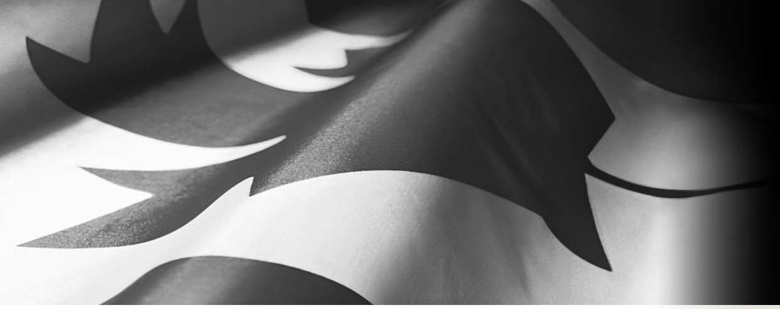
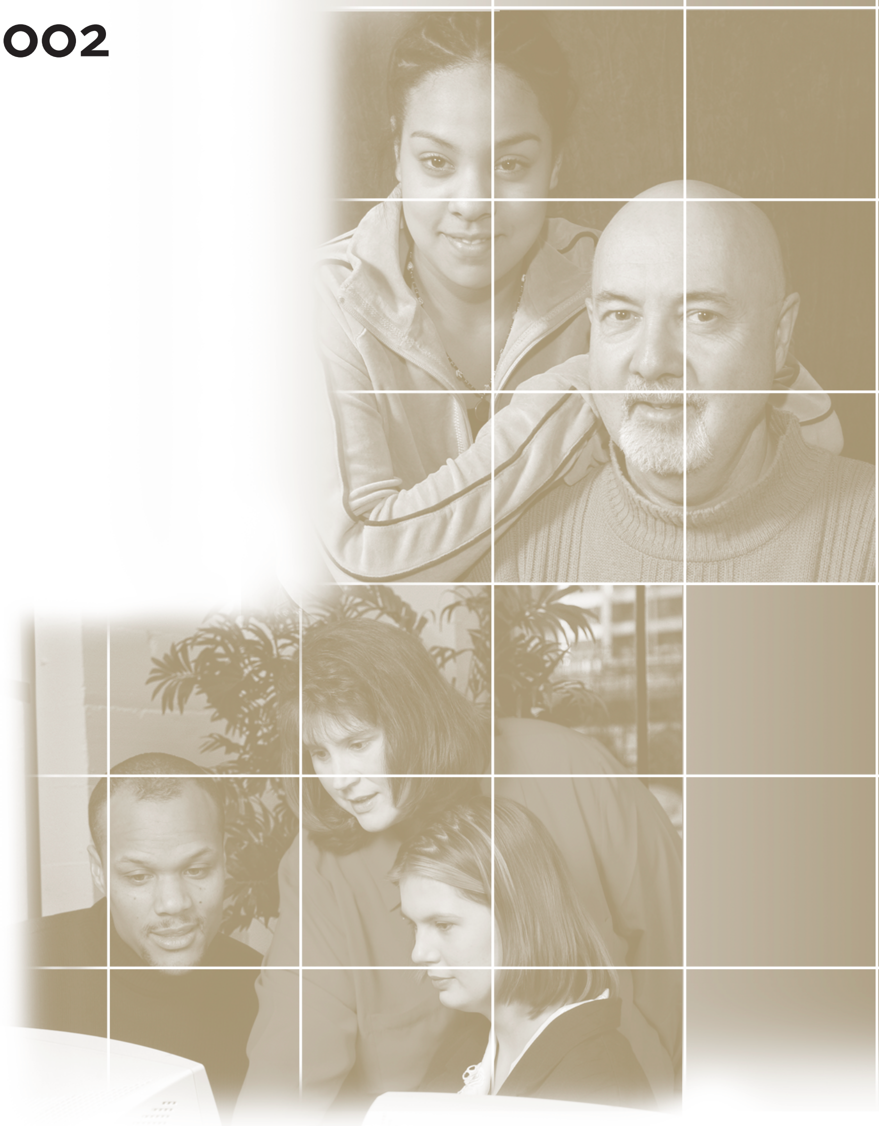


Canada Pension Plan

Annual Report
of the Canada Pension Plan
2001-2002



Government of Canada Gouvernement du Canada

Canada

ANNUAL REPORT OF THE CANADA PENSION PLAN

Fiscal Year 2001-2002

ISPB 202-06-03E

Produced by Human Resources Development Canada in collaboration with:
the Department of Finance, the Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI).

If you require additional copies of this report, it is available for printing at:
www.hrdc-drhc.gc.ca/isp/pub/cpppub_e.shtml

Or you may contact:

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Aussi disponible en français sous le titre *Rapport annuel du Régime de pensions du Canada 2001-2002.*

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For more detailed information about subjects covered in this report or about the Canada Pension Plan in general, please visit the Government of Canada's Income Security Programs Web site at:
www.hrdc-drhc.gc.ca/isp

If you have questions, please call free of charge:
1 800 277-9914 (English)
1 800 277-9915 (French)
1 800 255-4786 (TTY)

Government of Canada
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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 2001–2002.

Respectfully,

John Manley
Minister of Finance

Jane Stewart
Minister of Human Resources Development

Canada

Table of Contents

This report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan: Human Resources Development Canada (HRDC), the Department of Finance, the Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI).

2001-2002 The Year at a Glance

IN FISCAL 2001-2002:

- The Canada Pension Plan (CPP) is on a sound financial footing according to the *Eighteenth Actuarial Report*, tabled in Parliament in December 2001. The Report, which provides an actuarial examination of the Plan as at December 31, 2000, confirms that the 1997 federal-provincial CPP Agreement has put Plan finances back on track.
- Canadians received more than 4.2 million benefits with a total value of approximately $20.5 billion from the Canada Pension Plan.
- Eleven million people contributed to the CPP.
- 12.9 million people received Statements of Contributions.
- Administrative costs amounted to approximately $371 million, or 1.8 percent of the $20.5 billion in benefits paid. This compares favourably with administrative costs for other large pension plans and individual RRSPs.
- 2.8 million people received $14.3 billion in CPP retirement pensions.
- 890,783 surviving spouses or common-law partners and 86,956 children of deceased contributors received over $3.1 billion in benefits.
- About 279,000 persons with disabilities and 90,656 of their children received almost $2.9 billion in CPP disability benefits.
- On March 31, 2002, total CPP assets were valued at approximately $51.9 billion and equalled 2.5 years of benefits. The assets were held in provincial, territorial and federal government bonds, short-term investments, and domestic and foreign equities.
- Changes to the *Canada Pension Plan Regulations* were implemented on January 1, 2002 to reflect the scheduled increase in the annual contribution rate to 9.4 percent and the statutory increase in maximum pensionable earnings. The last scheduled contribution rate increase, to 9.9 percent in 2003, will occur on January 1, 2003, and will fully implement the 1997 reforms agreed to by federal and provincial governments.

