Canada Post Pension Plan

Report to Members

2013

Total Compensation

Pension | Benefits | Pay and Incentives | Health and Well-Being

CANADA POST POSTES CANADA

Contents

Privacy of pension records
Canada Post Corporation is subject to the *Privacy Act* and complies with the Canada Post Employee Privacy Policy. Personal information, including pension information, is treated in a secure and confidential manner.

Note
For the purposes of this Report, "Plan" and "Pension Plan" refer to the Canada Post Corporation Registered Pension Plan, which includes the defined benefit component and the defined contribution component, unless otherwise specified. Canada Post Corporation provides pension benefits to members through the Plan, which is registered under the federal *Pension Benefits Standards Act, 1985*.

This Report presents the financial position and results of the operations of the Plan on an accrual basis. The financial information presented here is an unaudited extract of the financial statements. The complete audited financial statements, including notes, are available at **cpcpension.com** or by request.

Terms that appear in **bold grey** the first time they are used are defined in the glossary at the back of the Report.

Four Things to Know About the Plan

1. **The sustainability of the Plan remains a serious concern**

2. **The Canada Post Pension Plan is not like plans that recovered well in 2013**

3. **Pension relief gives us time to find a solution – but it is not the solution**

4. **Canada Post is acting with urgency to make the Plan sustainable and affordable**

1. The sustainability of the Plan remains a serious concern

- Plan members are living longer and spending more time in retirement.

In	a 65-year-old man could expect to live to	Age
1960		78
1995		81
2000		83
2013		88
2033		89

A 10-year increase in retirement years means around 50% more in pension payments.

- The solvency deficit remains very large.
- A new actuarial valuation as at December 31, 2013, will be filed by June 30, 2014, with the Office of the Superintendent of Financial Institutions, the agency that monitors federally regulated pension plans.

Estimated deficits as at December 31, 2013

Solvency deficit (to be funded)[1]

$6.3 billion

73.9% funded

Solvency deficit (market value)[1]

$5.1 billion

79.2% funded

Going-concern deficit (to be funded)

$296 million

98.4% funded

(See pages 20-23 for more information about solvency and going-concern deficits.)

- Financial markets and long-term interest rates are too volatile and unpredictable for the Plan to be sustainable and affordable, without structural changes.
- Interest rates are at historical lows and are a major cause of deficits. If rates rise over the next few years, the Plan's funding position will improve. However, interest rates could decrease yet again.
- Canada Post's **pension obligations** and the Plan's funding requirements are simply too large compared to the Corporation's size and operating results.
- The Plan faces challenges that investment returns alone cannot address.

1. The final solvency deficits, as measured in the final actuarial valuation as at December 31, 2013, may differ significantly from these estimated values.

2. The Canada Post Pension Plan is not like plans that recovered well in 2013

- The year 2013 was good for many defined benefit (DB) plans due to strong investment returns and an increase in long-term interest rates. The Canada Post Pension Plan achieved its best return ever, at 16.9%, placing it in the top 25% when compared to large Canadian pension plans. (See page 10 for more information about our investments.)
- However, unlike most DB plans in Canada, our Plan guarantees that pension benefits will match increases in the cost of living. This is called guaranteed indexation and it is very costly to fund. The few plans that are fully indexed, like ours, continue to struggle because of this guarantee.
- In recent years, some pension plan sponsors have worked with their stakeholders to implement changes to their plans to make them more sustainable and affordable. Here are some examples:
  - Changed early retirement provisions.
  - Replaced full **inflation** protection with conditional inflation protection. Indexing to match the rise in the cost of living will depend on the plan's funded status.
  - Implemented a defined contribution pension plan.
  - Introduced a plan that shares risks and rewards with plan members; benefits are conditional on the plan's financial situation, but there is a high degree of certainty that target benefits will be paid.

