.17).

Post-retirement benefits – According to the provisions of the *Canada Pension Plan*, a post-retirement benefit (PRB) is payable to each individual between the ages of 60 and 70 who has continued to work and has made contributions to the Plan while collecting their CPP or QPP retirement pension. Contributions are mandatory for working retirement pension recipients until the age of 65, at which point they may elect to cease contributing. Contributions are no longer allowed after reaching age 70. The PRB becomes payable the year after contributions were made. The maximum monthly PRB at age 65 in 2019 is \$28.86 (2018 – \$28.35).

Disability pensions – According to the provisions of the *Canada Pension Plan*, a disability pension is payable to a working-age contributor who meets both the medical and contributory requirements. The amount of the disability pension to be paid includes a flat rate portion and an amount equal to 75% of the earned retirement pension. The disability pension ends automatically at age 65, when recipients are automatically converted to receive the retirement pension. The maximum monthly disability pension in 2019 is \$1,362.30 (2018 – \$1,335.83).

Post-retirement disability benefits – According to the provisions of the *Canada Pension Plan*, a post-retirement disability benefit is payable to an individual under the age of 65 in receipt of a retirement pension who meets the same medical and contributory criteria as the disability pension. The post-retirement disability benefit is equal to the flat rate portion of the disability pension and is added to individual's retirement pension. Like the disability pension, the post-retirement disability benefit ends automatically at age 65, when the recipient becomes eligible for benefits under the Old Age Security program. The maximum monthly post-retirement disability benefit in 2019 is \$496.36 (2018 – n/a).

Survivor's pensions – According to the provisions of the *Canada Pension Plan*, a survivor's pension is payable to the spouse or common-law partner of a deceased contributor who made sufficient contributions to the Plan. The pension amount depends on the age of the survivor and whether the survivor also receives other CPP benefits. Survivors aged 65 or older receive a pension equal to 60% of the deceased contributor's retirement pension. Survivors under the age of 65 receive a pension equal to 37.5% of the deceased contributor's retirement pension, plus a flat rate. The maximum monthly pension payable to a survivor in 2019 is \$692.75 (2018 – \$680.50).

Disabled contributor's child and orphan benefits – According to the provisions of the *Canada Pension Plan*, each child of a contributor who is receiving a disability pension or a post-retirement disability benefit 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 2019 is \$250.27 (2018 – \$244.64).

Death benefits – According to the provisions of the *Canada Pension Plan*, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor who made sufficient contributions to the Plan. The death benefit is a flat-rate payment of \$2,500.00 in 2019 (2018 – an earnings-related benefit equal to six times the amount of monthly retirement pension, up to a maximum of \$2,500.00).



for the year ended March 31, 2019

Pensions and benefits indexation – As required by the *Canada Pension Plan*, pensions and benefits are indexed annually to the cost of living, as determined by the Consumer Price Index for Canada. The rate of indexation for 2019 is 2.3% (2018 – 1.5%).

2. Significant Accounting Policies

a) Basis of Accounting

These financial statements have been prepared in accordance with the significant accounting policies described below in compliance with the *Canada Pension Plan*. The financial statements are presented on a consolidated basis to include the accounts of the CPP and CPPIB and include a consolidated statement of financial position, a consolidated statement of operations, a consolidated statement of changes in financial assets available for benefit payments and a consolidated statement of cash flow.

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

b) International Financial Reporting Standards

CPPIB, which is a significant component of the CPP consolidated financial statements, prepares its financial statements in accordance with International Financial Reporting Standards (IFRS). There is no impact on financial assets available for benefit payments and net increase in assets available for benefit payments as a result of CPPIB preparing its financial statements in accordance with IFRS. Certain incremental financial statement disclosures from CPPIB financial statements related to investments, investment receivables and investment liabilities are included as supplementary information in these consolidated financial statements.

c) Financial Instruments

The CPP, through CPPIB, measures its investments, investment receivables and investment liabilities at fair value.

The investments and investment receivables are measured at fair value on the basis that they are part of a portfolio managed and evaluated on a fair value basis in accordance with investment strategies and risk management of CPPIB.

Investment liabilities are measured at fair value upon meeting the following criteria:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that is managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and
 effective hedging instrument.

The CPP, through CPPIB, recognizes investments, investment receivables and investment liabilities when, and only when, it becomes a party to the contractual provisions of the instrument. In addition, these are recorded on a trade date basis.

Investments and investment receivables are derecognized when the contractual rights to receive the cash flows expire or where the CPP, through CPPIB, has transferred the asset and substantially all the risks and rewards of the asset or no longer retains control over the asset. Investment liabilities are derecognized by CPP, through CPPIB, when the obligation under the liabilities is discharged, cancelled or expires.



for the year ended March 31, 2019

Upon initial recognition, investments, investment receivables and investment liabilities are measured at fair value. Subsequent changes in the fair value are recorded as unrealized gains (losses) on investments and included in net investment income (loss), along with the interest and dividend income from such financial instruments.

d) 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, option pricing models and other accepted industry valuation methods, that may include the use of estimates made by management, appraisers or both where significant judgment is required.

e) 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. Adjustments, if any, are recorded as contributions in the year they are known.

f) Investment Income

Income from investments includes realized and changes in unrealized gains and losses from investments, investment receivables and investment liabilities, dividend income and interest 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 as earned.

g) Investment Management Fees

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

h) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and included in net investment income (loss).

i) Translation of Foreign Currencies

Transactions, including purchases and sales of investments, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Investments and monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year-end date. Non-monetary items in a foreign currency are measured at historical cost using the exchange rates at the dates of the initial transactions.

Foreign currency transaction gains and losses on financial instruments are included in net investment income (loss).



for the year ended March 31, 2019

j) Pensions and Benefits

Pensions and benefits expenses are recorded when incurred and are net of overpayments established during the year. Accruals are recorded at year-end for pensions and benefits owed to beneficiaries but not paid, based on management's best estimate.

k) Tax Deductions Due to the Canada Revenue Agency

Tax deductions due to the CRA consist primarily of voluntary and non-resident taxes withheld from pensions and benefit payments to CPP beneficiaries (refer to Note 9).

