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December 11, 2013

Proposed funding relief for the Canada Post Pension Plan: **What it means to you and to Canada Post**

Dear Colleague,

The Government of Canada has informed Canada Post of its intent to introduce regulations that would provide relief from the need to make special payments into the Canada Post Pension Plan (the Plan) for four years (from 2014 to 2017). This provides a brief period of time to transform our business and our pension plan. Canada Post is expected to resume special payments in 2018. The purpose of this communication is to update Plan members on the funding relief and related issues.

This temporary relief recognizes the serious challenges facing Canada Post. These challenges mean Canada Post cannot make the cash payments required to meet the Plan's deficit funding requirement. Without this pension relief, Canada Post would have had to make special payments of an estimated $1 billion in 2014 alone. The Plan had a solvency deficit of $6.5 billion on a market value basis as at December 31, 2012, for a solvency ratio of 72 per cent. The deficit represents the shortfall that would exist between Plan assets and the cost of pension benefits if the Plan had been terminated as at December 31, 2012 without additional funding. The law currently obliges Canada Post to make solvency payments to fund the deficit over five years. As communicated previously, Canada Post has utilized, since 2011, the solvency relief measures available to all agent Crown corporations under the *Pension Benefits Standards Act, 1985* to reduce the solvency payments. The maximum amount available under these measures is equal to 15 per cent of Plan assets (or $2.5 billion at the end of 2012). This maximum amount is expected to be reached in early 2014. After that time, the solvency relief under the current legislation would no longer be available to Canada Post.

With its core Lettermail product in relentless decline, it is simply not possible for Canada Post to make the estimated $1 billion in cash payments in 2014 or similarly significant funding payments in the next few years. With this pension deficit funding relief, Canada Post has a brief period of time to transform in order to become financially sustainable. Our transformation must include addressing the structural pension issues.

With funding relief comes additional potential risk for the Plan and its members. There will be a lower value of plan assets than would be the case if Canada Post had the cash necessary to make the special payments. Therefore, there is a risk of some deterioration of the solvency and going-concern valuations over the relief period. The effect will depend on investment returns, interest rates and demographic realities, because people are living longer and benefits have to be paid for a longer period of time.

While the Plan is currently able to pay all benefits to members as they become due, and is projected to continue to be able to do so over the relief period, changes to the Plan's structure must be made to remain sustainable and affordable for Plan members and the Corporation. As of the end of 2012, the Plan was fully funded on a going-concern basis.

Normal pension contributions (current service) from Canada Post and from Plan members will continue to be made during the relief period. In 2013, employer current service contributions are estimated at $261 million. As they normally do, these contributions will help to fund the benefits to accrue in the future. The relief applies only to special payments to fund the deficit. As Plan sponsor, Canada Post is responsible for addressing any deficit in the Plan.

During the temporary relief period, Canada Post will continue to file annual valuations with regulators to monitor the Plan's status. This status will continue to be communicated to Plan members and beneficiaries.

It is clear that the greatest risk to Plan members would occur if Canada Post did not return to financial self-sufficiency. To be secure and sustainable, Canada Post's pension plan must have a viable sponsor – in other words, a financially healthy Canada Post.

Canada Post cannot be a healthy company and plan sponsor in the long term unless funding the Plan becomes more affordable. The cash outlay required to fund the pension from time to time is disproportionately large compared to the size of Canada Post. In the coming years, Canada Post is going to be a leaner, more efficient organization and it has introduced an Action Plan to form the foundation of the new postal system. The other measures in the Action Plan, however, are not enough to ensure a sustainable Canada Post. We must also make structural changes to the pension plan. Simply put, the status quo is not an option.

Please refer to the *Canada Post Pension Plan 2012 Report to Members* to understand the changing picture of pension plans in Canada and the state of the Canada Post Pension Plan.

There is no single or simple way to achieve a more sustainable Plan. One thing is certain: the proposed deficit **funding relief is not a viable long-term solution to resolving Canada Post's pension challenges.** It only allows time to restructure. The goal of any change is to create a Plan that is sustainable and affordable for both the company and its employees, and secure for retirees.

Let me assure you that Canada Post takes the pension promise to employees and retirees seriously and understands its value to them. Any change to the Plan will be carefully considered, and not taken lightly. Canada Post is committed to keeping everyone informed in advance of any changes occurring or being negotiated with our bargaining agents.

Sincerely,

Scott McDonald
Chief Human Resources Officer
Canada Post

GLOSSARY

Deficit:
A deficit occurs when the assets of a pension plan are less than the plan's pension obligations.

Going-concern valuation:
The going-concern valuation assumes that the Plan continues in operation and is longer term in focus. It determines if there are enough assets in the Plan for pension benefits to be paid in the future for accumulated service to date. It also assesses whether the level of contributions made by Plan members and Canada Post is enough to cover the current service cost.

Normal pension contributions/ current service costs:
The normal pension contributions, or current service costs, are the additional pension obligation created over the coming year, as another year of credited service is added for current employees contributing to the Plan.

Solvency valuation:
The solvency valuation assumes the Plan is terminated on the date of valuation. This valuation exists so pension regulators can verify that, in such a situation, Plan members would be paid the benefits fully owed to them to that point. It has a short-term view and the results are strongly affected by the market interest rate on that date.

Special payments:
If an actuarial valuation reports a deficit – a shortfall between Plan assets and the cost of the pension benefits – Canada Post, as the Plan sponsor, is required to make special payments to the Plan to eliminate the deficit.

Valuation:
A valuation is like a report card for the long-term financial health of a pension plan as of a specific date. Often referred to as an actuarial valuation, it is conducted by an independent actuary hired by the Canada Post Board of Directors. The valuation compares the plan assets to its pension obligations to see whether there is a surplus or a deficit of funds to cover the value of accumulated pension benefits.

The pension regulator, the Office of the Superintendent of Financial Institutions (OSFI), requires that the actuarial valuation be done on both a going-concern and solvency basis. (See also: Going-concern valuation and Solvency valuation)