

# in touch retiree pension bulletin



## Securing our pension benefit

Due to the recent declines in worldwide equity markets, Canada Post management has taken the 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 once every three years 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. Chief Financial Officer Jacques Côté 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."

## INCOME TAX

After you retire, you may receive income on which no or insufficient tax has been withheld by the payer, leaving you to pay the required tax on this income when you file your return. To ensure that income tax is withheld from:

- **Canada Post Pension income** complete a TD1, (Personal Tax Credits Return), and send to RBC Global Services.
- **Old Age Security (OAS) and Canada Pension Plan (CPP) benefits** send a completed form ISP3520, (Request for Income Tax Deductions) to Human Resources Development Canada (HRDC). Review and amend these forms as income and/or age changes.

The Old Age Security Pension (OAS) and the Guaranteed Income Supplement (GIS) are not paid to you automatically. You must apply to Human Resources Development Canada (HRDC). The OAS pension is taxable and must be included in income on your return.

The GIS must also be included in income, but since it is not taxable, you can claim a deduction for this amount.

If your net income is more than a certain amount, (for 2003 OAS = \$57,879.00, GIS = \$13,176.00) you may have to repay all or a part of these payments.

Non-refundable tax credits. You may be able to claim your pension income amount if you include pension or annuity income on your return. If you were age 65 or older at the end of the year, you may be able to claim a part or all of the entire age amount. For more information see your tax package.

## UNITED WAY

United Way contributions can be voluntarily deducted from your pension. To do so, please contact RBC Global Services at 1-800-876-4498.

## 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 a reduction in returns might well occur as a result 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, which 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 classified 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 this spirit, the Board has authorized Canada Post to increase its contribution by \$100 million beginning in 2003.

### 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 1950s. Although employment continued to be soft, business investment began to demonstrate indications of improvement as corporate profits showed sequential growth for the first time in several years. This positive market activity occurred in spite of significant uncertainties stemming 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, which resulted in a widening of interest rate spreads and an increase in the value of the Canadian dollar — versus a weakening U.S. dollar — of about 14% by late September.

### 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. A sell-off in the U.S. bond market during the early summer months proved one of the sharpest on record, and it restored 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%. It is important to note that these returns were 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.

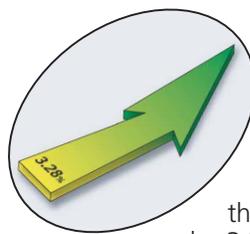
Returns from U.S. and Canadian equities were generally favorable when compared to their respective benchmarks, as were Canadian fixed income returns. The Plan's exposure to Real Return bonds also continued to enhance returns. On the other hand, International equity results were disappointing.

### 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.

## Indexing Increase For 2004



We are pleased to announce that your pension benefits will increase by 3.28% beginning with your January 2004 monthly pension payment. If you retired in 2003, the percentage increase will be based on the number of full months you were retired. For example, if you retired at the end of September, your increase will be  $3.28\% \times 3/12$ , or 0.82%.

## Pension Administration website [www.cpcpension.com](http://www.cpcpension.com)

Reminder

Many tools are available on the Canada Post Pension website ([www.cpcpension.com](http://www.cpcpension.com)). Check often for updates

## intouch

Do you have a topic in mind for our next "intouch" bulletin?

Please submit any suggestions or comments in writing to:

**Pension Services**

**2701 RIVERSIDE DRIVE SUITE B320**

**OTTAWA ON K1A 0B1**

OR send an e-mail directly to:

[pension.division@canadapost.ca](mailto:pension.division@canadapost.ca)