

98/99



ANNUAL REPORT OF THE CANADA

# PENSION PLAN

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**Fiscal Year 1998-1999**

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Development Canada's Income  
Security Programs Branch

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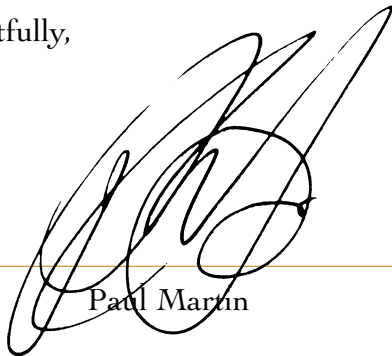
Gouvernement  
du Canada

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 1998-1999.

Respectfully,



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Paul Martin



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Jane Stewart

Canada

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This Report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan.

# ABOUT THE CANADA PENSION PLAN

## A MEASURE OF INCOME PROTECTION

The Canada Pension Plan (CPP), which began in 1966, provides benefits to contributors and their families. The CPP covers employed and self-employed persons between the ages of 18 and 70 who have more than a minimum level of earnings in a calendar year. The Plan operates in every province and territory, except Quebec, which operates a similar pension program, the Quebec Pension Plan (QPP). The benefits and provisions under the CPP include retirement, disability, survivor and death benefits, as well as services under the CPP national vocational rehabilitation program. Benefits are increased each year in January to reflect increases in the average cost of living, as measured by the Consumer Price Index.

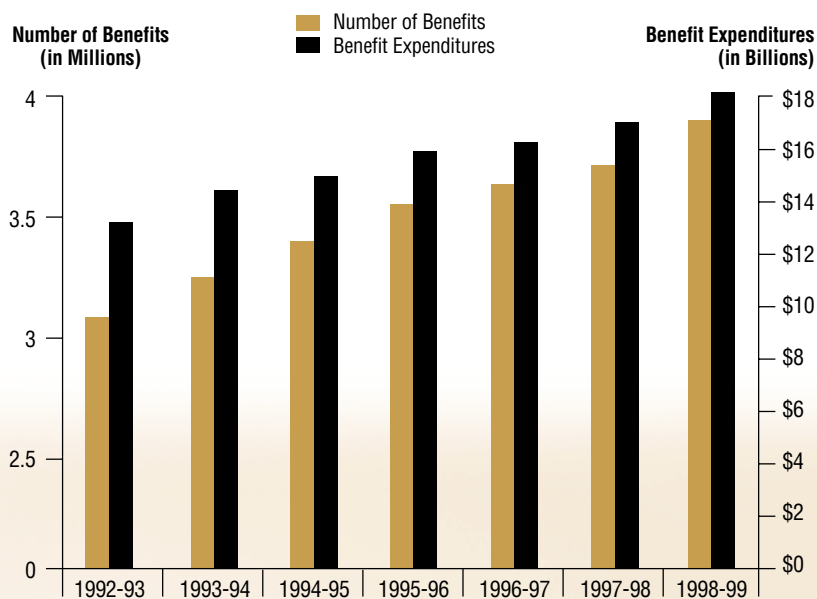
The CPP is self-supporting and is a separate fund from general revenue in the Accounts of Canada. It is financed through mandatory contributions from employees, employers and self-employed persons, as well as through investment income derived from CPP investments. Approximately 10.4 million Canadians currently contribute to the CPP.

Changes to the legislation governing the general level of benefits, the rate of contributions, or the investment policy require an Act of Parliament and the agreement of at least two-thirds of the provinces having not less than two-thirds of the population. In addition, changes of this kind require a two-year notice before coming into force unless all the provinces agree to waive such notice.

## BENEFITS

Over 3.4 million people received 3.9 million benefits totaling approximately \$18.2 billion during the fiscal year 1998-99.

**Table 1 – BENEFITS AND EXPENDITURES BY FISCAL YEAR**



## CONTRIBUTIONS

Contributions to the Plan are compulsory and are based on employee earnings that exceed a minimum level known as the Year's Basic Exemption (YBE) up to a ceiling known as the Year's Maximum Pensionable Earnings (YMPE). The YMPE is linked to the average Canadian wage and is adjusted annually. Since 1996 the YBE has been \$3,500. It will continue at that level. The YMPE increased from \$36,900 in 1998 to \$37,400 in 1999. Contributions cannot be made after age 70, after a contributor begins to receive a CPP retirement pension, or while an individual is receiving a CPP disability benefit.

**TABLE 2 – AMOUNT OF YMPE AND YBE**

	<b>YMPE</b>	<b>YBE</b>
1997	\$35,800	\$3,500
1998	\$36,900	\$3,500
1999	\$37,400	\$3,500

From 1966 to 1986, the contribution rate was 1.8 percent each for employees and employers with the self-employed paying 3.6 percent of their earnings subject to the yearly maximum amounts. The contribution rate began to increase in 1987 with a combined employee-employer increase of 0.2 percent for 1987 to 1991 and again for 1992 to 1996.

The 1999 contribution rates are 3.5 percent for employees, 3.5 percent for employers with the self-employed paying 7.0 percent.

Revenue Canada (RC) collects contributions on behalf of the CPP. Contributors paid about \$14.8 billion into the Plan during 1998-99. As of March 31, 1999, the CPP held approximately \$36.9 billion.

## RETIREMENT PENSION

### Eligibility

- Following the contributor's 60th birthday
- If under age 65, the month after the contributor has completely or substantially stopped working

### Benefit Rates

- Based on the individual's contributions paid into the Plan
- Benefits are actuarially adjusted by 0.5 percent, up to a maximum of 30 percent, for each month the contributor is either over or under 65 at the start of the pension (this adjustment is made to reflect a longer or shorter period of time that a person receives his/her retirement pension)

## RETIREMENT PENSION – FACTS AND FIGURES

Retirement pensions represent 64.3 percent of the total number of CPP benefits paid and 68.1 percent of the total benefit dollars paid out by the CPP in 1998-99.

**TABLE 3 – MAXIMUM AND AVERAGE MONTHLY RETIREMENT PENSION AMOUNTS**

<b>Age benefit begins</b>	<b>Maximum amount payable</b>		<b>Average amount paid</b>	
	<b>1998</b>	<b>1999</b>	<b>March 1998</b>	<b>March 1999</b>
Age 65	\$744.79	\$751.67	\$417.66	\$418.74
All ages			\$408.55	\$412.38



Table 5 illustrates that the percentage of new retirement beneficiaries choosing to receive their benefits before age 65 has increased from 61 percent in 1993 to 64 percent in 1998. The number of new retirees at age 60 continues to increase while those between 61 and 65 has decreased.

## ASSIGNMENT OF RETIREMENT PENSIONS

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

**Table 4 – NUMBER OF RETIREMENT PENSIONS AND ANNUAL EXPENDITURES**

<b>At year end March 31</b>	<b>Number of benefits (in thousands)</b>	<b>Number of new benefits</b>	<b>Benefit expenditures (in billions)</b>
1994-95	2,231	178,094	\$ 9.9
1995-96	2,321	180,998	\$10.5
1996-97	2,404	175,706	\$11.2
1997-98	2,489	181,009	\$11.8
1998-99	2,532	173,030	\$12.4

**Table 5 – NEW RETIREMENT BENEFICIARIES ELECTING EARLY BENEFITS  
(AS A PERCENTAGE OF NEW BENEFICIARIES)**

<b>Year</b>	<b>Age 60</b>	<b>Age 61–64</b>	<b>Total &lt;65</b>	<b>At age 65</b>	<b>&gt;65</b>
1993	32	29	61	34	5
1994	34	29	63	32	5
1995	35	26	61	34	5
1996	37	26	63	32	5
1997	38	25	63	32	5
1998	40	24	64	31	5

## DISABILITY BENEFITS

### Eligibility

#### Disability

- To qualify contributors must
  - be disabled according to CPP legislation and
  - be between the ages of 20 and 65 and
  - meet minimum contributory requirements

#### Children's

- Paid on behalf of the dependent children of the disabled beneficiary if
  - children are less than age 18 or
  - between 18 and 25 and in full-time attendance at school or university



## Benefit Rates

### Disability

- Consists of a flat-rate amount and an amount based on the contributions of the applicant
- At age 65, a disability benefit is automatically converted to a retirement pension

### Children's

- Flat-rate monthly benefit paid on behalf of the dependent children of the disabled beneficiary
- Children may receive a maximum of two child's benefits

A contributor is considered disabled under the CPP when his/her physical or mental condition is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long term or may result in death.

The maximum and average monthly amounts payable for 1998 and 1999 are presented in Table 6.

## DISABILITY BENEFITS – FACTS AND FIGURES

Disability Benefits, paid to contributors and their children, represent 9.8 percent of the total number of CPP benefits paid and 15.5 percent of the total benefit dollars paid out by the CPP in 1998-99.

## SURVIVOR BENEFITS

### Eligibility

#### Survivor

- The deceased must have made a minimum amount of contributions to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- Eligibility and the rate of payment are determined by
  - age of the surviving spouse
  - whether or not the spouse is disabled
  - whether or not the spouse supports dependent children of the deceased contributor

#### Children of a deceased contributor

- The natural, adopted, or child in the care and control of the deceased contributor, at the time of death, may be eligible for the children's benefit if
  - less than age 18 or
  - between 18 and 25 and in full-time attendance at school or university

#### Death Benefit

- Paid to the deceased contributor's estate or the person responsible for the funeral expenses

TABLE 6 – MAXIMUM AND AVERAGE MONTHLY DISABILITY BENEFIT AMOUNTS

Type of disability benefit	Maximum amount payable		Average amount paid	
	1998	1999	March 1998	March 1999
Disability	\$895.36	\$903.55	\$674.53	\$676.91
Children's (flat-rate)	\$169.80	\$171.33	\$169.80	\$171.33