3. Pension relief gives us time to find a solution – but it is not the solution

- The Government of Canada has granted relief to Canada Post from the need to make special payments into the Plan for four years (from 2014 to 2017).
- Without any pension relief, $1.3 billion in special payments would be required in 2014. Faced with serious financial challenges as volumes of Transaction Mail decline, Canada Post does not have the cash to make those payments.
- Pension relief only gives Canada Post a brief period to transform and strengthen its business and restructure the Plan to make it affordable and sustainable.

4. Canada Post is acting with urgency to make the Plan sustainable and affordable

- A strong Plan sponsor is the best assurance for a sustainable Plan. Canada Post is implementing the Five-point Action Plan to transform and strengthen its business.
- Canada Post's return to financial sustainability does not necessarily mean the same for the Pension Plan. For both to be sustainable, the Plan's funding requirements have to be affordable for the Corporation. Otherwise, both would be on uncertain ground.
- Canada Post is looking at ways to make the Plan sustainable and affordable by learning how other organizations manage their pension plans, assessing its options and engaging bargaining agents and stakeholders in a respectful dialogue.

Messages from the Chairman and the President

Marc A. Courtois
Chairman of the Board of Directors

The Board of Directors has a fiduciary duty to act in the best interest of members of the Canada Post Corporation Registered Pension Plan. It takes this duty seriously. The Board ensures that the Plan is well-governed and well-managed in the interest of Plan members.

The Plan is governed according to principles established by the Canadian Association of Pension Supervisory Authorities. The Board takes a responsible and diligent approach to monitoring the performance of Plan investments and to assessing strategies, among other things. The Board has established committees whose members have specific expertise that applies to pension matters. I can assure you that the Board's oversight is robust.

Canada Post must transform its business to be sustainable for years to come. So too must the Plan evolve to become affordable and sustainable for Plan members and the Corporation. Temporary relief from the need to make special payments into the Plan to address the large solvency deficit gives the Corporation a crucial period in which to transform its business and to restructure the Plan. The Board is committed to working in the best interest of Plan members and the Corporation during this critical transition.

I would like to thank A. Michel Lavigne for chairing the Board's Pension Committee as well as the Pension team, the Investment Advisory Committee and the Pension Advisory Council for their work on behalf of Plan members.

Deepak Chopra
President and Chief Executive Officer

In 2013, the Canada Post Corporation Registered Pension Plan recorded its best returns ever in the investment markets. However, the Plan is not sustainable, and neither is it affordable for the Plan sponsor, Canada Post. While several defined benefit plans are returning to positive solvency levels, Canada Post's pension plan is unique. The Canada Post Pension Plan does something that most defined benefit pension plans in Canada do not: it offers a guaranteed protection against inflation by matching the rising cost of living. That guaranteed protection adds another significant cost. Improved investment returns are not enough to meet the ongoing challenge of funding the Plan. It also provides for additional enhancements that make it more expensive for the Corporation to sustain. Therefore, despite some of the strongest investment returns, our Pension Plan remains in a solvency deficit.

It is important that Plan members take the time to understand why our Plan is different. It is also important for Plan members to become informed about Canada Post's journey to create a sustainable, affordable Plan that can be relied upon to contribute to their need for a secure retirement.

Retirement can be a wonderful thing – but with people living longer, retirements are lasting longer and pension benefits must be paid longer too. For this reason, funding defined benefit pension plans is much more challenging than anyone anticipated when these plans were created.

Some employers have introduced meaningful changes to make their defined benefit plans more affordable and sustainable. Canada Post must also make structural changes to its Plan to achieve the goals of affordability and sustainability. The Corporation has a responsibility to do so for the sake of Plan members, and because an affordable Plan is a key component for Canada Post to become financially viable. It must do so without delay.

Let me assure you that Canada Post wants to help employees and retirees enjoy a decent and secure retirement income. We understand that pension benefits are important to that end. While changes to the Plan are needed, we are committed to assessing the options for change thoughtfully, and to working respectfully with bargaining agents and other stakeholders.

Canada Post Believes in a Secure Retirement for Plan Members

There are four objectives for the Plan:

1. Sustainability

A stable Plan will exist for the long term, and it will be able to adapt to the changing economy and lives of Plan members as a group (demographics).

