Frequently asked questions

1. What's the situation with the pension plan's solvency deficit?

The Plan's Defined Benefit component has an unfunded solvency deficit of $5.1 billion (as at December 31, 2018) and is funded at 82.9%. This means that in the unlikely scenario that Canada Post were to stop operating and all the benefits needed to be paid out, there would not be enough assets to pay 100% of the pension benefits. Canada Post has had a solvency deficit for several years, which was partially caused by a low interest rate environment, and the Government of Canada granted relief from making special solvency payments to reduce it. But in early 2020, the relief limit will be reached and Canada Post will have to start making special payments.

2. What does Canada Post intend to do about the solvency deficit?

Canada Post intends to begin discussions with the Government of Canada about short-term solvency funding options. Without a change to federal regulations, Canada Post would have to make those special solvency payments starting March 1, 2020. They would amount to about $60 million a month, or $600 million for 2020 alone, and total an estimated $1.6 billion from 2020 to 2024. Making these significant payments would reduce the funds Canada Post plans to use to invest in network modernization and parcel growth, to improve product offerings for remittance services and other important initiatives needed to sustain the Corporation's future.

3. What is temporary solvency relief?

It would mean the Government of Canada granting Canada Post relief from the need to make special payments to reduce the solvency deficit for a time, such as three to five years. Canada Post will still make the regular current service contributions during any period of relief. For 2019, those amounts are estimated to be $264 million from the Corporation and $261 million from employees. These contributions as well as any special payments would help to protect the Plan.

4. What reassurance can you give me about the status of the pension plan?

Canada Post is committed to meeting its pension obligations. The Plan has a going-concern surplus of $3.4 billion (it is funded at 116%). As well, Canada Post is able to pay all current service contributions as they become due. Canada Post does not anticipate any risk of this changing in the foreseeable future unless markets experience a significant downturn, which could lead to Canada Post having to make special going-concern payments.

5. Are my pension benefits secure?

The security of your pension benefits is directly linked to the financial health and sustainability of the Plan sponsor, Canada Post. That's why ensuring Canada Post can invest in network modernization, parcel growth and other important initiatives is so important. These efforts will help our financial self-sustainability, which is important for everyone in the Plan.

6. Does Canada Post intend to change my pension benefits?

No. Canada Post is not seeking to make any changes to the benefits of Plan members.

7. What short-term solvency options will Canada Post discuss with the government?

The options are:

a. Canada Post could seek, from the Government of Canada, temporary relief from special solvency payments for three to five years (similar to the relief granted from 2014 to 2017). This would allow Canada Post to invest in its competitiveness, growth and future.
b. Canada Post could use a portion of its current funds to make the solvency payments which would significantly reduce those funds. It would then be far more difficult to invest, to the extent needed, in modernizing the network and in growing the Parcels business. Reducing these investments would undermine Canada Post's competitiveness, growth and future sustainability.
c. Canada Post could ask the federal Department of Finance to allow Canada Post to borrow money to make special solvency payments and invest in network modernization as well as grow the Parcels business. This would reduce Canada Post's future borrowing ability and financial flexibility.
d. Indexing for inflation could be removed from the solvency funding calculation. This would address the majority of the solvency deficit challenge. Members of the DB component of the Plan would not be affected. They would still see their pension benefits increase with the cost of living as they do currently; indexing for inflation would remain fully guaranteed. This change would only affect the calculation of Canada Post's solvency funding deficit. This could take considerable time to implement, since such a change would probably be applied to all federally regulated pension plans and would require considerable study and consultation with many stakeholders.

8. Does Canada Post have a preferred option?

Yes. The preferred option is temporary relief from making special solvency payments (item 1 above). With relief, we can invest in the business for today and the future. The stronger the financial position of Canada Post – the Plan sponsor – the stronger the Plan is for its members.

9. Has Canada Post considered long-term solutions?

Canada Post is currently focused on short-term solvency funding options. The timeline doesn't allow for consideration of long-term solutions, which would require a significant time to evaluate and obtain approval. However, Canada Post is open to reviewing long-term solutions with all stakeholders once a short-term option has been implemented.

10. Has Canada Post considered making some of the special solvency payments?

The legislation requires all solvency payments to be funded. If solvency relief was in place, Canada Post could decide to partially fund solvency payments but doing so would limit, to an extent, the amount of funds required to modernize the network and grow the parcel business.

11. What happens if no solution is in place when special solvency payments are due?

Canada Post would have to make the special solvency payments starting March 1, 2020. It would then be far more difficult to invest, to the extent needed, in modernizing the network and in growing the Parcels business.

12. Will Canada Post discuss all the options and Plan members' feedback with the government?

Yes, all the options and member feedback will be discussed with the government.

13. Why seek feedback from Plan members and start discussions with the government now?

Canada Post-specific temporary solvency relief was in place until December 31, 2017. In 2018, Canada Post reverted back to the regulated solvency relief rules allowing relief up to 15% of solvency liabilities. Beginning in 2020, Canada Post is now projecting that there will not be sufficient solvency relief under the 15% rule and needs to find a solution.

Canada Post is starting the process now to give appropriate time to consult with Plan members and the Pension Advisory Council and the Communications & Consultation Group for feedback.

The discussions with the government are starting now for two reasons. First, it is a lengthy process – and rightfully so because it is such an important decision. It will take a lot of discussion, deliberation and analysis to choose the best option. Then there is the need for the government to draft and adopt new regulations. All this takes time.

Second, the timing has to align with that of our five-year Corporate Plan – and the submission of that plan to the government follows a set process and timeline. For both these reasons, Canada Post expects to submit a formal request for short-term solvency funding relief to the government in November.

Glossary

Actuarial assumptions: Factors used by an actuary in forecasting uncertain future events affecting pension cost. They involve such things as estimating interest and investment earnings, inflation, mortality rates and retirement patterns.

Actuary: A professional who is responsible for calculating the liabilities of pension plans and the costs of providing pension plan benefits. Under the *Pension Benefits Standards Act, 1985 (PBSA)*, all actuarial reports must be prepared by a person who is a Fellow of the Canadian Institute of Actuaries.

Asset: Item with monetary value, such as cash, stocks, bonds and real estate.

Communications and Consultation Group (C&C Group): Representatives who help facilitate the exchange of information between the Corporation and the Plan members about pension matters.

Current service cost: The additional pension obligation to be created over the coming year, as another year of credited service is added for current employees contributing to the plan.

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

Discount rates: Long-term interest rates used to calculate 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.

Pension Advisory Council (PAC): A council formed as part of the governance structure of Canada Post's Board of Directors for the Plan, and established as per the guidelines of the *PBSA*. The PAC includes representatives of the bargaining agents and advises the Pension Committee of the Board. The PAC reviews communication, financial, actuarial and administrative aspects of the Plan.

Pension Committee: A committee of the Board of Directors that oversees the strategic direction of the Plan, fund investments and administration activities.

Pension obligations or **liabilities:** The actuarial present value of pension benefits for service completed up to a particular date, calculated using actuarial assumptions.

Plan member: Plan members include eligible active members, retired members, deferred members, survivors and beneficiaries.

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 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. The Canada Post Corporation Registered Pension Plan report on the actuarial valuation for funding purposes as at December 31, 2018 was filed with OSFI in June 2019. (See also: Going-concern valuation and Solvency valuation)