CANADA POST POSTES CANADA

PENSION PLAN NEWS

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Elective Service— What is it?

As discussed in the Pension Plan News #2 (October, 1999), it is important for employees to be aware of the elective service issue to allow -adequate time to make informed decisions on this matter.

Elective service is time you worked for a recognized employer, including Canada Post and the Post Office Department, that does not currently apply to the calculation of your total pensionable service. It is called elective because

I am pleased to update you on the progress on our new Canada Post Pension Plan which still must be approved by Treasury Board ministers.

Since I last wrote to you in this newsletter, our dedicated pension plan implementation team has been busy putting into place key components of the new plan which takes effect October 1, 2000. As the implementation date nears, it is important that you take the time to read and understand how our plan preserves benefits accrued under the Public Service pension plan and provides certain enhanced benefits.

We are continuing to meet regularly with representatives of our unions/associations as part of our commitment to keeping you informed on all aspects of the new plan. Many of you will also be receiving background information from your union/association and we urge you to read these important messages. We are all interested in ensuring you have all the essential facts.

As many of you may already know, there will be one plan, which will cover all employees. All pensionable service credited to you under the Public Service pension plan will be recognized under the new plan.

Many of you have worked in the past for government departments, the RCMP or other applicable organizations and may qualify to "buy back service." If this applies to you, inform yourself now about buying back elective service. If you decide that buying back elective service is right for you, you MUST ACT before October for service that wasn't with Canada Post or the old Post Office Department. After that, it will be too late to buy back such service.

Other details, including involvement by employees and benefit changes are discussed in this issue. Please bring any questions or comments to our attention (see box, next page).

Ours will be the sixth largest single employer pension plan in this country, and I am confident that it will also be among the best run and most soundly invested of them all, too. It is our goal to ensure that everyone is fully informed in the coming months.

Anne Joynt
Senior vice-president, Human Resources

you may be able to “elect” or choose to buy it back, subject to certain qualifications and conditions, under the Public Service Superannuation Act (PSSA) prior to October 1, 2000. The most common types of elective service are:

- Prior public service (including service with the Post Office Department);
- Pensionable employment with a qualifying employer outside of the public service;
- Service with the Canadian Armed Forces or the Royal Canadian Mounted Police.

There are other types of elective service. If you have questions about any period of prior service and whether it qualifies for “buy back”, you should consult your local pay and benefits administration office.

DEADLINE—October 1

Until September 30, 2000, there will be no change to the existing Public Service pension plan and you will continue to accrue benefits under that plan. When the Canada Post Pension Plan takes effect October 1, **it will not include elective service opportunities outside of service with Canada Post or the Post Office Department.** Therefore, if you choose to have prior service that will not be eligible for the “buy back” election after October 1 count toward your pension entitlement under the new Canada Post Pension Plan, you must make your election while you continue to participate in the Public Service pension plan that is, before October 1.

A decision to buy back elective service with Canada Post or the old Post Office Department does not need to be made before October 1, 2000.

If you want to look into buying back prior service, you should contact your pay and benefits advisor NOW.

Why Change To A Separate Plan?

The federal government passed legislation, the Public Sector Pension Investment Board Act, (Bill C-78) to reform the Public Service pension plan last September. That legislation includes provisions for Canada Post to establish its own pension plan, effective October 1, 2000.

Canada Post will be responsible for all past pension liabilities. Funds will be transferred from the government to Canada Post for the purpose of paying these accrued benefits.

Canada Post employees have not been Public Service employees since we became a Crown Corporation but have continued to participate in the Public Service pension plan. This meant that Canada Post had no control over management of that plan.

It is in the best interest of employees and Canada Post to establish and administer our own pension plan. As a commercial Crown Corporation, operating without taxpayer support since 1989, we should have control over the pension plan which represents a significant portion of the overall employee benefit package. This will allow the plan to be included in the collective bargaining process, as is the case for other organizations under the Canada Labour code.

Do you still have Questions?

Feel free to ask questions and make your views known to us. Write to Benefits Administration at the following address:

HO PENSION DIVISION
2701 RIVERSIDE DRIVE SUITE B320
OTTAWA ON K1A 0B1

You can also send e-mail to HO, Pension-Division:
pension.division@canadapost.ca

How Is The New Plan Protected?