2. Affordability

Canada Post and Plan members can afford to pay for the benefits.

3. Security

The Plan provides a secure retirement income, in combination with government programs and personal savings, and responds to the needs of members and Canada Post.

4. Shared responsibilities

Canada Post and Plan members share responsibilities associated with Plan funding and benefits.

As it works toward the four objectives, Canada Post will follow these guiding principles:

- **Respect** Plan members, understanding the importance of their pension to their retirement.
- **Help** Plan members achieve a secure retirement income by fulfilling its duty as Plan administrator.
- **Explore** all possible options to achieve the objectives of the Plan, including those adopted by other employers, before choosing the best solutions for the Plan.
- **Consult** stakeholders, including bargaining agents, and keep members informed about the status of the Plan and any changes that will be made to it.

Plan Governance

Canada Post, as Plan sponsor, is responsible for the funding of the Plan and its benefit design and, as Plan administrator, is also responsible for its administration and the investment of the pension funds. The Canada Post Board of Directors has a fiduciary duty to oversee these activities and ensure that they are conducted responsibly, in the best interest of all Plan members. The Board fulfills its duty by ensuring that prudent investment and administration practices are followed. The Board's Standards of Conduct (available at **canadapost.ca**) also include specific ethical rules on matters such as conflict of interest and diligence.

To support the Board's fiduciary duty, a robust governance structure is in place for both the defined benefit (DB) and defined contribution (DC) components of the Plan. The table below presents an overview of the Board committees and their primary responsibilities.

Membership of the Canada Post Board of Directors and committees as at December 31, 2013

Board of Directors

Marc A. Courtois (Chairman) ★ ▲ ●
Deepak Chopra
Thomas Cryer FCPA, FCA ★ ▲
A. Michel Lavigne FCPA, FCA ★ ▲
Siân M. Matthews ●
The Honourable Stewart McInnes Q.C. ●
Andrew B. Paterson ▲ ●
Iris Petten ●
Alain Sans Cartier ★ ▲
William H. Sheffield BSc., MBA, ICD.D ★ ●
Donald Woodley ●

★ Member of the Pension Committee
▲ Member of the Audit Committee
● Member of the Human Resources and Compensation Committee

Investment Advisory Committee

J. Lorne Braithwaite BComm, MBA (Chairperson)
Isla Carmichael Ph.D, M.Ed, MA ■
Phillip H. Doherty BComm, MBA, CPA, CA
Douglas D. Greaves HBA, CFA, ICD.D
Richard L. Knowles CFA, HBA
A. Michel Lavigne FCPA, FCA
Hugh Mackenzie MA, ICD.D ■

■ Unions and associations representative

Pension Advisory Council

Representing Canada Post
Douglas D. Greaves HBA, CFA, ICD.D (Chairperson)
Steven Galezowski MBA, CPA, CA, CBV, CFA
Sylvane Lacroix Fournier CPA, CA
Tim McGurrin
Brad Smith

Elected members
Mary Bishop CPA, CA, CEBS, representative of all retired members
Micki McCune, representative of all active members
John Polak, representative of management and exempt employees who are Plan members
Bill Price, representative of all retired members

Representing the Canadian Union of Postal Workers (CUPW)
Gayle Bossenberry
Madeleine Cléroux
George Kuehnbaum
Donald Lafleur

Representing the Association of Postal Officials of Canada (APOC)
Terry Cotton

Representing the Canadian Postmasters and Assistants Association (CPAA)
Daniel Maheux

Representing the Public Service Alliance of Canada (PSAC) / Union of Postal Communications Employees (UPCE)
Daryl Bean

Representing PSAC / UPCE / APOC / CPAA
Mike Moeller

The biography of each member listed here is available at **cpcpension.com**.

