Canada Pension Plan

ANNUAL REPORT
2017–18

Government of Canada
Gouvernement du Canada

Canada

Annual Report of the Canada Pension Plan 2017–18

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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 2017–18.

Respectfully,

The Honourable William Francis Morneau
Minister of Finance

The Honourable Jean-Yves Duclos
Minister of Families, Children and Social Development

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2017–18 at a Glance

The maximum pensionable earnings of the Canada Pension Plan (CPP) increased from $55,300 in 2017 to $55,900 in 2018. The contribution rate remained unchanged at 9.9 percent.

CPP contributions totalled **$48.4 billion** this year.

5.8 million CPP beneficiaries were paid this year, representing a total annual benefit value of **$44.5 billion** of which:

- **5.1 million** CPP retirement pensioners were paid **$34.6 billion**.
- **1.1 million** surviving spouses or common-law partners and **63,000** children of deceased contributors were paid **$4.7 billion**.
- **338,000** people with disabilities and **83,000** of their children were paid **$4.4 billion**.
- **160,000** death benefits totalling **$368 million** were paid.
- **1.2 million** post-retirement beneficiaries were paid **$440 million**.

Operating expenses amounted to **$1.7 billion**, or 3.75 percent of the **$44.5 billion** in benefits.

As at March 31, 2018, total CPP net assets were valued at **$361 billion**, of which **$356.1 billion** is managed by the CPP Investment Board.

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

Canada Pension Plan in Brief

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.

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 $55,900, which is the earnings ceiling for 2018.

Employees contribute at a rate of 4.95 percent, and employers match that with equal contributions. Self-employed individuals contribute at the combined rate for employees and employers of 9.9 percent on net business income, after expenses. Starting in 2019, workers and their employers will also start making contributions to the CPP enhancement. (More details are available in the section **Changes to the Canada Pension Plan Starting in 2019**, later in this report.)

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.

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

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

TABLE 1 CPP Contributions for 2018

Year's maximum pensionable earnings	$55,900.00
Year's basic exemption	$3,500.00
Year's maximum contributory earnings	$52,400.00
Year's maximum employee/employer contribution (4.95%)	**$2,593.80**
Year's maximum self-employed person's contribution (9.9%)	**$5,187.60**

Beneficiaries and Benefit Expenditures

Given the aging of our population, the number of people receiving CPP benefits has increased steadily over the past decade. As a result, expenditures on benefits have also increased. Figure 1 shows the increase in beneficiaries and expenditures between 2016–17 and 2017–18; Figure 2 shows the percentage of expenditures by type of benefit.

FIGURE 1 CPP – Beneficiaries and Benefit Expenditures by Fiscal Year

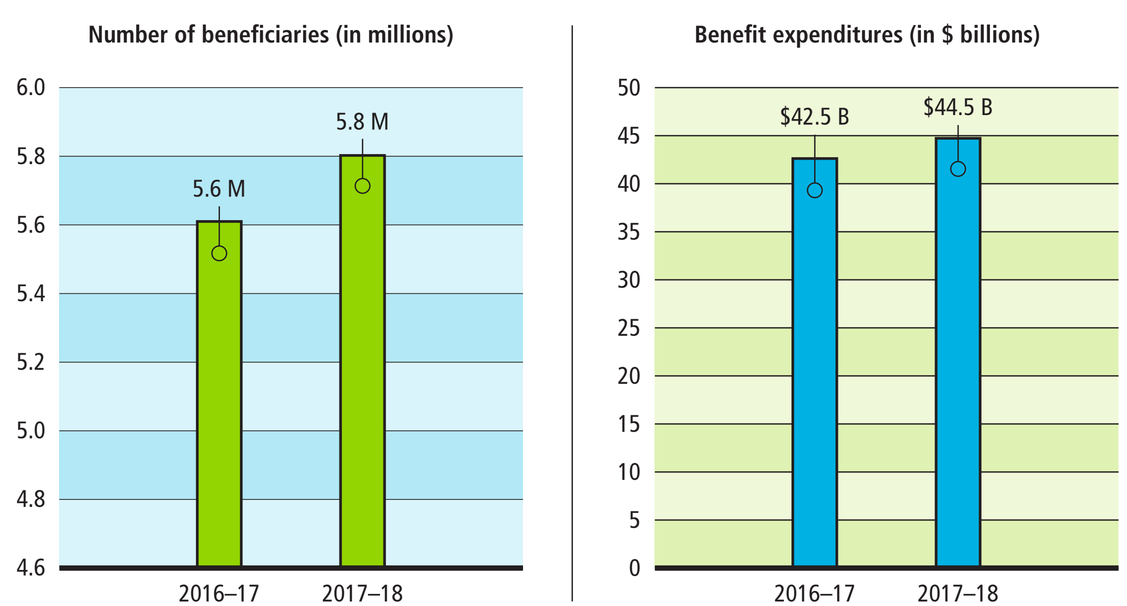
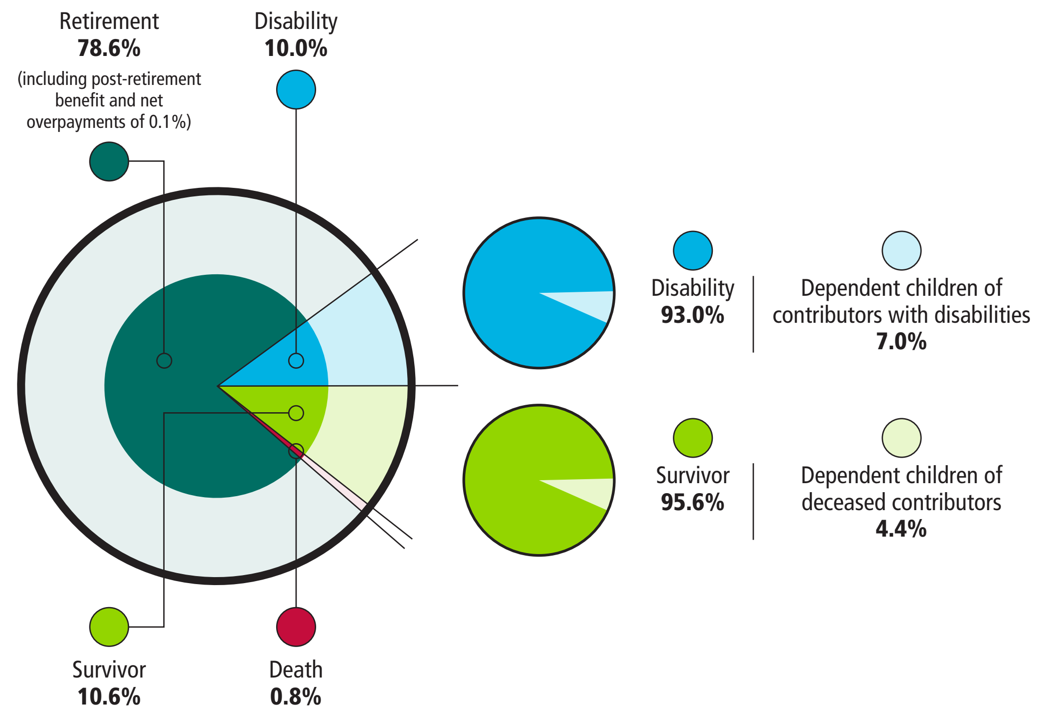


FIGURE 2 CPP – Percentage of Expenditures by Benefit Type in 2017–18



Retirement Pensions

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

In 2017–18, retirement pensions (and post-retirement benefits) represent 78.6 percent ($34.6 billion) of the total benefit amount paid out ($44.5 billion) by the CPP. The amount of contributors' pensions depends on how much and for how long they have contributed and at what age they begin to receive the benefits. In 2018, the maximum monthly retirement pension at age 65 was $1,134.17. The average monthly payment in 2017–18 was $569.70.