TABLE 7 – DISABILITY BENEFITS VOLUME AND EXPENDITURES

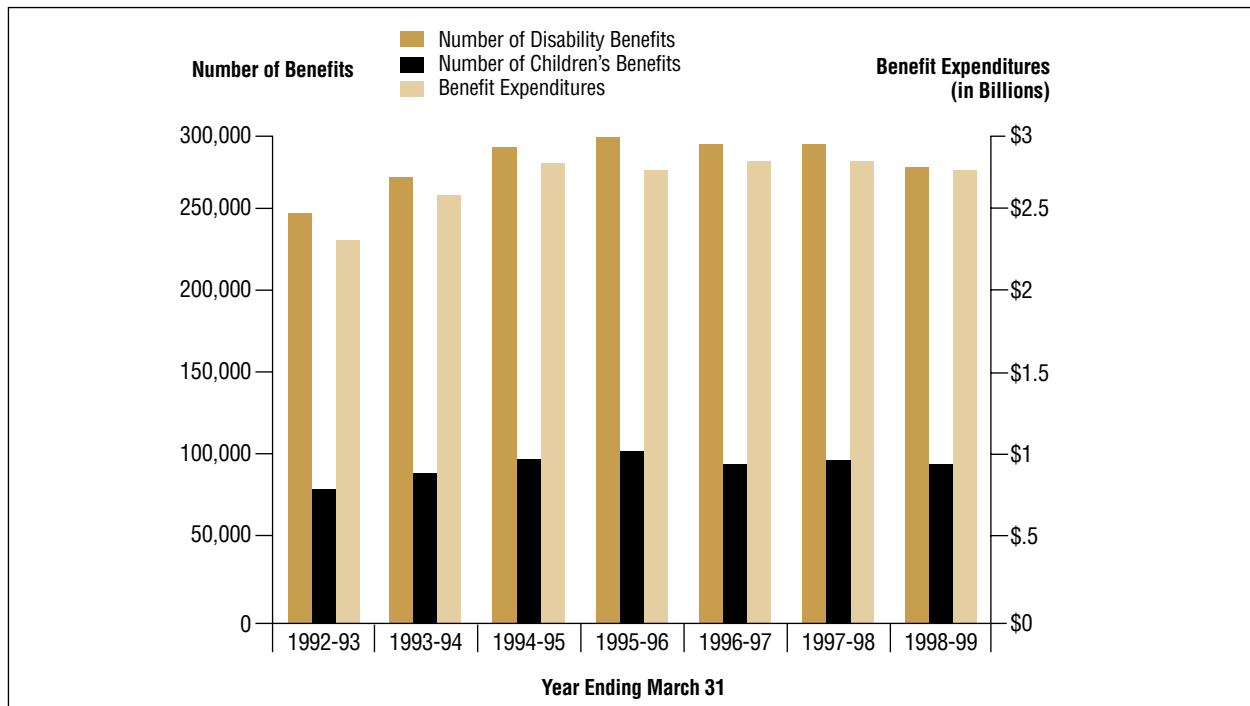


TABLE 8 – MAXIMUM AND AVERAGE MONTHLY SURVIVOR BENEFIT AMOUNTS

Type of Survivor benefit	Maximum amount payable		Average amount paid	
	1998	1999	March 1998	March 1999
Spouse <65	\$410.70	\$414.46	\$305.85	\$307.38
Spouse >65	\$446.87	\$451.00	\$236.16	\$239.84
Children's (flat-rate)	\$169.80	\$171.33	\$169.80	\$171.33
Survivor/Disability	\$895.36	\$903.55	\$833.86	\$833.84
Survivor/Retirement	\$744.79	\$751.67	\$548.63	\$557.06
Death	\$2,500.00	\$2,500.00	\$2,353.62	\$2,162.48

## Benefit Rates

### Survivor

- Only one survivor's pension payable to the surviving spouse
- If widowed more than once, the larger of the entitlements is paid
- Survivor and disability or survivor and retirement benefits may be combined to a maximum.
- Children may receive a maximum of two child's benefits

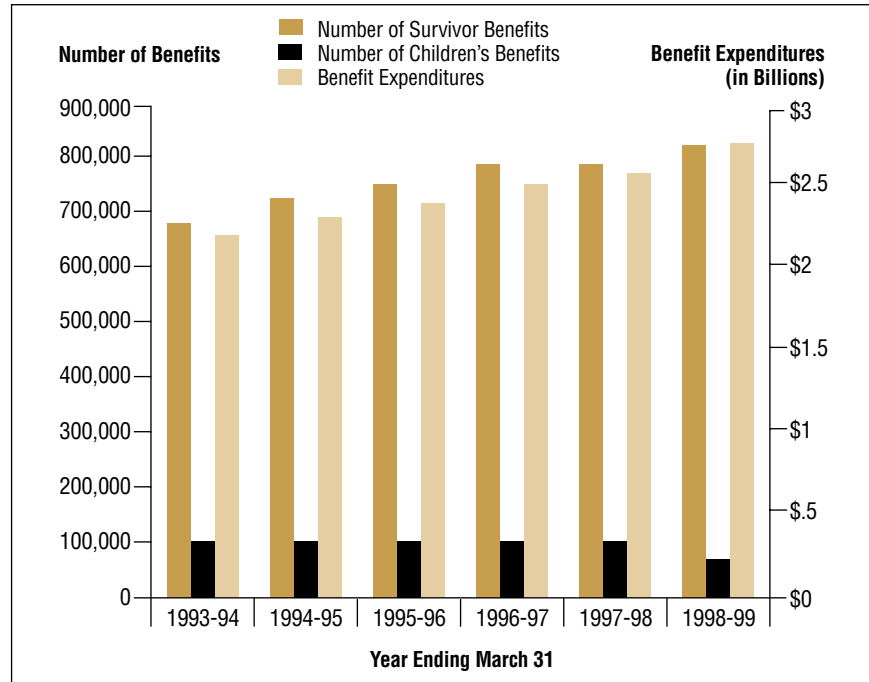
### Children of a deceased contributor

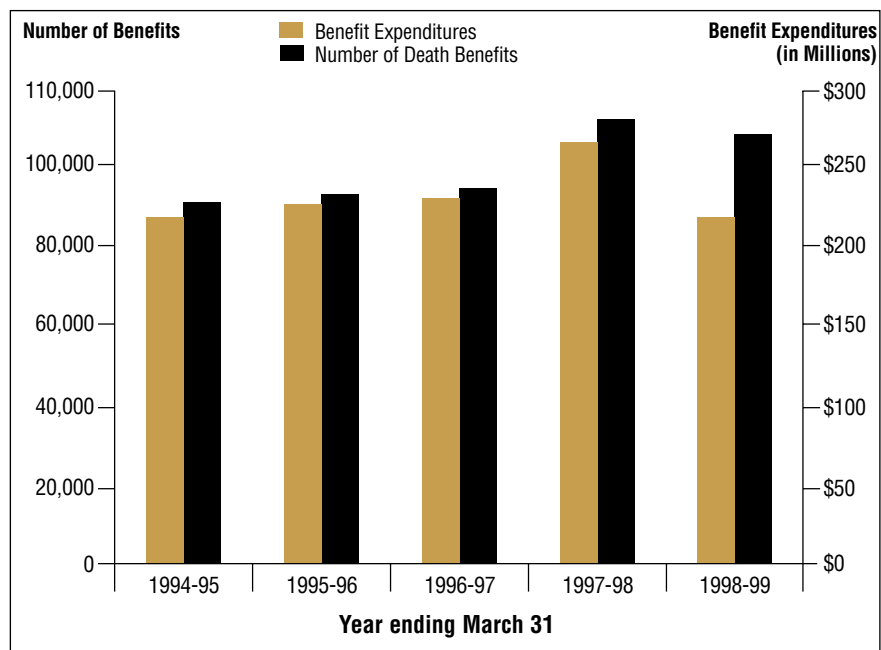
- Flat-rate monthly benefit paid to the dependent children of the deceased contributor

### Death Benefit

- Lump-sum payment equal to six months' worth of the deceased contributor's "calculated" retirement pension, up to a set maximum for the year of death
- maximum \$2,500 for deaths after December 31, 1997

Table 9 – SURVIVOR AND CHILDREN'S BENEFITS VOLUME AND EXPENDITURES



**Table 10 – DEATH BENEFITS VOLUME AND EXPENDITURES**

### SURVIVOR AND CHILDREN'S BENEFITS – FACTS AND FIGURES

Survivor benefits, paid to the surviving spouse of the contributor and his/her children, represent 23.2 percent of the total number of CPP benefits paid and 15.2 percent of the total benefit dollars paid out by the CPP in 1998-99.

### DEATH BENEFITS – FACTS AND FIGURES

Death benefits represent 2.7 percent of the total number of CPP benefits paid and 1.2 percent of the total benefit dollars paid out by the CPP in 1998-99.

### SPLITTING PENSION CREDITS

The CPP allows contributors to split their accrued pension credits between spouses upon the dissolution of their marriage or common law relationship. (and the receipt of the

required information). The credit splitting provision is mandatory when there is a divorce, except in Saskatchewan, Quebec and B.C, where a couple can choose to opt out through a spousal agreement. Since 1987, credit splitting is also available to separated spouses, upon application.

During 1998-99, 8,779 applications for credit splitting were approved.

# FINANCING THE CANADA PENSION PLAN

## CPP'S FINANCIAL SUSTAINABILITY

Public consultations in 1996 clearly indicated that Canadians believe in the CPP and want it preserved. Progress in attaining this goal is now tangible. The Seventeenth Actuarial Report on the CPP, tabled in Parliament in December 1998, indicates that the CPP is financially sustainable. This is largely the result of legislative changes made to the Plan that took effect in early 1998 (*Bill C-2, An Act to establish the CPP Investment Board and amend the CPP and OAS Act*) and detailed in the 1997-98 CPP Annual Report. Changes included strengthening the Plan's financing, improving its investment practices, and slowing the growing costs of benefits. The provisions regarding the Plan's investment practices began to take effect in the 1998-99 fiscal year.

In addition, a panel of three independent actuaries reviewed the Seventeenth Actuarial Report and supported the overall conclusion reached by the Acting Chief Actuary regarding the financial soundness of the CPP.

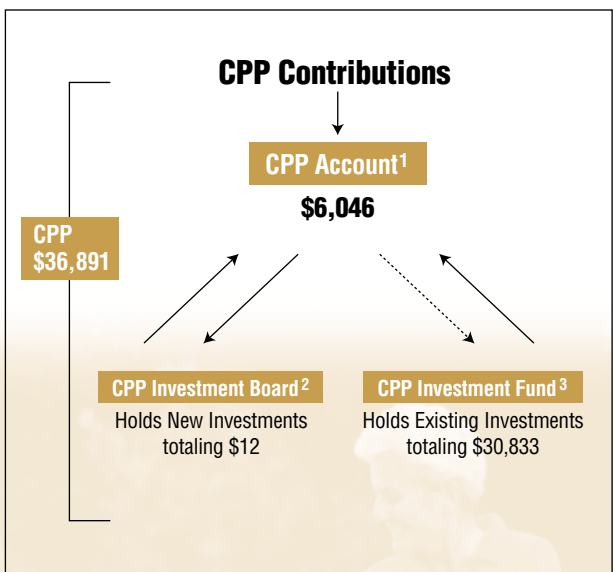
## THE CANADA PENSION PLAN

An account for the CPP is established in the Accounts of Canada to record the contributions, interest, pensions, benefits and administrative expenditures of the Plan. It also records the amounts transferred to or received from the CPP Investment Fund and the CPP Investment Board. The authority to spend is limited to the balance in the account.

