Intouch
Retiree Pension Bulletin
Defined benefit

Actuarial valuation results as at December 31, 2013

The actuarial valuation of the Canada Post Pension Plan (the Plan) as at December 31, 2013, was completed by the Plan's actuary, Mercer, at the end of June and filed with federal regulators. The valuation updates the estimates provided to Plan members in the 2013 Report to Members.

The valuation shows that the Plan has a going-concern funded ratio of 98 per cent. This means that, using a long-term view, the Plan has a shortfall of $296 million with regard to future pension obligations.

The valuation also looks at the Plan on a solvency basis, which measures the health of the Plan as if it had been terminated December 31, 2013.

Using the market value of assets, the Plan had a deficit of $5.0 billion, for a solvency ratio of 79.3 per cent.

The solvency deficit to be funded, which uses the prescribed three-year average solvency ratio method, is $6.3 billion for an average solvency ratio of 73.9 per cent. Despite the best investment returns since the Plan was created, this deficit has grown from $5.9 billion last year. For more information on the solvency deficit, see your 2013 Report to Members.

There are two main reasons the Plan continues to struggle with a solvency deficit to be funded.

First, Canada Post provides Plan members with full indexation of their pension benefits. This guaranteed protection against inflation increases pension obligations and related funding requirements, and remains very costly to the Plan. Second, people are living longer. In 2013, the Plan actuary updated the assumptions for how long Plan members would live and receive pension benefits. This change was required by the Canadian Institute of Actuaries to reflect improvements in longevity. The outcome was an increase in Canada Post's estimated pension obligations.

Under the requirements of the pension legislation, Plan sponsors such as Canada Post must fund any solvency deficit over five years by making special payments. In February 2014, the Government of Canada adopted regulations that granted Canada Post relief from the need to make special payments into the Plan for four years (2014-2017). Without any relief, Canada Post would have had to make special payments of about $1.3 billion in 2014, an amount the Corporation does not have. This year, Canada Post will contribute approximately $250 million in current service costs and employees will contribute an estimated $234 million.

In this issue

A strong and competitive Canada Post is the best assurance of a viable Plan. In December 2013, Canada Post introduced the Five-point Action Plan to transform its business and secure the postal service for all Canadians. Canada Post must also restructure the Pension Plan to ensure that it is affordable and sustainable for Plan members and for the Corporation. For more information on the approach to restructuring the Plan, see the July 2014 edition of *Focus on Our Business*, mailed to your home and available at **cpcpension.com**.

Learn more about the Plan and actuarial valuations in the 2013 Report to Members also sent to you in June and posted at **cpcpension.com**.

Disclaimer: The Canada Post Corporation Registered Pension Plan is referred to as the Plan in this publication. The official Plan text governs your actual benefits from the Plan and is the final authority in any case of dispute. For more information, visit **cpcpension.com**.

Corporate performance results – August 2014

The Canada Post segment reported a profit before tax of $53 million for the second quarter of 2014, primarily due to the impact of lower employee benefit costs, continued growth in the Parcels business and new pricing measures for Transaction Mail contained in the Corporation's Five-point Action Plan.

Canada Post is encouraged by the result, but Transaction Mail volumes continued their historic decline, falling by 38 million pieces in the second quarter of 2014 compared to the same period last year. This trend underlines the need to transform the business.

"There is much work ahead to transform our business and deliver consistent quality service to our customers, especially as our growth depends on winning in highly competitive businesses," said Jacques Côté, Group President, Physical Delivery Network.

Canada Post is focused on executing the various elements of the Five-point Action Plan and has made considerable progress so far this year.

Meanwhile, online shopping continues to drive growth. Parcel revenues for the Canada Post segment rose by 11.3 per cent to $353 million in the second quarter of 2014 compared to the same period in the prior year.

For the Canada Post segment, employee benefit costs fell by $58 million for the second quarter of 2014, compared to the same period in 2013, due to strong pension asset returns in 2013 and an increase in long-term interest rates used to calculate benefit plan costs in 2014. Employee future benefits, including pension, continue to be highly volatile and unpredictable, and remain a significant factor in the Corporation's operating results.

The Canada Post Group of Companies reported a profit before tax of $86 million in the second quarter of 2014. For more information on the corporate results, see the news release available at **canadapost.ca**.