Adjustments for Early and Late Receipt of a Retirement Pension

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

CPP contributors can choose the right time 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. In order to ensure fair treatment of contributors and beneficiaries, those who take their retirement pension after age 65 receive a higher amount. This adjustment reflects the fact that these beneficiaries will, on average, 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 percent per month. This means that a contributor who starts receiving a retirement pension at age 60 receives an annual retirement pension which is 36 percent 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 percent per month that they delay. This means that a contributor who delays receiving a retirement pension until age 70 receives an annual retirement pension which is 42 percent higher than if it were taken at age 65.

Table 2 shows the maximum monthly retirement payments in 2018 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 2018

Maximum Monthly Retirement Pension Before Age 65 (0.6% adjustment reduction per month)		
60	$726	-36%
61	$808	-28.8%
62	$889	-21.6%
63	$971	-14.4%
64	$1,053	-7.2%
Maximum Monthly Retirement Pension		
65	$1,134	No adjustment
Maximum Monthly Retirement Pension After Age 65 (0.7% adjustment increase per month)		
66	$1,229	+8.4%
67	$1,325	+16.8%
68	$1,420	+25.2%
69	$1,515	+33.6%
70	$1,611	+42%

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 the post-retirement benefit do not increase the amount of other CPP benefits and they do not determine eligibility for CPP benefits.

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 2017–18, 1.2 million CPP retirement pensioners received a total of $440 million in post-retirement benefits. The maximum monthly benefit amount at age 65 for 2018 was $28.35. The average monthly payment in 2017–18 was $12.97.

Disability Benefits

The CPP provides two disability benefits: the monthly CPP disability pension which is provided to working-age contributors with sufficient recent contributions who have a severe and prolonged disability, and a flat-rate benefit provided to the dependent children of disabled contributors. In 2017–18, a total of $4.4 billion in benefits were paid to 338,000 disabled beneficiaries and to 83,000 children of disabled beneficiaries. These benefits represented approximately 10.0 percent of the total benefits paid out by the CPP in 2017–18.

The disability pension includes a monthly flat rate, which was $485.20 in 2018. It also includes an earnings-related portion, which is 75 percent of the retirement pension that would have been earned had the contributor not become disabled. In 2018, the maximum disability pension was $1,335.83 per month. The average monthly payment in 2017–18 was $906.25.

The benefit paid to dependent children of disabled beneficiaries is a flat rate. In 2018, the amount was $244.64 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 2017–18, survivor benefits represented 10.6 percent ($4.7 billion) of the total benefits paid out by the CPP.

Survivor pensions are paid to the surviving spouse or common-law partner of the contributor. The benefit amount varies depending on a number of factors, including the age of the surviving spouse or common-law partner at the time of the contributor's death and whether the survivor also receives other CPP benefits. Currently, survivor pensions are reduced for childless survivors under the age of 45 who are not disabled. Dependent children of deceased contributors may also be eligible for children's benefits. In 2017–18, 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 $614.62 per month in 2018. This includes a flat-rate portion of $189.31 and an earnings-related portion, which is 37.5 percent of the deceased contributor's retirement pension. The maximum monthly amount at age 65 and over was $680.50, consisting of 60 percent of the deceased contributor's retirement pension. For 2017–18, the average monthly payment for all survivor pensions was $333.26.

The benefit paid to dependent children of deceased contributors is a flat rate. In 2018, the amount was $244.64 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 that amounts to six times the amount of the deceased contributor's monthly retirement pension, up to a maximum of $2,500. In 2017–18, the average death benefit payment was $2,306.19.

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 2018	Average Monthly Amount (in 2017–18)
Retirement pension	$1,134.17*	$569.70
Post-retirement benefit	$28.35*	$12.97
Disability pension	$1,335.83	$906.25
Survivor's pension	$680.50	$333.26
Death benefit (one-time payment)	$2,500.00	$2,306.19

* at age 65

Drop-Out Provisions

The CPP includes provisions that help to compensate for periods when individuals may have relatively low or no earnings. Dropping periods of low or no earnings from the calculation of average earnings increases the amount of one's CPP benefit.

General Drop-Out

The general drop-out provision helps to offset periods of low or no earnings due to unemployment, schooling or other reasons. Up to 17 percent 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

This 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 workers who continue to work and make CPP contributions after reaching age 65, but do not yet receive the CPP retirement pension.

Child Rearing Provision

The child rearing 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.

Disability Exclusion

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.

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.

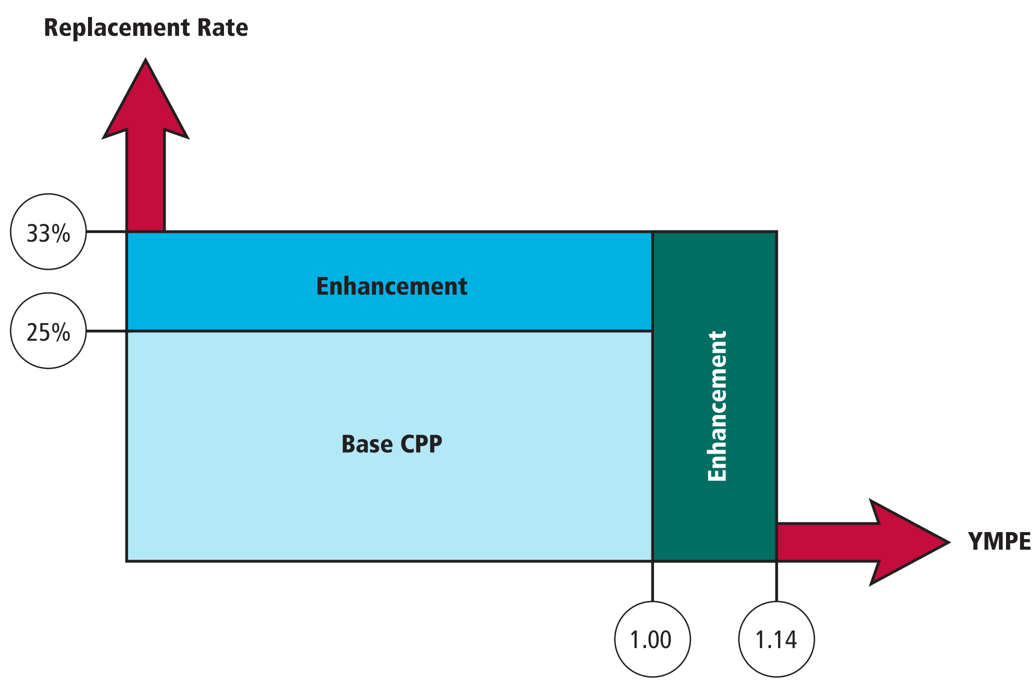
Changes to the Canada Pension Plan Starting in 2019

CPP Enhancement

The Government of Canada has worked with the provinces and territories to strengthen the retirement income system by enhancing the CPP (the enhanced CPP). Following the signing of a historic agreement in principle by Canada's Ministers of Finance, the legislation to implement the enhancement came into force on March 3, 2017, after provincial and federal approvals.

Starting in 2019, the CPP will be gradually enhanced to provide contributors with higher benefits in exchange for making higher 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 percent. Together, these changes once fully implemented will increase the maximum retirement pension by about 50 percent.

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.

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.