Delegated duties and responsibilities

Three committees of the Board, the Pension Committee, the Audit Committee and the Human Resources and Compensation Committee, make recommendations directly to the Board, which has final approval authority. The committees' membership is made up of selected Board members with specific expertise applicable to pension plan matters. Also, the Investment Advisory Committee and the Pension Advisory Council, whose membership includes representatives of the Canada Post collective bargaining agents, advise the Pension Committee on investment and administrative matters. For more information about the roles and duties of these bodies, visit **cpcpension.com** under Governance.

The Board delegates to management the daily activities and functions of investment and administration, which are carried out by the Pension Services team and the Pension Investment Division of Canada Post; these professionals in their respective fields pursue service excellence for the benefit of Plan members and the health of the fund.

What we do every day: Good governance practices

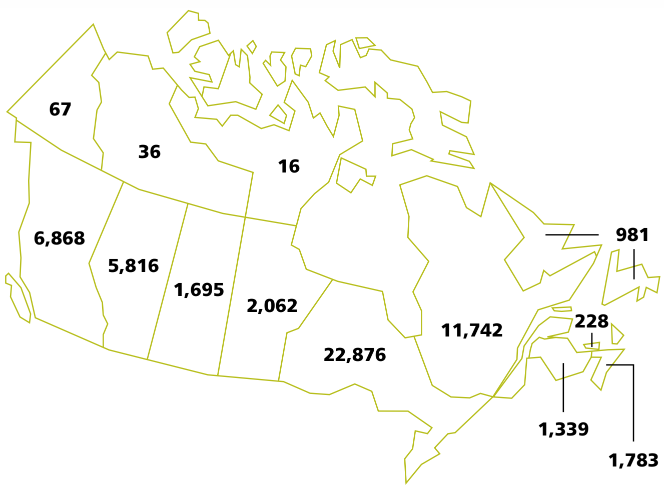
Monitoring	This practice includes the quarterly review of investments performance and funded ratios, using reference documents such as the Plan's statements of investment policies and procedures and funding objectives. Service performance, service provider contracts and service level agreements are also monitored regularly.
Assessment	The Board assesses its governance practices annually using questionnaires of the Canadian Association of Pension Supervisory Authorities (CAPSA). The Pension Committee reviews results to determine how successfully the Plan follows CAPSA governance principles and reports findings to the Board. CAPSA has established 11 governance principles that define good governance practices for pension plans in administration and investment management. The 2013 results show that the DB and DC components follow all CAPSA principles. Further information about CAPSA and its governance principles is available at **capsa-acor.org**.
Audit	Internal audit and independent external auditors conduct regular audits. In addition, the Office of the Superintendent of Financial Institutions (OSFI) can also carry out on-site governance reviews from time to time. OSFI did so in 2010. All OSFI's recommendations were addressed promptly by management. OSFI commented that the Plan was managed with excellent controls, processes and oversight, as well as good governance practices.
Risk management	The Board has established a risk management framework that defines the risk tolerance for the Plan in matters of administration and investment. The framework guides the development of strategies to meet overall objectives. For more information on the risk management strategy, see page 16. The efficient administration of the Plan, as described page 9, also supports governance best practices.
Communication	A number of legislative requirements relate to communication with Plan members. In 2013, requirements were met with the publication of the 2012 Report to Members, personalized pension statements, notice of amendments to the Plan, several communiqués, and the *Pension Plan News* and *Intouch* newsletters. Most of these publications are available at **cpcpension.com**. The Plan's audited financial statements are published at **cpcpension.com**, and printed copies are available by request.

A Snapshot of Our Members

	2009	2010	2011	2012	2013[1]
Active members	61,755	59,942	59,228	57,923	55,509
Percentage	76.6%	73.0%	69.8%	67.1%	64.0%
Retired members	17,269	20,330	23,635	26,236	28,715
Percentage	21.4%	24.8%	27.8%	30.4%	33.1%
Deferred members, survivors and beneficiaries	1,622	1,827	2,019	2,193	2,548
Percentage	2.0%	2.2%	2.4%	2.5%	2.9%
Total	**80,646** **100%**	**82,099** **100%**	**84,882** **100%**	**86,352** **100%**	**86,772** **100%**

1. For 2013, the information includes 86,286 members of the defined benefit (DB) component and 486 members of the defined contribution (DC) component of the Plan.