Reminder: Keep your beneficiary information current

A designated beneficiary for your pension benefit is an important part of your estate planning. It ensures that your wishes are followed and your pension benefit goes to the right people when you die. Pension Services want to make sure that you have a designated beneficiary on file.

You can designate or change your beneficiaries by completing the Designation of Beneficiary(ies) form found at **cpcpension.com** under Forms.

Remember, your spouse or common-law partner at the time of your retirement is eligible for survivor benefits under the Plan and does not need to be named as your beneficiary. By law, this person is automatically your survivor.

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

Please submit any suggestions or comments in writing to

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OTTAWA ON K1A 0B1

OR send an email to
pension.services@canadapost.ca

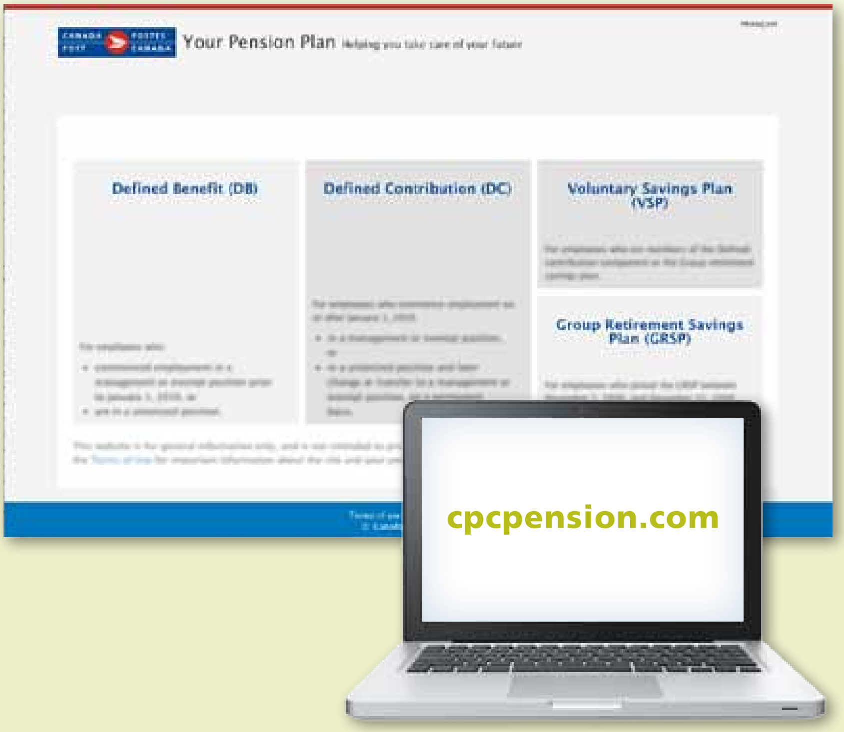
Pension website makeover coming this fall

We're very excited about the upcoming launch of the new **cpcpension.com**. The new site will be easier to navigate and find the information you need. Its new, contemporary design complements other Canada Post websites.

The new **cpcpension.com** will still have the same great features we know our members want and use, like the Life events section, annual pension payment calendar, and contact pages.

Some new features will include pages for active employees who are members of the defined contribution (DC) pension, Group Retirement Savings Plan (GRSP), as well as the new Voluntary Savings Plan (VSP).

We're putting the finishing touches on the site now. Visit **cpcpension.com** later this fall to see our new look.



How do we compare to other pension plans?

According to CEM Benchmarking Inc., the Pension Services and Pension Investments teams offer cost effective services and receive high ratings for member services, when compared to similar Canadian and global pension plans.

CEM Benchmarking Inc. is an independent company that conducts yearly reviews of major pension plans around the world. It compares and reports on member service levels and the costs to administer pension plans. The Canada Post Pension Plan participated in the 2013 survey with these results:

	Canada Post	Peer group average
Administration cost per member	$138	$196
Member services score (out of 100)	78	75
Investment management costs (per $100 of average assets)	$0.32	$0.43

For 2013, the Canada Post Pension Plan ranked 11th among the top 100 Canadian pension plans based on total pension assets, and it is the largest single employer pension plan in Canada.

Source: Benefits Canada

The Pension Services and Pension Investments teams use this information to understand how we measure up against other pension plans and industry best practices, and to improve our services.