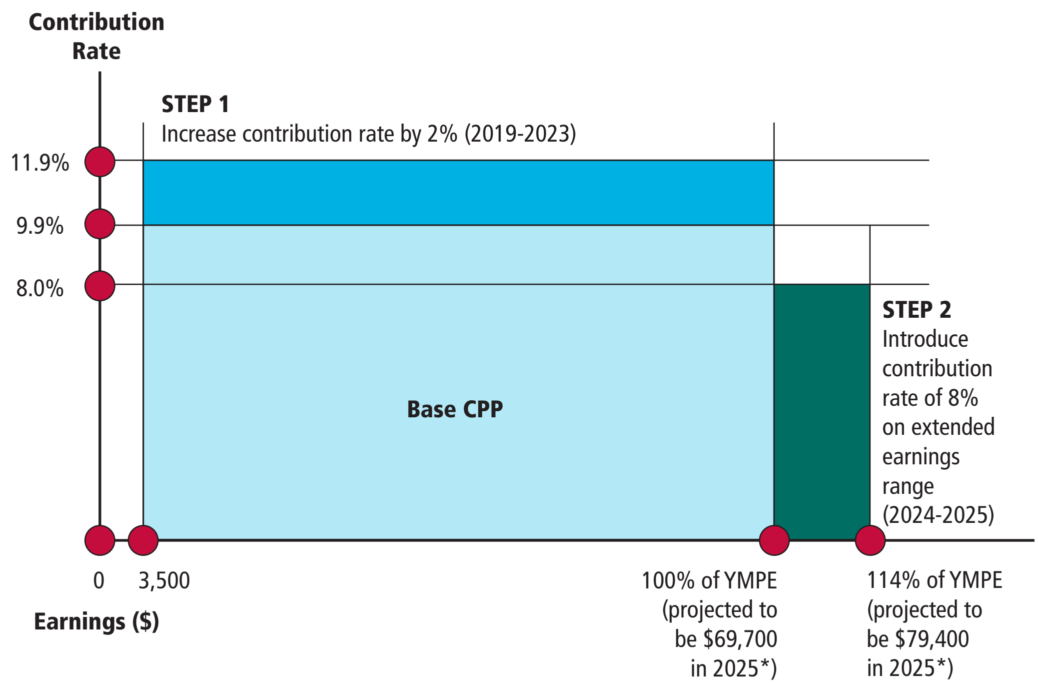
The enhancement will not affect eligibility for CPP benefits or the amount of benefits that individuals are already receiving. Individuals who do not work and do not contribute to the CPP in 2019 or later will not be affected by the enhancement.

Contributions Under the CPP Enhancement

The enhancement's implementation will be phased-in over seven years starting in 2019. The changes to contributions are illustrated in Figure 4 and include the following key elements:

- The CPP contribution rate that is applied to the existing eligible earnings range (from $3,500 to the upper limit which is set at $55,900 in 2018) will increase by two percentage points. From 2019 to 2023, the contribution rate will gradually increase from 9.9 percent to 11.9 percent (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 percent higher by 2025, phased in over two years. The contribution rate on earnings in this new range will be 8 percent (shared equally by employers and employees, with self-employed individuals contributing at the full rate).

FIGURE 4 Illustration of Phase-In of Contributions



* Office of the Chief Actuary projection

More information on the CPP enhancement is available by visiting the [Canada Pension Plan Enhancement]() page.

Reforms Resulting from the 2016–2018 Triennial Review

To conclude the 2016-2018 Triennial Review of the Canada Pension Plan, federal and provincial Ministers agreed in-principle to a set of reforms that would build on the CPP enhancement and further strengthen the Canada Pension Plan. These reforms were unanimously approved by provincial governments, and will take effect in 2019 when the CPP enhancement begins. The reforms will not require an increase to the contribution rates of either the base CPP or the CPP enhancement.

Elimination of the survivors' pension reductions for young survivors

Under the current CPP rules, survivors who are not disabled and do not have dependent children have their survivor's pension reduced by 10 per cent for each year they were under the age of 45 when their spouse or common-law partner died. This reduction lasts until age 65, when the survivor's pension is recalculated. This means that survivors under the age of 35 who are not disabled and do not have dependent children do not receive a survivor's pension until age 65.

The reforms will allow survivors currently receiving a reduced pension due to their age to begin receiving the unreduced amount in 2019. It also means that individuals who were not eligible for a survivor's pension due to their age when their partner died will become eligible in 2019. Such individuals will need to apply.

Creation of the Post-Retirement Disability Benefit

The reforms include a new benefit that will provide disability protection to individuals under the age of 65 who are collecting the CPP retirement pension. This new benefit will be equal in value to the flat-rate component of the disability pension, and will be added to the individual's retirement pension, so long as they meet the same medical and contributory criteria as the disability pension. Dependent children of this new benefit will also be eligible for a child's benefit. It is estimated that 3,600 individuals will benefit from the change in 2019. This number will increase to about 8,000 by 2024.

Flat-Rate Death Benefit

The reforms will also mean that the death benefit will become a flat rate of $2,500 for contributors who meet the eligibility requirements, regardless of their actual earnings. This change would help the families of lower-income contributors.

Introduction of the Child-Rearing and Disability Drop-ins

The reforms also include drop-in provisions for the CPP enhancement, which will protect the enhanced retirement pensions of individuals who stop working or reduce their earnings to provide care for children under the age of 7 or due to a disability. When determining the amount of the enhanced component of CPP benefits for such individuals, credits would be dropped in to their earnings history. Effectively, this means that the value of their enhanced CPP benefits will be determined as if they had earnings at the level of the drop-in value. The amount of the drop-ins will be based on the individuals' earnings in the years before the birth of the child or the onset of the disability.

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, 2018, Canada has concluded social security agreements with 59 countries (see Table 4). Negotiations towards social security agreements are ongoing with many other countries.

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	Lithuania	November 1, 2006
Australia	September 1, 1989	Luxembourg	April 1, 1990
Austria	November 1, 1987	Malta	March 1, 1992
Barbados	January 1, 1986	Mexico	May 1, 1996
Belgium	January 1, 1987	Morocco	March 1, 2010
Brazil	August 1, 2014	Netherlands	October 1, 1990
Bulgaria	March 1, 2014	New Zealand	May 1, 1997
Chile	June 1, 1998	Norway	January 1, 1987
China*	January 1, 2017	Peru	March 1, 2017
Croatia	May 1, 1999	Philippines	March 1, 1997
Cyprus	May 1, 1991	Poland	October 1, 2009
Czech Republic	January 1, 2003	Portugal	May 1, 1981
Denmark	January 1, 1986	Republic of Macedonia	November 1, 2011
Dominica	January 1, 1989	Romania	November 1, 2011
Estonia	November 1, 2006	Saint Lucia	January 1, 1988
Finland	February 1, 1988	Saint Vincent and the Grenadines	November 1, 1998
France	March 1, 1981		
Germany	April 1, 1988	Serbia	December 1, 2014
Greece	May 1, 1983	Slovak Republic	January 1, 2003
Grenada	February 1, 1999	Slovenia	January 1, 2001
Hungary	October 1, 2003	St. Kitts and Nevis	January 1, 1994
Iceland	October 1, 1989	South Korea	May 1, 1999
India	August 1, 2015	Spain	January 1, 1988
Ireland	January 1, 1992	Sweden	January 1, 1986
Israel*	September 1, 2003	Switzerland	October 1, 1995
Italy	January 1, 1979	Trinidad and Tobago	July 1, 1999
Jamaica	January 1, 1984	Turkey	January 1, 2005
Japan	March 1, 2008	United Kingdom*	April 1, 1998
Jersey and Guernsey	January 1, 1994	United States of America	August 1, 1984
Latvia	November 1, 2006	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.

Collecting and Recording Contributions

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

As of March 31, 2018, the CRA reported that there are 1,681,474 employer accounts. In 2017–18, the CRA conducted 46,421 examinations to promote compliance with the requirements to withhold, report and remit employer source deductions. Employers and employees account for approximately 95 percent of contributions, and the remaining 5 percent comes from the self-employed. In 2017–18, contributions amounted to $48.4 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 2017–18, 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 2017–18, approximately 81,000 people, representing 27 percent 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. Further, CPP clients can view and print copies of their tax slips for the current year and the previous six years and view and print an official copy of their Statement of Contributions. Since March 2018, CPP clients can 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. Between today and the completion of the strategy in 2019–20, Canadians will increasingly have more user-friendly electronic services and benefit from faster resolution of issues and strengthened service standards.