Number of active members across Canada, as of December 31, 2013



Age of active and retired members, as of December 31, 2013

Age	Less than 30	30-39	40-49	50-59	60-69	70-79	More than 79
Active members	1,481	9,319	16,659	22,224	5,698	128	0
Retired members	0	14	187	6,970	17,609	3,840	95

Over the next five years, 15,285 active DB members will have reached pensionable age.
The average age of active DB members is 49 (48.5 years in 2012).
The average age of active DC members is 39 (38 years in 2012).
The average age of DB members at retirement is 59.6 (59.1 years in 2012).
The average age of retired DB members is 63.8 (63.2 years in 2012).

Helping Our Members

Every day with every contact we have with Plan members, we want to make a difference by helping them. The Plan began operations in 2000 with approximately 55,000 members. Today, we serve more than 86,000. The number of retirees increased by 2,479 in 2013; retirees now represent 33% of members.

Our services to members

2013	2012	
58,254	52,687	Telephone calls from members to Pension Services
4,418	4,274	Telephone calls from retirees to RBC Investor Services
9,671	8,917	Telephone calls to members
50,240	39,500	Transactions completed for members by Pension Services
113,826	100,156	Visits to **cpcpension.com**
212,469	188,208	Pension estimates using the online calculator
72	71	Pre-retirement seminars
2,514	2,286	Plan members and spouses or common-law partners who attended seminars
380	386	One-on-one consultations at the seminars
4.4/5.0	4.4/5.0	Members satisfaction score
4.3/5.0	4.3/5.0	Target score

Our commitment to members

Prompt, proactive and compassionate service

There are so many external factors beyond our control that affect our Plan. One thing we can do for members is consistently deliver high quality services that meet their expectations, while keeping costs at a very competitive level. I am proud of the work the Pension Services team does for members and the results it has achieved both in members' satisfaction and cost efficiencies.[1] We are committed to meeting high-quality and cost-effective service standards.

Brad Smith
General Manager
Total Compensation and Pay

Pension Centre

The Pension Centre is responsible for Plan member services, which include processing elective service purchases as well as retirements, terminations and deaths; replacing personal identification numbers (PINs) for access to the online pension calculator; updating retirees' life insurance beneficiaries; processing new retirees' pension payments; and collecting employee contributions for leaves of absence.

cpcpension.com

The website contains information about pension benefits, investment results and recent pension news. It also offers all our publications and self-service tools to help members prepare for retirement. For example, members can use the "Calculate my pension" tool to get personalized pension estimates using their own planned retirement date. In 2013, visits to the website grew by almost 14%.

Pre-retirement seminars

Plan members who are within five years of an unreduced pension can attend the seminars, by invitation only. Topics include the Canada Post Pension Plan, post-retirement benefits, government programs, financial planning, wills and estate planning, and health and wellness. One-on-one consultations are also offered as part of the seminars. Members' feedback has been consistently positive.

1. Based on the 2011 CEM Benchmarking Survey the average administrative cost per member is $133 compared to our peer group average of $180. Pension Services participates in the CEM survey every two years. CEM compares administrative practices of similar public and private sector defined benefit pension plans and provides them with independent and objective results. Results of the 2013 survey will be reported next year.