I) Net Overpayments

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

m) Operating Expenses

Operating expenses are recorded as incurred.

n) Other Claims and Legal Actions

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

o) Related Party Transactions

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions are recorded on a gross basis and are measured at the carrying amount, except for the following:

- (i) Inter-entity transactions are measured at the exchange amount when undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length, or when the costs of goods or services are provided on a recovery basis.
- (ii) Goods or services received without charge between commonly controlled entities are not recorded.

Related parties include key management personnel having authority and responsibility for planning, directing and controlling the activities of the CPP, including their close family members. Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

p) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with the *Canada Pension Plan* requires management to make certain estimates, judgments and assumptions that affect the reported values of assets and liabilities as at the date of the consolidated financial statements and revenues and expenses during the reporting period. Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Significant estimates and judgments are required principally in determining the reported estimated contributions, allowance for doubtful accounts, contingent liabilities, actuarial obligation in respect of benefits and valuation of financial instruments which are not actively traded. Measurement uncertainty exists in these consolidated financial statements. Actual results could significantly differ from those estimates.



for the year ended March 31, 2019

q) Adoption of New Accounting Standards

Although these consolidated financial statements are prepared in compliance with the *Canada Pension Plan*, the CPP analyzes Canadian Public Sector Accounting Standards as they are the source on which the CPP's accounting policies are based. The CPP has adopted the following section effective April 1, 2018:

Restructuring Transactions

This new standard PS 3430 introduces accounting guidance for both transferors and recipients of assets and/or liabilities regarding restructuring transactions, together with related program or operating responsibilities. There were no impacts on the consolidated financial statements from adopting this section.

3. Canada Pension Plan Enhancement

On December 15, 2016, legislation to enact the CPP enhancement received Royal Assent, amending the *Canada Pension Plan*, the *CPPIB Act* and the *Income Tax Act (Canada)*. These legislative amendments will increase the amount of CPP contributions and the corresponding pensions and post-retirement benefits that will be paid on CPP contributions made after December 31, 2018. The *Canada Pension Plan* now defines two separate accounts, the CPP Account (existing CPP), and the Additional CPP Account (enhanced CPP), collectively referred to as the CPP Accounts, where the financial activities of each account are recorded in the Account to which they relate. As a result of the legislated requirement for the incremental full funding of any new or increased benefit (refer to the second paragraph in Note 13), the Additional CPP Account is fully funded, unlike the CPP Account.

The Additional CPP Account contributions began on January 1, 2019. In order to prepare for the Additional CPP Account, costs were incurred by the CPP and CPPIB. As defined in the *Canada Pension Plan* as well as in the *CPPIB Act*, initial costs of administration and the related interests incurred in relation to CPP enhancement via the Additional CPP Account were temporarily funded by the CPP Account. In 2019, these initial costs of administration and the related interests incurred totalled \$25 million (2018 – \$16 million) of which \$10 million (2018 – \$8 million) was incurred by GoC and \$15 million (2018 – \$8 million) was incurred by CPPIB. As at March 31, 2019 the Additional CPP Account has fully reimbursed, with interest, the CPP Account.

Given that the Additional CPP Account began to receive contributions on January 1, 2019, the activities to report on are limited. While the notes that follow present the consolidated information of both the CPP Account and the Additional CPP Account, they are mainly applicable to the CPP Account. A breakdown of the activities between the CPP Account and the Additional CPP Account is presented in Note 18.



4. Cash

Cash consists of the total cash held by the CPP Accounts and CPPIB. The CPP Accounts were established in the accounts of Canada by the *Canada Pension Plan* to record the contributions, interest, pensions, benefits and operating expenses of the CPP. The CPP Accounts also record the amounts transferred to or received from CPPIB. As at March 31, 2019, the deposit with the Receiver General for Canada in the CPP Accounts is \$163 million (2018 – \$32 million) and CPPIB's cash is \$88 million (2018 – \$83 million) for a total of \$251 million (2018 – \$115 million).

5. Receivables

Receivables comprise the following:

	2019	2018
	(in million	s of dollars)
Contributions	5,164	5,131
Québec Pension Plan	130	122
Additional CPP Account	-	16
Beneficiaries		
Balance of pensions and benefits overpayments	154	188
Allowance for doubtful accounts	(69)	(102)
Others	36	22
	5,415	5,377

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

The CPP has procedures to detect overpayments. During the year, overpayments totalling \$91 million (2018 – \$99 million) were established and debts totalling \$37 million (2018 – \$45 million) were forgiven as per the remission provisions of the *Canada Pension Plan*. A further \$88 million (2018 – \$84 million) was recovered through collection of payments and withholdings from beneficiaries.



for the year ended March 31, 2019

6. Investment Activities Risk Management

The CPP, through the investment activities carried out by CPPIB, is exposed to a variety of financial risks. These risks include market risk, credit risk and liquidity risk. CPPIB employs the Risk/Return Accountability Framework, which establishes accountability of the Board of Directors, the various committees and the investment departments to manage investment related risks. CPPIB manages and mitigates financial risks through the Risk Policy approved by the Board of Directors at least once every fiscal year. This policy contains risk limits and risk management provisions that govern investment decisions. It has been designed to achieve the mandate of 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.

Upper and Lower Absolute Risk Limits and the Absolute Risk Operating Range are included within the Risk Policy, and these govern the amount of total investment risk that CPPIB can take in the CPP Investment Portfolios. CPPIB monitors potential investment losses in CPP Investment Portfolios daily and reports to the Board of Directors on at least a quarterly basis.

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

Equity Risk: Equity risk is the risk that the fair value or future cash flows will fluctuate because of changes in equity prices. It is a significant source of risk of the CPP Investment Portfolios.

The CPP, through CPPIB, invests in both publicly traded and private equities. After taking into account derivative positions and with all other variables held constant, a 1% decrease/increase in the S&P 500 Index would result in a loss/profit of \$1,021 million (2018 – \$1,200 million) on public equity investments. This calculation assumes that equities other than the S&P 500 Index would move in accordance with their historical behaviour conditional on a 1% decrease/increase in the S&P 500 Index.

