Short-term Solvency Funding Options

July 2019

Background

- The CPC Registered Pension Plan (RPP) Defined Benefit component is funded per the federal *Pension Benefits Standards Act* (PBSA) requirements, both on a going-concern and solvency basis.

December 31, 2018		
	Going-concern	**Solvency (market)**
Assets	$24.8B	$24.6B
Liabilities	$21.4B	$29.7B
Surplus (deficit)	$3.4B	($5.1B)
Funded ratio	**116%**	**82.9%**

Background

- Maximum solvency payment reduction available to Agent Crown corporations (up to 15% of value of liabilities) will be reached in 2020 by CPC, **triggering cash payment requirements diverting funds from CPC's ability to invest in network modernization and parcel growth.**
- Projected future solvency payments (based on December 31, 2018 results) for 2020 are estimated at $600M. 2020 payments commence March 1, 2020 (due no later than 30 days after the month to which they apply).
- An estimated **$1.6 billion of solvency payments is estimated to be required between 2020 and 2024** to be paid **to comply with legislation**.
- Actual solvency payments can have significant volatility depending on discount rates and investment returns.
- The RPP is in a good financial position on a going-concern basis ($3.4 billion surplus). The RPP is likely to maintain a going-concern surplus unless markets experience a significant downturn.

Options

1 - Temporary Relief	CPC could seek additional temporary relief from special solvency payments. Relief would be in place for 3-5 years. Relief has been provided previously to CPC from 2014 to 2017 (4 years). Regulatory changes could be in place prior to March 1, 2020.
2 - Make special payments	CPC could use current cash balance to fund solvency payments. Solvency payments will significantly reduce the Corporation's cash reserves impairing its ability to invest in network modernization and Parcels business growth.

Options

3 - Borrow to make payments	CPC could request from the Department of Finance the authorization to borrow funds to make solvency payments and invest in modernizing the network and growing the Parcels business. Borrowing to make solvency payments will limit potential future borrowing ability and financial flexibility of the Corporation. Minister of Finance approval would be required for any additional borrowing.
4 - Removal of indexing from solvency calculation	The removal of indexation would address majority of solvency deficit. This option is used by certain provinces (e.g. Ontario) to provide solvency relief. Although indexation would be excluded from the solvency funding requirements, it would still be funded for going-concern purposes, and would remain fully guaranteed. Solution does not fully eliminate solvency risks. 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.

Other Regulatory / Legislative Changes

Agent Crowns are allowed to reduce their solvency payments up to 15% of value of liabilities with a fee payable to the Government. The Government could consider increasing the limit or adjust regulation wording to restore “the level playing field” between Crowns and non-Crowns. These solutions may not reduce long-term cash requirements.

Department of Finance may need more time to address market concern and impacts on other federally regulated pension plans and may take time to implement. Solution may not fully eliminate solvency risks.

CPC's Preferred Approach

- Canada Post is not looking at options to change pension benefits.
- CPC's current cash balance does not allow for the network modernization and Parcel growth investments as well as the estimated $1.6 billion solvency payments over 5 years.
- CPC's preferred option is temporary relief in order to avoid making solvency payments that would avoid diverting resources away from investing in network modernization and growing the Parcel line of business. This option has a higher probability of being achieved prior to the solvency payments deadline of March 1, 2020.
- CPC currently has a going-concern surplus and pension benefits are not at risk in the short term.
- CPC financial sustainability and sufficient cash flow level are the best way to ensure the pension plan's long-term sustainability.
- CPC will actively engage with all DB pension members and request their feedback.

Consultation Timeline

#	What	Target Date
1	**Consult with key stakeholders**	**Jul 8-25, 2019**
a	Inform unions, OSFI, Dept of Finance, PSPC of consultation process, provide documents to CCG / PAC	Jul 8, 2019
b	Joint CCG / PAC meeting	Jul 17-22, 2019
c	Feedback deadline from CCG / PAC on letter	Jul 30, 2019
2	**Finalize communication for all DB members**	**Jul 30-Aug 9, 2019**
a	Review feedback, incorporate changes, finalize with senior management	Jul 30-Aug 9, 2019
b	Translation, mail preparation, communication package	Jul 30-Aug 9, 2019
3	**Consult with all DB members & government officials**	**Aug 2019-Ongoing**
a	Mail induction, update Pension website	Aug 12-14, 2019
b	Feedback from DB members & discussions with government officials	Aug 2019-Ongoing
c	Review feedback with CCG / PAC	Sep 2019
4	**Ongoing Communication**	**Oct-Nov 2019**
a	CCG / PAC meetings (Scheduled)	Oct 2019
b	Joint CCG / PAC meeting (*Proposed*)	Nov 20, 2019
5	**Formal request to Government**	**Nov 2019**
6	**First solvency payment due**	**Mar 1, 2020**