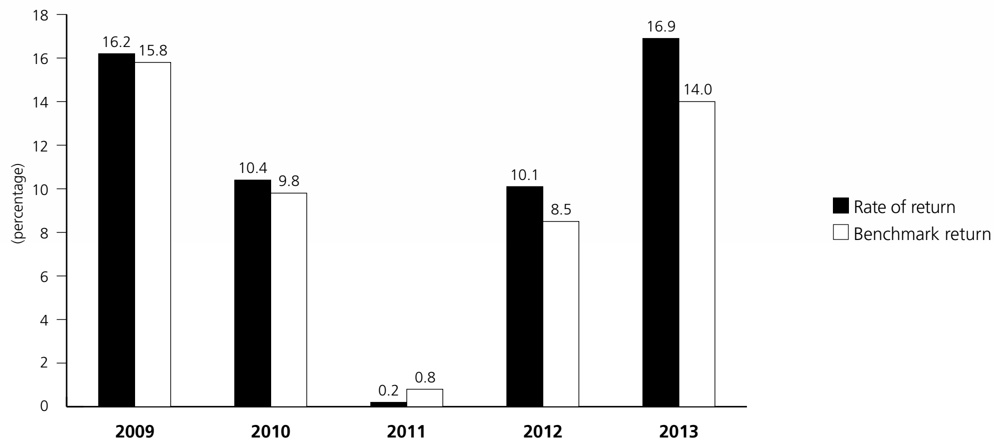
Our Investments

"The benefits of our strategy to reallocate funds to new asset classes continued to accrue. In 2013 the Plan recorded the best annual return in its history, with contributions from almost all asset classes."

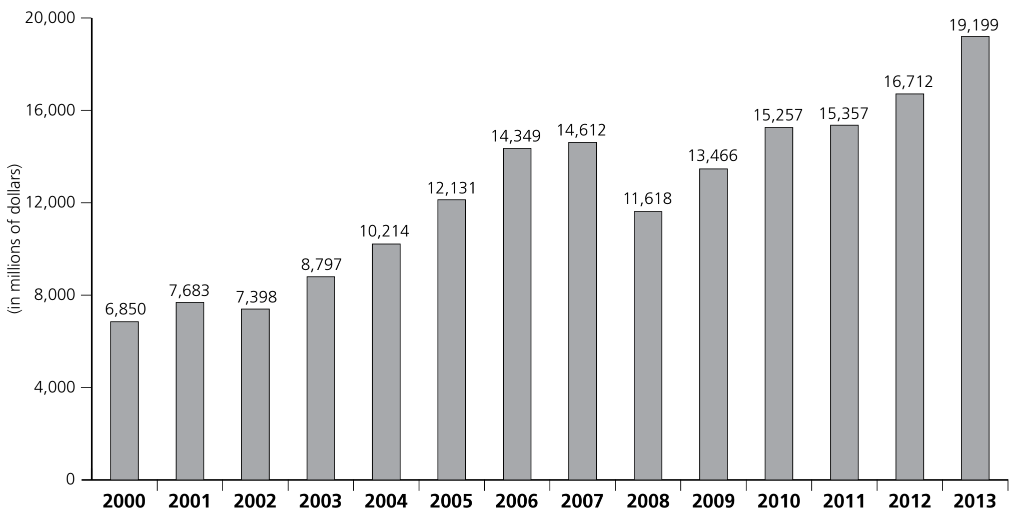
Douglas D. Greaves, Vice-President, Pension Fund and Chief Investment Officer

Overview

In 2013, the Canada Post Corporation Registered Pension Plan reported the best annual return since its creation in 2000. The **rate of return** of 16.9% outperformed the **benchmark** rate of return of 14% and placed in the top quartile, when compared to its peers of large Canadian pension plans. This was a significant accomplishment in a difficult market environment.



The Plan held net investment assets of $19,199 million at the end of 2013, an increase of $2,487 million from the end of 2012. All **asset** classes had positive returns and outperformed their benchmarks, with the exception of the emerging markets component of international **equities** and real return **bonds**, which outperformed their benchmark but had a negative return.



Net investment assets are defined as investments plus investment related receivables minus investment related liabilities.

Here are some important ongoing initiatives that affected the Plan's assets in 2013:

- The Plan continued to add to its infrastructure investments, which doubled in size from 2012.
- Private equity assets increased by approximately 50% when compared to 2012 due to additional funding and market gains.
- Internally managed Canadian corporate bond assets increased by over 50% from 2012 due to additional funding.
- Two international (non-U.S.) small cap equity managers were selected and funded.
- The Canadian bond portfolio was moved from an external to an internal manager. This decision has reduced costs and added flexibility.