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

Credit Spread Risk: Credit spread risk is the difference in yield on certain securities compared to a comparable risk-free security (i.e. government issued) with the same maturity date. Credit spread risk is the risk that the fair value of these securities will fluctuate because of changes in credit spread.



for the year ended March 31, 2019

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

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

(in millions of dollars)	2019		2018	}
Currency	Net Exposure	% of Total	Net Exposure	% of Total
United States Dollar	204,605	52	171,898	48
Euro	33,539	9	36,135	10
British Pound Sterling	18,219	5	19,329	5
Australian Dollar	13,587	3	11,889	3
Chinese Renminbi	12,577	3	6,412	2
Hong Kong Dollar	10,376	3	8,086	2
Japanese Yen	8,416	2	15,019	4
Indian Rupee	6,509	2	4,947	1
Brazilian Real	3,620	1	2,422	1
South Korean Won	3,136	1	3,680	1
Chilean Peso	2,722	1	2,695	1
Swiss Franc	2,623	1	4,002	1
Other	11,873	2	12,694	5
Total Foreign Exposure	331,802	85	299,208	84
Canadian Dollar	60,192	15	57,114	16
	391,994	100	356,322	100

As at March 31, 2019, with all other variables and underlying values held constant, a change in the value of the Canadian dollar against major foreign currencies by 10% would result in an approximate increase (decrease) in the value of investments, investment receivables and investment liabilities as follows:

	2019		20181	
(in millions of dollars)	Change in Net In	vestments	Change in Net I	nvestments
Currency	+10%	-10%	+10%	-10%
United States Dollar	(20,461)	20,461	(17,190)	17,190
Euro	(3,354)	3,354	(3,614)	3,614
British Pound Sterling	(1,822)	1,822	(1,933)	1,933
Australian Dollar	(1,359)	1,359	(1,189)	1,189
Chinese Renminbi	(1,258)	1,258	(641)	641
Hong Kong Dollar	(1,038)	1,038	(809)	809
Japanese Yen	(841)	841	(1,502)	1,502
Indian Rupee	(651)	651	(495)	495
Brazilian Real	(362)	362	(242)	242
South Korean Won	(313)	313	(368)	368
Chilean Peso	(272)	272	(270)	270
Swiss Franc	(262)	262	(400)	400
Other	(1,187)	1,187	(1,269)	1,269
	(33,180)	33,180	(29,922)	29,922

¹ Certain comparative figures have been reclassified to conform to the current year's presentation.



for the year ended March 31, 2019

- (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 underlying entity. The CPP's, through CPPIB, credit risk exposure arises primarily through its investment in debt securities, over-the-counter derivatives (as discussed in Note 7g) and guarantees. The carrying amounts of the investments are presented in Note 7 and guarantees are presented in Note 16c).
- (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 pensions and benefit payments, investment commitments and investment liabilities as they come due. The CPP manages this risk through cash flow planning for both short-term and long-term requirements. The cash flow is prepared for a two-year period and updated on a weekly basis to inform CPPIB of the funds required by CPP to meet its financial obligations (refer to Note 18). In order to manage associated liquidity risk, certain assets are segregated and managed separately by CPPIB. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective of ensuring that the CPP has the necessary liquidity to meet benefit payment obligations on any business day. Also, the CPP, through CPPIB, supplements its management of liquidity risk through its ability to raise funds through the issuance of commercial paper and term debt and transacting in securities sold under repurchase agreements (refer to Note 7 and Note 8).

CPPIB maintains \$6,176 million (2018 – \$6,012 million) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2019, the total amount drawn on the credit facilities is \$nil (2018 – \$nil). The ability to readily dispose of certain investments to meet liquidity needs is facilitated by maintaining a liquid portfolio of publicly traded equities, money market securities and marketable bonds.



for the year ended March 31, 2019

7. Investments, Investment Receivables and Investment Liabilities

As stated in Note 1, the role of CPPIB is to invest the assets with a view to achieving a maximum rate of return without undue risk of loss, with regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day. To achieve its mandate, 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 schedule below provides information on CPPIB's investments, investment receivables and investment liabilities:

	2019	2018 ¹
	(in millio	ns of dollars)
Equities	444.400	440.004
Public equities	141,189	146,221
Private equities	96,659	75,737
Total Equities	237,848	221,958
Fixed income		
Bonds	85,604	63,851
Other debt	27,325	22,183
Money market securities	9,829	8,213
Total Fixed income	122,758	94,247
Absolute return strategies	25,512	21,027
Real assets		
Real estate	45,846	44,712
Infrastructure	33,131	27,450
Energy and resources	8,002	5,729
Power and renewables	5,075	2,949
Total Real assets	92,054	80,840
Investment receivables		
Securities purchased under reverse repurchase agreements and		
securities borrowed	11,174	6,164
Derivative assets	3,192	1,918
Other	2,029	2,673
Total Investment receivables	16,395	10,755
Total Investments	494,567	428,827
Investment liabilities		
Securities sold under repurchase agreements and securities lent	(39,491)	(32,504)
Securities sold short	(29,027)	(32,504)
Debt financing liabilities	(30,861)	(13,374)
Derivative liabilities	(2,330)	(1,712)
Other	(1,155)	(795)
Total Investment liabilities	(102,864)	(72,641)
Pending trades receivable	4,692	2,613
Pending trades payable	(4,401)	(2,477)
Net Investments ²	391,994	356,322

¹ Certain comparative figures have been reclassified to conform to the current year's presentation.

² The total of net investments not actively traded as at March 31, 2019 is \$268,481 million (2018 - \$214,507 million).



for the year ended March 31, 2019

a) Equities

Equities consist of public and private investments.

