Intouch Retiree Pension Bulletin **Defined Benefit**

Actuarial valuation results at December 31, 2012

In June, the pension plan's independent actuary, Mercer, completed the actuarial valuation of the Canada Post Corporation Registered Pension Plan (the Plan) as at December 31, 2012. The valuation provides the official numbers that update the estimates included in the *2012 Report to members*.

The valuation results show that, on a going-concern basis, the Plan is at its funded target ratio of 100 per cent. This means that the Plan is estimated to have enough assets to pay future pension benefits, assuming that Canada Post is financially healthy and that the Plan continues to operate over the longer term.

On a solvency basis, using the market value of assets, the Plan has a deficit of $6.5 billion, for a solvency ratio of 72 per cent. The deficit represents the shortfall that would exist between Plan assets and the cost of future pension benefits if the Plan had been terminated as at December 31, 2012.

The solvency deficit to be funded, using the three-year average solvency ratio method, is $5.9 billion for an average solvency ratio of 75 per cent. This deficit has grown from $4.7 billion last year, despite good investment returns, due to the decrease in discount rates. As of June 30, 2013, investment returns continue to be good at 5.7 per cent.

Since Canada Post must erase any solvency deficit over five years, it would have to make special payments of more than $1 billion a year, in the absence of solvency relief measures.

On June 28, 2013, Canada Post filed the actuarial valuation report with the federal pension regulators, the Office of the Superintendent of Financial Institutions and the Canada Revenue Agency, as required.

An actuarial valuation is like a report card for the Plan. It is used by Canada Post to assess the Plan's long-term financial health and establish the funding requirements.

Canada Post is transforming to adjust to its new business reality and to stay relevant to Canadians. Its pension plan must also transform and adapt to the new reality.

For more information about actuarial valuations and to understand what the results mean for Canada Post, see the *2012 Report to members* mailed to your home in June and available at **cpcpension.com**.

Did you know?

Discount rates are the long-term rates used to calculate pension obligations. They have been decreasing for many years.

When discount rates are low, it is more costly to fund the Plan. For example, a decrease of 0.5 per cent in the discount rate increases the fund's obligations by about $1.2 billion. An increase in discount rates would have the opposite effect.

In this issue

Corporate performance results – August 2013

The Canada Post segment reported a loss before tax of $104 million in the second quarter, while the Group of Companies reported a loss before tax of $76 million for the same period.

Total volumes continue to decline. In the second quarter, Transaction Mail volumes fell by 6.3 per cent while Direct Marketing volumes remained flat, compared to the same period last year.

Parcel volumes continue to grow thanks to the increasing popularity of online shopping. Over the first two quarters, total parcel volumes increased by about one million pieces compared to the same period in 2012, which is not enough to offset larger declines in Transaction Mail and Direct Marketing volumes.

"The postal needs of Canadians are changing. It is critical that we transform our business so we are able to serve these changing needs," said Jacques Côté, Group President, Physical Delivery Network.

With that goal in mind, Canada Post has been engaging Canadians in an important national conversation about their future needs for postal service. It is accepting public feedback online and by mail, and expects that it will have held more than 50 face-to-face consultations with a broad spectrum of leaders in communities across Canada and national organizations by the end of this September.

THE FUTURE OF CANADA POST

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 DR, SUITE B320
OTTAWA ON K1A 0B1

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

2012 Report to members survey – Your opinion counts

Thank you to everyone who responded to the opinion survey about the *2012 Report to members* mailed to homes in June. Your feedback helps us improve the Report and provide Plan members with the information they need in the ways they want.

A number of you told us that you would like to receive communications from Pension Services through epost™ – and we heard you loud and clear. That's why, **in 2014**, communications such as *Intouch* will be available to Plan members through epost.

If you don't have an epost account, go to **epost.ca** and follow the online instructions. It's free to sign up and use; you'll also help Canada Post build its digital business.