The Canada Pension Plan in Brief

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

Established by an act of Parliament in 1965 and implemented in 1966, the CPP is a jointly-managed federal-provincial plan. Quebec manages and administers its own plan, the QPP, and participates in the decision making of the CPP. Benefits from either plan are based on pension credits accumulated under both. The plans are financed through mandatory contributions from employees, employers and self-employed people, as well as from investment income. (Information on the QPP is available from the *Régie des rentes du Québec* at: **www.rrq.gouv.qc.ca/an/accueil/00.htm**)

While it is perhaps best known for its retirement pensions, the CPP also provides children's, survivor, disability and death benefits. The CPP administers one of the largest long-term disability plans in Canada. Vocational rehabilitation services offered under the Plan help some disability beneficiaries regain their independence by making it possible for them to return to the labour force, following a customized return-to-work plan.

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

Benefit calculations are based on how much and for how long a contributor has paid into the CPP. Benefits are not paid automatically — everyone must apply and provide proof of eligibility. However, once eligibility is determined, CPP benefits are paid even if the beneficiary also receives income from other sources. Benefits are adjusted in January of each year to reflect increases in the average cost of living, as measured by the Consumer Price Index.

Financing the CPP

As joint stewards of the CPP, the federal and provincial ministers of Finance review the Plan's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. They base their recommendations on a number of factors, including the results of an examination of the Plan by the Chief Actuary. The Chief Actuary is required under the legislation to produce an actuarial report on the CPP every three years (in the year before the legislated ministerial review of the Plan).

Changes to the legislation governing the general level of benefits, the rate of contributions or the investment policy can be made only through an act of Parliament. All such changes require the agreement of at least two thirds of the provinces representing at least two thirds of the population. The changes come into force only after two years' notice, unless all the provinces waive this requirement. Quebec participates in the decision-making formula, even though it has opted out of the CPP and administers its own plan. The Quebec Pension Plan must be implicated in changes to the CPP if the two plans are to remain parallel.

Finance ministers last reviewed the CPP in December 2002. They agreed to leave the schedule of contribution rates unchanged, as the *Eighteenth Actuarial Report*, prepared for the review, confirmed the financial sustainability of the Plan (taking into account the projected aging of Canada's population). Further information on the 2002 federal-provincial review and previous reviews of the Plan can be found at: **www.cpp-rpc.gc.ca**

The *Eighteenth Actuarial Report* was tabled in Parliament by the Minister of Finance in December 2001. It provides an actuarial examination of the Plan as at December 31, 2000. The Report confirms that the 9.9 percent combined employer-employee contribution rate scheduled for 2003 and thereafter is expected to be sufficient to sustain the Plan over the long term. The *Eighteenth Actuarial Report*, along with previous actuarial reports, can be found at: **www.osfi-bsif.gc.ca/eng/office/actuarialreports/index.asp**

A panel of independent actuaries reviewed the *Eighteenth Actuarial Report*. Their conclusions should give Canadians confidence. The panel concluded that the Report is based on economic and demographic assumptions that are reasonable in the aggregate (though somewhat on the conservative side). It also stated that the Report meets current professional standards of actuarial practice and uses data and methodologies that are appropriate and reasonable. In addition to its conclusions, the panel made a number of recommendations regarding the preparation of future actuarial reports. The panel's report and recommendations can be found at: **www.osfi-bsif.gc.ca/eng/office/actuarialreports/index.asp**

The *Eighteenth Actuarial Report* is the second triennial actuarial report since the major federal-provincial reform agreement in 1997. Its confirmation of the financial sustainability of the Plan underlines the success of federal-provincial cooperation in this area.

Bill C-3, *An Act to Amend the Canada Pension Plan and Canada Pension Plan Investment Board Act*, was tabled by Parliament in September 2002 and received Royal Assent in April 2003. It proposes to transfer the bond portfolio and operating balance that are currently managed by the federal government to the CPP Investment Board. Consolidating all assets in one professionally managed organization will allow the CPP Investment Board to determine the best asset mix and investment strategy. The goal is to enhance rates of return and manage risks for plan members. The Chief Actuary in the *Nineteenth Actuarial Report* has estimated that the transfers could increase CPP assets by about $85 billion over 50 years. When a Bill that materially impacts the estimates contained in the most recent statutory actuarial report is introduced in Parliament (in this case, the *Eighteenth Actuarial Report*), the CPP legislation requires the Chief Actuary to produce an actuarial report. The Chief Actuary must use the same assumptions and methods as the statutory report but modify them to take into account the proposed legislative change.

A FAIR APPROACH TO FUNDING

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

The federal and provincial governments decided to keep contributions at a reasonable level while beginning to pay full retirement benefits as early as the mid-1970s. This was important — many of the seniors who received benefits at that time had been unable to accumulate sufficient retirement savings.

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

This would mean imposing a heavy financial burden on Canadians in the workforce 25 years down the road, which was deemed unacceptable by the federal and provincial governments. Therefore, in 1997, they agreed instead to change the funding approach of the Plan to a hybrid of pay-as-you-go and full funding (where each generation pays for its own benefits).

Steady-state financing

Under steady-state financing, the contribution rate is scheduled to increase incrementally (from 5.6 percent in 1996) to 9.9 percent in 2003 and to remain at this level thereafter (see Figure 1 on page 5). Steady-state financing requires that contribution rates be set no lower than the lowest rate expected to ensure the long-term financial stability of the Plan without recourse to further rate increases. (The combined employer-employee contribution rate in 2002 was 9.4 percent, up from 8.6 percent in 2001.)

Steady-state financing will generate a level of contributions between 2001 and 2020 that exceeds the benefits paid out every year during this period. Funds not immediately required to pay benefits will be transferred to the CPP Investment Board for investment in financial markets. Plan assets will cover an increasing number of years of expenditures over this period (see Figure 1 on page 5).

After 2020, as more and more baby boomers retire and benefits paid begin to exceed contributions, investment revenues from the CPP's accumulated assets will provide the funds necessary to make up the difference with contributions. Nonetheless, contributions will remain the main source of funding for benefits. Despite the increase in cash outflows from the Plan due to the retirement of the baby boom generation, Plan assets will continue to cover at least five years of benefits. On this basis, the *Eighteenth Actuarial Report* concludes that the pool of assets the Plan is expected to accumulate should make it possible to absorb almost any unforeseen economic or demographic fluctuations. These fluctuations would otherwise have to be reflected in an increase in the contribution rate above the scheduled 9.9 percent rate for 2003 and on (see Figure 1). Under the *Nineteenth Actuarial Report*, the Chief Actuary expects the CPP to accumulate an even larger pool of assets, putting the CPP in an even stronger financial position.

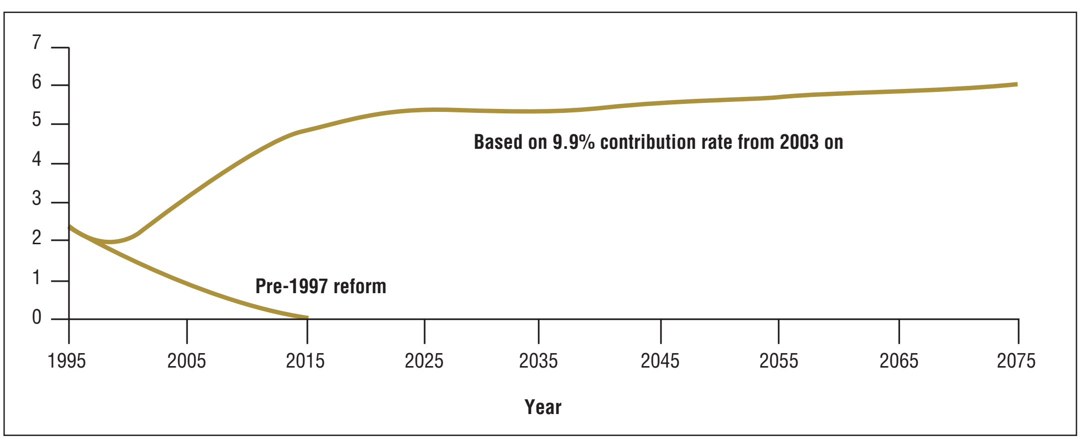
The *Eighteenth Actuarial Report* calculates the value of accrued pension benefits at $487 billion as of December 31, 2000, and Plan assets (valued at cost) at $43.7 billion. The future financial health of a plan funded along the lines of the Canada Pension Plan is better measured by the evolution of the projected growth rate of assets and liabilities than by accrued pension benefits. The reforms agreed to by federal and provincial governments in 1997 should ensure that CPP assets grow much more quickly than liabilities over the next 20 years and at least as rapidly thereafter. This will ensure a stable level of funding for the Plan over the long-term.