Processing Benefits

Service Canada continues to deliver the CPP program through a network of 10 processing centres located across the country. In 2017–18, Service Canada:

- processed over 7.6 million transactions, including 1.6 million transactions to put clients into pay for the first time and to renew benefits and another 6.0 million benefit adjustments/account revisions;
- made over 68 million payments valued at $44.5 billion to over 5.8 million clients, including $4.4 billion to 421,000 CPP disability clients;
- supported more than 80,000 Canadians to apply for CPP retirement benefits online, and fully automated the adjudication of more than 850,000 new post-retirement benefits; and
- answered 2.4 million CPP and Old Age Security enquiries through its specialized call centre agents and resolved 3.2 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 percent of the time. In 2017–18, the Department exceeded this objective and put 96 percent of clients in pay for their first month of entitlement (see Table 5).

Following a comprehensive review, in October 2016, Service Canada implemented new and revised CPP 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 CPP disability, particularly for people with a terminal illness or a grave condition (see Table 5).

TABLE 5 Canada Pension Plan (CPP) Service Standards

Service Standard	National Objective	2017–18 National Result	Average Processing Time
CPP retirement pension applications Pay benefits within the first month of entitlement	90%	96%	—
CPP disability pension applications Initial disability decisions are made within 120 calendar days of receiving a complete application	80%	77%	89 calendar days
CPP disability pension for applicants with a terminal illness A decision for applicants with a terminal illness is made within 5 business days of receiving a complete terminal illness application	95%	89%	4 business days
CPP disability pension for applicants with a grave medical condition A decision for applicants with a grave condition is made within 30 calendar days of receiving a complete application	80%	72%	31 calendar days
CPP disability pension reconsiderations A decision on a reconsideration request is made within 120 calendar days of receiving the reconsideration request	80%	77%	101 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 and Employment Insurance. The General Division Income Security Section is responsible for hearing new appeals, and the Appeal Division hears appeals from both sections of the General Division.

General Division

In 2017–18, the General Division Income Security Section received 2,568 new appeals related to CPP benefits. As of March 31, 2018, the General Division Income Security Section concluded 3,360 appeals related to CPP benefits.[2]

Appeal Division

In 2017–18, the Appeal Division received 306 appeals of decisions from the General Division Income Security Section related to CPP benefits. As of March 31, 2018, the Appeal Division concluded 589 appeals related to CPP benefits.[3]

[2] From April 1, 2013, to March 31, 2018, 14,850 CPP appeals have been concluded.

[3] From April 1, 2013, to March 31, 2018, 1,685 appeals related to CPP benefits have been concluded.

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 be 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 program 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 $16.9 million in accounts receivable as overpayments and prevented an estimated $10.5 million from being incorrectly paid in 2017–18. A further estimated $74.2 million has been prevented from being incorrectly paid for future years after 2017–18. The recovered overpayments are credited to the CPP, thereby helping to maintain the long-term sustainability of the Plan.

In addition, ESDC's Identity Management Policy aims to enhance program integrity while safeguarding and streamlining identity management processes in a manner that mitigates risks to personal and organizational security, and enables well-managed, citizen-centred service delivery.

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.

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). 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. 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 percent 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 participating 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 percent 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 enhanced CPP, which will commence in 2019, will ensure fairness across generations. The enhanced CPP 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 concerning what happens if the enhanced CPP is not sustainable under the legislated additional contribution rates are under development. These new regulations would apply in the event 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.

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.

According to the financial projections of this triennial actuarial report, the annual amount of contributions paid by Canadians into 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. Plan assets 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 percent is expected to remain sufficient, along with projected investment income, to financially sustain 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 December 2015* and the conclusions reached by the Chief Actuary about the long-term financial sustainability 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 enhanced CPP 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 came into force on March 3, 2017. The report confirms that the legislated first additional contribution rate of 2.0 percent and second additional contribution rate of 8.0 percent are sufficient, along with projected investment income, to fully pay the projected expenditures of the enhanced CPP 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 report was prepared by the Chief Actuary to show the long-term financial implications of the changes to CPP benefits under proposed Bill C-74 – the *Budget Implementation Act, 2018, No. 1*, introduced in Parliament on March 27, 2018. These reforms, which 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, are described in the section "**Looking to the Future**." The supplemental report confirms that the changes would not require increases to the legislated contribution rates. These reforms were unanimously approved by provincial governments and will take effect in 2019 when the CPP enhancement begins.

The next triennial actuarial report on the CPP, which will report on the financial state of the Plan 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** website.

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 existing 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.

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 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, 2018, the CPP net assets totalled $361 billion. The Government of Canada held $4.9 billion to meet CPP financial needs. The remaining $356.1 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, 2018, the Fund held by the CPPIB had an annualized net nominal rate of return of 8.0 percent. Over that 10-year period, the CPPIB has contributed $183.3 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, 2018.

Operating Expenses

CPP operating expenses of $1.668 billion in 2017–18 represent 3.75 percent of the $44.5 billion in benefits paid. Table 6 presents the CPP's operating expenses for the last two years.

TABLE 6 CPP Operating Expenses for 2017–18 and 2016–17

Department/Agency/Crown Corporation	In millions of dollars	
	2017–18	2016–17
CPP Investment Board (CPPIB)*	1,053	923
Employment and Social Development Canada	369	332
Canada Revenue Agency	190	203
Treasury Board Secretariat	33	27
Public Services and Procurement Canada	6	6
Administrative Tribunals Support Service of Canada	14	13
Office of the Superintendent of Financial Institutions (where the Office of the Chief Actuary is housed)/Finance Canada	3	3
Total	**1,668**	**1,507**

* 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 "Canada Pension Plan Consolidated Statement of Operations" and to the CPPIB's Annual Report.

Overpayment of Benefits

Consistent with its mandate to manage the CPP effectively, ESDC has procedures in place to detect benefit overpayments. During 2017–18, overpayments totalling $99 million were detected, $84 million in overpayments were recovered and debts of $45 million were forgiven. The above figures represent a net decrease of $30 million in the accounts receivable for the year.

Looking to the Future

There are a number of changes to the CPP which will take effect on January 1, 2019. In addition to the start of the seven-year phase-in of the CPP enhancement, Ministers agreed-in-principle to a reform package as part of the 2016-2018 Triennial Review of the Plan. These reforms were unanimously approved by provincial governments and will take effect on January 1, 2019. These changes will provide further support for the parents of young children and persons with disabilities in the CPP enhancement, eliminate the age-related reduction in the CPP survivor's pension and provide disability protection for retirement pension recipients under age 65. In addition, to help the families of lower-income workers, the CPP death benefit will also be converted into a flat-rate benefit of $2,500 for all contributors with enough contributions. This reform package will not require increases to the CPP's legislated contribution rates. More information on these changes is available by visiting the **Department of Finance Canada** website.

The next Triennial Review of the CPP will begin in the Fall of 2019, following the tabling of the *Thirtieth Actuarial Report on the Canada Pension Plan as at December 31, 2018*.

Canada Pension Plan Consolidated Financial Statements

for the year ended March 31, 2018

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

Louise Levonian
Deputy Minister
Employment and Social Development Canada

Gatineau, Canada
August 28, 2018

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

INDEPENDENT AUDITOR'S REPORT

To the Minister of Families, Children and Social Development

I have audited the accompanying consolidated financial statements of the Canada Pension Plan, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of operations, consolidated statement of changes in financial assets available for benefit payments and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements have been prepared by management of the Canada Pension Plan using the basis of accounting described in Note 2 to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, which includes determining that the basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements of the Canada Pension Plan for the year ended 31 March 2018 are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the consolidated financial statements.

Basis of Accounting

Without modifying my opinion, I draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared to comply 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.