- (i) Public equities are made directly or through funds, including hedge funds. Fair value for publicly traded equities, including equity short positions, is based on quoted market prices. As at March 31, 2019, public equities included fund investments with a fair value of \$10,754 million (2018 \$8,331 million). Fair value for fund investments is generally based on the net asset value reported by the external administrators or managers of the funds.
- (ii) Private equities are generally made directly or through ownership in limited partnership funds. As at March 31, 2019, private equities included direct investments with a fair value of \$47,446 million (2018 \$33,648 million). The fair value for investments held directly is primarily determined using accepted industry valuation methods such as earnings multiples of comparable publicly traded companies or discounted cash flows. Recent market transactions, where available, are also used. In the case of investments held through a limited partnership fund, fair value is generally based on relevant information reported by the general partner using similar accepted industry valuation methods.

b) Fixed Income

- (i) Bonds include non-marketable and marketable bonds. Fair value for non-marketable Canadian provincial government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics. In the case of marketable bonds, including bond short positions, fair value is based on quoted prices or calculated using discounted cash flows.
- (ii) Other debt includes investments in direct private debt, asset-backed securities, distressed mortgage funds, private debt funds, hedge funds and investments in royalty-related income streams. Fair value for direct investments in private debt and asset-backed securities is based on quoted market prices or broker quotes or recent market transactions, if available. Where the market price is not available, fair value is calculated using discounted cash flows.
- (iii) Money market securities consist of cash, term deposits, treasury bills, commercial paper and floating rate notes. Cash equivalents consist of short-term deposits with a maturity of 90 days of less. Fair value is determined using cost, which, together with accrued interest income, approximates fair value due to the short-term or floating rate nature of these securities.

c) Absolute Return Strategies

Absolute return strategies include investments in hedge funds 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 could include, but are not limited to, equities, fixed income securities and derivatives. Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

for the year ended March 31, 2019

d) Real Assets

(i) 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 CPPIB by investment managers primarily through co-ownership arrangements. As at March 31, 2019, real estate investments include assets of \$45,846 million (2018 – \$44,712 million).

(ii) Infrastructure, energy and resources, and power and renewables investments are generally made directly, but can also occur through limited partnership funds. As at March 31, 2019, infrastructure, energy and resources, and power and renewables include direct investments with a fair value of \$46,157 million (2018 – \$36,079 million) and \$51 million in fund investments (2018 – \$49 million).

Fair value of these investments is primarily determined using discounted cash flows based on significant inputs including project cash flows and discount rates. Fair value for investments held through limited partnership funds are generally based on the net asset value as reported by the external managers of the funds.

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

Securities purchased under reverse repurchase agreements represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price at a specified future date and are accounted for as an investment receivable. These securities are not recognized as an investment of the CPP, through CPPIB. The fair value of securities to be resold under reverse repurchase agreements is monitored and additional collateral is obtained, when appropriate, to protect against credit exposure. In the event of counterparty default, the CPP, through CPPIB, has the right to liquidate the collateral held.

Securities sold under repurchase agreements are accounted for as collateralized borrowing because they represent the sale of securities with a simultaneous agreement to buy them back at a specified price at a specified future date. The securities sold continue to be recognized as an investment of the CPP, through CPPIB, with any changes in fair value recorded as net gain (loss) on investments and included in net investment income (loss). Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is included in net investment income (loss).

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

The terms to maturity of the securities purchased under reverse repurchase agreements, as at March 31, 2019, are as follows: within 1 year, \$8,205 million (2018 – \$6,164 million), and 1 year to over 10 years, \$nil (2018 – \$nil).

The terms to maturity of the undiscounted value of the securities sold under repurchase agreements, as at March 31, 2019, are as follows: within 1 year, \$38,548 million (2018 – \$32,559 million), and 1 year to over 10 years, \$nil (2018 – \$nil).

f) Securities Borrowed and Lent

Securities borrowing and lending agreements are transactions in which CPP, through CPPIB, borrows securities from or lends securities to third parties. Borrowed securities are not recognized on the consolidated statement of financial position. The lent securities remain on the consolidated statement of financial position as CPP, through CPPIB, retains substantially all of the risks and rewards of ownership of the transferred securities.



for the year ended March 31, 2019

Collateral received or pledged is generally in the form of cash, equities or fixed income securities. Cash collateral received is accounted for as an investment liability while equities and fixed income securities received as collateral are not recognized on the consolidated statement of financial position. Cash collateral pledged is accounted for as an investment receivable, while securities collateral pledged by CPP, through CPPIB, in securities borrowing agreements remain on the consolidated statement of financial position.

The terms to maturity of the undiscounted value of securities borrowed as at March 31, 2019, are as follows: within 1 year, \$2,969 million (2018 – \$nil), and 1 year to over 10 years, \$nil (2018 – \$nil).

The terms to maturity of the undiscounted value of securities lent as at March 31, 2019, are as follows: within 1 year, \$1,116 million (2018 – \$nil), and 1 year to over 10 years, \$nil (2018 – \$nil).

g) Derivative Assets and Liabilities

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

Fair value for exchange-traded derivatives, which includes futures, options and warrants, is based on quoted market prices. Fair value for over-the-counter derivatives, which includes forwards, swaps, options and warrants, is determined based on valuation techniques such as option pricing models, discounted cash flows and consensus pricing from independent brokers and/or third-party vendors.

h) Securities Sold Short

Securities sold short represent securities that are sold, but not owned, by the CPP, through CPPIB. The CPP, through 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, as required (refer to Note 8). Interest and dividends accrued on securities sold short are included in net investment income (loss).

As at March 31, 2019, securities sold short of \$29,027 million (2018 – \$13,574 million) are considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.

i) Debt Financing Liabilities

Debt financing liabilities consist of commercial paper payable and term debt. Commercial paper payable is recorded at the amount originally issued, which, together with accrued interest expense, approximates fair value due to the short-term nature of these liabilities. Fair value for term debt is based on quoted market prices.

The terms to maturity of the undiscounted value of the commercial paper payable as at March 31, 2019, are as follows: within 1 year, \$4,378 million (2018 – \$6,263 million), and 1 year to over 10 years, \$nil (2018 – \$nil).

The terms to maturity of the undiscounted value of the term debt as at March 31, 2019, are as follows: within 1 year, \$4,590 million (2018 – \$1,250 million), 1 year to 5 years, \$12,673 million (2018 – \$10,614 million), and 6 years to over 10 years, \$8,836 million (2018 – \$6,046 million).



for the year ended March 31, 2019

8. Collateral

Collateral transactions are conducted to support CPPIB's investment activities under the terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged as at March 31 was as follows:

	2019	2018
	(in millior	s of dollars)
Third-party assets held as collateral on:1		
Reverse repurchase agreements	8,207	6,187
Over-the-counter derivative transactions	965	692
Securities lent ²	1,627	-
Other debt	772	760
Own and third-party assets pledged as collateral on:		
Repurchase agreements	(38,383)	(32,621)
Securities sold short ³	(34,549)	(16,610)
Over-the-counter derivative transactions	(407)	(315)
Private equities	(7,849)	(5,942)
Other debt	(4,562)	(4,417)
	(74,179)	(52,266)

¹ The fair value of the collateral held that may be sold or repledged as at March 31, 2019 was \$9,557 million (2018 – \$6,967 million). The fair value of collateral sold or repledged as at March 31, 2019 was \$3,504 million (2018 – \$5,969 million).

