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Pension Plan News

Securing your Pension Benefit

Due to the recent declines in worldwide equity markets, Canada Post Management has taken a proactive step of having a funding valuation of the Canada Post Registered Pension Plan prepared as at December 31, 2002, two years earlier than required by law. The results, completed by the Pension Plan's actuary, Mercer Human Resource Consulting, revealed the plan to have a solvency deficit of approximately $450M.

Funding valuations are required to be completed at least triennially and the report is filed with the Office of the Superintendent of Financial Institutions and Canada Customs and Revenue Agency. A funding valuation provides an orderly method for the plan sponsor to review the funded status of their pension plan. In the event that there are insufficient assets to support the pension benefits earned by the employees, the plan sponsor, in this case Canada Post, is required to make special payments until the solvency deficit is eliminated.

Although financial markets have improved in 2003, the Board of Directors has authorized the transfer of $100M to start curing the solvency deficit. Jacques Côté, Chief Financial Officer, said that this move was a "prudent first step" and that management has and will continue to monitor financial markets "to ensure that the pension benefits are secure".

Highlights of the CUPW Ratification

Effective January 1, 2004

- **Rural Route & Suburban Service Contractors (RRSSC) Join CPC**
  Will be subject to eligibility rules for the Canada Post Pension Plan.
- **Part time**
  Will pay and receive pension credits based on actual regular hours paid.
- **Temporary employees**
  Will become eligible to contribute to the Canada Post Pension Plan if;
  - in a single predetermined work assignment of more than 6 months *and*
  - scheduled or assigned at least 12 hours of work a week.

  Will pay and receive pension credits based on actual regular hours paid.

  When this assignment has expired, employee will revert to "On Call" and will become inactive members of the Plan and must then re-qualify to become active again.

Pension Contributions Increase January 1, 2004

Employee contributions to the Canada Post Registered Pension Plan and the Supplementary Retirement Arrangement will increase on an annual basis, by 0.4%, beginning January 1, 2004.

This increase was approved by the Canada Post Board of Directors and is in compliance with pension legislation that authorizes yearly, capped increases to contribution rates, until the employee share of contributions to the Plans reaches 40 per cent (currently 27 per cent) of the annual current service costs.

Prior to September 1999, combined contributions to the Public Service Superannuation (PSSA) and to the Canada Pension Plan/Quebec Pension Plan (C/QPP) were capped at 7.5% of pensionable earnings. Subsequent federal legislation removed the 7.5% combined contributions cap and increases are now limited to 0.4% per annum, effective Jan. 1, 2004.

It is important to keep in mind that these increases will help preserve the financial security of our Pension Plan, which will ensure a viable and healthy plan for current and future retirees.

For an employee with earnings of $42,000 per year, the annual contribution to the Canada Post Pension Fund would increase by approximately $168.00 ($6.44 per pay) for 2004, calculated on the 2003 maximum pensionable earnings.

These rate increases will not affect employees who have completed 35 years of pensionable service and who are currently contributing at a rate of 1% on earnings.

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Canada Post Pension Plan
Mid-Year Investment Review!

From the Office of Douglas Greaves, VP, Pension Fund and Chief Investment Officer

Stability returned to financial markets in March of 2003, enabling investment returns on plan assets to show notable strength for the |first time in several years. By September 2003, this strength was being maintained, although some form of retrenchment might well occur given the extent of the gains that have accrued in recent months.

Led by investments in the rebounding Canadian and U.S. equity markets, Plan assets had an investment return of 3.01% for the six months ended June 30, 2003. This was above our policy benchmark of 2.40%.

Pensions Are Secure

It is important to realize that although there may be volatility and negative returns in equity markets over a period of time, such conditions do not affect Canada Post Pension benefits. This is because the Canada Post Registered Pension Plan is defined 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.

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 to ensure the Plan has adequate assets to cover its pension liabilities. In that spirit, the Board has authorized Canada Post to increase its contribution by $100 million beginning in 2004.

Economic Overview

The U.S. Federal Reserve Board continued to lower interest rates in early 2003, reflecting its concerns about the state of the domestic economy. Economic growth began to show more evidence of strength as consumer spending benefited from declines in interest rates to levels last seen in the decade of the 1950s. Although employment continued to be soft, business investment began to show indications of improvement as corporate profits showed sequential growth for the first time in several years. This occurred in spite of significant uncertainties emanating from events unfolding in Iraq and the global impact of the outbreak of SARS.

These trends were particularly evident in Canada. Stronger business conditions caused the Bank of Canada to increase administered interest rates resulting in a widening of interest rate spreads and an appreciation in the value of the Canadian dollar of about 14% by late September, versus a weakening U.S. dollar.

Financial Market Performance

After declining early in the New Year, stock markets rallied in Canada and around the world and investor appetite for fixed income securities weakened. Indeed, a sell-off in the U.S. bond market during the early summer months proved one of the sharpest on record, restoring open market long-term interest rates to levels that prevailed at year-end 2002.

For the six-month period ended June 30, 2003, the TSX index returned 6.7%, and the SC Bond Universe index returned 4.4%. In foreign markets, the U.S. S&P 500 equity index returned -4.1%, and the MSCI EAFE International index -6.1%, such returns being negatively impacted by the appreciation of the Canadian dollar. However, when expressed in U.S. dollar terms, the returns were 11.76% S & P and 9.47% MSCI EAFE.

Investment Strategy and Pension Fund Returns

We continued to invest funds in accordance with our long-term strategy and asset mix discipline. Our overall equity investments increased to approximately 60.2% of pension plan assets as of June 30, 2003. This compares with the policy benchmark of 62.5% within our permitted range of 55.0% to 70.0%. We expect to further increase our equity holdings in the coming months.

Returns from U.S and Canadian equities were generally favorable when compared to their respective benchmarks, as were Canadian fixed income returns. The Plan's exposure to Real Return bonds also continued to enhance returns. On the other hand, International equity results were disappointing.

Current Initiatives

We expect to commence a program to diversify our investment portfolio into areas such as Real Estate and Private Equity over the next twelve months. These types of investment are suitable for pension funds such as ours whose liabilities are long-term in nature.

In conjunction with this, we also intend to review our structure of Canadian equity investments, including our allocation to indexed and active management strategies. A review of our International equity investments was recently completed, resulting in changes in our external manager structure.

New PAC Member Elected

We are pleased to announce that Micki McCune was the successful candidate as Representative of the all-active members on the Canada Post Pension Advisory Council. She is replacing Bill Price, who retired in February, 2003.

Micki has been with Canada Post since 1976 and presently works for Technical Services in the Vancouver Post Office. Micki has chaired the National Board of Trustees of CUPW for 15 years and has also served 2 terms as Secretary Treasurer for the Vancouver CUPW local.

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