Robert Wilson, CPA, CA
Principal
for the Auditor General of Canada

28 August 2018
Ottawa, Canada

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

	2018	2017
	(in millions of dollars)	
Financial assets		
Cash (Note 3)	**115**	174
Receivables (Note 4)	**5,377**	4,640
Investments (Note 6)	**428,827**	377,700
Amounts receivable from pending trades (Note 6)	**2,613**	3,234
	436,932	385,748
Liabilities		
Payables and accrued liabilities (Note 8)	**1,214**	1,195
Investment liabilities (Note 6)	**72,641**	60,423
Amounts payable from pending trades (Note 6)	**2,477**	3,631
	76,332	65,249
Financial assets available for benefit payments	**360,600**	320,499
Non-financial assets		
Premises, equipment and others	**397**	396
Assets available for benefit payments	**360,997**	320,895

Actuarial obligation in respect of benefits (Note 14)
Contractual obligations (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

Louise Levonian
Deputy Minister
Employment and Social Development Canada

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

	Budget 2018	Actual 2018	Actual 2017
	(Note 9)	(in millions of dollars)	
Revenues			
Contributions	49,283	**48,435**	46,966
Net investment income (Note 10)			
Realized gains	-	**7,301**	21,140
Unrealized (losses) gains	-	**25,036**	7,536
Interest income	-	**3,074**	3,496
Dividend income	-	**3,391**	2,590
Other income	-	**1,132**	1,512
Transaction costs	-	**(401)**	(447)
Investment management fees	-	**(1,738)**	(1,464)
	15,244	**37,795**	34,363
	64,527	**86,230**	81,329
Expenses			
Pensions and benefits			
Retirement	35,767	**34,560**	32,970
Survivor	4,607	**4,493**	4,427
Disability	4,465	**4,133**	4,030
Disabled contributor's child	342	**311**	309
Death	370	**368**	334
Orphan	234	**209**	209
Post-Retirement	-	**440**	341
Net overpayments (Note 4)	-	**(54)**	(118)
	45,785	**44,460**	42,502
Operating expenses (Note 12)	1,587	**1,668**	1,507
	47,372	**46,128**	44,009
Net increase in assets available for benefit payments	17,155	**40,102**	37,320
Assets available for benefit payments, beginning of year	320,895	**320,895**	283,575
Assets available for benefit payments, end of year	338,050	**360,997**	320,895

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 2018	**Actual 2018**	Actual 2017
	(Note 9)	(in millions of dollars)	
Net increase in assets available for benefit payments	17,155	**40,102**	37,320
Changes in non-financial assets	-	**(1)**	6
Increase in financial assets available for benefit payments	17,155	**40,101**	37,326
Financial assets available for benefit payments, beginning of year	320,499	**320,499**	283,173
Financial assets available for benefit payments, end of year	337,654	**360,600**	320,499

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

	2018	2017
	(in millions of dollars)	
Operating activities		
Cash receipts		
Contributions	**47,746**	47,470
Interest on investments	**3,157**	3,624
Dividends on investments	**2,981**	2,175
Other investment income	**1,682**	1,546
Cash payments		
Pensions and benefits	**(44,471)**	(42,516)
Operating expenses	**(1,658)**	(1,469)
Investment management fees	**(867)**	(758)
Transaction costs	**(387)**	(471)
Payment of interest on debt	**(240)**	(148)
Cash flows from operating activities	**7,943**	9,453
Capital activities		
Acquisition of premises and equipment	**(28)**	(23)
Cash flows used in capital activities	**(28)**	(23)
Financing activities		
Issuance of debt	**60,494**	57,969
Repayment of debt	**(55,539)**	(54,596)
Cash flows from financing activities	**4,955**	3,373
Investing activities		
Purchases	**(3,681,090)**	(5,388,303)
Disposals	**3,668,161**	5,375,579
Cash flows used in investing activities	**(12,929)**	(12,724)
Net (decrease) increase in cash	**(59)**	79
Cash, beginning of year	**174**	95
Cash, end of year	**115**	174

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

1. Authority, Objective and Responsibilities

a) Description of the Canada Pension Plan

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

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. The CPP Investment Board (CPPIB) is responsible for managing the amounts that are being transferred under section 108.1 of the *Canada Pension Plan*. It acts in the best interests of the beneficiaries and contributors under the *Canada Pension Plan*.

In accordance with the *Canada Pension Plan*, the financial activities of the CPP are recorded in the CPP Account (Note 3). The financial transactions affecting the Account are governed by the *Canada Pension Plan* and its regulations. The CPP's investments are held by the CPPIB. 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 the CPPIB.

The CPPIB was established pursuant to the *Canada Pension Plan Investment Board Act (CPPIB Act)*. The CPPIB is a federal Crown corporation and all of its shares are owned by Her Majesty the Queen in right of Canada. The CPPIB's transactions are governed by the *CPPIB Act* and its accompanying regulations. The CPPIB's assets are to be invested with a view to achieving a maximum rate of return without undue risk of loss, with regard to the factors that may affect the funding of the CPP and its ability to meet its financial obligations on any given business day.

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

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

On December 15, 2016 the *Canada Pension Plan*, the *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 starting on January 1, 2019, and will bring a higher income replacement rate and increase the range of pensionable earnings covered.

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

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 amount is equal to 25 percent of the contributor's average monthly pensionable earnings during the pensionable period, up to a maximum amount. 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 2018 is $1,134.17 (2017 – $1,114.17).

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 2018 is $28.35 (2017 – $27.85).

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 percent 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 2018 is $1,335.83 (2017 – $1,313.66).

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 varies depending on a number of factors, including the age of the surviving spouse or common-law partner at the time of the contributor's death and whether the survivor also receives other CPP benefits. Survivors aged 65 or older receive a pension equal to 60 percent of the deceased contributor's retirement pension. Survivors under the age of 65 receive a pension equal to 37.5 percent of the deceased contributor's retirement pension, plus a flat rate. The maximum monthly pension payable to a survivor in 2018 is $680.50 (2017 – $668.50).

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 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 2018 is $244.64 (2017 – $241.02).

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 equal to six times the amount of the deceased contributor's monthly retirement pension, up to a maximum of $2,500.00 in 2018 (2017 – $2,500.00).

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 2018 is 1.5 percent (2017 – 1.4 percent).

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 the 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 Government of Canada and the provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

b) International Financial Reporting Standards

The CPPIB, which is a significant component of the CPP consolidated financial statements, prepares its financial statements in accordance with International Financial Reporting Standards (IFRS). While 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, CPPIB's incremental financial statement disclosures related to investments, investment receivables and investment liabilities is supplementary information to the requirements of the *Canada Pension Plan*.

c) Financial instruments

The CPP, through the 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 the 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 the 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 the CPPIB, when the obligation under the liabilities is discharged, cancelled or expires.

Upon initial recognition, investments, investment receivables and investment liabilities are measured at fair value. Subsequent changes in the fair value are recorded as unrealized gain (loss) 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 using the effective interest rate method (refer to Note 10).

g) 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) (refer to Note 10).

h) 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) (refer to Note 10).

i) 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 the 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 the CPPIB, has the right to liquidate the collateral held.

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

j) Securities Sold Short

Securities sold short represent securities that are sold, but not owned, by the CPP, through the CPPIB. The CPP, through the CPPIB, has an obligation to cover these short positions, which are accounted for as an investment liability based on the fair value of the securities sold. Collateral is pledged to the counterparty, when appropriate (refer to Note 7). Interest and dividend expense on securities sold short are included in net investment income (loss) (refer to Note 10).

k) 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. 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 that are measured in terms of historical cost in a foreign currency are translated 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) (refer to Note 10).

l) 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.

m) Tax Deductions Due to the Canada Revenue Agency

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

n) Net Overpayments

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

o) *Operating Expenses*

Operating expenses are recorded as incurred.

p) *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.

q) *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.

r) *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.

s) *Adoption of New Accounting Standards*

Although these 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 sections effective April 1, 2017:

Related Party disclosures
This new section PS 2200 defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have, a material financial effect on the financial statements. There were no financial impacts on the financial statements from adopting this section. Details of the CPP's related party transactions accounting policy are provided in Note 2q. Additional disclosures for related party transactions are provided in Note 17.