9. Payables and Accrued Liabilities

Payables and accrued liabilities are comprised of the following:

	2019	2018
	(in millions	of dollars)
Operating sympasses	CE7	700
Operating expenses	657	702
Pensions and benefits payable	274	298
Tax deductions on benefits due to Canada Revenue Agency	237	214
	1,168	1,214

10. Comparison of Results Against Budget

The budget amounts included in the Consolidated Statement of Operations and the Consolidated Statement of Changes in Financial Assets Available for Benefit Payments are derived from the amounts that were originally budgeted in the *2018-19 Employment and Social Development Canada Departmental Plan*, tabled in Parliament in April 2018 and amounts forecasted by the Office of the Superintendent of Financial Institutions.

² Includes cash collateral of \$1,116 million (2018 — \$nil). The fair value of securities lent as at March 31, 2019 was \$1,602 million (2018 — \$nil).

³ The fair value of securities borrowed as at March 31, 2019 was \$27,110 million (2018 – \$13,045 million) of which \$26,631 million was sold or repledged (2018 – \$12,547 million) for securities sold short.



for the year ended March 31, 2019

11. Estimated Overpayments and Underpayments of Benefits

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

For benefits paid during the 12 months ended March 31, 2019, undetected overpayments and underpayments are estimated to be \$14.5 million and \$54.7 million respectively (\$3.0 million and \$70.4 million in 2017-18). These estimates are used by the CPP to assess the quality and accuracy of decisions and to continuously improve its systems and practices for processing CPP benefits.

The actual overpayments established during the year, as indicated in Note 5, were recorded as accounts receivable for recovery and are not directly linked to the above noted estimated overpayments and underpayments of benefits for the same period as these are an evaluation of potential overpayments and underpayments based on the extrapolation described above.

12. Operating Expenses

CPP's operating expenses are composed of costs incurred by various GoC departments (refer to Note 17) for the administration of the CPP's activities as well as CPPIB's operating expenses.

		2019			2018	
(in millions of dollars)	GoC	CPPIB	Total	GoC	CPPIB	Total
Personnel related costs	300	802	1,102	298	712	1,010
Collection of contributions and						
investigation services	207	-	207	190	-	190
Information technology and data						
services	-	118	118	-	98	98
Program policy and delivery	110	-	110	104	_	104
Professional and consulting fees	-	107	107	-	71	71
Tax on international operations	-	35	35	-	40	40
Premises and equipment	-	40	40	_	38	38
Amortization of premises and						
equipment	_	20	20	_	27	27
Support services of the Social						
Security Tribunal	13	_	13	14	_	14
Cheque issue and computer				• •		
services	5	_	5	6	_	6
Others	3	81	84	3	67	70
3000						
	638	1,203	1,841	615	1,053	1,668



for the year ended March 31, 2019

13. Financial Sustainability of the Canada Pension Plan

The CPP is financed by contributions and investment returns. Employers and employees pay contributions equally to the CPP, and self-employed workers pay the full amount. At the time of the Plan's inception in 1965, the demographic and economic conditions made pay-as-you-go financing appropriate. The pay-as-you-go financing, along with a small reserve equivalent to about two years' worth of expenditures, meant the pensions and benefits for one generation would be paid largely from the contributions of later generations. However, changing demographics and economic conditions over time led to increasing CPP costs, and by the mid-1990s the fall in the level of assets of the CPP resulted in a portion of the reserve being required to cover expenditures. Therefore, for the CPP benefits to remain unchanged, the contribution rate would have needed to be increased regularly.

As a result, the CPP was amended in 1997 to restore its long-term financial sustainability and to improve fairness across generations by changing its financing approach from a pay-as-you-go basis to a form of partial funding called steady-state funding, along with incremental full funding rules for new or enhanced benefits, and by reducing the growth of benefits over the long term. In addition, a new investment policy was put in place, along with the creation of CPPIB. Moreover, the statutory periodic reviews of the Plan by the federal and provincial governments were increased from once every five years to every three years.

Key among the 1997 changes was the introduction of self-sustaining provisions to safeguard 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 Finance Ministers to correct the situation, the contribution rate would automatically increase and the indexation of the current benefits would be suspended.

The federal and provincial finance ministers took additional steps in 1999 to strengthen the transparency and accountability of actuarial reporting on the CPP by endorsing regular independent peer reviews of actuarial reports and consultations by the Chief Actuary with experts on the assumptions to be used in the actuarial reports.

The most recent triennial report, the *Twenty-seventh Actuarial Report on the Canada Pension Plan* as at December 31, 2015, was tabled in Parliament on September 27, 2016. The next triennial actuarial report as at December 31, 2018, is expected to be tabled by December 2019. The most recent actuarial report, the *Twenty-ninth Actuarial Report supplementing the Twenty-seventh* and *Twenty-eighth Actuarial Reports on the Canada Pension Plan* as at December 31, 2015, was tabled in Parliament on May 1, 2018. It was prepared on the basis of the *Twenty-seventh* and *Twenty-eighth Actuarial Reports* to show the effect of the proposed changes to the *Canada Pension Plan*, as per Division 19 of Part 6 of Bill C-74, the *Budget Implementation Act, 2018, No. 1*, which came into force on December 15, 2018.

According to the *Twenty-seventh Actuarial Report*, under the current legislated contribution rate of 9.9%, the Plan's assets are expected to increase significantly, with the asset/expenditure ratio remaining relatively stable at a level of 6.5 over the period 2016 to the early 2030s and then growing to reach 7.4 by 2090 assuming all assumptions are realized.