Like other federal pension plans, our plan will be regulated under the terms of the Pension Benefits Standards Act (PBSA), as well as the Income Tax Act. The PBSA clearly sets out rules for the prudent management of plan funds and minimum standards for benefits that will ensure the security of our pension plan. The pension funds will be kept in trust, separate from other Canada Post accounts.

Will My Benefits Change?

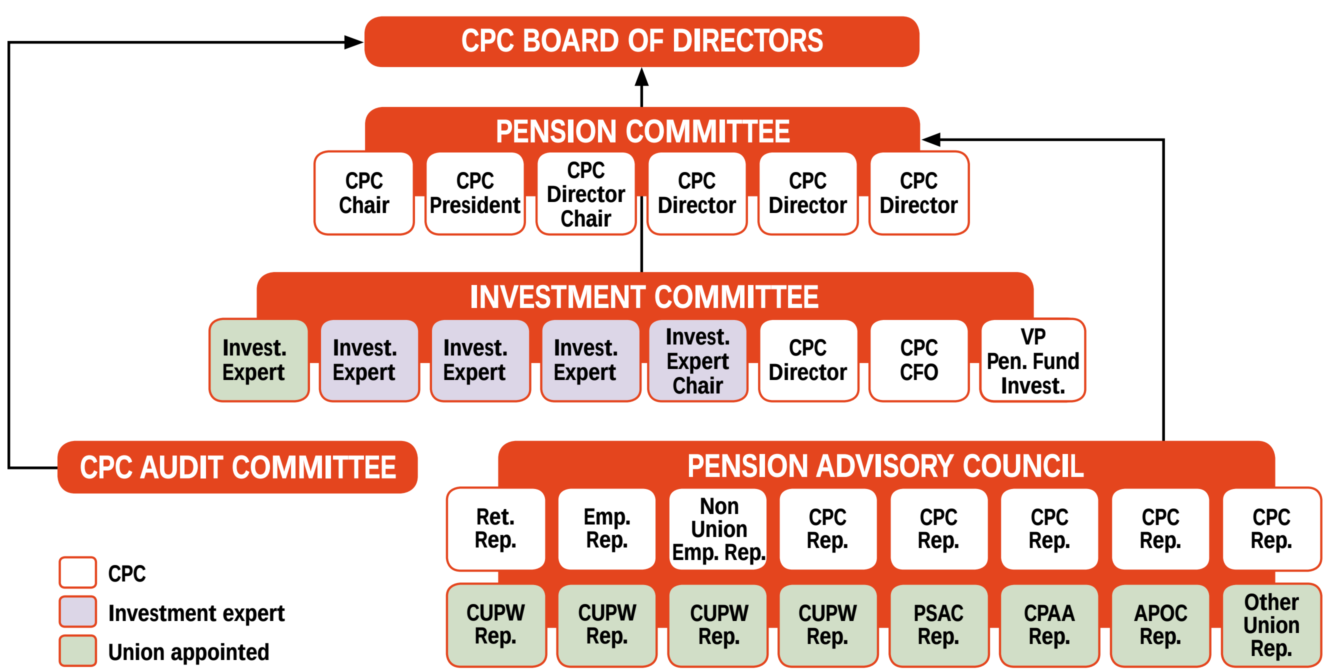
It is important to note that the new plan does not affect your retirement benefits that accrued under the Public Service pension plan. Your past service under that plan is fully protected and your pension based on that service will be at least the same as it would have been under the Public Service pension plan. In fact, employees who retire or terminate employment before the Canada Post Pension Plan comes into effect on October 1 will still receive their pensions from the Public Service pension plan. Employees who retire or terminate employment on or after October 1 will receive their pensions from Canada Post for all earned benefits before or after that date.

How Will The Pension Fund Be Invested?