The CPP Statement of Revenue, Expenditures and Balance for the year ended March 31, 1999, with the previous year's statement as audited by the Auditor General of Canada, is presented in Appendix A. With the

commencement of the operation of the CPP Investment Board, the CPP Statement of Revenue, Expenditures and Balance has been modified in 1999 to reflect the three components of the Canada Pension Plan.

**Table II – CPP CASH FLOW AND COMPONENT OVERVIEW AS OF MARCH 31, 1999 (IN MILLIONS)**



<sup>1</sup> A separate account in the Accounts of Canada comprised of an operating balance of \$5,427 million and short term investments of \$619 million.

<sup>2</sup> An independent corporation operating at arms length from governments. Investment income flows back into the Consolidated Revenue Fund and is credited to the CPP Account as the need arises.

<sup>3</sup> A separate account in the Accounts of Canada. Investment income flows back into the Consolidated Revenue Fund and is credited to the CPP Account. New Contributions no longer flow into the Fund.

These three components are the CPP Account, the CPP Investment Fund, and the CPP Investment Board and together constitute the balance of the Canada Pension Plan. In previous reports, the term "CPP Account" represented the balance of the Plan. The balance of the plan represents accumulated contributions and investment income since its inception in 1966 minus benefits and expenditures made in the same period.

As of March 31, 1999, the balance of the CPP was approximately \$36.9 billion and was equal to 2.03 years' worth of benefits. These funds provide a reserve in the event of circumstances such as lower than expected contributions because of economic conditions or higher than expected benefit payments. Under the provisions put into place in 1997-98 to strengthen the Plan's financing, the balance will increase to between four and five years' worth of benefits over the next two decades. Table 11 outlines the various components of the CPP.

## CPP ACCOUNT

The CPP Account comprises an operating balance and short-term investments. The operating balance is maintained at a level to meet the anticipated benefit payments and administrative charges from the Account for the next three-month period. These funds are not invested in provincial securities but earn interest on the average daily balance of the reserve. The interest paid on these funds is calculated by averaging the unweighted average yields at tender on three-month Treasury Bills during the month the interest is paid less one-eighth of one percent.

During 1998-99, the operating balance maintained an average interest rate of 4.80 percent earning \$261 million. Short-term investments had an average interest rate of 4.87 percent earning \$35 million.

## CPP INVESTMENT FUND

Under the former investment policy, funds not immediately needed to pay benefits were invested in securities of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. The CPP Investment Fund continues to hold its money in these securities; however they are no longer being purchased with new funds. At March 31, 1999, the balance in the Investment Fund was \$30.8 billion with all securities held having 20-year terms.

### Interest

In 1998-99, the Investment Fund earned about \$3.6 billion in interest, which was deposited in the CPP. The Statement of Purchases, Disposals and Balance for the year ended March 31, 1999, as presented in Appendix A summarizes the status of the Investment Fund as of March 31, 1999.

Maturing securities are regularly redeemed with the principal and any outstanding interest reimbursed by the provinces and territories. In 1998-99, \$1.7 billion in securities bearing a weighted average interest rate of 9.5 percent matured and were redeemed. All interest and principal payments have always been paid by the provinces and territories when due. There were \$87 million in securities that were re-invested.

### Rates of Return

The Investment Fund continues to benefit from the high rates of return of securities that were bought under the former investment policy, which bear a weighted average annual return of 11.44 percent. Since these securities are long-term (20-year) government bonds, the Fund's average rate of return will remain above 10 percent for the next several years. These securities were bought in the early 1980s when interest rates were relatively high; therefore, the short

term rate of return will exceed the Fund's expected long-term rate of return of 7 percent.

The new long-term investment strategy is expected to provide better returns than the previous approach of only investing in government bonds, as well as improve diversification of investments.

## TRANSITION TO THE NEW INVESTMENT POLICY

As the securities bought under the former investment policy mature and are redeemed, they may be transferred to the CPP Investment Board and reinvested under the new policy. However, as a transitional measure reflecting historical arrangements, provinces will have the option of rolling over existing CPP borrowings at maturity for one last 20-year term. If the provinces choose this option, they will pay the same rate of interest as they do on their other market borrowings. In addition, provinces will have access, at market rates, to a specified percentage of the funds that the Board chooses to invest in bonds. During the first three years, provinces will have access to 50 percent of the amount that the Board allocates to bonds. After this three-year period, this percentage will be consistent with the percentage of bond holdings generally allocated to provincial and municipal bonds by Canadian pension funds.

## CPP INVESTMENT BOARD

The Canada Pension Plan Investment Board assumed responsibility during the 1998-99 fiscal year for investing and managing funds not immediately needed to pay benefits. The Board's first directors were appointed on October 29, 1998. Between November 1998 and March 1999, the Board met six times, reflecting its substantial start-up responsibilities. By the end of March 31, 1999, the Board had:

- established its first by-laws (for the Board's governance and director compensation);
- formed its first committees (investment, audit, human resources and compensation, and governance);
- adopted corporate governance guidelines, conflict of interest guidelines and a code of conduct;
- established an interim investment policy;
- begun investing funds; and
- issued two quarterly reports.

Throughout the reporting period and pending the appointment of a permanent CEO, Board Chairperson Gail Cook-Bennett served as the Acting CEO. During this time, major decisions about infrastructure, such as permanent staffing and strategic plan, were deferred until the arrival of the permanent CEO.

## Investment Policy

The Board established its interim investment policy on December 18, 1998, consistent with the parameters set out in the *Canada Pension Plan Investment Board Act*. This policy will be periodically reviewed. The key elements are as follows:

- 100 percent of the Board's assets will be invested in equities, reflecting in part, the cash inflow from the CPP's existing bond portfolio;
- 80 percent of the assets will be invested domestically, 20 percent internationally, in keeping with the Foreign Property Rule, which applies to the Board;
- the domestic equity will be indexed, as required by regulation; this will be done by replicating the TSE 300 (with TD Quantitative Capital serving as investment manager); and
- the 20 percent international component will also be indexed, replicating the S&P 500 Index and the Morgan Stanley Capital



International (MSCI) EAFE (Europe, Asia and Far East) Index.

In the future, regulations may be changed so that the Board can invest more actively in a diversified portfolio of equities, rather than just passively in indices. The accounting firm of Deloitte & Touche was appointed as the Board's auditor.

Under the new investment policy, the CPP Investment Board will prudently invest the CPP Fund in a diversified portfolio of securities. This will secure the best possible long-term rate of return and better protect the Fund under a variety of economic conditions.

Based on prudent assumptions, under the new policy the CPP is expected to secure an average long-term real return of 3.8 percent a year, i.e. above the rate of inflation, compared to 2.5 percent under a continuation of the former policy. A higher investment return on the fund will help keep contribution rates down.

The Investment Board will operate under the same general investment rules that apply to other Canadian pension funds, and hire professional asset managers to make day-to-day investment decisions at arm's-length from governments.

The foreign property limit for pension funds of 20 percent will apply to the CPP Investment Board. To ensure the fund's smooth entry into the market, the Board's equity investments will be

selected passively, substantially mirroring broad market indexes. This approach will be re-evaluated at each CPP Triennial review.

The Investment Board is required to meet high standards of public accountability by:

- making its investment policies, standards and procedures public;
- preparing quarterly financial statements and providing them to federal and provincial finance ministers;
- publishing a detailed annual report; and
- holding regular meetings in each province for public discussion and input.

#### **Investment Activities**

The Board received its first funds for investment in March 1999, totaling approximately \$12 million. Accordingly, as of its first fiscal year-end, March 31, 1999, it had assets of just over \$12 million, including \$202,000 in investment income.

More than \$1 billion in new cash flow is expected over the next year. The Fund managed by the Board will continue to grow as the current assets of the CPP, mostly government bonds, mature and are invested by the Board in market equities. In addition, the Fund will increase as a result of increased CPP contributions making substantially more funds available to the Board for investments.





### Looking toward the future

In April 1999, the Governor in Council approved the regulations setting out the broad investment parameters for the Board.

The Board announced the appointment of its first CEO, John McNaughton, on June 22, 1999. Mr. McNaughton, the recently retired president of Nesbitt Burns, was also president & Chief Executive Officer of Burns Fry, and spent over 30 years with Nesbitt Burns and its predecessor firms. He is a past chairman of the Investment Dealers Association. His appointment is effective September 7, 1999.

### ADMINISTRATIVE COSTS

The approximately \$304 million annual cost for 1998-99 to administer the CPP is shared among all federal government departments responsible for delivering CPP services (refer to Appendix B). Costs are allocated to the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. The underlying characteristics of the costing principles are that the charges have a causal relationship to the CPP for their occurrence and are traceable.

**Table 12 – SUMMARY OF ACTUAL AND ESTIMATED CPP ADMINISTRATIVE COSTS AND FORECAST OF EXPENDITURES BY DEPARTMENT/BRANCH – 1997-98 TO 2001-02 (IN THOUSANDS)**

	ACTUALS		FORECASTS		
	1997-98	1998-99	1999-00	2000-01	2001-02
HRDC Administration & Accommodation <sup>1</sup>	\$189,700 \$13,736	\$205,929	\$234,082	\$226,008	\$215,200
Revenue Canada	\$ 74,800	\$ 75,753	\$ 74,600	\$ 77,000	\$ 80,300
PWGSC <sup>4</sup> -Services	\$ 17,864	\$ 14,352	\$ 14,000	\$ 14,000	\$ 14,000
OSFI <sup>5</sup>	\$ 1,100	\$ 1,022	\$ 900	\$ 1,000	\$ 1,100
CPP Investment Board	-	\$ 6,000 <sup>2</sup>	<sup>3</sup>	<sup>3</sup>	<sup>3</sup>
Finance	\$ 500	\$ 530	\$ 600	\$ 600	\$ 600
Total	\$297,700	\$303,586	\$324,182	\$318,608	\$311,200

<sup>1</sup> Starting in 1998-99 accommodation costs are included in HRDC as opposed to Public Works and Government Services Canada (PWGSC) to reflect inclusion of accommodation in the HRDC vote of budget.

<sup>2</sup> Although the CPP Investment Board was forwarded \$6 million for start-up costs, it only actually used \$1.076 million and will repay the remainder in 1999-2000.

<sup>3</sup> At this time, the CPP Investment Board is unable to make precise forecasts regarding future administrative costs.

