August 2019

Request for feedback on the Canada Post Pension Plan short-term solvency funding options

Dear Plan member,

In keeping with Canada Post's commitment to inform and consult with you about the Defined Benefit (DB) component of the Canada Post Corporation Registered Pension Plan (the Plan), we are writing to explain Canada Post's intention to begin discussions with Government of Canada officials regarding short-term solvency funding options. Canada Post is not seeking to make any changes to the benefits of Plan members.

The Plan's DB component has a 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 the Corporation 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.

Please know that Canada Post is committed to meeting its pension obligations. The Plan has a going-concern surplus of $3.4 billion (funded at 116%). This means there are enough assets in the Plan to fund these obligations on an ongoing basis, and Canada Post doesn't foresee any short-term risk of that changing.

By law, Canada Post must address the solvency deficit by making special solvency payments into the Plan to gradually eliminate the deficit. Canada Post has had a solvency deficit for over ten years. However, from 2014 to 2017, the Government of Canada provided Canada Post temporary relief from making any special solvency payments; this relief expired in December 2017. For 2018 and 2019, Canada Post was not required to make special solvency payments because of separate relief provided to all federally regulated pension plans under federal pension legislation.

Under current federal regulations, Canada Post will be required to make special solvency payments of approximately $60 million a month, starting March 1, 2020. Special solvency payments as per annual valuations will be made until no longer required. These special solvency payments will total an estimated $1.6 billion from 2020 to 2024, with payments of approximately $600 million for 2020 alone (based on estimated asset returns, interest rates as of December 31, 2018 and using the maximum solvency relief of 15% of solvency liabilities under current legislation). Making these payments will reduce the funds from which Canada Post plans to invest in network modernization, Parcels business growth and other important initiatives that are necessary to sustain the Corporation's future.

Canada Post, the Communications and Consultation (C&C) Group, and the Pension Advisory Council met on July 17 and 22, 2019 to review short-term options to address the solvency deficit payments challenge. The options are:

1. 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.

2. Canada Post could use a portion of its current cash reserves to make the solvency payments. Doing so would significantly draw down those reserves. 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 may undermine Canada Post's competitiveness, growth and future sustainability.
3. 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.
4. 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; this 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.

Various other changes in federal regulations or legislation are also possible measures. Some provinces have made a range of changes to address the pension solvency funding challenge for plans under their jurisdiction. If discussions with the federal government go in this direction, Canada Post is committed to keeping Plan members informed of any updates or developments. Canada Post is not in a position to do so yet, partly because changes of this nature are quite technical and could occur in many different combinations over long periods of time.

After weighing these options carefully, Canada Post's preferred option is temporary relief from making special solvency payments (item 1 above). With relief, the Corporation can invest in the business for today and the future. The stronger the financial position of the Corporation – the Plan sponsor – the stronger the Plan is for its members. Rest assured, Canada Post will continue to make current service contributions to the Plan during any period of relief from special solvency payments it may obtain; for 2019, those amounts are estimated to be $264 million from the Corporation and $261 million from employees.

Relief from making special solvency payments will not eliminate all risk to the Pension Plan's sustainability over the long term. Canada Post remains committed to working with Plan members, unions and associations, and the Government of Canada to mitigate risks to the long-term funding of the Plan.

Canada Post welcomes your feedback on this issue and encourages you to provide comments prior to September 30, 2019 to your designated C&C Group representative (refer to attached list of representatives) either by email at **groupeccgroup@canadapost.ca** or in writing: C&C Group, 2701 Riverside Drive, Suite N0660, Ottawa, ON, K1A 0B1 (if you are directing your feedback to a specific representative, please identify the representative in your message). You also have the option of communicating directly with your union representatives or by contacting the Canada Post Pension Centre at 1-877-480-9220 or in writing: Pension Policy, 2701 Riverside Drive, Suite N0660, Ottawa, ON, K1A 0B1.

Your pension benefits are earned and Canada Post understands that you are counting on them for a secure retirement. Canada Post will keep you informed about the progress toward options for short-term solvency funding. This letter, a Frequently Asked Questions document and more information regarding the Plan are available at **cpcpension.com**. Plan information can also be found in the annual Canada Post Pension Plan 2018 Report to Members and the annual and quarterly Canada Post financial reports.

Sincerely,

W. G. Cheeseman

Wayne Cheeseman
Chief Financial Officer

A T MacEach

Ann Therese MacEachern
Chief Human Resources Officer

Representatives of the Communications and Consultation Group (July 2019)
The Communications & Consultation (C&C) Group is made up of 12 representatives, five elected and seven appointed, to represent their stakeholder groups.

- Two are appointed to represent Canada Post as Plan Administrator
- Five are elected representatives
- Five are appointed to represent the unions and associations

The two Canada Post representatives are:

Mike Garvey	Representative of Canada Post
Amanda Maltby	Representative of Canada Post

The five elected representatives are:

Mary Bishop	Representative of retirees, survivors and deferred members
Nathalie Breton	Representative of management and exempt DB members
Marion Pollack	Representative of retirees, survivors and deferred members
William (Bill) R. Price	Representative of retirees, survivors and deferred members
Peter Whitaker	Representative of retirees, survivors and deferred members

The five union/association representatives are:

Rick Williams	APOC Representative
Daniel Maheux	CPAA Representative
François Paradis	PSAC / UPCE Representative
Julee Sanderson	CUPW (UPO and RSMC) Representative
Jan Simpson	CUPW (UPO and RSMC) Representative

APOC	Association of Postal Officials of Canada
CPAA	Canadian Postmasters and Assistants Association
CUPW	Canadian Union of Postal Workers
PSAC	Public Service Alliance of Canada
UPCE	Union of Postal Communications Employees
UPO	Urban Postal Operations
RSMC	Rural Suburban Mail Carrier