Assets
This new section PS 3210 provides guidance for applying the definition of assets and establishes the general disclosure requirements. There were no significant impacts on the financial statements from adopting this section.

Contingent Assets
This new section PS 3320 defines contingent assets as possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset. There were no significant impacts on the financial statements from adopting this section.

Contractual Rights
This new section PS 3380 defines and establishes disclosure standards on contractual rights which are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. There were no significant impacts on the financial statements from adopting this section.

Inter-entity transactions
This new section PS 3420 establishes how to account for and report transactions between public sector entities that comprise a government reporting entity from both a provider and recipient perspective. There were no financial impacts on the financial statements from adopting this section. Details of the CPP's inter-entity transactions accounting policy are provided in Note 2q.

3. Cash

Cash consists of the total cash held by the CPP Account and the CPPIB. The CPP Account was established in the accounts of Canada by the *Canada Pension Plan* to record the contributions, interest, pensions, benefits and operating expenses of the CPP. It also records the amounts transferred to or received from the CPPIB. As at March 31, 2018, the deposit with the Receiver General for Canada in the CPP Account is $32 million (2017 – $106 million) and the CPPIB's cash is $83 million (2017 – $68 million) for a total of $115 million (2017 – $174 million).

4. Receivables

Receivables comprise the following:

	2018	2017
	(in millions of dollars)	
Contributions	**5,131**	4,442
Québec Pension Plan	**122**	99
Additional CPP Account	**16**	-
Beneficiaries		
Balance of pensions and benefits overpayments	**188**	218
Allowance for doubtful accounts	**(102)**	(134)
Others	**22**	15
	5,377	4,640

Contributions receivable represent the estimated amount to be collected from 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.

During the year, the CPP Account funded the Additional CPP Account for the implementation of the CPP enhancement. These initial costs of administration and the related interests incurred totalled $16 million (2017 – $nil) of which $8 million (2017 – $nil) was incurred by the Government of Canada (GoC) and $8 million (2017 – $nil) was incurred by the CPPIB. Details of the CPP enhancement are provided in Note 18.

The CPP has procedures to detect overpayments. During the year, overpayments totalling $99 million (2017 – $122 million) were established and debts totalling $45 million (2017 – $4 million) were forgiven as per the remission provisions of the *Canada Pension Plan*. A further $84 million (2017 – $92 million) was recovered through collection of payments and withholdings from beneficiaries.

5. Investment Activities Risk Management

The CPP, through the investment activities carried out by the CPPIB, is exposed to a variety of financial risks. These risks include market risk, credit risk and liquidity risk. The 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. The 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 the CPPIB, which is to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

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 long term CPP Investment Portfolio. CPPIB monitors the absolute risk, the possible losses of value expressed in absolute dollar or percentage terms, in the CPP Investment Portfolio daily and reports risk exposures 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 Portfolio.

The CPP, through the CPPIB, invests in both publicly traded and private equities. After taking into account derivative positions and with all other variables held constant, a 1 percent decrease/increase in the S&P 500 Index would result in a loss/profit of $1,200 million (2017 – $1,000 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 percent decrease/increase in the S&P 500 Index.

Currency Risk: The CPP, through the 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)	**2018**		2017	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
United States Dollar	**171,898**	**48**	122,750	39
Euro	**36,135**	**10**	34,003	11
British Pound Sterling	**19,329**	**5**	18,839	6
Japanese Yen	**15,019**	**4**	20,788	7
Australian Dollar	**11,889**	**3**	10,790	3
Hong Kong Dollar	**8,086**	**2**	4,423	1
Chinese Yuan	**6,412**	**2**	3,434	1
Indian Rupee	**4,947**	**1**	3,586	1
Swiss Franc	**4,002**	**1**	4,381	1
South Korean Won	**3,680**	**1**	2,857	1
Chilean Peso	**2,695**	**1**	2,387	1
Brazilian Real	**2,422**	**1**	3,425	1
Other	**12,694**	**5**	8,424	3
Total Foreign Exposure	**299,208**	**84**	240,087	76
Canadian Dollar	**57,114**	**16**	76,793	24
	356,322	**100**	316,880	100

As at March 31, 2018, with all other variables and underlying values held constant, a change in the value of the Canadian dollar against major foreign currencies by 1 percent would result in an approximate increase (decrease) in the value of investments, investment receivables and investments liabilities as follows:

	2018		2017	
(in millions of dollars)	**Change in Net Investments**		Change in Net Investments	
Currency	**+1%**	**-1%**	+1%	-1%
United States Dollar	**(1,719)**	**1,719**	(1,228)	1,228
Euro	**(361)**	**361**	(340)	340
British Pound Sterling	**(193)**	**193**	(188)	188
Japanese Yen	**(150)**	**150**	(208)	208
Australian Dollar	**(119)**	**119**	(108)	108
Hong Kong Dollar	**(81)**	**81**	(44)	44
Chinese Yuan	**(64)**	**64**	(34)	34
Indian Rupee	**(50)**	**50**	(36)	36
Swiss Franc	**(40)**	**40**	(44)	44
South Korean Won	**(37)**	**37**	(29)	29
Chilean Peso	**(27)**	**27**	(24)	24
Brazilian Real	**(24)**	**24**	(34)	34
Other	**(127)**	**127**	(84)	84
	(2,992)	**2,992**	(2,401)	2,401

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.

Other Price Risk: Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices arising from other risk factors such as commodity price risk, credit spread risk, basis risk and volatility.

(ii) ***Credit Risk:*** Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations, or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPP's, through the CPPIB, credit risk exposure arises primarily through its investment in debt securities, over-the-counter derivatives (as discussed in Note 6f) and guarantees. The carrying amounts of the investments are presented in Note 6 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 fund required by CPP to meet its financial obligations. Also, the CPP, through the 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 6 and Note 7).

The CPPIB maintains $6,012 million (2017 – $6,168 million) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2018, the total amount drawn on the credit facilities is $nil (2017 – $nil). The CPPIB also has the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly traded equities, money market securities and marketable bonds.

The CPPIB is exposed to liquidity risk through its obligation to remit cash to the CPP (refer to Note 19). In order to manage associated liquidity risk, certain assets are segregated and managed separately. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective of ensuring that the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

6. Investments, Investment Receivables and Investment Liabilities

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

The schedule below provides information on CPPIB's investments, investment receivables and investment liabilities:

	2018	2017[2]
	(in millions of dollars)	
Equities		
Canada	**12,292**	8,624
Foreign developed markets	**181,244**	148,897
Emerging markets	**34,151**	24,989
Total Equities	**227,687**	182,510
Fixed income		
Bonds	**63,851**	61,240
Other debt	**22,183**	19,764
Money market securities	**8,213**	19,408
Total Fixed income	**94,247**	100,412
Absolute return strategies	**21,027**	19,371
Real assets		
Real estate	**44,712**	38,732
Infrastructure	**30,399**	27,899
Total Real assets	**75,111**	66,631
Investment receivables		
Securities purchased under reverse repurchase agreements	**6,164**	5,207
Accrued interest	**2,026**	1,561
Derivative receivables	**1,918**	1,718
Other	**647**	290
Total Investment receivables	**10,755**	8,776
Total Investments	**428,827**	377,700
Investment liabilities		
Securities sold under repurchase agreements	**(32,504)**	(14,749)
Securities sold short	**(13,574)**	(24,177)
Debt financing liabilities	**(24,056)**	(19,873)
Derivative liabilities	**(1,712)**	(1,401)
Other	**(795)**	(223)
Total Investment liabilities	**(72,641)**	(60,423)
Amounts receivable from pending trades	**2,613**	3,234
Amounts payable from pending trades	**(2,477)**	(3,631)
Net Investments[1]	**356,322**	316,880

1 The total of net investments not actively traded as at March 31, 2018 is $214,507 million (2017 – $203,644 million).

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

a) *Equities*

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

(i) Public equity investments are made directly or through funds, including hedge funds. Fair value for publicly traded equities, including equity short positions, is based on quoted market prices. As at March 31, 2018, public equities included fund investments with a fair value of $8,331 million (2017 – $8,022 million). Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

(ii) Private equity investments are generally made directly or through ownership in limited partnership funds. As at March 31, 2018, private equities included direct investments with a fair value of $39,377 million (2017 – $29,965 million). The fair value for investments held directly is primarily determined using 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 determined 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. 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 income streams of intellectual properties and royalties. 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. 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.

d) Real Assets

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

Private real estate investments are managed on behalf of the CPPIB by investment managers primarily through co-ownership arrangements. As at March 31, 2018, real estate investments include assets of $44,712 million (2017 – $38,732 million).