<sup>4</sup> Public Works and Government Services Canada (PWGSC)

<sup>5</sup> Office at the Superintendent of Financial Institutions (OSFI)

## CPP ADMINISTRATIVE COSTS COMPARE WELL TO OTHER PENSION PLANS

As a ratio of costs-to-benefits-paid, CPP administrative expenses represent 1.67 percent of the \$18.2 billion in benefits paid (or 1.64 percent of total expenditures). This ratio compares very favourably with that of other pension plans. For example, large pension plans in the private sector had, on average, administrative costs equal to 5 percent of the total expenditures in 1997.

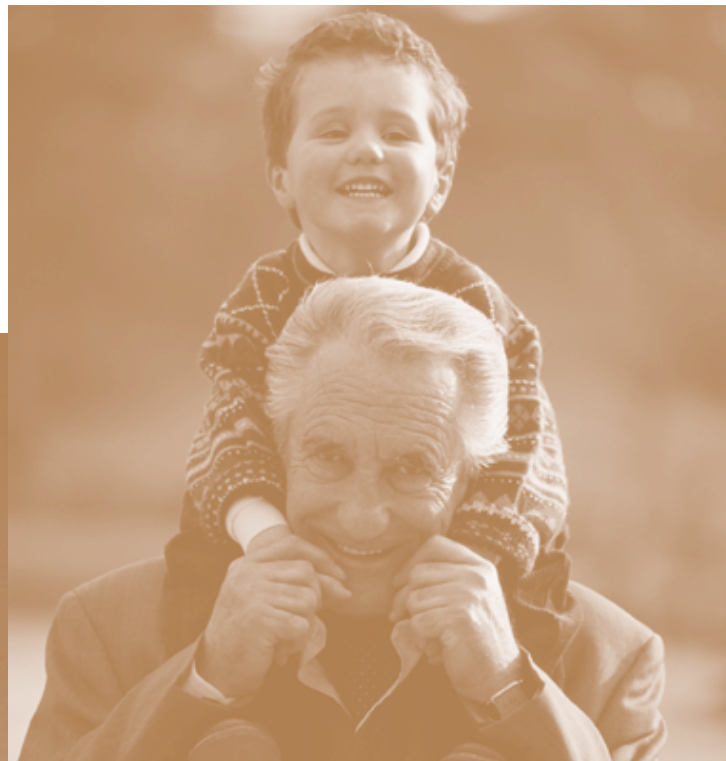
In addition, CPP administrative costs compare favourably to those of RRSPs. Under the new investment policy, CPP investment costs are expected to be as low as those of other large pension plans that have annual investment costs of one tenth of one per cent of assets. This is much less than the 2 to 3.5 percent that is commonly charged for individual RRSPs.

Table 12 presents the administrative expenditure forecasts for the coming years.

During fiscal 1997-98 the Treasury Board approved a proposal for additional funding to

address specific CPP workload issues consistent with serving a growing client base. These included:

- implementing CPP legislative changes to ensure long-term stability and sustainability of the Plan;
- maintaining and improving client telephone services;
- putting more emphasis on program integrity initiatives;
- enhancing performance measurement mechanisms;
- establishing stronger headquarters-regional operational links;
- addressing the Auditor General's recommendation to strengthen management of the CPP disability program by investing substantial resources in the reassessments and vocational rehabilitation of clients;
- setting up a formal disability quality assurance program; and
- increasing communication efforts with current and potential clients as well as with other disability program providers.



# FORWARD-LOOKING INITIATIVES

The number of CPP clients is projected to increase by 49 percent over the next 16 years. This will result in an increased demand for CPP administrative and operational services. In preparation, HRDC is updating and streamlining CPP support systems and its management information framework.

## INFORMATION TECHNOLOGY RENEWAL PLAN

HRDC is embarking on an information technology renewal project to upgrade and replace existing application systems and the technology supporting those systems. This renewal effort is composed of a number of separate projects that will evolve over the next five to seven years.

The information technology renewal plan will directly:

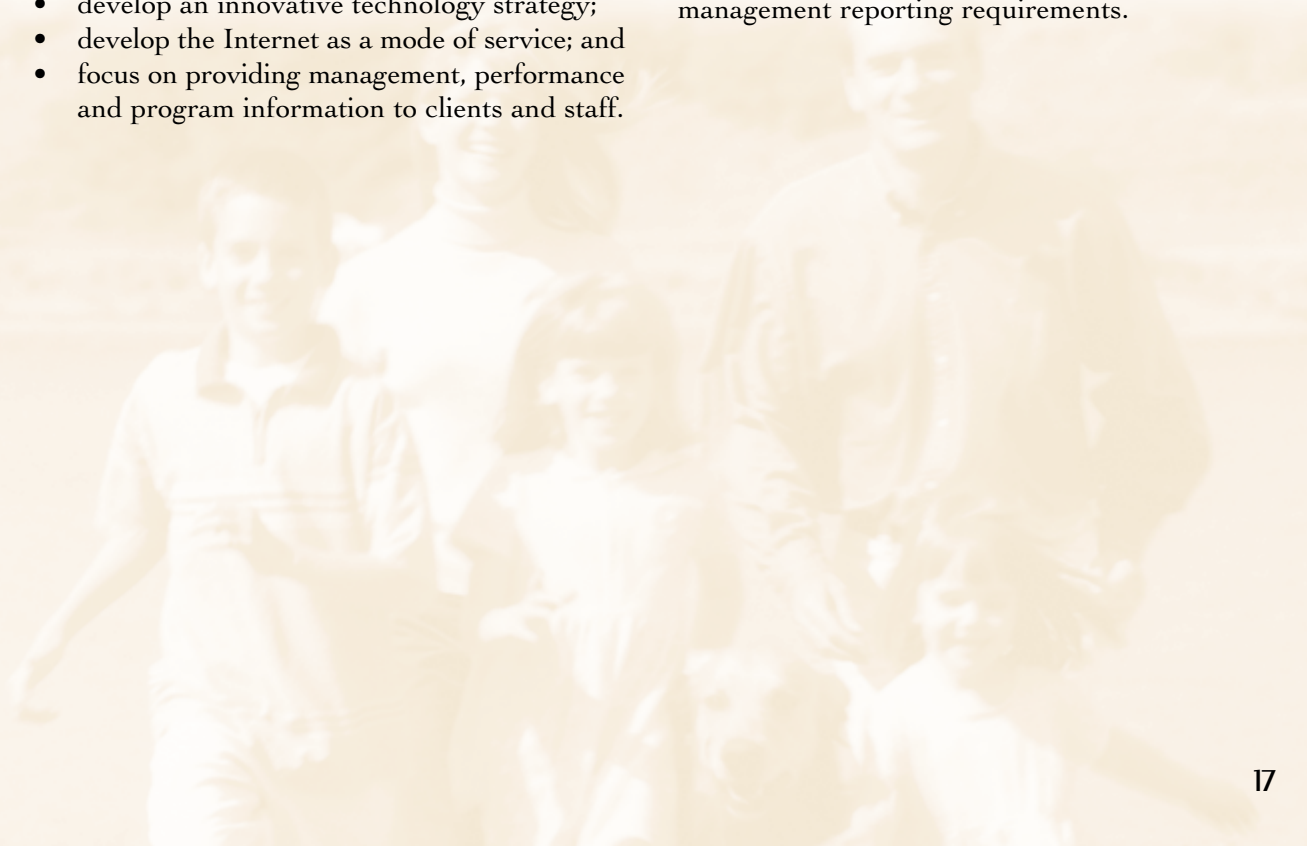
- enhance existing CPP delivery systems to better meet current and future client needs;
- develop an integrated delivery system;
- develop an innovative technology strategy;
- develop the Internet as a mode of service; and
- focus on providing management, performance and program information to clients and staff.

Renewing CPP support systems will simplify enhancements due to legislative and/or policy changes; and will reduce the need for more staff. In addition, the system renewal supports Government of Canada commitments related to electronic commerce and information sharing.

## CONTINUING IMPROVEMENTS IN PROGRAM MANAGEMENT

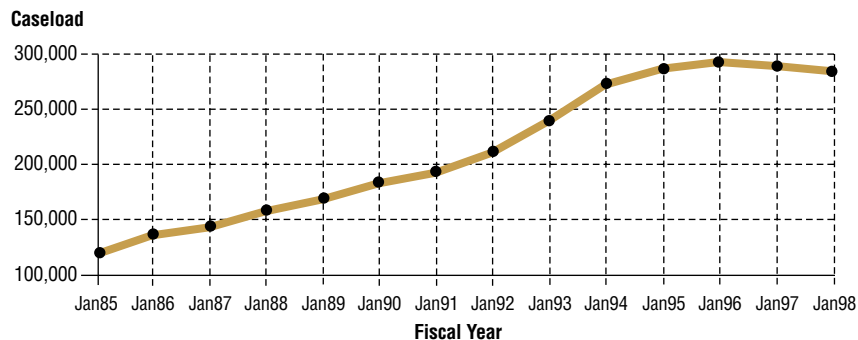
HRDC continues to organize information used to make management decisions in order to improve its quality, accessibility and usefulness. For example, the financial reporting structure will be better linked to the organization's activity structure enhancing our ability to cost each activity. Ongoing research, particularly on the disability program, will result in a more integrated approach to reporting by June 2000.

In addition, development continues on the Reporting Database which is an electronic data warehouse that supports both operational and management reporting requirements.



# Disability INITIATIVES

Table 13 – RECENT TRENDS IN THE DISABILITY CASELOAD



## BACKGROUND

The CPP disability program is the largest such program in Canada. In 1998-99 the CPP paid monthly benefits to 287,500 disabled contributors and 99,000 children of disabled contributors. During 1998-99, \$2.8 billion was spent on CPP disability benefits. Of this, \$2.6 billion went directly to disabled workers and \$248 million was paid for their children.

The CPP disability program continued to face new challenges in 1998-99. To meet these challenges, further improvements were made to the program:

- a reduction in waiting times for decisions at initial levels of the application process;
- further decentralization of program delivery, particularly in vocational rehabilitation and reassessment;
- the development of a quality assurance program focused on decision-making; and
- expanded partnerships with other disability programs.