A number of assumptions were used in the *Twenty-seventh Actuarial Report* to project the CPP's revenues and expenditures over the long projection period of 75 years, and to determine the minimum contribution rate. The assumptions provided in the table below represent the best estimates according to the Chief Actuary's professional judgment relating to demographic, economic, and other factors; and have been peer reviewed by an independent expert actuary's panel.



for the year ended March 31, 2019

	As at December 31, 2015 ¹		As at Decemb	er 31, 2012¹
	Males	Females	Males	Females
Canadian life expectancy				
at birth in 2016	86.7 years	89.7 years	86.3 years	89.3 years
at age 65 in 2016	21.3 years	23.7 years	21.1 years	23.5 years
Retirement rates for cohort at age 60	34% (2016)	38% (2016)	34% (2016)	38% (2016)
CPP disability incidence rates (per 1,000				
eligible)	3.10 (2020)	3.65 (2020)	3.32 (2017)2	3.77 (2017)2
Total fertility rate	1.65 (2019)		1.65 (2015)	
Net migration rate	0.62% of popul	ation (2016)	0.60% of population (2017)	
Participation rate (age group 15-69) in 2035 (2012 - in 2030)	77.5%		76.8%	
Employment rate (age group 15-69) in 2035 (2012 - in 2030)	72.6%		72.1%	
Unemployment rate	6.2% (2025)		6.0% (2023)	
Rate of increase in prices	2.0% (2017)		2.2% (2021)	
Real-wage increase	1.1% (2025)		1.2% (2020)	
Real rate of return (75-year average)	3.9%		3.9%	

¹ Assumptions are expected to gradually converge to their ultimate value. Years in the brackets indicate when the ultimate assumptions value is expected to be reached.

In the *Twenty-seventh Actuarial Report*, the minimum contribution rate, which is the lowest rate to sustain the CPP, was determined to be 9.79% of contributory earnings for the year 2019 and thereafter (9.84% for the year 2016 and thereafter in the *Twenty-sixth Actuarial Report*).

The CPP assets available for benefit payments represent the funds accumulated for the payment of pensions, benefits, and operating expenses, i.e. total CPP expenditures. The partial funding nature of the CPP means that contributions as opposed to these assets are the main source for financing CPP expenditures. The *Twenty-seventh Actuarial Report* confirms that, on the basis of the assumptions selected, the current legislated contribution rate of 9.9% is and will continue to be sufficient to pay for future expenditures over the period 2016 to 2020. Thereafter, a portion of investment income (26% in 2050) will be required to make up the difference between contributions and expenditures. Under the current legislated contribution rate of 9.9% and the average expected nominal return on assets of 5.1% over the period 2016 to 2025, total assets available for benefit payments are expected to grow to \$476 billion by the end of 2025.

As at March 31, 2019, the value of CPP assets available for benefit payments is \$397.0 billion (2018 – \$361.0 billion). This amount represents approximately 7.7 times the 2020 planned expenditures of \$51.5 billion (2018 – 7.4 times the 2019 planned expenditures of \$48.7 billion).

A variety of tests were performed to measure the sensitivity of the long-term projected financial position of the CPP to future changes in the demographic and economic environments. Key best-estimate demographic and economic assumptions were varied individually to measure the potential impact on the financial status of the CPP.

² The ultimate disability incidence rates assumption of the *Twenty-sixth Actuarial Report* has been adjusted based on the 2015 eligible population in order to compare with the assumption for this *Twenty-seventh Actuarial Report* on the same basis.



for the year ended March 31, 2019

The low-cost and high-cost alternatives for three important assumptions are shown in the table below. In the case of mortality, the assumptions for the low-cost and high-cost alternatives were developed by considering alternative assumed mortality improvement rates. In the case of real wage increase and real rate of return, these assumptions are defined as the upper and lower boundaries of the 80% confidence intervals.

	Low-Cost		Best-Estimate		High-Cost	
Mortality:						
Canadian life expectancy at age 65 in	Males	20.9	Males	23.3	Males	25.8
2050 with future improvements	Females	23.2	Females	25.6	Females	27.9
Real wage increase	1.8%		1.1%		0.4%	
Average real rate of return (2016-2090)	5.6%		3.9%		2.2%	

Mortality is a very important demographic assumption as it impacts the length of the benefit payment period. If male and female life expectancies at age 65 were to increase by approximately 2.5 years more than expected by 2050, the minimum contribution rate in 2019 and thereafter would increase to 10.10%, above the current legislated contribution rate of 9.9%. On the other hand, if male and female life expectancies at age 65 were to be about 2.5 years lower than expected, the minimum contribution rate would decrease to 9.46%.

The most sensitive economic assumptions are the real wage increase and the real rate of return on investments. The growth in real wage directly impacts the amount of future CPP contributions. If an ultimate real wage increase of 1.8% is assumed for 2025 and thereafter, the minimum contribution rate would decrease to 9.31%. However, if an ultimate real wage increase of 0.4% is assumed for 2017 and thereafter, the minimum contribution rate would increase to 10.32%.

Real rates of return can fluctuate greatly from year to year and can have a significant impact on the size of assets and on the ratio of assets to the following year expenditures. If an average real rate of return of 5.6% is assumed over the next 75 years (2016 to 2090), the minimum contribution rate will decrease to 8.54%. However, if the average real rate of return is assumed to be 2.2% over the next 75 years, the minimum contribution rate increases to 11.05%.

The table below summarizes the sensitivity results of the minimum contribution rate and the ratio of the assets to the next year expenditures under the current legislated contribution rate of 9.9% to the changes in mortality, real wage increase and real rate of return on investments assumptions:

Assumption	Scenario	Minimum Contribution Rate¹(%)	Ratio of Assets to Expenditures under 9.9% Contribution Rate			
			2025	2050	2090	
	Best Estimate	9.79	6.49	7.28	7.39	
Mortality	Low Cost	9.46	6.50	7.97	13.12	
	High Cost	10.10	6.47	6.67	3.20	
Real Wage Increases	Low Cost	9.31	6.54	8.70	12.61	
	High Cost	10.32	6.37	5.50	_2	
Real Rate of Return	Low Cost	8.54	7.52	14.07	47.47	
on Investments	High Cost	11.05	5.58	3.42	_3	

¹ The minimum contribution rate in this table refers to the rate applicable for 2019 and thereafter.

² Assets depleted by 2086.

³ Assets depleted by 2075.



