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August 28, 2017

Government of Canada makes regulatory change affecting pension solvency deficit payments

Keeping you informed about the Canada Post Pension Plan

Dear colleague,

In keeping with our commitment to inform you about your Pension Plan, I'm writing about a change recently adopted by the Government of Canada that applies to federally regulated defined benefit pension plans.

As a result of this regulatory change, which took effect on June 23, 2017, Canada Post does not expect to have to make special payments in 2018, provided that market conditions remain constant. The regulations are described in more detail on the back of this page.

Let me offer some background. In 2014, the Government of Canada introduced regulations that made the Corporation exempt from making special contribution payments to the Canada Post Registered Pension Plan (the Plan) until the end of 2017. (Special payments are normally required to eliminate any shortfall between plan assets and the cost of the pension benefits paid to retirees and survivors. As Plan sponsor, Canada Post is responsible for addressing any deficit in the Plan).

The relief from special payments was a temporary measure that recognized our serious challenges. However, the temporary relief was not meant to be a long-term solution to our pension funding challenge.

The Pension Advisory Council, the Communications and Consultation Group and Canada Post's unions have been advised of this regulatory change and its expected impact. Of course, as the employer, we will continue to make the current service contributions to the Plan – just as we have during the period of relief from special payments. Each year, current service contributions are substantial; in 2017, for example, we estimate them to be $264 million from the Corporation and $232 million of employee contributions.

The new regulatory change does take pressure off our solvency deficit funding for 2018. However, the change does not make the Plan sustainable over the long term, based on the current legislated obligations. The Government of Canada's review of Canada Post is under way, and the Plan's sustainability is part of the review. The government has indicated it will make a decision about the future of postal service by the end of 2017. We do not yet know what the government will decide. We will provide you with more information once we have received and assessed the government's decision.

Rest assured that we understand that your pension benefits are crucial to your retirement, and that we are committed to keeping you informed about the status of the Plan. In a few days, you will find a Q&A on **cpcpension.com** with more information about funding relief and the regulatory change.

Sincerely,

Scott McDonald
Chief Human Resources Officer
Canada Post

Additional detail about the regulatory change:

The *Pension Benefits Standards Regulations, 1985* was amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations, the aggregate amount of relief is limited to 15% of the plan's solvency liabilities; beyond that threshold, Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis.

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)