## ASSURING QUALITY

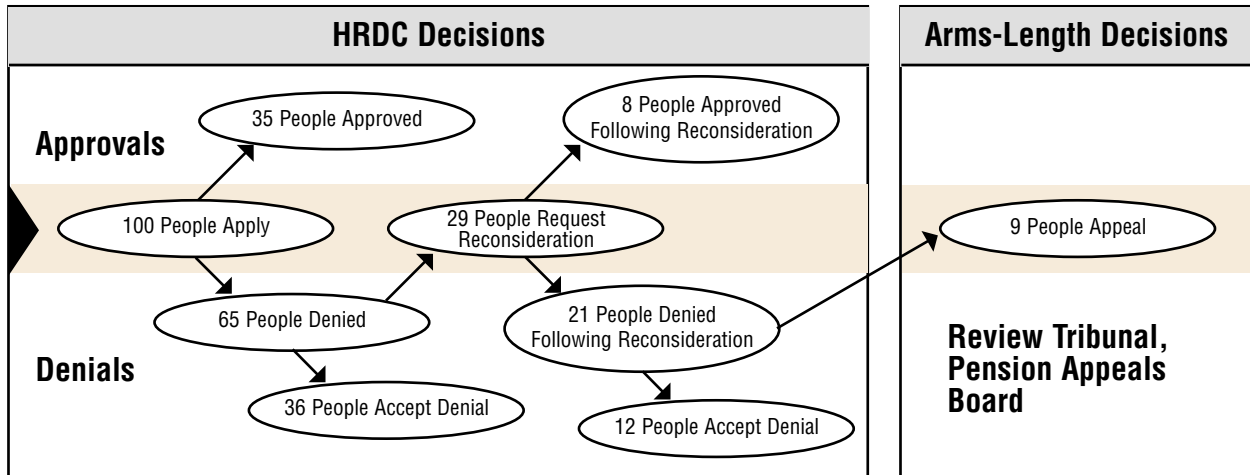
The 1996-97 Auditor General's report observed that even though there were numerous mechanisms in place to monitor the quality of decisions, CPP disability administration did not have a formal and systematic quality monitoring program. In response, a formalized quality assurance program is being designed to enhance the decision-making

process for disability benefits throughout Canada.

The CPP disability quality assurance program will help to assess four disability business streams: initial decisions, reconsiderations, reassessments and appeals to a Review Tribunal. The program will reveal the nature and extent of variances and inconsistencies in the decision-making process, provide payment accuracy estimates, provide trend analysis information, and help to ensure conformity and consistency with CPP legislation and policies. Reports providing reliable measures, and recommendations for national enhancements, will also be a key result of the program.

Quality Assurance pilot projects commenced in September 1999 in Edmonton, Alberta and Scarborough, Ontario. Full implementation is slated for March 2000.

**Table 14 – CPP DISABILITY DECISION-MAKING PROCESS**  
(BASED ON 1998/99 VOLUMES)



(see Table 24 and Table 25 under “Review Tribunal, Pension Appeals Board”)

## CLIENT SERVICE

HRDC manages and is accountable for the initial adjudication (the initial assessment) of a client’s disability application as well as the reconsideration level. It is in these areas that the department can directly effect improvements to ensure speedy and fair decisions for our clients. Departmental staff is aware of the impact of delays on the lives of those who seek assistance so every effort is made to get a decision for clients

early in the process. At the same time, staff is careful to ensure that decisions are not prematurely rendered if there is a chance that more information can be found to clarify a condition, leading to a positive decision for the applicant.

More than 90 percent of all applications for CPP disability benefits are finalized during initial applications and reconsiderations. These are the two stages of the decision-making process for which HRDC is responsible. Table 14 provides an overview of the CPP disability

**Table 15 – REASSESSMENT SAVINGS AND OVERPAYMENTS**

Year ending March 31	Number of Decisions	Number of Benefits Ceased	Percentage of Benefits Ceased	Annual Savings	Overpayments
1994-95	3,407	1,681	49.3%	\$16,261,680	\$6,224,600
1995-96	6,968	2,328	33.4%	\$21,060,672	\$6,033,510
1996-97	14,036	2,633	18.8%	\$24,353,940	\$12,806,696
1997-98	11,833	2,985	25.0%	\$27,601,848	\$23,368,933
1998-99	10,744	2,687	25.0%	\$25,273,476	\$10,124,228

decision-making process. How long it takes to resolve an individual case depends on the complexity of medical conditions and the need for additional information. Since the Program relies on applicants and their physicians to provide this information, processing times can vary significantly. Internal performance goals are currently measured on a statistical sampling of recent files. Processing times for initial applications dropped from 70.1 days on a volume of 13,044 applications in the first quarter of 1998-99, to 53.7 days on a volume of 13,378 applications in the last quarter of 1998-99. A formal standard will be adopted once an automated computer-based mechanism to measure processing times is developed.

## IMPROVEMENTS IN REASSESSMENT ACTIVITIES

CPP regularly reassesses its' clients to ensure that only those eligible will continue to receive benefits. Reassessments are a vital component of the Department's commitment to preserve the integrity of the program for future clients.

While some medical conditions are progressive and terminal, others may improve over time, or clients may find suitable work. For this reason, a client's file may be periodically reassessed in order to ensure that he or she continues to meet the eligibility criteria. Where there are indications of potential future improvements in the client's medical condition, a date is set at the time of the initial grant for a re-evaluation of the client's capacity to work. Reassessments are also initiated if information is received that indicates the client has already returned to work or has regained the capacity to work. Such information may be received from third parties or by earnings information received from Employment Insurance and Revenue Canada. In 1998-99, CPP began

receiving earnings information on self-employed and CPP-exempt clients from Revenue Canada.

A total of 10,744 reassessments were completed in 1998-99. Of these, 25 percent resulted in ceased accounts producing annual savings of \$25.3 million. Since the reassessment program was re-engineered in May 1993, the department has produced an estimated \$129 million in annual savings (see Table 15).

In 1998-99, work accelerated on the multi-year plan to regionalize the reassessment function. The objective is to move the function closer to the clients, and to integrate it with the rest of CPP disability benefit delivery. Reassessment "pilots" were established in Fredericton, New Brunswick in November 1998 and in Scarborough, Ontario, in April 1999.

## EXPANSION OF REHABILITATION EFFORTS

The CPP vocational rehabilitation program is designed to assist disability benefit recipients whose medical condition has improved and who may have the potential to return to work. The program is voluntary. CPP uses a case management approach that is, it works with each client individually to develop a customized return-to-work plan. Individual plans can include services such as vocational assessment and testing, skills upgrading and job search assistance. Private-sector vocational rehabilitation specialists based in the region where the client lives deliver case management services.

During the past year, an important objective has been to assist more clients who want to return to the workforce. The number of clients participating in the program has doubled from 1997-98 to 1998-99. This can be attributed to increased awareness of the program and to the move to a regional service delivery model, which was completed in mid-1998. The success of the



CPP vocational rehabilitation program has also encouraged HRDC to look for other ways to assist and encourage disability benefit recipients who may be ready to return to work.

## COOPERATION WITH OTHER DISABILITY PROGRAMS

In 1998-99, HRDC made it a high priority to expand the scope of the CPP's relationships with other organizations that provide income support for the disabled.

Amendments made to the CPP allowed the Department to broaden its capacity for information sharing and to simplify reimbursement to the provinces, municipalities and private insurers. The expanded provisions allow CPP to improve client service, ensure timely and accurate benefit payments and partner with other federal departments and provincial governments to deliver services to Canadians in the most efficient manner. These changes ensure that programs providing immediate income support can be reimbursed when a CPP disability benefit is subsequently determined to be payable.

In 1998-99, the Minister signed information-sharing agreements with the workers compensation boards of Prince Edward Island, New Brunswick, Manitoba, Nova Scotia and Alberta. The agreements provide a framework that allows CPP and WCB to work together in areas such as return-to-work initiatives for mutual clients. By comparing and sharing information, both programs are better able to reduce costs and duplication of services and reduce the risk of continuing to pay benefits to clients who are no longer eligible.

In addition, the Minister, together with provincial and territorial Ministers responsible for Social Services, released *In Unison*, a joint vision paper for the integration of persons with

disabilities in Canada in October 1998. The future partnership work of the CPP will focus on realizing *In Unison's* goals of removing disincentives to work; adopting rehabilitation and labour market re-entry measures that promote reintegration; and streamlining assessment and reassessment procedures.

## IMPROVING THE APPEALS PROCESS

In 1997, HRDC undertook a study of the appeals system that indicated there were a number of options for improving its efficiency. Based on this study, a major project was launched in 1998-99 to review the entire appeals process in more detail and to recommend changes. The guiding principles for the review are fairness, effectiveness and efficiency. Recommendations for change are expected in 1999-2000.

In the meantime, CPP is making every effort to increase the efficiency of the system. HRDC continues to work closely with the Office of the Commissioner of Review Tribunals and the Pension Appeals Board to improve coordination and update management practices.

Both the Office of the Commissioner of Review Tribunals and the Pension Appeals Board have improved and augmented client communication to better inform appellants of the appeal process. A significant number of new members were appointed to the Office of the Commissioner of Review Tribunals and the Pension Appeals Board allowing appeals to be processed more quickly.

Special initiatives were undertaken in 1998-99 to address delays at the Pension Appeals Board. An Executive Director was appointed in July 1998 to modernize management practices. Additional staff were hired to expedite processing. Two "blitzes" of applications for leave to appeal were held resulting in over 2000 applications being processed. CPP also augmented its



staff to manage the increased workload resulting from the additional Pension Appeals Board activity.

## IMPROVING COMMUNICATION WITH DISABILITY CLIENTS AND THEIR ADVOCATES

HRDC Regional Outreach Offices are actively consulting with several groups connected with the community of persons with disabilities. Contact has been established with disability organizations, social service providers, the legal communities, MP's offices, insurance companies and other groups that assist the disabled.

Consultations have led to a greater understanding of the needs of the disabled, and an improved capacity to disseminate information to them. For example, consultations between the Ontario Region and its' medical community has led to an increased understanding of the process behind attaining a CPP disability benefit and the information required to make an accurate decision.

Regional HRDC Offices are also improving direct communication with new disability applicants as well as their own staff to ensure they understand the application process and all its requirements. Ultimately these steps will

improve CPP's client service.

HRDC will continue this consultation process by actively seeking partnerships with organizations representing persons with disabilities, disability service providers and disability applicants.

## Investigating Dispute Resolution Techniques

In an effort to improve the management of CPP disability claims, HRDC has been actively investigating the use of dispute resolution techniques as a means of improving client service.

Dispute resolution techniques can prevent or resolve disputes, prior to entering the formal appeals process. As a result, they offer the potential for improved management of client caseloads, reduced costs and increased client and staff satisfaction.

Based on its investigation, HRDC developed a proposal for financial support from the Department of Justice Dispute Resolution Fund for CPP to conduct, during 1999-2000, a series of pilots to test the use of dispute resolution techniques at several points in the disability decision making process.



# MANAGING THE CANADA PENSION PLAN

Various federal government departments manage the CPP. The distribution of responsibilities and the service costs associated with them are outlined in Appendix B. The following overview of the CPP is divided along functional lines.