Investment objectives

The Plan's investment objectives are to select the appropriate asset mix and risk level to achieve returns above the benchmark and meet the Plan's long-term funding needs. Sound investment decisions contribute to the sustainability and affordability of the Plan and support Canada Post as it fulfills the promise to Plan members of providing pension benefits, at a reasonable cost.

DB component	Since Plan inception	In 2013
Our Plan's rate of return	6.22%	**16.9%**
Our benchmark	4.85%	**14.0%**
Our peer group benchmark[1]	6.16%	**13.8%**
Our rate of return objective over time	6.75%	

1. RBC Investor Services based on the performance of large Canadian pension plans (more than $1 billion).

Over the long term, investment performance is evaluated against the Plan's funding objectives and also against the rate of return needed for the Plan to meet its pension obligations to members over time, as determined by the actuarial valuation. Over the short term, the Plan relies on a benchmark portfolio to evaluate investment performance. The Plan's benchmark portfolio represents the performance of the market index for each of the asset classes in the Plan.

Statement of Investment Policies and Procedures

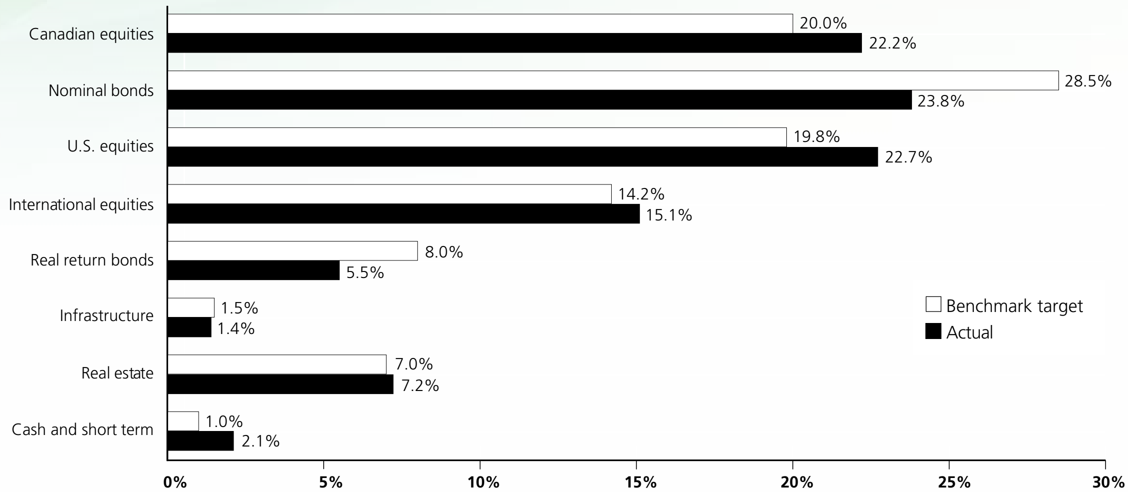
Canada Post uses the Statement of Investment Policies and Procedures (SIPP) to effectively manage investment risk. It sets a target percentage for each asset class as well as minimum and maximum limits to allow flexibility when market conditions change. The SIPP ensures diversification of asset classes and types, industry sectors, geographic/economic areas, management styles, liquidity and **market capitalization**. A copy of the SIPP is available at **cpcpension.com**.

On an ongoing basis, the in-house investment team applies expertise and knowledge to attain an asset mix designed to maximize growth opportunities, minimize risks and meet the requirements of the risk management framework and the SIPP.

The asset class mix is designed to provide the Plan with a long-term net rate of return of 4.5% above the estimated inflation rate of 2.25% for a total of 6.75%. Achieving this rate helps the Plan meet its funding objectives and the growth of its pension obligations. The Plan's current asset mix target is 62.5% in equities, real estate and infrastructure, and 37.5% in fixed income.

Asset mix

The Plan's actual asset mix as at December 31, 2013, compared to the benchmark target allocation is shown in the following chart. The actual asset mix varies from long-term targets given that the SIPP has minimum and maximum limits to allow flexibility as market conditions change.