A partially funded CPP not only balances the two approaches to funding, but also complements the other components of Canada's retirement income system:

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

A diversified funding approach allows Canada's retirement income system to be less vulnerable to changes in economic and demographic conditions than are systems in countries that use a single funding approach.

Figure 1 – Actual and Projected Ratio of CPP Assets to Annual Plan Expenditures



Financial Accountability

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

As of March 31, 2002, the total net assets of the CPP were valued at approximately $51.9 billion (equal to 2.5 years' worth of benefits). Net Plan assets are contributions and investment income accumulated since the Plan's inception in 1966, less benefits and expenditures over the same period. Plan assets are expected to increase appreciably over the next 20 years.

CPP ACCOUNT

A separate account, the CPP Account, has been established in the accounts of the Government of Canada to record the financial elements of the Plan: contributions, interest, pensions and other benefits paid, and administrative expenditures. The CPP Account also records the amounts transferred to or received from both the CPP Investment Fund and the CPP Investment Board. Spending authority is limited to the Plan's net assets.

For the year ending March 31, 2002, the CPP Account's operating balance was maintained at a level designed to cover three months' worth of forecast benefit payments and administrative charges.

During 2001-02, the operating balance earned an average interest rate of 3.09 percent, or $189 million.

CPP INVESTMENT FUND

Before the 1998 changes to the CPP's investment policy, funds not immediately needed to pay benefits and maintain liquidity in the CPP Account were invested only in long-term bonds of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. The balance in the Investment Fund on March 31, 2002, was $28.3 billion, down slightly from $29.6 billion in March 2001 because of non-renewal of maturing bonds. All securities held were invested for 20-year terms.

Since 1998, funds coming into the Plan that are not immediately needed to pay benefits, and Investment Fund securities that are redeemed, have been transferred to the CPP Investment Board. They will be invested in capital markets. As a transitional measure, all provinces and territories can roll over their CPP borrowings at maturity for one additional 20-year term if they wish, at the same rate of interest as they would pay on their other market borrowings.

During the 1999 federal/provincial triennial review, a decision was made to amend the CPP legislation. The amendment gives the provinces and territories the option of prepaying some or all of their CPP borrowings at market rates of interest, at no cost to the Plan. This option, which was implemented in January 2001, can assist provinces that wish to pay down their debt.

Interest

In 2001-02, the Investment Fund earned about $3 billion in interest, which was deposited in the CPP Account. This compares with $3.3 billion earned in the previous 12 months. The Canada Pension Plan Financial Statements summarize the status of the Investment Fund as of March 31, 2002 (see page 19).

Maturing securities are redeemed as they come due by the federal government, provinces and territories. In 2001-02, $2.4 billion worth of bonds matured, and of those, the provinces and territories renewed $1.1 billion for additional 20-year terms.

Rates of return

The Investment Fund continues to benefit from the high rates of return for securities that were bought in the early 1980s, when interest rates were relatively high. These securities are 20-year government bonds bearing a weighted average annual nominal return of 10.43 percent. The Fund's average nominal rate of return can be expected to remain above nine percent for the next several years. For this reason, the short-term rate of return, based on these investments, will exceed the Fund's expected long-term rate of return of 6.5 percent, or 3.5 percent after inflation.

CPP INVESTMENT BOARD

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

On March 31, 2002, the market value of assets invested by the CPPIB in Canadian and foreign equities totalled $14.3 billion, which represented about 27 percent of the Plan's assets. The CPPIB's annual report, as well as its quarterly financial statements, can be found at: **www.cppib.ca**

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

In developing its asset mix policy, the CPP Investment Board considers the Plan's fixed income assets (the bond portfolio and operating balance), which are administered by the Department of Finance. As a result, it has decided to invest solely in equities in order to bring balance to the total CPP portfolio. The CPP Investment Board has a long-term investment horizon. The Chief Actuary estimates that contribution revenues will exceed CPP benefit payments and expenses well into the future, and that the CPP will not need money from the Investment Board for about 20 years.

Further information on the CPPIB's mandate, structure and investment policy can be found on its Web site.

Current investments

As at March 31, 2002, approximately 70 percent of the CPPIB's $14.3 billion in assets was invested in Canadian equity markets and 30 percent in equity markets in the United States, Europe and Asia. The CPPIB has full discretion over its equity policy. It is subject to the foreign property rule and can invest up to 30 percent of the book value of its assets outside Canada.

In the year ended March 31, 2002, the CPPIB was investing mostly in externally managed index funds. These replicated the composition of the Standard & Poor and Toronto Stock Exchange Composite Index (formerly TSE, now referred to as TSX) of approximately 300 companies that trade on the TSX. They also reflect the Standard & Poor's 500 Index of large companies in the US and the Morgan Stanley Capital International EAFE (Europe, Australasia and the Far East) Index of about 1,000 companies.

In June 2001, the CPP Investment Board initiated a program to invest in private equities through external managers to diversify its investment portfolio. As of March 31, 2002, $458 million, or approximately 3.2 percent of the CPPIB's total assets, had been invested in private equities.

During the 2001-02 fiscal year, the CPPIB's equity portfolio earned $316 million, representing a rate of return of 3.4 percent.

Investing for our future

The CPP Investment Board has expanded into private equities through externally managed funds that provide venture capital and expansion financing to private companies. It expects to commit as much as 10 percent of total equities to private equities and five percent to other private market investments such as real estate, infrastructure, and natural resource and energy assets. These investments will be made through limited partnerships or pooled funds managed by investment firms in Canada and around the world.

In compliance with its statutory requirement to hold a public meeting in each participating province at least once every two years, the Board held public meetings in the provincial capitals in January 2001 and June 2002.

Benefits and Expenditures

The number of people receiving CPP benefits has increased steadily over the past decade, as have expenditures to pay for the increased claims. Figure 2 shows the yearly increases since 1998-1999. Figure 3 shows the percentage of CPP expenditures by type of benefit.

RETIREMENT PENSIONS

Retirement pensions represent 66 percent of the total number of CPP benefits paid and 70 percent of the total benefit dollars paid out by the CPP in 2001-02. The amount of each contributor's pension depends on how much and how long he or she has contributed and at what age he or she begins to draw the benefits. In March 2002, the monthly maximum retirement pension was $788.75; the average amount paid was $440.34.

