CANADA POST POSTES CANADA

Pension Plan News

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.

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**; you can also refer to Your Personalized Pension Statement and Your Information Booklet.

In this issue

We appreciate your feedback. If you have a comment or a suggested topic, please contact:

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OTTAWA ON K1A 0B1
Email: **pension.services@canadapost.ca**

2012 Report to members survey – Your opinion counts

DEFINED BENEFIT MEMBERS

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 *Pension Plan News* 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.

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**.

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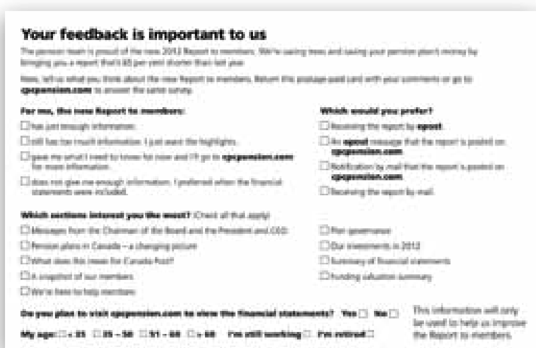


Pension calculators

DEFINED BENEFIT MEMBERS

New: PIN by phone

Your first visit to the pension calculator

You received a personal identification number (PIN) to use the pension calculator on **cpcpension.com** with your pension enrolment kit. If you can't find your PIN, you can now get a temporary one by calling the Pension Centre at 1-877-480-9220 (TTY – 1-866-370-2725).

Use the temporary PIN to log on to the pension calculator. You'll be prompted to change it and create a challenge question on your first visit.

You've set up your PIN but can't remember it

You can reset it yourself.

On the page Welcome to the Canada Post Pension Plan Calculator, select "Have you forgotten your PIN?"

Enter your employee number (no leading zeroes) and the two words for the challenge response test (called a captcha). Select "Continue."

Answer the Forgotten PIN Help question that you set up on your first visit. You will be prompted to reset your PIN.

If you can't remember the answer to your question, call the Pension Centre for a new temporary PIN.

To protect your privacy, PINs will not be provided by email.

DEFINED CONTRIBUTION MEMBERS

Create an action plan for your retirement goals by signing in to **mysunlife.ca** > my money tools > Retirement planner.

Nearing retirement? Want to learn more about your pension?

Attend a free pre-retirement seminar offered by Canada Post and learn more about
- the value of your Canada Post pension benefit;
- how government pension programs work;
- how to define your retirement goals and the basics of retirement planning;
- how financial, legal and healthy lifestyle choices can affect your retirement.

Who can attend?

Participation is by invitation only for members and their partners.
- Defined benefit (DB) members must be within five years of an unreduced pension and can attend only once during their career. Invitations are usually sent out during the first two months of the year.
- Defined contribution (DC) members must be at least age 50. Invitations are usually sent out in March.

What seminars are offered?

There are different types of seminars.
- For DB members: All day, in-person group seminars conducted by the Retirement Planning Institute, specialists in retirement planning.
- For DC members: 90-minute seminars, "my money after work," conducted by specialists from Sun Life Financial and not specific to the Canada Post pension plan. Employees can attend the following two sessions:
  - "Are you retirement ready?" Offered in person or by webinar. Designed for employees who are within 10 years of retirement.
  - "It's my time to retire." Offered by webinar only. Designed for employees who are within five years of retirement.

2013 sessions still available for DB members

If you received an invitation and haven't registered or attended yet, it may not be too late to go to a 2013 session. Space is still available in the following cities: Montréal, Ottawa, Oakville-Burlington, Toronto (Gateway).

To register, refer to the invitation you received last February or contact ctc TrainCanada at 1-877-672-2111. ctc TrainCanada will verify that you are eligible to attend. Don't delay, there are only a few seminars left.

Investment performance results from April 1 to June 30, 2013

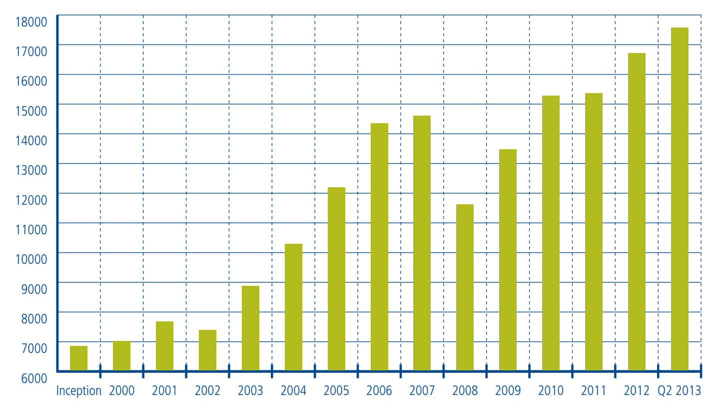
Market conditions

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).

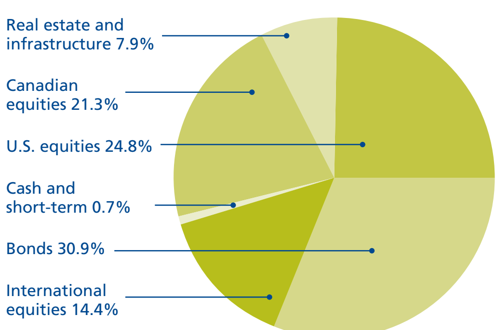
Asset class	Market value (in millions of dollars)	2013 Apr-Jun (%)	2013 Year to date (%)	2012 Annual (%)	2011 Annual (%)	2010 Annual (%)	2009 Annual (%)	2008 Annual (%)
Fixed income								
Cash and short-term	125.9	0.3	0.5	1.0	1.0	1.0	1.7	3.0
Bonds	5,427.0	-3.4	-2.8	4.6	10.5	7.7	8.7	3.7
Equities								
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.