(ii) Infrastructure investments are generally made directly, but can also occur through limited partnership funds. As at March 31, 2018, infrastructure includes direct investments with a fair value of $30,350 million (2017 – $27,860 million) and $49 million in fund investments (2017 – $39 million).

Fair value for private real estate investments and infrastructure investments is primarily determined using discounted cash flows. Fair value for real estate funds and infrastructure 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

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 securities.

The terms to maturity of the securities purchased under reverse repurchase agreements, as at March 31, 2018, are as follows: within 1 year, $6,164 million (2017 – $5,207 million), and 1 year to over 10 years, $nil (2017 – $nil).

The terms to maturity of the undiscounted value of the securities sold under repurchase agreements, as at March 31, 2018, are as follows: within 1 year, $32,559 million (2017 – $14,753 million), and 1 year to over 10 years, $nil (2017 – $nil).

f) Derivative Contracts

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

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts.

The fair value of these contracts is reported as derivative receivables and derivative liabilities on the schedule of investments as shown above. 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 swaps, options, forward contracts 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.

g) *Securities Sold Short*

As at March 31, 2018, securities sold short of $13,574 million (2017 – $24,177 million) are considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.

h) *Debt Financing Liabilities*

Debt financing liabilities consist of commercial paper payable and term debt. Commercial paper payable is recorded at the amount originally issued, which, together with accrued interest expense, approximate 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, 2018, are as follows: within 1 year, $6,263 million (2017 – $11,120 million), and 1 year to over 10 years, $nil (2017 – $nil). The terms to maturity of the undiscounted value of the term debt as at March 31, 2018, are as follows: within 1 year, $1,250 million (2017 – $nil), 1 year to 5 years, $10,614 million (2017 – $8,783 million), and 6 years to over 10 years, $6,046 million (2017 – $nil).

7. Collateral

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

	2018	2017[2]
	(in millions of dollars)	
Third-party assets held as collateral on:		
Reverse repurchase agreements[1]	**6,187**	5,196
Over-the-counter derivative transactions[1]	**692**	493
Other debt[1]	**760**	726
Own and third-party assets pledged as collateral on:		
Repurchase agreements[1]	**(32,621)**	(14,785)
Securities sold short[1]	**(16,610)**	(30,603)
Over-the-counter derivative transactions	**(315)**	-
Private equities	**(5,942)**	(5,291)
Other debt	**(4,417)**	(3,957)
	(52,266)	(48,221)

1 The fair value of the collateral held that may be sold or repledged as at March 31, 2018 is $6,967 million (2017 – $6,192 million). The fair value of collateral sold or repledged as Securities sold short and Repurchase agreements as at March 31, 2018 is $5,969 million (2017 – $2,677 million).

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

8. Payables and Accrued Liabilities

Payables and accrued liabilities are comprised of the following:

	2018	2017
	(in millions of dollars)	
Operating expenses	**702**	684
Pensions and benefits payable	**298**	310
Tax deductions on benefits due to Canada Revenue Agency	**214**	201
	1,214	1,195

9. Comparison of Results Against Budget

The budget amounts included in the Consolidated Statement of Operations and the Consolidated Statement of Change in Financial Assets Available for Benefit Payments are derived from the amounts that were originally budgeted in the *2017-18 Employment and Social Development Canada Departmental Plan*, tabled in Parliament in March 2017 and amounts forecasted by the Office of the Superintendent of Financial Institutions.

10. Net Investment Income (Loss)

Net investment income (loss) is reported net of transaction costs and investment management fees, and is grouped based on the asset class categories.

Net investment income (loss), for the year ended March 31, is as follows:

	2018					
(in millions of dollars)	Investment Income (Loss)[1]	Net Gain (Loss) on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees[5]	Transaction Costs	Net Investment Income (Loss)
Equities						
Canada	44	282	326	(7)	(2)	317
Foreign developed markets	2,315	18,196	20,511	(419)	(129)	19,963
Emerging markets	328	4,419	4,747	(285)	(11)	4,451
	2,687	22,897	25,584	(711)	(142)	24,731
Fixed income						
Non-marketable bonds	952	(313)	639	-	-	639
Marketable bonds, Cash and Absolute return strategies[6]	496	4,847	5,343	(886)	(110)	4,347
Credit investments	1,371	185	1,556	(13)	(32)	1,511
	2,819	4,719	7,538	(899)	(142)	6,497
Real assets						
Real estate	1,341	2,811	4,152	(128)	(61)	3,963
Infrastructure	891	2,710	3,601	-	(14)	3,587
Other[7]	150	(951)	(801)	-	(36)	(837)
	2,382	4,570	6,952	(128)	(111)	6,713
Debt financing liabilities	(294)	151	(143)	-	(6)	(149)
Interest on operating balance	3	-	3	-	-	3
	7,597	32,337	39,934	(1,738)	(401)	37,795

The notes are on the following page.

(in millions of dollars)	Investment Income[1]	Net Gain (Loss) on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees[5]	Transaction Costs	Net Investment Income (Loss)
	2017					
Equities						
Canada	(107)	2,382	2,275	(13)	(9)	2,253
Foreign developed markets	2,411	19,727	22,138	(488)	(93)	21,557
Emerging markets	226	2,976	3,202	(225)	(8)	2,969
	2,530	25,085	27,615	(726)	(110)	26,779
Fixed income						
Non-marketable bonds	957	(517)	440	-	-	440
Marketable bonds, Cash and Absolute return strategies[6]	362	24	386	(452)	(108)	(174)
Credit investments	1,339	1,246	2,585	(133)	(39)	2,413
	2,658	753	3,411	(585)	(147)	2,679
Real assets						
Real estate	1,508	1,806	3,314	(153)	(100)	3,061
Infrastructure	1,022	692	1,714	-	(15)	1,699
Other[7]	23	720	743	-	(66)	677
	2,553	3,218	5,771	(153)	(181)	5,437
Debt financing liabilities	(144)	(380)	(524)	-	(9)	(533)
Interest on operating balance	1	-	1	-	-	1
	7,598	28,676	36,274	(1,464)	(447)	34,363

1 Includes interest income, dividends, interest expense on the debt financing liabilities and other investment-related income and expenses.

2 Includes realized and changes in unrealized gains and losses from investments, investment receivables and investment liabilities.

3 Includes foreign exchange gains of $2,100 million (2017 – gains of $1,900 million).

4 Includes net unrealized gains of $8,783 million (2017 – gains of $6,290 million) which represents the change in fair value on those investments where the fair value is derived primarily from assumptions based on non-observable market data and still held at the end of the year. With all other variables held constant the use of reasonable alternative assumptions would result in a decrease of $5,200 million (March 31, 2017 – $3,400 million) or increase of $6,000 million (March 31, 2017 – $3,800 million) in net assets.