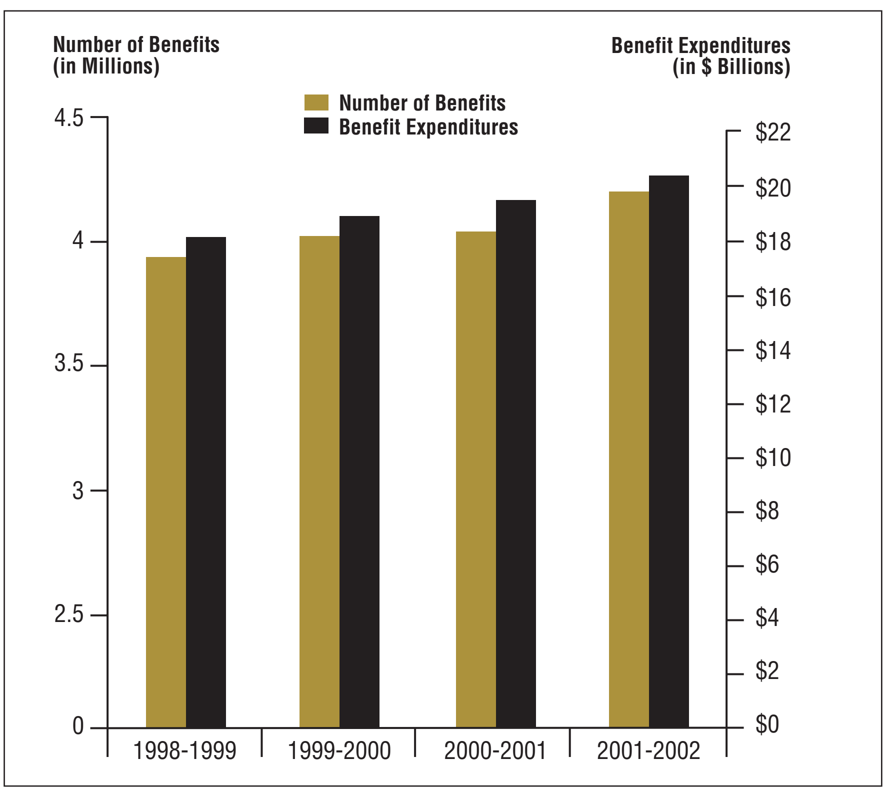
DISABILITY BENEFITS

Disability benefits, paid to eligible contributors and their children, represent nine percent of the total number of CPP benefits paid and 14 percent of the total benefit dollars paid out by the CPP in 2001-02. In 2002, the maximum monthly disability benefit was $956.05; the average amount paid was $719.83. The children's benefit was a flat rate of $183.77.

SURVIVOR BENEFITS

Survivor benefits, paid to the surviving spouse of the contributor and his/her dependent children, represent 23 percent of the total number of CPP benefits paid and 15 percent of the total benefit dollars paid out by the CPP in

Figure 2 – BENEFITS AND EXPENDITURES BY FISCAL YEAR



2001-02. The amount of the monthly survivor benefit varies depending on a number of factors, including the age of the spouse at death and whether the beneficiary receives other CPP benefits as well.

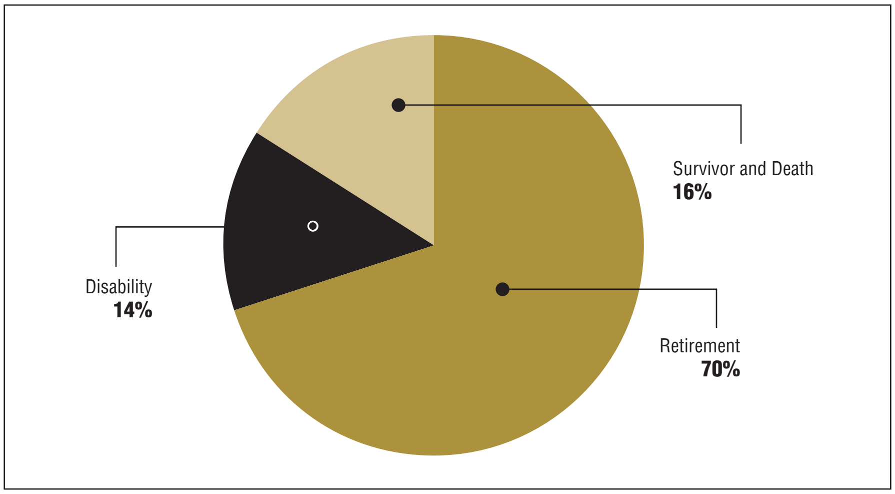
DEATH BENEFITS

Death benefits represent two percent of the total number of CPP benefits paid and one percent of the total benefit dollars paid out by the CPP in 2001-02. The death benefit is a one-time payment. The maximum payable is $2,500; the average payment in March 2002 was $2,186.10.

OTHER PROVISIONS

CPP includes several provisions to help keep benefits as high as possible. These include the child rearing drop-out provision, pension sharing, credit splitting and the 15 percent general drop out. If you wish to know more about these, see our contact information on the inside front cover of this report.

Figure 3 – PERCENTAGE OF BENEFIT DOLLARS PAID FOR 2001-2002



Improved Service Delivery

REACHING OUT TO CANADIANS

During 2001-02, HRDC continued its efforts to help Canadians better understand public pensions and the retirement income system, and to encourage them to actively plan and prepare for their own retirement. Information on the CPP is available in print, on the Internet, in person at local offices, by phone, and at electronic kiosks in government offices and public buildings.

Personalized contact with clients continued to receive high priority. In 2001-02, HRDC issued personal CPP Statements of Contributions to more than 12.9 million contributors between the ages of 18 and 70. The statements were accompanied by information on the retirement income system in Canada.

DELIVERING SERVICE

In 2001-02, HRDC focused on maintaining the CPP systems and continuing to modernize CPP program delivery in conjunction with information technology renewal.

Major systems-related initiatives gave CPP staff better online access to contributors' record-of-earnings information and the ability to correct client information online.

New data storage and retrieval features have been added to improve support to external partners, such as provincial social services departments and workers' compensation boards. These changes have improved client service and the speed with which benefits can be adjudicated and inquiries answered.

Work also continues on the rules-based system — a knowledge base to guide the decision-making process and ensure that legislation, operational policy and procedures are correctly and consistently applied.

PROCESSING BENEFITS

CPP services are offered in person, by telephone and by mail. In 2001-02, staff processed 55,709 disability applications (which are complex and require medical information) within an average of 66 days. Other types of applications were processed within 28 days (see Table 1 on page 12).

Better communication with clients and their physicians helped staff make more informed decisions and helped CPP disability applicants better understand the reasons for decisions. As a result, close to 90 percent of the applications for disability benefits in 2001-02 were finalized during the initial phases.

HRDC call centres received over 1.3 million calls about the CPP in 2001-02. Positive responses to initiatives such as the mailout of personalized statements to CPP contributors and inquiries received during the traditionally busy T4 period contributed to the high number of calls.

Table 1 – SPEED OF PROCESSING NEW APPLICATIONS

National speed-of-service measures	Objective	2001-2002 National Average
Number of working days to process initial CPP applications* (excluding disability applications)	28	28
Number of working days to process initial CPP disability applications	62	66

*Number of days between the date the application is received and the date of the decision.