In the existing Public Service pension plan, pension funds grew at the same interest rate as federal government bonds. The new legislation allows both the Public Service pension plan and the Canada Post Pension Plan to be invested in financial markets, which traditionally create higher returns than government bonds. The investment strategy for the Canada Post Pension Plan must still follow the rules of the PBSA and apply prudent investment policies to ensure the financial security of the plan. Returns on the pension fund have no direct effect on employees' benefits. Benefits are based on the formula set out in the plan, related to average earning and years of service.

GOVERNANCE — How The Plan Will Be Managed

As you will see below in the chart, our governance structure is being finalized for the new Canada Post Pension Plan. This model has been designed by Canada Post management in discussion with the unions/associations and reviewed and approved by the Board of Directors.



The Pension Committee is a committee of the Board whose role is to oversee the plan from a strategic perspective.

The role of the Investment Committee is to oversee the day-to-day investment activities through a panel of investment experts, one of whom will be recommended by the unions/associations, and Canada Post representatives.

The Audit Committee is a permanent committee of the Board of Directors. Its duties include assisting the Board in the discharge of its fiduciary responsibilities relating to the Pension Plan's accounting policies, reporting practices and internal controls.

When the governance model was presented to the representatives of our unions/associations, Canada Post agreed with their suggestion that union/association-appointed members would comprise 50 per cent of the Pension Advisory Council. The role of the Council is to review information on the plan and to promote it among employees.

The point the chart drives home is that employees and their representatives—and that includes those in management who haven't an association to represent them—are going to have opportunities to review the financial results of our pension investments and provide advice on the way the new plan is communicated.

Significant Changes To Be Adopted In The Canada Post Pension Plan

A draft of the legal text of the new Canada Post Pension Plan has now been prepared and has been provided for review by Treasury Board Secretariat. It must still be reviewed and approved by Treasury Board ministers.

The Corporation has also shared the draft plan text with representatives of employees' unions/associations, who provided it to their own pension experts for review.

This brief summary of changes which will be contained in the new Canada Post Pension Plan is intended for your general information. Please note that all rights in respect of pension benefits will be governed solely by the Canada Post Pension Plan and Canada Post Supplementary Retirement Arrangement texts as finally approved. If there are any discrepancies between this summary and the approved texts, the provisions of such texts shall prevail and govern.

The basis of the terms of our new plan is the Public Service pension plan. Pursuant to Bill-C-78, Canada Post employees and survivors will continue to be entitled to benefits at least equal to those available from the federal government employee plans under the Public Service Superannuation Act (the PSSA) and the Special Retirement Arrangements Act. In addition Bill C-78 requires that the Canada Post Pension Plan must comply with the Pension Benefits Standards Act, 1985 (the PBSA).

The PBSA governs federally regulated pension plans and provides important protection for members' rights and for the security of members' pension benefits. The Canada Post Pension Plan will comply with the PBSA. As a consequence, changes are introduced that will provide increased benefits in applicable circumstances. Other changes may be characterized as administrative in nature. You may wish to pay particular attention to where such changes could result in shorter time frames for making pension-related decisions, details of which will be communicated to all employees before October 1, 2000.

The significant changes from the Public Service pension plan to be adopted in the Canada Post Pension Plan that affect members' and survivors' benefits are briefly described below.

- *Spouse definition:* Who qualifies as a spouse under the Canada Post Pension Plan is, in some cases, different than under the PSSA. Both plans include in the definition of spouse a person who is either married to the member or who has established a "common-law" relationship, i.e., the person has cohabited with the member in a conjugal relationship for at least 1 year immediately preceding the date of determination (defined below). However, under the Canada Post Pension

Plan, in the rare occasions where there is both a married spouse and common law spouse at the date of determination, then the common law spouse also qualifies for the survivor benefits.

Second, the date of determination of who qualifies as a spouse is the earlier of the member's date of death and date of retirement, i.e., the date pension benefits become payable from the Canada Post Pension Plan. In the case of a member's death after retirement, the spouse who so qualifies at the date of retirement remains entitled to the survivor benefits even if the parties later separate or divorce unless they are surrendered pursuant to a court order or agreement upon a breakdown of the marriage or common law relationship. Under the PSSA, the date of determination is the earlier of the member's date of termination of employment, death or retirement; however, a common law spouse would lose the entitlement to a survivor's pension if the relationship with the member were not maintained in the year preceding the member's date of death.