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14. Actuarial Obligation in Respect of Benefits

The *Twenty-seventh Actuarial Report on the Canada Pension Plan* measures the actuarial obligation under an open group approach, which is consistent with the partial funding nature of the CPP financing, and provides information under a closed group approach, in a footnote. The open group approach takes into consideration all current and future participants of the CPP, including their future contributions and associated benefits, to determine whether current assets and future contributions will be sufficient to pay for all future expenditures. The closed group approach includes only current participants of the CPP, with no new entrants permitted and no new benefits accrued. The choice of the methodology used to produce a social security system's balance sheet is mainly determined by the system's financing approach.

With the current legislated contribution rate of 9.9%, the table below presents the asset excess (shortfall) and the assets to actuarial obligation ratio under open and closed group approaches at valuation dates of the current and previous actuarial reports:

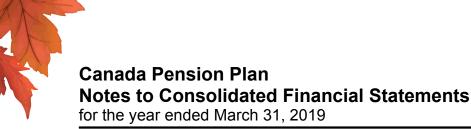
	As at Dec	ember 31, 2015	As at December 31, 2012		
(in billions of dollars)	Open Group	Closed Group	Open Group	Closed Group	
Assets available for benefit					
payments	2,547.4	285.4	2,245.8	175.1	
Actuarial obligation	2,546.1	1,171.1	2,254.7	1,004.9	
Asset excess (shortfall) ¹	1.3	(885.7)	(8.9)	(829.8)	
Assets to actuarial obligation					
ratio	100.1%	24.4%	99.6%	17.4%	

¹ The determination of the asset excess (shortfall) is based on the CPP's revenues and expenditures projected over the period of 150 years.

Under the partial funding financing approach of the CPP, in any given year, current contributors allow the use of their contributions to pay current beneficiaries' benefits. This financial arrangement creates claims for current and past contributors to contributions of future contributors. As such, the most appropriate assessment of the financial sustainability of partially funded plans by means of their balance sheets should reflect these claims.

The open group approach does account explicitly for these claims by considering the benefits and contributions of both the current and future plan participants. In comparison, the closed group approach does not reflect these claims, since only current participants are considered. To determine the CPP actuarial obligations under the open group approach, the CPP's revenues and expenditures were projected over the period of 150 years using the assumptions of the *Twenty-seventh Actuarial Report* shown in Note 13. The projection period longer than 75 years that is used to calculate the minimum contribution rate is necessary to ensure that the future expenditures for cohorts that will enter the labour force during that time are included in the liabilities.

The CPP was never intended to be a fully-funded plan and the financial sustainability of the CPP is not assessed based on its actuarial obligation in respect of benefits. According to the *Twenty-seventh Actuarial Report*, the CPP is intended to be long-term and enduring in nature, a fact that is reinforced by the federal and provincial governments' joint stewardship through the established strong governance and accountability framework of the CPP. Therefore, if the CPP's financial sustainability is to be measured based on its asset excess or shortfall, it should be done on an open group basis that reflects the partially funded nature of the CPP, that is, its reliance on both future contributions and invested assets as a means of financing its future expenditures. Using the open group approach, the Chief Actuary confirms that the CPP, on the basis of the assumptions selected, will continue to meet its financial obligations and is sustainable in the long term.



15. Contractual Obligations and Commitments

The nature of CPP's and CPPIB's activities can result in some large multi-year contracts and agreements whereby the CPP and CPPIB will be obligated to make future payments in order to carry out its activities. Significant contractual obligations and commitments that can be reasonably estimated are summarized as follows:

(in millions of dollars)	Within one year	After one year but not more than five years	More than five years	Total
Lease and other	42	115	10	167
Operating costs	645	-	-	645
	687	115	10	812

Operating costs are charged to the CPP in accordance with various memoranda of understanding (MoU) between the CPP and various GoC departments for the administration of the CPP's activities (refer to Note 17). The MoUs require written notification for termination and require one year advanced notification. Therefore, the operating costs disclosed are an estimation of the costs that will be charged to the CPP Accounts in the next fiscal year. Operating costs are expected to continue to be charged to the CPP Accounts in the upcoming fiscal years, but cannot be reasonably estimated at this time.

The CPP, through CPPIB, has entered into commitments related to the funding of investments. These commitments 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, 2019, the unfunded commitments totalled \$47,408 million (2018 – \$41,767 million).



for the year ended March 31, 2019

16. Contingent Liabilities

a) Appeals relating to the payment of pensions and benefits

At March 31, 2019, there were 4,669 appeals (2018 – 4,480) relating to the payment of CPP disability pensions. These contingencies are reasonably estimated, using historical information, at an amount of \$31.5 million (2018 – \$26.5 million), and have been recorded as an accrued liability in these consolidated financial statements.

b) Other claims and legal proceedings

In the normal course of operations, the CPP is involved in various claims and legal proceedings. The total amount claimed in these actions and their outcomes are not determinable at this time. The CPP records an allowance for claims and legal proceedings when it is likely that there will be a future payment and a reasonable estimate of the loss can be made. No such allowance was recognized in the consolidated financial statements for the 2018-19 and 2017-18 fiscal years for these claims and legal proceedings.

c) Guarantees

As part of certain investment transactions, the CPP, through CPPIB, agreed to guarantee, as at March 31, 2019, up to \$4,437 million (2018 – \$2,842 million) to other counterparties in the event certain investee entities default under the terms of loan and other related agreements.

d) Indemnifications

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

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17. Related Party Transactions

The CPP enters into transactions with the GoC 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. Details of these transactions are provided in the GoC operating expenses in Note 12 and contractual obligations in Note 15.

Expenses for the year are comprised of the following:

	2019	2018
	(in millions	of dollars)
Employment and Social Development Canada Program policy and delivery	378	369
Canada Revenue Agency Collection of contributions and investigation services	207	190
Treasury Board Secretariat Health Insurance Plan	32	33
Administrative Tribunals Support Service of Canada Support services of the Social Security Tribunal	13	14
Public Services and Procurement Canada Cheque issue and computer services	5	6
Office of the Superintendent of Financial Institutions and Department of Finance Actuarial services	3	3
	638	615

The CPP receives audit services without charge from the Office of the Auditor General of Canada. The value of these audit services is not material for the purpose of these consolidated financial statements and has not been recorded.



for the year ended March 31, 2019

18. Supplementary Information

The administration of the CPP is shared between various GoC departments. The GoC transfers to CPPIB amounts that are not immediately needed to pay CPP pensions, benefits and operating expenses, and CPPIB invests those amounts. 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 tables present summary information on the levels of assets and liabilities and sources of income and expenses managed by the GoC and CPPIB broken out by the CPP Account and Additional CPP Account respectively.