Investment performance results from April 1 to June 30, 2014

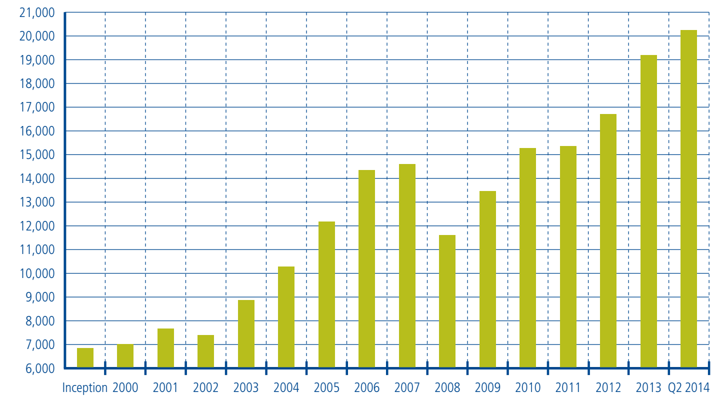
Market conditions

Equity markets were higher in the second quarter of 2014. The Canadian S&P/TSX Composite Index was up 6.4 per cent, while in Canadian dollar terms the U.S. S&P 500 Index was up 1.6 per cent and the international EAFE Index was up 0.5 per cent. The FTSE TMX Bond Universe was up 2.0 per cent on the quarter. The Bank of Canada held interest rates steady at 1.0 per cent. The following table depicts the performance of the Plan's fund (per cent return).

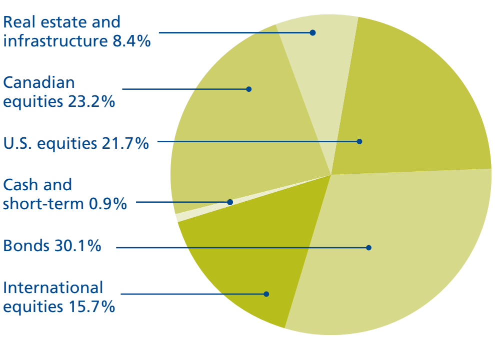
Asset class	Market value (in millions of dollars)	2014 Apr-Jun (%)	2014 YTD (%)	2013 Annual (%)	2012 Annual (%)	2011 Annual (%)	2010 Annual (%)	2009 Annual (%)
Fixed income								
Cash and short-term	188.9	0.3	0.5	1.0	1.0	1.0	1.0	1.7
Bonds	6,096.2	2.3	5.7	-2.0	4.6	10.5	7.7	8.7
Equities								
Canadian equities	4,696.8	5.9	11.4	20.3	7.3	-9.1	15.2	33.0
U.S. equities	4,386.5	-0.2	5.2	44.2	14.7	3.1	9.5	9.9
International equities	3,192.2	1.0	6.1	24.0	17.8	-12.7	4.0	16.3
Real estate and infrastructure	1,693.1	1.5	3.2	11.3	15.2	15.0	15.1	-9.1
Total Registered Pension Plan	**20,253.7**	**2.56**	**6.64**	**16.88**	**10.13**	**0.19**	**10.38**	**16.19**
Benchmark		**3.07**	**7.16**	**14.00**	**8.51**	**0.78**	**9.85**	**15.79**

Investment highlights

- The fund's second quarter return was 2.56 per cent compared to our benchmark of 3.07 per cent. For 2014 year to date, the fund is up 6.64 per cent compared to our benchmark return of 7.16 per cent.
- As at June 30, 2014, the fund held assets of $20,253.7 million.
- The fund had net cash outflows of $110.0 million in the second quarter. U.S. equities were reduced by $50.1 million, the currency overlay account by 36.1 million, and cash and short-term investments by $96.0 million. Allocations were $50.0 million to international equities. In the alternative assets space, private equities were allocated $30.4 million, while real estate and infrastructure were reduced by $7.8 million and $0.4 million respectively during the quarter.



ASSET MIX



Asset-mix highlights

- As at June 30, 2014, 69.0 per cent of assets were invested in equities and real estate and infrastructure, compared to the asset mix target of 62.5 per cent. This was made up of 23.2 per cent in Canadian equities, 21.7 per cent in U.S. equities, 15.7 per cent in international equities and 8.4 per cent in real estate and infrastructure.
- 31.0 per cent of assets were invested in bonds and short-term investments, compared to an asset mix target of 37.5 per cent. This included 5.8 per cent in real return bonds, 24.3 per cent in nominal bonds and 0.9 per cent in cash and short-term investments.