Table 2 – TELEPHONE SERVICE STATISTICS*

	2001-2002
Percentage of clients served by a service agent within 180 seconds of placing a call**	81.9%
Average waiting time to speak with a service agent	61 sec.
Average time clients spend talking to a service agent	244 sec.

* Table includes CPP and Old Age Security totals. Speed of service does not vary between programs.

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

Higher call volumes mean managing longer wait times. This is a challenge throughout the year. The problem was addressed by increasing staff in telecentres and by installing updated equipment and new software designed for high volume and peak periods. CPP is also piloting the use of the Internet to complement traditional telephone services and to address the growing volume.

Telephone inquiries continue to become more complex. Direct support is being implemented for staff through updated online reference materials and new national training packages. This will provide comprehensive and consistent training to staff across Canada.

Managing the CPP

COLLECTING AND RECORDING CONTRIBUTIONS

Contributions to the CPP are paid on earnings between a minimum and a maximum amount. The minimum is $3,500 (it remains constant) and the maximum is adjusted annually to reflect the growth in the average Canadian industrial wage. The maximum amount of pensionable earnings as of January 1, 2002, was $39,100 (up from $38,300 in 2001). Contributions stop once a contributor reaches the age of 70 or begins to receive a CPP retirement pension or disability benefit.

The contribution rates for the year 2002 are 4.7 percent for employees and 4.7 percent for employers. Persons who are self-employed pay both portions, for a total of 9.4 percent. Approximately 94 percent of contributions come from employers and employees and the remaining six percent from the self-employed.

All CPP contributions are remitted to the Canada Customs and Revenue Agency (CCRA). In 2001-02, contributions amounted to $23.4 billion.

CCRA also assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4 slips. To verify that contribution requirements are being met, CCRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit.

There are approximately 1.4 million existing employer accounts. During 2001-02, CCRA conducted 53,942 audits, concentrating on files with irregularities.

ADMINISTRATIVE COSTS

In 2001-02, it cost approximately $371 million to administer the CPP, with HRDC accounting for the largest portion — $279 million (see Table 3 on page 14). CCRA required approximately $78 million and Public Works and Government Services Canada (PWGSC) $12 million, for services to the CPP. The Office of the Superintendent of Financial Institutions (OSFI), where the Office of the Chief Actuary is housed, and the Department of Finance incurred costs of $1.4 million and about $500,000, respectively.

Since the administrative costs of the CPPIB are drawn from CPPIB investment income, they are reported in that organization's annual report. This is consistent with the arm's length administration of the Board. In 2001-02, the CPPIB reported $11.4 million in investment and administrative expenses.

CPP administrative expenses in 2001-02 represent 1.8 percent of the $20.5 billion in benefits paid. This ratio compares very favourably with that of other pension plans. Administrative costs for large pension plans in the private sector, for example, average five percent of expenditures.

Table 3 – CPP Administrative Costs 1999-2000 to 2001-2002

Department/Agency	Expenditures (in $ thousands) 1999-2000	2000-2001	2001-2002
Human Resources Development Canada	$241,328	$242,865	$279,159
Canada Customs and Revenue Agency	58,193*	77,746	77,618
Public Works and Government Services Canada	14,094	12,810	12,440
Office of the Superintendent of Financial Institutions	1,181	1,102	1,364
Finance Canada	346	395	492
Total	$315,142	$334,918	$371,073

* This amount has been reduced by $13 million as a result of an audit of administrative costs covering the fiscal years 1994-1995 to 1997-1998.

CPP administrative costs also compare favourably with those of RRSPs. Table 3 presents the CPP's administrative expenditures for the last three years.

THE APPEALS PROCESS

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

The first level of review involves a request to the Minister of HRD for a reconsideration (or administrative review) of a decision concerning a benefit or a division of pension credits. The number of requests for reconsideration in disability cases declined slightly from 12,649 in 2000-01 to 12,092 in 2001-02. During that same period (between April 2001 and March 2002), the number of benefits awarded at appeal increased from 25 to 28 percent.

A person who is not satisfied with the decision made at the departmental reconsideration level can appeal to a Review Tribunal. A Review Tribunal is an independent, impartial body made up of three people chosen by the Commissioner of Review Tribunals from a panel of 300 to 325 part-time members appointed by Order-in-Council. The grant rate at the Review Tribunal level was 40 percent in 2001-02.

The final opportunity for review is the Pension Appeals Board (PAB) — a tribunal operating at arm's length from HRDC. PAB members are judges or former judges of the federal court or a superior, district or county court of a province. Hearings are not automatic at this level; claimants or the Minister of HRD must request "leave to appeal." Ninety-five percent of the 1,257 applications for leave to appeal received in 2001-02 concern CPP disability benefits. The grant rate for the PAB in 2001-02 was 63 percent of applications received.

THE APPEALS PROCESS

INITIAL DECISION

Human Resources Development Canada (HRDC) issues a decision on CPP benefit eligibility.

If the client is not satisfied with the decision, he or she can submit a request for review to the Minister of Human Resources Development.

FIRST LEVEL OF REVIEW
Review of client file by HRDC and decision issued

If the client is not satisfied with the decision, he or she has 90 days to appeal to the Office of the Commissioner of Review Tribunals.

SECOND LEVEL OF REVIEW
Appeal to the Office of the Commissioner of Review Tribunals

The case is heard and a decision is issued.

If either the client or HRDC is not satisfied with the decision, an application for "Leave to Appeal" may be submitted to the Pension Appeals Board.

THIRD LEVEL OF REVIEW
Appeal to the Pension Appeals Board

If leave is granted, the case is heard and a decision is issued.

The decision of the Pension Appeals Board is final, subject to judicial review by the Federal Court.

The appointment of a significant number of additional members to the Office of the Commissioner of Review Tribunals and the PAB also made it possible to process appeals more quickly. To reduce the waiting period, initiatives are in place to increase the volume of cases heard each year.

HRDC continues to work closely with the Office of the Commissioner of Review Tribunals and the Pension Appeals Board to improve co-ordination among their offices and to update management practices at the appeals level. As a result, all three organizations have improved client communications.

Looking to the Future

Some 300,000 new CPP applications are received each year and a significant increase is expected as our population ages. The challenge will be to improve service delivery to ensure that Canadians continue to receive timely, accurate and client-focused service. Long-term initiatives aimed at meeting that challenge are now underway.

CPP ONLINE

CPP Online will support the objectives of the federal Government On-Line (GOL) initiative (the commitment to provide Canadians with full electronic access to key federal information and services by 2005). CPP Online initiatives include the implementation of a Web-based system that allows a wider range of inquiries and client transactions online. Six client groups — seniors, persons with disabilities, survivors, migrants, low-income pensioners, and contributors — will be the focal point for modernizing CPP service delivery over the decade. In this context, the importance of strengthening our technological framework is clear, especially since the fastest-growing group of Internet users is the seniors' population.

HRDC has made it a priority to update the systems that help deliver benefits. Evolving over the next four years, the systems will support better decision making by improving the information available to management, clients and staff through faster and more up-to-date technology. The improvements will further reduce the paper burden and the complexity of the application process.

Putting CPP information online is a multi-year project designed to provide Canadians with online access to information, data, and services essential to income security and retirement planning. A comprehensive review of legislation, regulations, policies, and procedures will lay the groundwork for an innovative, leading-edge approach to online services.