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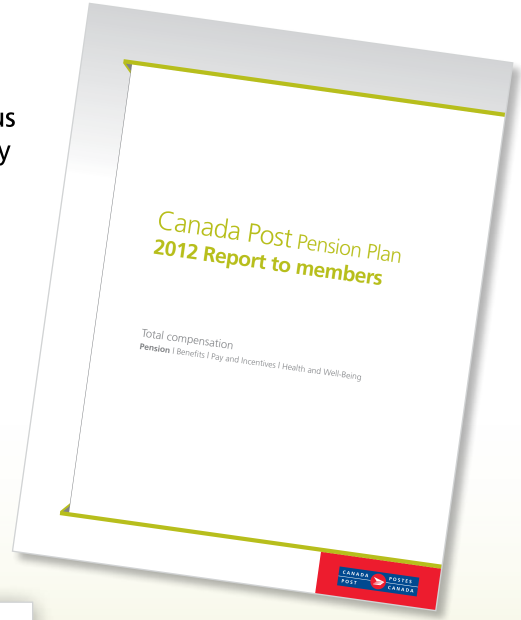
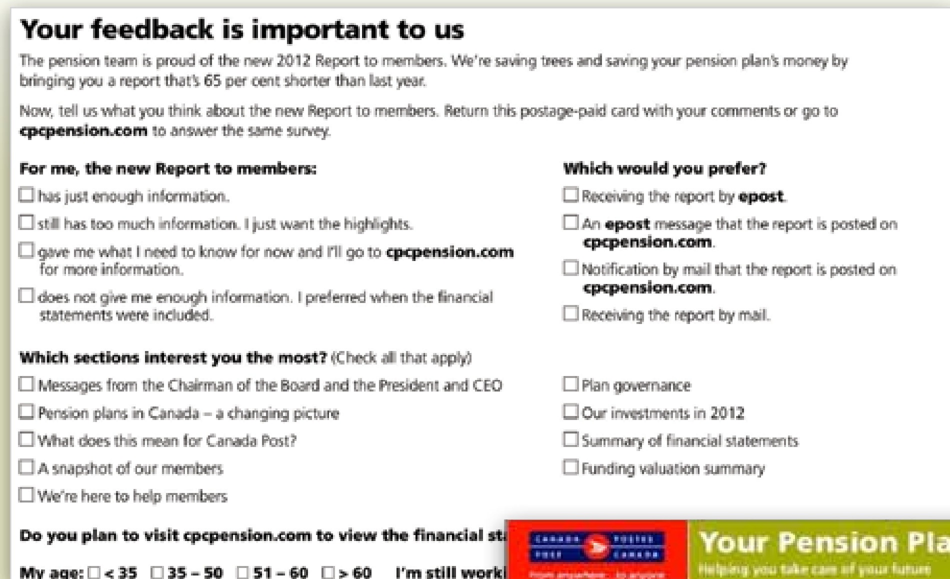




Your feedback is important to us

The pension team is proud of the new 2012 Report to members. We're saving trees and saving your pension plan's money by bringing you a report that's 65 per cent shorter than last year.

Now, tell us what you think about the new Report to members. Return this postage-paid card with your comments or go to **cpcpension.com** to answer the same survey.

For me, the new Report to members:

- ☐ has just enough information.
- ☐ still has too much information. I just want the highlights.
- ☐ gave me what I need to know for now and I'll go to **cpcpension.com** for more information.
- ☐ does not give me enough information. I preferred when the financial statements were included.

Which would you prefer?

- ☐ Receiving the report by **epost**.
- ☐ An **epost** message that the report is posted on **cpcpension.com**.
- ☐ Notification by mail that the report is posted on **cpcpension.com**.
- ☐ Receiving the report by mail.

Which sections interest you the most? (Check all that apply)

- ☐ Messages from the Chairman of the Board and the President and CEO
- ☐ Pension plans in Canada – a changing picture
- ☐ What does this mean for Canada Post?
- ☐ A snapshot of our members
- ☐ We're here to help members
- ☐ Plan governance
- ☐ Our investments in 2012
- ☐ Summary of financial statements
- ☐ Funding valuation summary

Do you plan to visit cpcpension.com to view the financial st

My age: ☐ **< 35** ☐ **35 – 50** ☐ **51 – 60** ☐ **> 60** **I'm still worki**

It's not too late to give us your feedback on the *2012 Report to members*. Take a few minutes to fill out the survey card found in the printed Report or online at **cpcpension.com**.