5 Includes management fees of $1,029 million (2017 – $987 million) and performance fees of $709 million (2017 – $477 million).

6 Absolute return strategies consist of investments in funds and internally managed portfolios.

7 Comprises agriculture and natural resources.

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, 2018, undetected overpayments and underpayments are estimated to be $3.0 million and $70.4 million respectively ($9.6 million and $30.3 million in 2016-2017). These estimates are used by the CPP to assess the quality and accuracy of decisions and to continuously improve its systems and practices for processing CPP benefits.

The actual overpayments established during the year, as indicated in Note 4, 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 Government of Canada (GoC) departments (refer to Note 17) for the administration of the CPP's activities as well as the CPPIB's operating expenses.

		2018			2017[1]	
(in millions of dollars)	**GoC**	**CPPIB**	**Total**	GoC	CPPIB	Total
Personnel related costs, including the Health Insurance Plan	**298**	**712**	**1,010**	257	625	882
Collection of contributions and investigation services	**190**	**-**	**190**	203	-	203
Information technology and data services	**-**	**98**	**98**	-	92	92
Program policy and delivery, accommodation and corporate services	**104**	**-**	**104**	102	-	102
Professional and consulting fees	**-**	**71**	**71**	-	54	54
Tax on international operations	**-**	**40**	**40**	-	32	32
Premises and equipment	**-**	**38**	**38**	-	32	32
Amortization of premises and equipment	**-**	**27**	**27**	-	30	30
Support services of the Social Security Tribunal	**14**	**-**	**14**	13	-	13
Cheque issue and computer services	**6**	**-**	**6**	6	-	6
Others	**3**	**67**	**70**	3	58	61
	615	**1,053**	**1,668**	584	923	1,507

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

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 the 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-eighth Actuarial Report supplementing the Actuarial Report on the Canada Pension Plan* as at December 31, 2015, was tabled in Parliament on October 28, 2016. It was prepared on the basis of the *Twenty-seventh Actuarial Report* to show the effect of the proposed changes to the *Canada Pension Plan*, which was amended on December 15, 2016 to reflect the CPP enhancement as described in Note 1.

According to the *Twenty-seventh Actuarial Report*, under the current legislated contribution rate of 9.9 percent, 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.

	As at December 31, 2015[1]		As at December 31, 2012[1]	
	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 population (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.

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.*

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 percent of contributory earnings for the year 2019 and thereafter (9.84 percent 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 percent 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 percent in 2050) will be required to make up the difference between contributions and expenditures. Under the current legislated contribution rate of 9.9 percent and the average expected nominal return on assets of 5.1 percent 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, 2018, the value of CPP assets available for benefit payments is $361.0 billion (2017 – $320.9 billion). This amount represents approximately 7.4 times the 2019 planned expenditures of $48.7 billion (2017 – 6.8 times the 2018 planned expenditures of $47.4 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.

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 percent 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 percent, above the current legislated contribution rate of 9.9 percent. 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 percent.

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 percent is assumed for 2025 and thereafter, the minimum contribution rate would decrease to 9.31 percent. However, if an ultimate real wage increase of 0.4 percent is assumed for 2017 and thereafter, the minimum contribution rate would increase to 10.32 percent.

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 percent is assumed over the next 75 years (2016 to 2090), the minimum contribution rate will decrease to 8.54 percent. However, if the average real rate of return is assumed to be 2.2 percent over the next 75 years, the minimum contribution rate increases to 11.05 percent.

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 percent to the changes in mortality, real wage increase and real rate of return on investments assumptions:

Assumption	Scenario	Minimum Contribution Rate[1] (Percent)	Ratio of Assets to Expenditures under 9.9 percent 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 on Investments	Low Cost	8.54	7.52	14.07	47.47
	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.

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 percent, 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 December 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 the 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	36	115	26	177
Operating costs	625	-	-	625
	661	115	26	802

Operating costs are charged to the CPP in accordance with various memoranda of understanding (MoU) between the CPP and various Government of Canada (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 Account in the next fiscal year. Operating costs are expected to continue to be charged to the CPP Account in the upcoming fiscal years, but cannot be reasonably estimated at this time.

The CPP, through the 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, 2018, the unfunded commitments totalled $41,767 million (2017 – $38,886 million).

16. Contingent Liabilities

a) Appeals relating to the payment of pensions and benefits

At March 31, 2018, there were 4,480 appeals (2017 – 7,182) relating to the payment of CPP disability pensions. These contingencies are reasonably estimated, using historical information, at an amount of $26.5 million (2017 – $39.7 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 financial statements for the 2017-18 and 2016-17 fiscal years for these claims and legal proceedings.

c) Guarantees

As part of certain investment transactions, the CPP, through the CPPIB, agreed to guarantee, as at March 31, 2018, up to $2,842 million (2017 – $3,073 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 the CPPIB, provides indemnifications to its officers, directors, certain others and, in certain circumstances, to various counterparties and other entities. The CPPIB may be required to compensate these indemnified parties for costs incurred as a result of various contingencies such as changes in laws, regulations and litigation claims. The contingent nature of these indemnification agreements prevents the CPPIB from making a reasonable estimate of the maximum potential payments the CPPIB could be required to make. To date, the CPPIB has not received any material claims nor made any material payments pursuant to such indemnifications.

17. Related Party Transactions

The CPP enters into transactions with the Government of Canada in the normal course of business, which are recorded at the exchange value. The costs are based on estimated allocations of costs and are charged to the CPP in accordance with various memoranda of understanding. Details of these transactions are provided in the Government of Canada (GoC) operating expenses in Note 12 and contractual obligations in Note 15.

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.

18. 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 2018. The *Canada Pension Plan* now defines two separate accounts, the CPP Account (existing CPP), and the Additional CPP Account (enhanced CPP), where the financial activities of each account are accounted for separately. 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 will begin on January 1, 2019. In order to prepare for the Additional CPP Account, costs are being incurred by the CPP and the 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 are temporarily funded by the CPP Account. Details of these initial costs of administration and the related interests incurred are provided in Note 4.

The Additional CPP Account will report these initial costs of administration and the related interests incurred in 2018-19 when contributions are received, beginning on January 1, 2019. The Additional CPP Account will start to reimburse these costs at a date determined by the Minister, which can be no later than December 31, 2020 and must be fully reimbursed by March 31, 2021.

19. Supplementary Information

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

		2018			2017[1]	
(in millions of dollars)	**GoC**	**CPPIB**	**Total**	GoC	CPPIB	Total
Financial assets	**5,388**	**431,544**	**436,932**	4,731	381,017	385,748
Non-financial assets	**-**	**397**	**397**	-	396	396
Liabilities	**525**	**75,807**	**76,332**	513	64,736	65,249
Assets available for benefit payments	**4,863**	**356,134**	**360,997**	4,218	316,677	320,895
Income						
Contributions	**48,435**	**-**	**48,435**	46,966	-	46,966
Investment income	**3**	**37,792**	**37,795**	1	34,362	34,363
	48,438	**37,792**	**86,230**	46,967	34,362	81,329
Expenses						
Pensions and benefits	**44,460**	**-**	**44,460**	42,502	-	42,502
Operating expenses	**615**	**1,053**	**1,668**	584	923	1,507
	45,075	**1,053**	**46,128**	43,086	923	44,009
Net Increase in assets available for benefit payments	**3,363**	**36,739**	**40,102**	3,881	33,439	37,320

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

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

The 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.

During the year ended March 31, 2018, a total of $36,425 million (2017 – $39,517 million) was transferred to the CPPIB and a total of $33,707 million (2017 – $35,220 million) was returned to the CPP to meet its liquidity requirements.

Net accumulated transfers to CPPIB

	2018	2017
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB	**492,033**	455,608
Accumulated transfers from CPPIB	**(351,513)**	(317,806)
	140,520	137,802

20. Comparative Information

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