ONLINE SERVICES

Over the next two years, HRDC will offer a number of online service options for access to information and services that are essential to income security and retirement. These services will include:

Self-service options by Internet

In 2004, CPP clients will have secure online access to their personal information. They will be able to view and update their address and direct-deposit information online. The enhancement of these capabilities will continue, allowing more information to be viewed and updated in coming years.

Canadian Retirement Income Calculator upgrade

Canadians can estimate their retirement income using an online calculator. They now have access to an enhanced calculator that will incorporate their CPP contributor information. It will also offer additional complex CPP calculations along with alternative retirement, family or life-event scenarios. The calculator is online at: **www.hrdc-drhc.gc.ca/isp/common/info_e.shtml**

Streamlined and automated CPP Statement of Contributions

CPP contributors will be able to request their Statement of Contributions online as of the spring of 2003 and will be able to view it online by the spring of 2004.

SIMPLIFYING THE APPLICATION PROCESS

Simplifying the application process for the CPP retirement pension is part of the planned service delivery improvements. The goal is to make the application process easier for clients through streamlined, client-driven and more effective services.

Making it easier to apply will be the first step in building a modern service system that is based on Canadians' needs and expectations. It will reduce the need for complex information and documentation with applications. As part of this initiative, HRDC will introduce services allowing clients to apply for benefits online.

REACHING ALL CANADIANS

Currently, HRDC's programs help millions of people in Canada every day. The Department's primary objective is to ensure that every Canadian receives the benefits to which he or she is entitled under its programs.

A multi-year strategy has been launched to ensure that all Canadians are aware of the benefits available and to help them more easily obtain those to which they are entitled.

Working in partnership with other departments and with private-sector organizations, the Department is extending its message as far as possible — especially to those who are difficult to contact through traditional methods. Staff will continue to work extensively with the various media (mainstream, ethnic and specialty). Advertisements, articles, radio and cable TV productions will all be used and, wherever possible, potential clients will be contacted directly through mailings, outreach initiatives and other means.

Canada Pension Plan

Financial Statements

for the year ended March 31, 2002

Management's responsibility for financial statements

The financial statements of the Canada Pension Plan have been prepared by management of Human Resources Development Canada in accordance with the accounting policies set out in Note 2 to the financial statements.

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

In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of the financial information, and to ensure that the transactions are in accordance with the *Canada Pension Plan* and regulations, as well as the *Financial Administration Act* and regulations.

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

Alan Winberg
Assistant Deputy Minister
Financial and Administrative Services

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Maryantonett Flumian
Associate Deputy Minister

July 25, 2002

AUDITOR GENERAL OF CANADA VERIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development Canada

I have audited the statement of net assets of the Canada Pension Plan as at March 31, 2002 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of Human Resources Development Canada. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Canada Pension Plan as at March 31, 2002 and the changes in its net assets for the year then ended in accordance with the significant accounting policies set out in Note 2 to the financial statements.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
July 25, 2002

Statement of Net Assets as at March 31 (in millions of dollars)

	2002	2001
Assets		
Investments		
CPP Investment Fund – at cost (Note 3)		
Provincial and Territorial bonds	**24,890**	26,188
Canada bonds	**3,386**	3,403
CPP Investment Board – at fair value (Note 4)		
Canadian equities	**10,114**	5,024
Non-Canadian equities	**4,175**	2,131
Cash		
Deposit with Receiver General for Canada	**6,770**	6,420
Receivables		
Contributions	**1,594**	1,415
Accrued interest	**1,030**	1,139
Régime des rentes du Québec	**25**	24
Beneficiaries (Note 5)	**43**	46
	52,027	45,790
Liabilities		
Accounts payable	**47**	51
Accrued pensions and benefits	**51**	50
CPP Investment Board's liabilities, net of its other assets	**4**	1
	102	102
Net Assets	**51,925**	45,688
Net Assets, represented by:		
Canada Pension Plan Investment Fund	**28,276**	29,591
Accumulated transfers to Canada Pension Plan Investment Board	**14,372**	7,546
Accumulated net loss from Investment Board's operations	**(87)**	(391)
Canada Pension Plan Account (Note 6)	**6,770**	6,420
CPP receivables, net of liabilities	**2,594**	2,522
Net Assets	**51,925**	45,688

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

Approved by Human Resources Development Canada:

Alan Winberg
Assistant Deputy Minister
Financial and Administrative Services

Maryantonett Flumian
Associate Deputy Minister

Statement of Changes in Net Assets
for the year ended March 31
(in millions of dollars)

	2002	2001
Net assets, beginning of year	**45,688**	41,261
Increase in assets		
Contributions (Note 7)	**23,533**	21,407
Investment Income (Note 8)	**3,565**	2,849
	27,098	24,256
Decrease in assets		
Pensions and Benefits (Note 9)		
Retirement	**14,270**	13,527
Survivors	**2,933**	2,802
Disability	**2,641**	2,546
Disabled Contributor's Child	**242**	233
Death	**227**	213
Orphan	**205**	198
Less: Net overpayments	**28**	25
	20,490	19,494
Administration costs (Note 10)	**371**	335
	20,861	19,829
Increase in net assets	**6,237**	4,427
Net assets, end of year	**51,925**	45,688

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

Notes to financial statements
March 31, 2002

1. DESCRIPTION OF THE CANADA PENSION PLAN

a) Description of the CPP

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

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

The Minister of Human Resources Development Canada is responsible for the administration of the *Canada Pension Plan* (the CPP Act); the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels and funding policy.

The financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 6). The CPP Investment Fund (Note 3) holds the bond portfolio of the Plan, and the Plan's investments in capital markets are managed by the CPP Investment Board (Note 4). The financial transactions affecting the Account and the Investment Fund are governed by the CPP Act and regulations. The Investment Board's transactions are governed by the *Canada Pension Plan Investment Board Act* and the accompanying regulations.

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

b) Financing

CPP is financed by contributions and investment returns.

Employers and employees pay contributions equally to CPP. Self-employed workers pay the full amount.

CPP was designed initially to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, CPP is now intended to be funded on a "steady-state" basis – that is, combined contributions are planned to increase to 9.9% of pensionable earnings by 2003 and are then expected to level off.

From 1966 to 1986, the combined employer-employee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and increased yearly by 0.2% to reach 5.6% in 1996. In 1997, 1998, 1999, 2000 and 2001, the combined contribution rate was increased by 0.4%, 0.4%, 0.6%, 0.8% and 0.8% respectively. In 2002, it was increased by 0.8% to reach 9.4%. The maximum combined contribution for 2002 was $3,346 (2001 – $2,993).

The CPP Act provides that an actuarial report shall be prepared every three years for purposes of the review of the financial state of the CPP by the Minister of Finance and his provincial counterparts. The Eighteenth Actuarial Report of the Chief Actuary of the Office of the Superintendent of Financial Institutions was tabled in the House of Commons in December 2001. Federal and provincial ministers of Finance concluded at the end of the 2002 Triennial Review process that the CPP's financial health is sound and that the 9.9% combined employee-employer contribution rate which will be reached in 2003 is expected to be sufficient to sustain the Plan in the face of an aging population.

c) Net assets of the Plan

The net assets of the Plan are composed of the deposit with the Receiver General for Canada, short term and long term investments in bonds and investments in capital markets managed by the CPP Investment Board. The net assets represent funds accumulated for the payment of pensions, benefits and administration costs. This amount does not cover the actuarial present value of accrued pensions and benefits. As at March 31, 2002, the net assets of the Plan are of $51.9 billion (2001 – $45.7 billion). This amount represents 2.5 times the total of pensions and benefits for the year 2001-2002.

d) Pensions and benefits

Retirement pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum for new monthly pension payable at age 65 in 2002 is $788.75 (2001 – $775.00).