## DETERMINATION AND COLLECTION OF CONTRIBUTIONS

Approximately 94 percent of CPP contributions are remitted to Revenue Canada (RC) by employers and employees. The remaining 6 percent are remitted by the self-employed. The amounts collected by RC annually are displayed in Table 16.

### Compliance/Enforcement

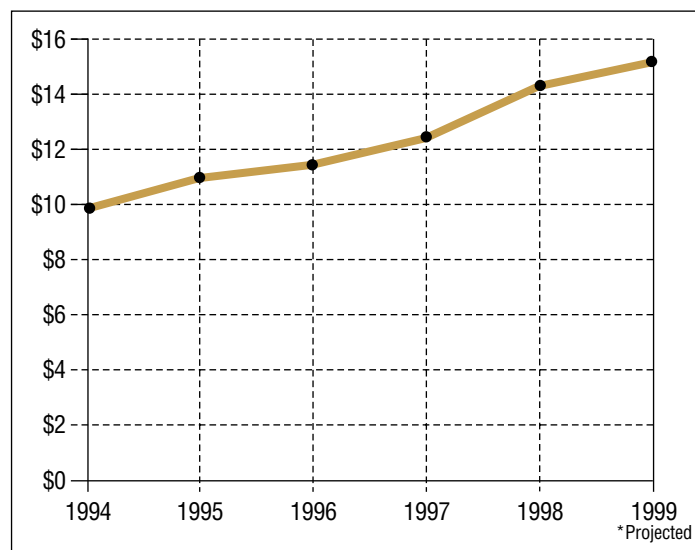
To complement the collection activity, RC assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4s submitted.

The compliance and enforcement process is based on a progressive, risk-based approach ranging from computerized matching of data to on-site audits. As well, employers may request on-site assistance

for clarification on payroll withholding requirements, or employees may seek advice if they feel their employer is contravening a related tax law.

Although most employers remit the proper amounts, some fail to comply, usually due to cash flow problems. When contacted by RC, these employers recognize that the employee trust deductions must be properly deducted, remitted and reported. Subsequent compliance by these employers is generally good.

**Table 16 – CPP CONTRIBUTIONS COLLECTED  
(IN BILLIONS)**



**Table 17 – AUDIT ACTIVITY AND RESULTS**

**PERIOD ENDING MARCH 31**

	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000 (projected)</b>
Number of audits completed	56,982	50,683	57,225
Number of audits resulting in assessments for CPP	34,190	29,154	34,335
Percentage of audits resulting	60%	58%	60%

There are about 1.3 million employer accounts open of which approximately 900,000 are active at any one time. During 1998-99, 50,683 audits were conducted to resolve problems. The level of audit activity is summarized in Table 17. Like all other RC activities, an audit consists of not only reviewing the CPP deductions and remittances, but also verifying income tax and employment insurance deduction requirements.

### Rulings

RC tax service offices and tax centers issue rulings that determine questions such as whether or not a worker is engaged in pensionable employment and whether or not specific earnings require CPP contributions. RC's goal is to complete each ruling within 30 days of receipt. In 1998-99, RC made 16,863 rulings for CPP purposes.

### Appeals

Under the CPP, individuals have appeal rights for rulings and assessments. RC encourages employers to contact its' Problem Resolution Program Co-ordinator before resorting to the more formal appeal process. Approximately 9.3 percent of the CPP rulings and assessments issued are the result of appeals, administered by independent appeals staff in RC tax service offices. For issues that remain unresolved, there is recourse through the judicial process ranging from the Tax Court to the Supreme Court of Canada.

### Coverage and Extensions of Coverage under Social Security Agreements

In accordance with Canada's social security agreements with many

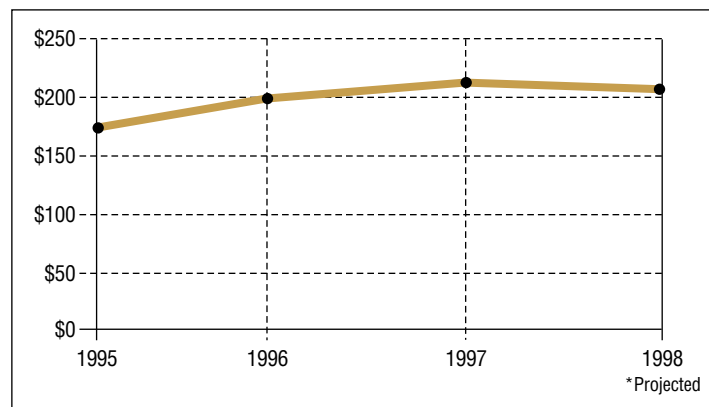
countries, RC issues certificates of coverage and extensions of coverage relating to the CPP. In 1998-99, RC issued 2,169 certificates of coverage and 256 extensions of coverage. In addition, foreign employers without a place of business in Canada may apply to have coverage under the CPP for employment they provide in Canada.

In order to serve clients better, tax service offices also present seminars on various ruling-related aspects of the CPP.

### Record of Earnings

RC and HRDC have formed an interdepartmental improvement team that focuses on verifying and correcting records of earnings and contributions. In 1998-99, more than 2.4 million records were reviewed. This resulted in \$1.9 billion in earnings and \$431 million in contributions being added to the correct client records.

TABLE 18 – OVERPAYMENTS AND ADJUSTMENTS REFUNDED (IN MILLIONS)



### **Overpayments and Adjustments to Contributions**

For the year ending December 1998, an estimated \$212.4 million in CPP overpayments were refunded. Some adjustments were also necessary on CPP contributions by self-employed individuals.

Overpayments and adjustments to contributions occur when an individual is employed in two or more positions at the same time during the year and is paying contributions for each employment. At year end, RC issues a refund since contributions are only paid up to a yearly maximum pensionable earnings amount regardless of the number of jobs held during the year. Table 18 presents the overpayments and adjustments refunded by year.

### **Publicity**

RC publishes information on the CPP in a variety of publications. The "Index to Revenue Canada Services" and the pamphlet entitled "Alimony or Maintenance" are two examples. RC also publicizes CPP information through such activities as the Community Volunteer Income Tax Program and "Teaching Taxes". For further information see the RC website located at <http://www.rc.gc.ca/menu/EmenuZZZ.html>

## **ADMINISTRATION AND OPERATIONS**

### **Serving CPP Clients**

HRDC's commitment to providing quality service is reflected in our published service standards that state:

- You are entitled to courteous and considerate treatment, and complete and accurate information about your entitlements and obligations.
- We aim to keep the waiting time to meet a client service officer to a minimum. Waiting times will be posted in our offices.
- You are entitled to receive your first CPP payment within 35 days of a decision being made on your application.

HRDC services are offered in-person, by telephone and by mail. Information about the CPP is also available on the Internet and at self-service electronic kiosks. There are approximately 5,200 electronic kiosks. Of these 3,700 are located in HRDC offices with another 1,500 located in satellite offices, partnership organizations, community centres, malls, etc.

Table 19 – VOLUME OF CLIENT SERVICE BY SERVICE TYPE

	1996-97	1997-98	1998-99
In-person Interviews*	635,064	630,279	574,672
Telephone Calls Received by an SDA*	2,562,906	3,424,789	3,281,561
New CPP Applications Processed	327,134	371,364	352,108
New DSB Applications Adjudicated	76,516	70,109	64,049
Appeal Decisions Processed (HRDC and Arms-length Appeal bodies)	32,919	34,913	34,054

\* This data represents the total of CPP and OAS interviews. Since interviews frequently cover both programs, CPP data is not available in isolation.

**Telephone Service:** Ten HRDC telephone centres located throughout Canada handle client enquiries and accept requests for applications. HRDC encourages clients to do their business by telephone and the volumes presented in Table 19 indicate that it is the type of service they pre-

fer. Since July 1998, HRDC has consistently met its telephone service standard of having 95% of telephone calls answered by a Service Delivery Agent within 180 seconds. Table 20 presents more detailed information pertaining to telephone service.

Table 20 – TELEPHONE SERVICE STATISTICS

	1997-98	1998-99
Percent of clients accessing the telephone system on the first attempt	98.0%	98.4%
Percent of clients served by an SDA within 180 seconds of placing their call	92.1%	94.9%
Average time spent waiting in a telephone queue for the call to be answered	35 sec.	37 sec.
Average time that clients speak with an SDA	241 sec.	235 sec.

\* This data is based on CPP and OAS totals. It is unlikely that speed of service varies between programs.

**Mail Service:** HRDC has eleven mail-processing centres located throughout Canada. These centres handle new applications, various documents, and enquiries. They also review and make decisions on the majority of new applications. Volumes for new applications and DSB applications are presented in Table 19. With the exception of Disability applications, that take on average 53 days to process, new CPP applica-

tions received during 1998-99 were processed within 12.1 working days.

**In-person Service:** There are one hundred and eight Human Resources Client Centres in Canada. These centres handle enquiries, accept documents and provide detailed benefit and process information. Volumes for in-person interviews are cited in Table 19.

### **HRDC's Client Service Success**

The 1998 Client Service Survey of CPP and OAS clients found that clients are overwhelmingly satisfied with the services and the information they receive from HRDC. Almost 90% of clients find HRDC service to be courteous and considerate and the information provided to be complete and accurate whether received by telephone or in-person.

In the 1998 "Citizens First" Survey, conducted by the Canadian Centre for Management Development, Canadians rated CPP and OAS services third highest compared to seventeen other Federal Service Providers. Quality service was characterized by timeliness, competence, courtesy, fairness and obtaining the information needed. In general, Canadians are very satisfied with the CPP service they receive.

### **Keeping the Records**

The total number of Social Insurance Numbers issued between 1964 and the end of March 1999 was 34,250,809 of which 23,770,311 have some form of earnings and/or contributions recorded. There are approximately 10.4 million active contributors who do not receive CPP benefits. The number of SINs issued during 1998-99 was 1,202,536, an increase over the 1997-98 total of 717,049. The presumption is that much of the increase was due to interest in the Canada Education Savings Grant.

In partnership with the QPP, RC, and the Ministère du Revenu de Québec (MRQ) HRDC maintains the records of pensionable earnings and contributions to the CPP for 23.8 million Canadians.

During 1998-99 significant effort was made to ensure the accuracy of Canadians' contributions to

the CPP for 1997. Changes made to the contribution rate from 2.93 percent to 3.0 percent part way through 1997, after employers had already set up their computer systems and accounting operations for the year, increased the potential for error. It was determined that the best way to correct possible errors in contributions due to the change was for RC to collect the employer's share of the difference, in one payment, at the end of the tax year and then to collect the employee's share of the difference through the 1997 tax returns. These contributions were examined closely to ensure that correct information was placed on each contributor's account.

