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Pension Plan News

Disability Benefits

Did you know that if you become ill or disabled while employed, you could be eligible for disability pension benefits?

You are eligible to apply if you have two years of accumulated eligibility service and are under age 60. There is no minimum age. The application process consists of a medical examination and a completed health questionnaire from your doctor. This questionnaire is forwarded to Health Canada for review and approval. Medical officials at Health Canada determine whether your disability conforms to the plan's definition of a "disability," defined as:

"...a condition of physical or mental impairment that prevents the Member from engaging in any employment for which the Member is suited by virtue of education, training, or experience, where such impairment can reasonably be expected to last for the remainder of the Member's lifetime."

No further medical examination is needed when your application is approved and you retire with a disability pension.

Disability benefits are based on your pensionable service credit on the date you retire and your highest average earnings for your best five consecutive years. There is no reduction to your benefits if your application is approved.

Additional information concerning the disability benefits provision of the pension plan may be obtained by contacting the Canada Post Pension Administration Centre (PAC) at 1-877-480-9220. Be sure to ask for a copy of the *Disability Benefits* information sheet that provides detailed information on this benefit and the process to apply.

Pension Advisory Council Update Report

By: William R. Price, Elected representative of all active members

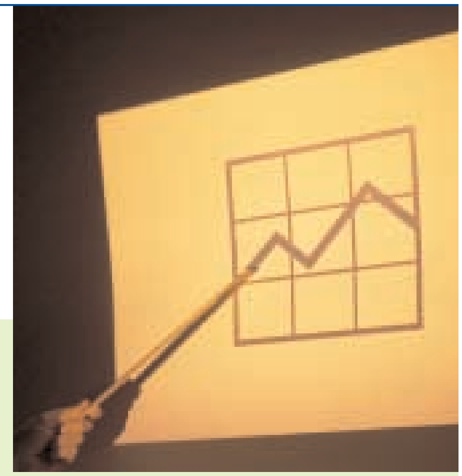
It has been a tremendous honor to represent my fellow Canada Post employees on our Pension Advisory Council. For most of us, our Canada Post pension benefit will be the principal source of income in our retirement. We have a right to know if our pension plan is being managed efficiently and it's important that plan information relevant to employees is communicated in a clear and timely manner. Essentially this is the role and responsibility of the Pension Advisory Council.

The Council has now met on four occasions. Future meetings will likely be held at least tri-annually. Meetings to date have involved: a series of thorough briefings covering financial, administrative and service performance; a review of proposed communications initiatives; several training sessions ranging in topics from pension legislation/regulation to corporate governance; as well as discussions on member needs and general plan management issues.

The cooperative working relationship exemplified by management and employees involved with the Advisory Council and Pension Services clearly indicates plan members are being well served.

Canada Post **Pension Plan Investment** Review

From the office of Douglas D. Greaves, V.P. Pension Fund and Chief Investment Officer



Market Performance

Business conditions improved in North America during early 2002 as consumer spending and manufacturing strengthened. However, concerns about the durability of the recovery coupled with a loss of confidence on the part of investors following well-publicized financial scandals at several leading U.S. corporations brought about significant declines in equity markets.

Stock market returns to June 30, 2002 were poor and declines subsequently accelerated, with most stock market indices establishing new lows in July, and again in early October. Yields on fixed income investments fell to 40-year lows.

Pensions Are Secure

Given the extreme volatility and heavily negative returns that have characterized equity markets lately, it is important to realize that such conditions do not affect your pensions. This is because the Canada Post Registered Pension Plan is designed as a "defined benefit" pension plan. This means our benefit formula is based upon a members' earnings and number of years of service rather than the Plan's rate of investment return. However, Canada Post's pension expenses will increase to cover any shortfall though this represents a risk to our future profitability.

Employee's benefits will not change during a period of market instability. This contrasts with a number of other plans that are designed as "defined contribution" plans where pension benefits are linked to investment returns during bad times as well as good.

Our pension plan members enjoy guaranteed, inflation-protected benefits and the Canada Post Corporation Board of Directors maintains a close watch over investment returns and contributions.

Investment Strategy and Returns

The liabilities of the Canada Post Pension Plan are long term in nature because of the low ratio of pensioners relative to active employees. Accordingly, the Plan has adopted a longer-term investment strategy while emphasizing the prudent diversification of investments across a variety of asset classes, investment styles and geographic regions.

Over the longer term, equity investments provide the highest rates of return, although such returns can be volatile in the shorter term. The average pension fund will typically invest about 60% of its assets in equities. Others, including the Canada Post Pension Plan, will have a greater equity investment because of the longer duration of their pension liabilities. Our plan allows equity and real estate investments to vary from 55-70%, depending upon market conditions.

Most asset classes contain allocations to a variety of investment methodologies, including both active and passive styles. Active styles seek to earn rates of return above recognized indicies through effective security selection. Such styles include Value and Growth methodologies.

Passive investment styles seek to replicate index returns at a very low management fee. Passive mandates are allocated to those asset classes judged to be the most efficient and where the ability of investment managers to provide excess returns is more constrained. This includes Canadian and U.S. equities and Canadian Bonds.

The Plan's annual return, like that of all major investors, is closely tied to the performance of the markets in which we invest. Because the Canada Post plan has more equity than most plans and equity markets are down, we fully expect the fund will report a negative return for 2002. The Canada Post Pension Plan lost 1.2 per cent for the 12 month period ended June 30, 2002. Despite such challenging conditions, the Plan's return bettered that of our policy benchmark return, which posted a drop of 3.2 per cent.

Decisions taken early in 2002 reflected concerns about future equity returns and served to protect invested capital. These included decreased allocation to equity markets, investment in real return bonds and decreased commitment to passive strategies such as Index Funds.

In conclusion, the performance of equity markets in 2002 are likely to translate into higher pension costs for the Corporation in future years. Employees, who enjoy the advantage of a defined benefits plan, will not be negatively affected.

The federal government passed legislation in 1999 to reform the Public Service pension plan. That legislation included provisions for Canada Post, as a federal Crown Corporation, to establish its own pension plan effective October 1, 2000. The Canada Post Pension Plan is one of Canada's largest, with a total of some 57,000 active and retired members, deferred pensioners and beneficiaries.