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum for new monthly disability benefit in 2002 is $956.05 (2001 – $935.12).

Survivor's benefits – A survivor's benefit is payable to the spouse or common-law partner (the beneficiary) of a deceased contributor, according to the provisions of the Act. For a beneficiary under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A beneficiary between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For beneficiaries aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum for new monthly benefit payable to a beneficiary in 2002 is $473.25 (2001 – $465.00).

Disabled contributor's child and orphan benefits – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or who died 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 2002 is $183.77 (2001 – $178.42).

Death benefits – According to the provisions of the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earning in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2002 is $2,500 (2001 – $2,500).

Pensions and benefits indexation – As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 2002 is 3.0% (2001 – 2.5%).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements present the net assets and the changes in net assets of the Canada Pension Plan. They do not provide information on the actuarial estimates required to meet future obligations of the CPP. The CPP Act does not require that the pensions and benefits be pre-funded.

The financial statements are prepared in accordance with the *Canada Pension Plan* (the CPP Act). They have been prepared on the accrual basis of accounting and they include amounts which must, of necessity, be based on management's best estimates and judgements.

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

b) Valuation of investments

Bonds are shown at cost, which is equal to the face value of the bonds at the time of purchase. This accounting policy has been selected based on the non-marketable, non-transferable nature of the bonds and on consideration of the likelihood of redemption of the provincial and territorial bonds in the foreseeable future. The bonds issued by the provincial and territorial governments are redeemable prior to maturity at market value equivalent at the option of these governments. In the event that the federal Minister of Finance considers the redemption necessary to pay pensions, benefits and administration costs, the bonds would then be redeemed at face value.

CPP Investment Board's investments are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments. Unit values reflect the quoted market prices of the underlying securities.

c) ***Contributions*** to the Plan include CPP contributions collected by the Canada Customs and Revenue Agency (CCRA) for the year, including receivables at year-end. Funds transferred by the CCRA are estimated and are subject to review and adjustments. Adjustments, if any, are recorded as contribution revenue in the year they are known.

d) Investment income recognition

Interest income is recorded in the year in which it is earned.

CPP Investment Board's net income from operations represents the Investment Board's investment income, less investment and administrative expenses. Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income, interest income, and distributions from mutual and pooled funds. Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each year.

e) ***Pensions and benefits*** are recorded when payable.

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

g) ***Administration costs*** are recorded in the year to which they relate.

3. INVESTMENTS HELD BY THE CPP INVESTMENT FUND

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

Until the end of 1997, the investments in provincial, territorial and federal government bonds were made with the cash on hand in excess of the Plan's forecast three-month operating requirement. These bonds were not marketable and had a 20-year term (or less) as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate on the bonds was determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. When these bonds matured, funds not required for payment of pensions and benefits were re-invested in new bonds.

Beginning in 1998, a maturing provincial or territorial bond may be re-invested in a new bond only once for a term of 20 years, if both the issuer asks to do so and the operating balance is sufficient to pay current pensions and benefits. Excess funds not re-invested are transferred to the CPP Investment Board.

The re-invested bonds remain not marketable and bear interest at a rate fixed by the Minister of Finance. The interest rate is substantially the same rate that the province would pay if it were to borrow the same amount for the same term through the issuance of a bond on the public capital markets.

During the year, all redemptions of bonds were made, at maturity date, at face value. Interest earned on the investments is paid semi-annually to the CPP Account. The bonds are redeemable in whole or in part before maturity. Since January 31, 2001, the provinces and territories are permitted to redeem their bonds held by the CPP Investment Fund prior to their maturity at a value equivalent to market value. The bonds can also be redeemed at the option of the federal Minister of Finance where he considers the redemption necessary to pay pensions, benefits and administration costs. The bonds are then redeemed at face value. No bonds were redeemed by the provinces and the territories prior to maturity during the year ended March 31, 2002.

At March 31, 2002, the balance in the Investment Fund was $28.3 billion at cost (2001 – $29.6 billion). The estimated fair value of the balance in the Investment Fund, including accrued interest, is $34.3 billion (2001 – $37.6 billion). This estimate is calculated by discounting the bonds' contractual cash flows at rates currently available at year-end for similar investments.

The following schedule provides information on the redemptions, re-investments and balance of the Investment Fund.

Bonds, at cost
(in thousands of dollars)

	March 31, 2001	Redemptions	Re-Investments	March 31, 2002
Newfoundland	633,656	52,973	52,376	**633,059**
Prince Edward Island	140,469	11,504	11,374	**140,339**
Nova Scotia	1,173,077	96,251	96,251	**1,173,077**
New Brunswick	835,171	75,637	74,784	**834,318**
Quebec	95,813	6,316	6,250	**95,747**
Ontario	12,708,448	1,268,736	503,955	**11,943,667**
Manitoba	1,394,972	135,001	–	**1,259,971**
Saskatchewan	1,329,256	109,647	–	**1,219,609**
Alberta	3,776,251	216,739	–	**3,559,512**
British Columbia	4,096,848	378,223	308,580	**4,027,205**
Yukon Territory	3,726	–	–	**3,726**
	26,187,687	2,351,027	1,053,570	**24,890,230**
Canada	3,403,537	17,622	–	**3,385,915**
	29,591,224	2,368,649	1,053,570	**28,276,145**

The following schedule presents the classification of bonds by maturity dates and the weighted-average annual rate of return on bonds currently held.

(in millions of dollars)

	2002		2001	
	Investment at cost	Average yield	Investment at cost	Average yield
Investments maturing				
Within 1 year	**2,383**	**14.80%**	2,369	15.31%
1 – 5 years	**10,020**	**11.46%**	9,529	12.84%
Over 5 years	**15,873**	**9.13%**	17,693	9.38%
Total – Investments	**28,276**		29,591	
Weighted-average yield on investments		**10.43%**		10.97%

4. INVESTMENTS HELD BY THE CPP INVESTMENT BOARD

The Canada Pension Plan Investment Board was established by an Act of Parliament in 1997. The *Canada Pension Plan Investment Board Act* came into force on April 1, 1998. The purpose of the Board is to invest the funds transferred by the CPP in a diversified portfolio of securities. The Board is designed to operate at arm's length from the government. It is required to be accountable to the public, Parliament, through the federal Minister of Finance, and his provincial counterparts through regular reports.

The following schedule provides information on the Board's investments as at March 31.

(in millions of dollars)

	2002	2001
Canadian equities, at fair value		
Public Markets	**9,970**	5,024
Private Markets	**144**	–
	10,114	5,024
United States		
Public Markets	**1,861**	1,070
Private Markets	**304**	–
	2,165	1,070
Non-North America		
Public Markets	**1,971**	1,061
Private Markets	**12**	–
	1,983	1,061
Total Equities		
(Cost 2002 – $14,690; 2001 – $8,042)	**14,262**	7,155
Other Investments		
Money Market Securities (Cost 2002 – $27; 2001 – Nil)	**27**	–
Total Investments	**14,289**	7,155

In accordance with its Investment Policy, 100% of the CPP Investment Board's investments are allocated to equities, with at least 70% of the book value allocated to Canadian equities and the remainder to non-Canadian equities.