In partnership with RC, la Régie des rentes du Québec, Revenu Québec and the Social Insurance Registry, ISP continued the transfer of over \$700,000 in unidentified client contributions to the proper CPP contributor's accounts.

### **Personalized statements of CPP contributions**

Many CPP contributors obtain information regarding their personal CPP account and CPP benefits when they: receive a personalized Statement of Contributions in the mail; visit an HRDC information kiosk at various public events; or visit the CPP website on the Internet.

This year more than 2.1 million personalized Statements of Contributions were mailed to CPP contributors between the ages of 30 to 39 and 50 to 59. For the first time, these statements were accompanied by information on both OAS and CPP to assist Canadians with their retirement planning.

The number of contributors HRDC staff met directly, to provide information on individual CPP contributions and benefits, tripled (to 25,000).



Of these, more than 7,500 contributors were provided with personal Statements of Contribution on the spot. To facilitate access, a contributor can now apply for a statement of contributions on the CPP Internet site.

In conjunction with the Social Insurance Registry and other parties HRDC is working to help resolve issues noted in the Auditor General's 1998 Report on the Social Insurance Number (SIN).

### Ensuring Program Integrity

In order to preserve the integrity of the CPP for future clients, HRDC periodically reviews the program to ensure that only those who qualify receive benefits. In 1998-99, HRDC reviewed a random sample of CPP files selected from the

1997 payment year. This annual review provides HRDC with an estimate of the monetary errors in the CPP program.

An analysis of this data indicates that the amount of CPP dollars mispaid due to internal or external errors or fraud is most likely to be 0.37 percent of the total CPP benefit expenditures, or \$55.6 million.

In order to improve this situation, HRDC has initiated six reviews that focus on early identification of errors in specific areas of risk to the CPP program.

Table 21 summarizes the preliminary results of five of the six reviews that have identified approximately \$2.5 million in potential savings to the CPP. The results of the sixth review have not yet been tabulated.

TABLE 21 – SUMMARY OF CPP REVIEWS

CPP Benefit(s) Targeted	Risk Assessed	Potential Savings to the CPP
Disabled Contributors Child Benefit over 18 (DCCB+18)	Identified beneficiaries who were in receipt of a DCCB + 18, were over 18 years of age, and were no longer in full-time attendance at a recognized institution, thus making them ineligible to receive this benefit.	\$450,000
Survivor benefits received by clients under 45 years of age (SVR under 45).	Identified SVRs under 45 receiving full rate benefits to which they were not entitled since they did not have dependent children or were not disabled for CPP purposes.	\$15,507
All CPP benefits	Compared the OAS and CPP system files correcting any date of birth and date of death discrepancies.	\$545,087
All CPP benefits	Identified those CPP clients who were listed as deceased in RC records (data based on 1997 and previous tax years) and yet continued to be considered alive and receiving a benefit according to CPP records.	\$1,108,412
CPP Survivor benefits	Identified the extent of error in the CPP survivor population due to the failure to assess survivor benefits already paid by QPP.	\$353,197
<b>Total</b>		<b>\$2,472,203</b>



In 1998-99, the CPP referred 52 cases of suspected fraud to the RCMP for criminal investigation, with a total potential saving to the CPP of \$1,046,933. Twenty-nine of these referrals related to the CPP disability benefit. In the same fiscal year, 22 people were convicted, under the Criminal Code of Canada, of defrauding the CPP. Approximately \$408,721 was recovered in 1998-99, including CPP fraud cases from previous years. Collection of overpayments continues.

The newly expanded ISP investigation function implemented in November 1998 will assist in maintaining the integrity of the CPP by investigating cases of potential abuse and fraud. In addition, recent amendments to the CPP, which although not yet in force, will eventually allow ISP to lay administrative penalties against those individuals who knowingly abuse the CPP program.

### Managing Accounts Receivable

HRDC continues to manage accounts receivable. In 1998-1999, HRDC Collection Services recovered \$8.4 million in cash repayments for which benefit overpayment had been identified. In addition, \$19.3 million were withheld from current benefits, resulting in \$27.7 million, being returned to the CPP.

## Systems Support

### CPP Systems — Y2K Compliant

On December 11 1998, CPP systems were certified Year 2000 (Y2K) compliant. This means that approximately 4 million Canadians who receive monthly CPP benefits will continue to receive those benefits, unaffected by the Y2K issue. To attain Y2K certification the CPP Systems required modifications to accommodate the storage and processing of data for the year 2000 and beyond. This process involved numerous software and hardware upgrades, extensive testing of all changes, as well as a freeze on all non-essential system changes that did not fall within the scope of Y2K.

Other major projects completed during 1998-99 are cited below.

- The Business Number project implemented by Revenue Canada required that CPP Systems be modified to accommodate the 15 digit business identifier numbers that replace the old 9 digit payroll deductions accounting employer codes.
- The SIN manipulation project is a major data cleanup effort between CPP and RC that resulted in approximately 700,000 corrections to contributor record of earnings. Around 140,000 of those entries were for accounts with a current or previous benefit. In some cases, recalculations were done resulting in adjustments to benefits. The systems component of this project is complete.

In the year to come, CPP systems will be moved to a newer certified programming language in order to improve performance and ensure continued manufacturer support. Work will continue on minor enhancements that do not impact upon Y2K preparedness. CPP will also continue to explore areas of co-operation with partners to ensure enhanced standardized data exchanges.

### The Reporting Database

The Reporting Database provides operational and management reporting and decision support information such as business measures. While not program specific, the database supports CPP functions.

In 1998-99, the system was developed to the point of being able to extract specific information and reports on CPP data, Client Service Centre processing data and all address data. Since old programming methods are no longer required, the length of time needed to extract this information is significantly reduced. In November 1998, the first business measurement functions were implemented

providing counts of account maintenance activities and application processing times. Mechanisms are now in place to facilitate the production of reports on business measures for CPP, OAS, International Benefits and telephone service. Service targets for application processing times will be determined in consultations with clients during 1999-2000. Once identified the system will compare actual application processing times to the ideal, or targeted, processing times producing performance measures.

### **Communicating with Clients**

In 1998-99, HRDC's communications team made a concerted effort to ensure Canadians were informed about the CPP disability program through questions and answers, presentations, and several new publications. Using this approach, HRDC hopes to give Canadians a greater understanding of the disability program, how it works, and how it relates to other private and public disability benefit programs.

In addition, HRDC continued to communicate with Canadians on recent CPP rule changes as well as the CPP as a component of the public pension system and an important aspect of retirement planning. This on-going communications activity brought to light a need for more and better information on the CPP and other public retirement benefits. In 1999-2000 HRDC will launch a major information campaign which will speak to people of all ages about Canada's retirement income system and the role the CPP plays.

### **Splitting Pension Credits**

The CPP allows contributors to split their accrued pension credits between spouses upon the dissolution of their marriage or common law relationship.

In partnership with Justice Canada, Human Resources Development Canada (HRDC) provided divorcing couples with credit splitting information kits between 1993 and 1998 issuing more than 10,000 kits each month. During that period, the take-up for credit splitting rose from 5 percent to 16 percent of the divorced population. The information program ended in 1998 and now, provincial courts send information about credit splitting (provided by HRDC) directly to divorced couples with their divorce judgment documents.

### **Outreach Program**

HRDC has a comprehensive Outreach program to support the department's efforts to improve awareness and knowledge of CPP and OAS programs, as well as demonstrate how those programs fit into Canadians' overall retirement planning. Outreach activities include holding program information sessions with a wide array of public and private organization and partners.

Outreach continues to develop and maintain partnerships in the following areas: financial/investment planning, educational institutions, community leaders, service providers, provincial and municipal governments, and within HRDC.



Current initiatives are:

- A national disability presentation package to be used in public education initiatives with partners and advocacy groups.
- A partnership with the Saskatchewan Public Legal Education Association to develop a booklet on the subject of older adults and the law.

Initiatives under development are:

- A partnership framework in order to prioritize and set objectives for targeting specific national partners.
- A brochure outlining outreach services for our various partners, e.g. Financial Planners.
- A video to celebrate the legacy of our programs and the changing role of government in relation to the retirement income system.
- A national education strategy aimed at introducing CPP and the retirement income system to youth.
- A partnership with Manitoba Worker's Compensation to develop a joint publication concerning CPP disability and injury claim benefits.

### Access to Information and Privacy

The Privacy Act protects the privacy of individuals with respect to personal information about themselves held by a government institution. The Access to Information Act provides individuals with the right to access the information in records kept by federal institutions and the right to correct such information. In 1998-99, 94 percent of all privacy requests in HRDC were submitted either by or on behalf of CPP contributors.

### Establishing Information Sharing and Reimbursement Agreements

The Department continues to pursue opportunities for information sharing and reimbursement agreements between the CPP and the provincial governments, municipal authorities and private insurers.

In 1998-99, there were 14 agreements in place with provincial governments. These agreements related to information sharing and the reimbursement of retroactive CPP benefit payments to provincial authorities who made social assistance payments to persons subsequently eligible for CPP benefits. Other agreements are presently being negotiated. In addition, five agreements were entered into with provincial Workers' Compensation Boards in relation to information sharing.

The 40 current agreements with private insurers allow them to be reimbursed for that portion of the disability benefit that would not have been payable had the client been in receipt of CPP benefits.

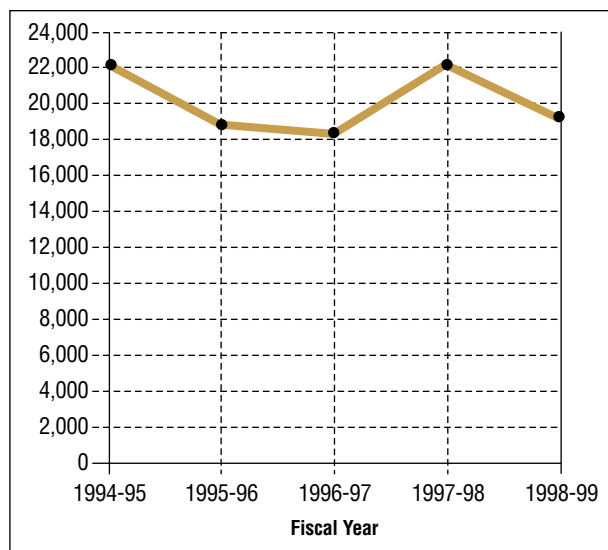
### Changes to Legislation and Regulations

Bill C-2, *An Act to establish the CPP Investment Board and to amend the CPP and the OAS Act and to make consequential amendments to other Acts*, being Chapter 40 of the Statutes of Canada 1997, received Royal Assent on December 18, 1997. In order to reflect the purposes and provisions of the amended legislation governing the OAS Act and the CPP (Part II), the relevant Regulations had to be amended. These Regulations were pre-published in Part I of the Canada Gazette on February 6, 1999. They will become effective on the day of their registration in Part II of the Canada Gazette.