- *Broader eligibility rules:* In addition to the current eligibility rules under the PSSA, an employee (other than a temporary employee) who has been employed for an uninterrupted period of 24 months and who has earned at least 35% of the Year's Maximum Pensionable Earnings (YMPE) in the Canada Pension Plan in each of the previous two calendar years will join the Canada Post Pension Plan. Once any employee has joined the Canada Post Pension Plan, there is no minimum assigned hours of work to continue to participate.

  Part-time employees who previously opted to not join the PSSA will be able to elect, only if they so choose, to participate in the Canada Post Pension Plan provided they meet the new eligibility requirements on or after October 1, 2000.

- *Early retirement:* In some cases of retirement at a young age, there may be a larger pension benefit payable than is the case under the PSSA. Irrespective of the early retirement reduction formula, a minimum test is applied to ensure that the then current lump sum value of the early retirement benefit is not less than the lump sum value of the benefit that would be paid if the member had elected a deferred pension payable from age 60. No such minimum value test is provided for under the PSSA.

  In addition, a member who reaches 30 years of pensionable service will be eligible for an immediate pension regardless of age. That pension would still be reduced if retirement occurs before age 55. Under the PSSA, the minimum retirement age is 50.

- *Late retirement:* Your pension will commence to be paid not later than the end of the year in which you attain age 69 regardless of whether you terminate your employment or not. Once your benefits commence to be paid, it will not be possible to continue to earn additional pension benefits. Under the PSSA, accrual must cease by the end of the year in which you attain age 71 and benefit payments would not begin until termination of employment.

- *Portability:* Upon the death of a member prior to retirement, the surviving qualifying spouse will have the right to receive the monthly survivor pension benefit or the lump sum value of those benefits. The option to receive the lump sum value is not available under the PSSA.

- *Death benefits:* Upon the death of a member before being eligible for early retirement, there will be a minimum value test applied to ensure that the lump sum value of the pension benefit payable to the surviving qualifying spouse is at least equal to the lump sum value of the benefits that the member would have received if the member had terminated employment the moment before death. In some cases, e.g., if the surviving spouse is much older than the member is, this minimum may lead to an increased survivor's pension. No such minimum value test is provided for under the PSSA.

- *Credit-splitting:* Upon marriage breakdown and subject to a court order or an agreement between the parties, the amount that may be assigned to a member's spouse can be all or part of the member's benefit entitlement. The amount is not limited to 50% as it is under the Pension Benefits Division Act which applies to the PSSA.

- *Small benefits:* There are two changes regarding small pension benefits. First, on termination of employment of a member , the Administrator may require the transfer of a lump sum to a locked-in portability arrangement in lieu of pension benefits otherwise payable if the lump sum value of the pension benefits is less than 10% of the YMPE in the year that the member terminates employment. There is no comparable provision under the PSSA.

  Second, the member may elect a lump sum in lieu of the pension benefits otherwise payable if the annual amount of pension payable is less than 4% of the YMPE in the year that the member terminates employment. Under the PSSA, the member can only choose a lump sum if the amount of pension payable is less than 2% of the YMPE.

- *Integration with other pension plans:* Benefits shall continue to accrue and members will be required to contribute under the Canada Post Pension Plan until a maximum of 35 years of service is counted under the Canada Post Pension Plan. Pensionable service that the member retains under federal government pension arrangements, such as the Canadian Forces or RCMP pension arrangements, no longer will count towards this 35 year service cap as is the case under the PSSA. An exception will be made for employees on October 1, 2000 who may choose to count such service and cease accruing benefits and contributions to the Canada Post Pension Plan at an earlier date.

- *Elective service:* Elective service that is purchased after September 30, 2000, is limited to prior Canada Post or Post Office Department service.

- *Statutory normal form of death benefit:* In some instances, the normal survivor's pension benefits under the Canada Post Registered Pension Plan (and the PSSA) will be less than the minimum prescribed under the PBSA. In these circumstances, the survivor's pension from the Canada Post Registered Pension Plan shall be increased to meet the minimum under the PBSA.