The regulations governing the CPP Investment Board allow the active management of up to 50% of Canadian equities, on a book value basis. The regulations restrict the remaining investments in Canadian equities to substantially replicate the composition of one or more broad market indices.

As at March 31, 2002, 96,6% (2001 – 100%) of investments are held in public market equities. Approximately 99% (2001 – 61%) of investments in Canadian public market equities are held in funds that substantially replicate the composition of the Toronto Stock Exchange 300 Composite Index.

All United States and Non-North America (collectively “Non-Canadian”) public market equities are held in funds that substantially replicate the Standard & Poor’s (“S&P”) 500 Index and the Morgan Stanley Capital International (“MSCI”) EAFE Index, respectively.

As at March 31, 2002, 3.2% (2001 – nil) of investments are held in private market equities. These investments, currently in Canada, the United States, and Western Europe, are generally made by taking an interest in funds managed by third parties. The underlying investments represent equity ownership or investments with the risk and return characteristics of equity.

The CPP Investment Board’s audited financial statements for the year ended March 31, 2002 are publicly available and provide details concerning the Board’s investment policy, its investments and portfolio return.

5. RECEIVABLES FROM BENEFICIARIES

(in millions of dollars)

	2002	2001
Balance of pensions and benefits overpayments	**73**	76
Less: allowance for doubtful accounts	**30**	30
	43	46

Human Resources Development Canada has procedures to detect overpayments. During the year, overpayments totalling $38 million (2001 – $33 million) were established and remissions of debts totalling $10 million (2001 – $8 million) were granted. A further $32 million was recovered (2001 – $24 million).

6. CANADA PENSION PLAN ACCOUNT

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

The balance of the CPP Account includes the Deposit with the Receiver General for Canada and short-term investments, if any. As at March 31, the Deposit with Receiver General for Canada amounts to $6,770 million (2001 – $6,420 million).

7. CONTRIBUTIONS

The Department of Finance estimates annual contributions based on a forecast of pensionable earnings. That forecast of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate those earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 2001, would result, in each case, in a change of $ 227 million (2000 – $201 million) in estimated contributions.

The Canada Customs and Revenue Agency (CCRA) transfers contributions to the CPP based on the Department of Finance's estimate of contributions to be collected for a calendar year and on its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 2001 and 2002 will only be known once the CCRA has processed all employers' and self-employed workers' declarations of contributions for 2001 and 2002.

Adjustments, if any, are recorded in the year in which they are known. The CPP reimbursed $396 million to CCRA in 2001-2002 as an adjustment for 2000 and preceding years (2000-2001 – CPP received $357 million for 1999 and preceding years).

8. INVESTMENT INCOME

(in millions of dollars)

	2002	2001
Interest on bonds held by the CPP Investment Fund	**3,071**	3,326
Interest on deposit with the Receiver General for Canada at a weighted-average rate of 3.09% (2001 – 5.27%)	**189**	362
Interest on short term investments with Canada (2001 – weighted-average rate of 5.63%)	**–**	12
Investment Board net income / (loss) from operations:		
Net unrealized gains / (losses)	**459**	(1,247)
Fund distributions of capital gains and dividends	**213**	213
Net realized gains / (losses)	**(378)**	180
Dividend Income	**12**	3
Other investment income	**10**	6
Less: Investment and administrative expenses	**11**	6
	305	(851)
	3,565	2,849

9. PENSIONS AND BENEFITS MISPAYMENTS

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made. Periodically, Human Resources Development Canada undertakes studies of the extent and nature of pension and benefit mispayments. The most recent review was completed for the 1999 benefit year. The most likely value of undetected mispayments for that year was $32.4 million (under-payments – $21.3 million and overpayments – $11.1 million).

In July 2002, a new approach in the management of risk for the CPP program was initiated. As HRDC moves towards Modernizing Service for Canadians, corrective and preventative initiatives to mitigate pension and benefit payment risks will be identified, prioritised and managed through the recently introduced Integrated Risk Management approach. This new practice replaces studies on the extent and nature of pension and benefits mispayments which were reported in the previous years.

10. ADMINISTRATION COSTS

(in millions of dollars)

	2002	2001
Pension and benefit delivery, accommodation and corporate services (Human Resources Development Canada)	**279**	243
Collection of contributions (Canada Customs and Revenue Agency)	**78**	78
Cheque issue and computer services (Public Works and Government Services Canada)	**13**	13
Actuarial services (Office of the Superintendent of Financial Institutions)	**1**	1
	371	335

Administration costs of the CPP represent the cost of services received from a number of federal government departments and an agency. Those costs are charged to the CPP in accordance with memoranda of understanding.

11. CONTINGENCIES

At March 31, 2002, there were 8,185 (8,224 in 2001) appeals relating to the payment of CPP pensions and benefits. Claims for these appeals could reach a maximum of $35 million ($21 million in 2001). Any claims resulting from the resolution of these appeals will be accounted for as an expenditure of the period in which the claim will be paid.

12. SUBSEQUENT EVENT

In June 2002, a Bill was tabled in the House of Commons to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* in order to implement a federal-provincial agreement to transfer CPP assets (the Deposit with the Receiver General and the Canada Pension Plan Investment Fund) that are managed by the federal government to the CPP Investment Board. The adoption of the new law would make it possible for the transfers to begin in 2003 and to continue over a three-year period.

As a result of the tabling of the Bill in the House of Commons, the Chief Actuary of the Office of the Superintendent of Financial Institutions has submitted a Nineteenth Actuarial Report on the Canada Pension Plan. This report, tabled in the House of Commons in June 2002, reflects the changes in the assets of the Plan following the transfer of funds to the Board.

13. COMPARATIVE FIGURES

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

Feedback Form

THE ANNUAL REPORT OF THE CANADA PENSION PLAN — IS IT GIVING YOU WHAT YOU NEED?

The CPP Annual Report is designed to help Canadians understand the role of the Canada Pension Plan and how it is managed. It describes developments during the past fiscal year that affect the Plan and provides the Plan's audited financial statements for the fiscal year ending March 31, 2002. The Report also gives a glimpse of where the Plan is headed and what steps are being taken to make sure it will continue to be there for future generations.

We are interested in hearing what you have to say about our report and how we can make it more useful to readers. Please take the time to fill in the brief questionnaire below, circling your responses. Then fax this sheet back to us at (613) 957-1602.

1. What is your purpose in reading the CPP Annual Report?

- To obtain general information about the CPP
- To do research for studies or private business
- To assist in counselling Canadians on their retirement finances
- To assist clients in a medical context
- To find out about the recent changes to the CPP
- Other (please specify) ____________________

2. What sort of CPP information interests you?

- General information about the CPP, such as benefits and services
- Disability benefits information
- CPP financial information, such as investments and expenditures
- Other (please specify) ____________________

3. Was the information you needed easy to find in the Report?

❑ YES ❑ NO

(If no, please specify why not) ____________________

4. Which would you prefer to receive?

- A full report
- A short report, with information on where to find detailed information on specific areas
- Notification of the Report's availability and the Web site location

5. How can we make this report more useful to you?

Annual Report

of the Canada Pension Plan

2001-2002