Changes to the CPP Regulations under Part I were required to reflect the increase in the contribution rate and the year's maximum pensionable earnings, effective January 1, 1999. Also effective January 1, 1999, changes were made to the Regulations in relation to pensionable employment.

### Appealing a Decision

Individuals who are dissatisfied with a decision made on an application for CPP benefits have three opportunities to request a review of the decision. Close to 95 percent of all requests for review concern an application for disability benefits.

**Table 22 – NUMBER OF DISABILITY FIRST LEVEL APPEALS RECEIVED**

**First Level Appeals** involve a request to the Minister for a “reconsideration” or administrative review of a decision concerning a benefit or a division of pension credits. A request must be made to the Minister within 90 days of receiving the initial decision. A departmental adjudicator who was not involved in the initial decision then carries out a review of the file. In 1998-99 the number of new disability applications declined hence there was a corresponding decrease in the number of requests for reconsiderations received, from 22,349 in 1997-98 to 19,200 in 1998-99. (See Table 22)

In the same period, the number of denials on reconsiderations remained constant at 72 percent.

The preliminary results of the CPP appellant profile review provided information on the broad characteristics of the appellant population. To help ensure the program remains responsive to appellant needs, obtaining additional and regular information on the appellant population, and on grant and denial trends continued to be a priority in 1998-99.

**Second Level Appeals**, or hearings by a Review Tribunal, are available to individuals dissatisfied with decisions rendered at the reconsideration level. A Review Tribunal is an independent body that does not act on behalf of the Minister, the appellant or any other party to an appeal. Each Review Tribunal consists of a panel of three qualified persons selected by the Commissioner of Review Tribunals from a panel of 100 to 400 members who are appointed by Orders-in-Council. The chairperson is always a member of the legal profession. If a disability benefit is involved, as in over 95 percent of the cases heard, at least one of the other members is a health care professional. Hearings are informal, closed to the public and usually held in, or near the appellant’s community. Table 24 provides an overview of the workload of Review Tribunals during the fiscal year ending March 31, 1999.

The Office of the Commissioner held 9,607 hearings, surpassing its goal of 9,600 hearings for 1998-99. This achievement was attributable in part to the greater number of panel members available.

**Table 23 – FIRST LEVEL APPEALS – GRANTS VERSUS DENIALS**

	1996-97	1997-98	1998-99
Disability benefit granted	5,496	7,144	6,317
Disability benefit denied	18,826	19,034	16,135
Percentage of benefits awarded at appeal	23%	27%	28%

**Table 24 – REVIEW TRIBUNAL, SECOND-LEVEL APPEALS**

<b>Description</b>	<b>1996-97</b>	<b>1997-98</b>	<b>1998-99*</b>	<b>% increase over previous year</b>
Cases slated for tribunal hearings			17,677	0.67%
Cases withdrawn/reversed prior to hearing			2,005	
<b>Total cases sent for Hearings</b>	<b>12,269</b>	<b>15,567</b>	<b>15, 672</b>	
Hearings Completed				
• Appeals allowed	1,385	1,864	2,195	
• Appeals dismissed	4,744	5,839	6,475	
Hearings not Completed				
• Hearings adjourned/postponed	265	329	598	
• Appeals withdrawn at hearing			28	
• Decision made but not finalized			311	
<b>Total Hearings Held</b>	<b>6,394</b>	<b>8,032</b>	<b>9,607</b>	<b>19.6%</b>
<b>Cases outstanding at year end (includes hearings adjourned)</b>	<b>6,095</b>	<b>7,864</b>	<b>6,663</b>	<b>-15.2%</b>

\* The office of the Commissioner of the Review Tribunal has a new automated appeal tracking system that enables a more precise breakdown of the 1998-99 appeals.

**Table 25 – PENSION APPEALS BOARD, THIRD-LEVEL APPEALS**

<b>Description</b>	<b>1996-97</b>	<b>1997-98</b>	<b>1998-99</b>
Workload – April 1st	1,086	1,982	4,020
Incoming workload	1,790	3,070	2,879
Decision rendered (includes leave refused)	894	1,032	2,932
Cases pending at year end	1,982	4,020	3,967

At fiscal end 1998-99, 6,663 cases were outstanding compared to 7,864 at the end of 1997-98. As of March 31, 1999 all of the 6,663 appellants had been contacted and hearings arranged for April 1999 and onwards. A significant number of cases have been delayed at the request of appellants or their representatives. It is expected that, in 1999-2000, there will be some 10,000 hearings at the Review Tribunal, and cases outstanding at year-end will be reduced considerably.

**Third Level Appeals** are heard by the Pension Appeals Board (PAB), which consists of judges appointed by Order-in-Council. Board decisions are binding, and may be subject to judicial review by the Federal Court.

The large number of appeals at the first and second levels is having a significant impact on the caseload and number of unheard cases. Table 25 provides an overview of the PAB 1998-99 CPP workload.

### Charter Challenges

The CPP has been the subject of a number of challenges under the Canadian Charter of Rights and Freedoms. The Charter challenges against the CPP primarily involve the provisions for survivor benefits and disability benefits. The major issues raised are:

- whether or not survivor benefit provisions are discriminatory (same-sex partners are not entitled to survivor benefits); and

- whether persons under 35 years of age who are not disabled and have no dependent children are ineligible.

There were approximately 35 cases in the CPP appeal process as of March 31, 1999.

On March 25, 1999, the Supreme Court of Canada rendered a unanimous decision that the CPP does not discriminate against widows and widowers under the age of 45 on the basis of age.

During 1998-99, there were three cases before the Court that argued that ineligibility to receive CPP survivor benefits by same sex partners is discriminatory. One case's hearing date was scheduled for September 7, 1999 but the Government conceded in that case. As for the other 2 cases, they are still pending. Another case before the Supreme Court alleges that the CPP discriminates by not allowing contributors to deduct from their contributory period those months in which they were in receipt of total temporary benefits under a provincial Workers' Compensation scheme. This case was heard November 10, 1999 and the decision is pending.

### Canada's International Social Security Agreements

Social security agreements protect the pension rights of persons who move from one country to another to live or work. The Canadian programs included in agreements are the CPP and OAS.

The basic objectives of agreements are to:

- reduce or eliminate restrictions, based on citizenship, that prevent Canadians from

Table 26 – CPP BENEFITS UNDER SOCIAL SECURITY AGREEMENTS

Calendar year	Number of benefits in pay in month of December	Total benefits paid annually (in thousands)
1997	4,340	\$13,039
1998	4,604	\$13,298



- receiving pensions from another country;
- permit continuity of social security coverage when a person is temporarily working in another country, and prevent situations where a person must contribute to the social security programs of two countries for the same work;
- make it easier to become eligible for benefits by adding together creditable periods under the schemes of two or more countries; and
- reduce or eliminate restrictions on the payment of pensions abroad.

As of March 31, 1999 Canada had agreements in force with 35 countries. Agreements with Croatia, Korea, Morocco, Slovenia, Trinidad and Tobago and Turkey had been signed, but were not yet in force. There were agreements under negotiation with Argentina, the Czech Republic, Israel, Poland, Slovakia and Uruguay. Table 26 outlines the number and amount of benefits paid under social security agreements for 1997 and 1998.

In 1997, the last year for which information is available, the total amount of foreign pension

funds that came into Canada from other countries exceeded \$1.4 billion. By contrast, about \$353 million was paid in OAS and CPP benefits to persons living outside Canada, a ratio of about 4:1 in Canada's favour. Specific to the social security agreements in force, the ratio of benefits coming into Canada versus those being paid out is 6:1.

### **Partnership with the Quebec Pension Plan (QPP)**

The CPP and the QPP meet regularly to discuss issues of common concern, with emphasis on the more than 1.7 million Canadians who contribute to both plans (called dual contributors) including those 130,000 dual contributors currently in receipt of benefits. The two administrations enter into agreements to regulate the flow of work, to deal with legislative changes or differences, and to address operational matters.

In 1998-99, the two administrations focused on implementing the 1998 legislative changes made to both plans and improving service for dual contributors who were dividing their pensionable earnings.

## PAYMENTS AND SUPPORT SERVICES

In 1998-99, Public Works and Government Services (PWGSC) issued 39.9 million payments compared with 39.4 million in 1997-98 and 37.8 million in 1996-97.

The percentage of benefit recipients who have chosen direct deposit continues to grow as illustrated in Table 27.

During the 1998-99 fiscal year, 32 million payments were issued as direct deposit payments compared with 30.4 million in 1997-98.

PWGSC has traditionally issued CPP tax information slips. However, the legibility of those slips was inadequate. In 1998-99 Canada Post produced the annual run slips. This process provided recipients with clearer information and allowed the inclusion of

additional useful information. The process will be expanded in 1999. A summary of tax information slips issued annually in February is presented in Table 28.

Table 27 – PERCENT OF CPP CLIENTS PAID BY DIRECT DEPOSIT

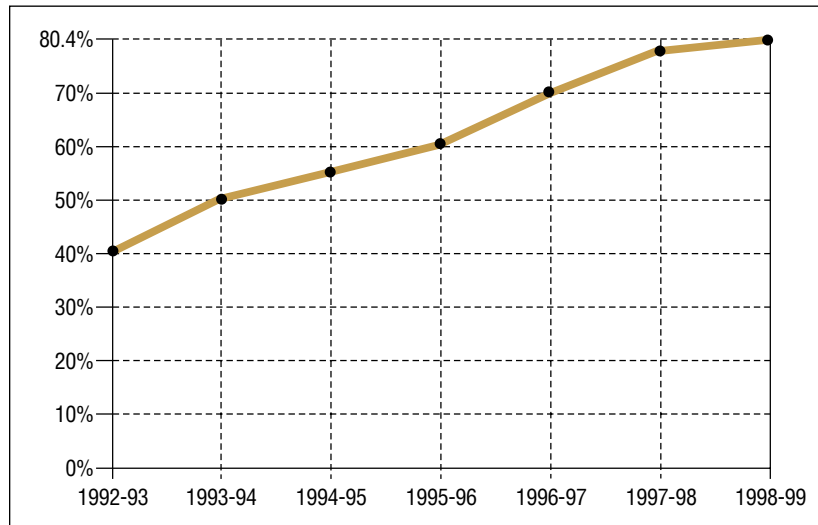


Table 28 – TAX INFORMATION SLIPS ISSUED (ANNUAL RUN)

	By PWGSC	By Canada Post
1996-97	3,426,993	-
1997-98	3,607,396	-
1998-99	107,000	3,404,328