		2019)			
C	CPP Account			Additional CPP Account		
GoC	CPPIB	Total	GoC	СРРІВ	Total	
152	87	239	11	1	12	
5,289	19	5,308	107	-	107	
-	494,091	494,091	-	476	476	
-	4,689	4,689	-	3	3	
-	75	75	-	-	-	
-	435	435	-	14	14	
-	-	-	-	-	-	
518	644	1,162	5	1	6	
-	102,803	102,803	-	61	61	
-	4,392	4,392	-	9	9	
4,923	391,557	396,480	113	423	536	
50.627	-	50.627	557	-	557	
,		,				
5	35.265	35.270	-	11	11	
_	•	•	-	_		
-	(477)	(477)	_	-		
50,632	33,202	83,834	557	11	568	
46,542	-	46,542	-	-	-	
615	1,194	1,809	23	9	32	
47,157	1,194	48,351	23	9	32	
2 475	32 000	25 492	53 4	2	536	
	152 5,289 - - - 518 - - - 4,923 50,627 5 - 50,632 46,542 615	GoC CPPIB 152 87 5,289 19 - 494,091 - 4,689 - 75 - 435 - - 518 644 - 102,803 - 4,392 4,923 391,557 50,627 - - (1,586) - (477) 50,632 33,202 46,542 - 615 1,194 47,157 1,194	CPP Account GoC CPPIB Total 152 87 239 5,289 19 5,308 - 494,091 494,091 - 4,689 4,689 - 75 75 - 435 435 518 644 1,162 - 102,803 102,803 - 4,392 4,392 4,923 391,557 396,480 50,627 - 50,627 - (1,586) (1,586) - (477) (477) 50,632 33,202 83,834 46,542 - 46,542 615 1,194 1,809 47,157 1,194 48,351	GoC CPPIB Total GoC 152 87 239 11 5,289 19 5,308 107 - 494,091 494,091 - - 4,689 4,689 - - 75 75 - - 435 435 - - - - - 518 644 1,162 5 - 102,803 102,803 - - 102,803 102,803 - - 4,392 4,392 - 4,923 391,557 396,480 113 50,627 - 557 5 35,265 35,270 - - (1,586) (1,586) - - (477) (477) - 50,632 33,202 83,834 557 46,542 - - 615 1,194 1,809 23	CPP Account GoC Additional CPP Account GoC Additional CPP Account GoC Additional CPP Account GoC Account CPPIB 152 87 239 11 1 5,289 19 5,308 107 - - 494,091 494,091 - 476 - 4,689 - 3 - 75 75 - - - 435 435 - 14 - - - - - - 518 644 1,162 5 1 -	

for the year ended March 31, 2019

			2018			
	C	PP Account		Addition	al CPP Acco	unt
(in millions of dollars)	GoC	CPPIB	Total	GoC	CPPIB	Total
Financial assets						
Cash	32	83	115	_	_	_
Receivables	5,356	21	5,377	_	_	_
Investments	5,550	428,827	428,827	_	_	_
Pending trades receivable	_	2,613	2,613	_	_	
Other	_	2,010	2,010	_	_	_
Non-financial assets	_	397	397	_	_	_
Liabilities	_	-	-	_	_	_
Payables and accrued liabilities	525	689	1,214	_	_	_
Investment liabilities	-	72,641	72,641	_	_	_
Pending trades payable	_	2,477	2,477	_	_	_
Assets available for benefit		2,411	۷,۳۲۱			
	4,863	356,134	360,997			
payments	4,003	330,134	300,997			
Revenues						
Contributions	48,435	-	48,435	-	-	_
Net investment income						
Investment income	3	39,931	39,934	-	-	_
Investment management fees	-	(1,738)	(1,738)	-	-	
Transaction costs	-	(401)	(401)	_	-	
	48,438	37,792	86,230	-	-	
Expenses						
Pensions and benefits	44,460	-	44,460	-	-	_
Operating expenses	615	1,053	1,668	-	-	_
	45,075	1,053	46,128	-	-	
Net Increase in assets available						
for benefit payments	3,363	36,739	40,102	-	_	-



for the year ended March 31, 2019

Pursuant to Section 108.1 and 108.3 of the *Canada Pension Plan* and the Agreement dated as of April 1, 2004, amounts not required to meet specified obligations of the CPP are transferred weekly to CPPIB. The funds originate from employer and employee contributions to the CPP and interest income generated from the deposit with the Receiver General.

CPPIB remits cash to the CPP as required, including the periodic return, on at least a monthly basis, of funds required to meet CPP pensions, benefits and operating expenses obligations.

The accumulated transfers to/from CPPIB, since inception, are as follows:

	2019				
	CPP A	Additional CPP			
(in millions of dollars)	Account	Account	Total		
Accumulated transfers to CPPIB, beginning of year	492,033	-	492,033		
Transfers of funds to CPPIB	38,160	421	38,581		
Accumulated transfers to CPPIB, end of year	530,193	421	530,614		
Accumulated transfers from CPPIB, beginning of year	(351,513)	-	(351,513)		
Transfers of funds from CPPIB	(34,745)	-	(34,745)		
Accumulated transfers from CPPIB, end of year	(386,258)	-	(386,258)		
Net accumulated transfers to CPPIB	143,935	421	144,356		

		2018	
	CPP	Additional CPP	
(in millions of dollars)	Account	Account	Total
Accumulated transfers to CPPIB, beginning of year	455,608	-	455,608
Transfers of funds to CPPIB	36,425	_	36,425
Accumulated transfers to CPPIB, end of year	492,033	-	492,033
Accumulated transfers from CPPIB, beginning of year	(317,806)		- (317,806)
Transfers of funds from CPPIB	(33,707)		- (33,707)
Accumulated transfers from CPPIB, end of year	(351,513)		- (351,513)
Net accumulated transfers to CPPIB	140,520	-	140,520