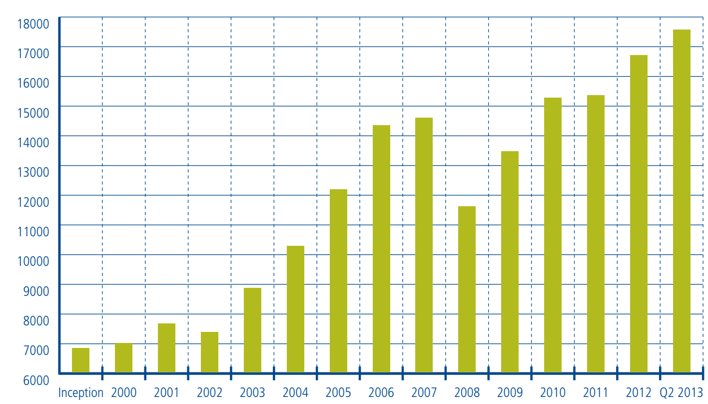
Market conditions

Equity markets were mixed in the second quarter of 2013. The Canadian S&P/TSX Composite index was down 4.1 per cent, while in Canadian dollar terms the U.S. S&P 500 index was up 6.9 per cent and the international EAFE index was up 2.8 per cent. The DEX Bond Universe was down 2.4 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).

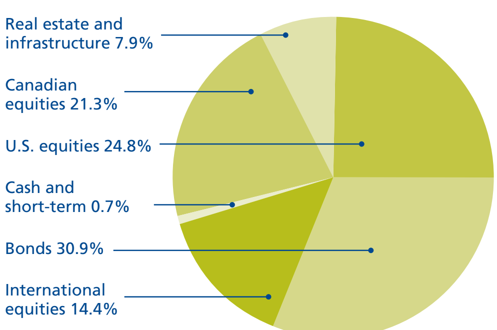
Asset class	Market value (in millions of dollars)	2013 Apr-Jun (%)	2013 Year to date (%)	2012 Annual (%)	2011 Annual (%)	2010 Annual (%)	2009 Annual (%)	2008 Annual (%)
Fixed income								
Cash and short-term	125.9	0.3	0.5	1.0	1.0	1.0	1.7	3.0
Bonds	5,427.0	-3.4	-2.8	4.6	10.5	7.7	8.7	3.7
Equities								
Canadian equities	3,743.6	-1.5	3.8	7.3	-9.1	15.2	33.0	-32.0
U.S. equities	4,351.1	7.1	21.2	14.7	3.1	9.5	9.9	-21.6
International equities	2,536.4	1.0	8.2	17.8	-12.7	4.0	16.3	-37.4
Real estate and infrastructure	1,392.0	2.6	4.2	15.2	15.0	15.1	-9.1	-1.5
Total registered pension plan	**17,576.0**	**0.37**	**5.74**	**10.13**	**0.19**	**10.38**	**16.19**	**-19.27**
Benchmark		**-0.46**	**4.21**	**8.51**	**0.78**	**9.85**	**15.79**	**-17.58**

Investment highlights

- The fund's second quarter return was 0.37 per cent compared to our benchmark of -0.46 per cent. Year to date the fund is up 5.74 per cent compared to our benchmark return of 4.21 per cent.
- As at June 30, 2013, the fund held assets of $17,576.0 million.
- The fund had net cash outflows of $57.4 million in the second quarter. Canadian equity was reduced by $44.7 million, U.S. equity by $86.1 million, international equity by $20.0 million and real return bonds by $13.8 million. Allocated to the currency overlay account was $2.4 million and to the cash and short-term investments account, $75.0 million. In the alternative assets space $21.1 million was redeemed from real estate, $40.2 million was allocated to infrastructure and $11.9 million to private equity investments.



ASSET MIX



Asset-mix highlights

- As at June 30, 2013, 68.4 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 21.3 per cent Canadian equities, 24.8 per cent U.S. equities, 14.4 per cent international equities and 7.9 per cent real estate and infrastructure.
- 31.6 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 6.1 per cent in real return bonds, 24.8 per cent in nominal bonds and 0.7 per cent in cash and short-term investments.