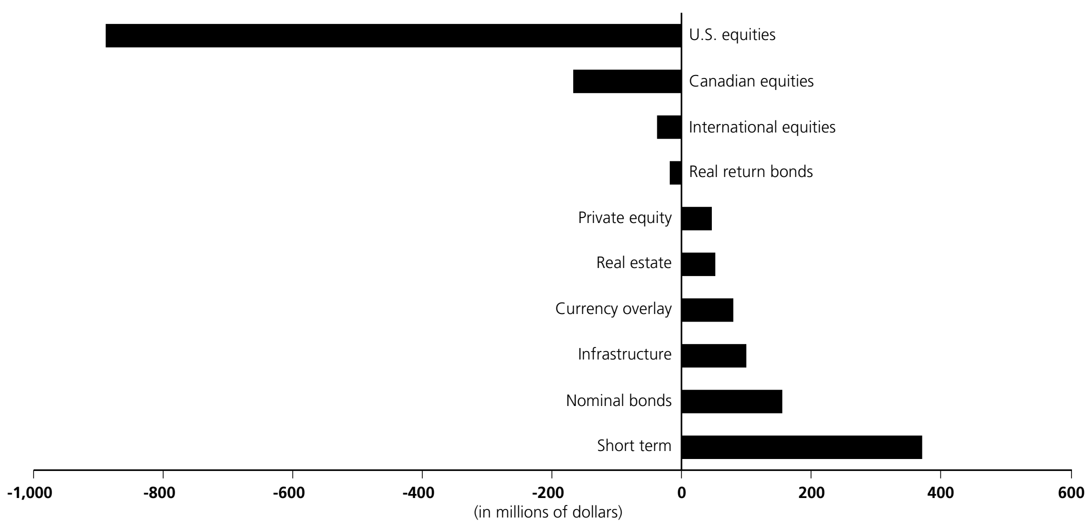
International equities include emerging markets. Private equity is allocated between Canadian, U.S. and international equities.

As a result of the fund's above-target allocation to equities, the fund experienced strong returns in 2013. The Plan continues to implement its diversification strategy and to add new asset classes. This enables the Plan to take advantage of future growth opportunities in equity markets, while holding an appropriate balance of fixed income assets based on the Plan's membership and long-term obligations.

Change in fund investments by asset class

In 2013, the Plan continued to increase its holdings of infrastructure, Canadian real estate, private equity and Canadian corporate bonds. It added to international (non-U.S.) small cap equity, and reduced U.S. equities, Canadian equities and real return bonds, as illustrated in the following chart. The Plan held U.S. equities in the upper range of its allocation for this type of investment. During the year, it reduced its position, taking advantage of market gains. These gains were allocated in part to fixed income instruments, such as nominal bonds and corporate bonds, as bond prices weakened. In a rising interest rate environment, corporate bonds are expected to perform better than government bonds.

The Plan is increasing its allocation to private equity and infrastructure assets, as recommended in the 2011 asset-liability study; those asset classes performed well for the Plan in 2013.



International equities include emerging markets. Currency overlay represents cash outflows due to currency hedging.

Key events in review and financial market performance

As in prior years, macroeconomic and geopolitical events influenced financial market performance. The question of when the U.S. Federal Reserve would start to taper or scale back its asset purchase program dominated financial markets in 2013. Here are some of the events that influenced the markets in the past year.

First quarter

- Positive economic data signalled a recovery in worldwide economic growth; U.S., European and Japanese equities gained while the value of government bonds declined.
- The S&P (Standard & Poor's) 500 stock market index hit an all-time high at the quarter's end.

Second quarter

- U.S. Treasury bond **yields** increased sharply as financial markets anticipated that the U.S. Federal Reserve would taper its asset purchase program.
- Markets recovered as the European Central Bank and the Bank of Japan maintained their monetary stimulus.
- The performance gap between developed and emerging markets widened due to a slowdown in China, inflation in Brazil and a drop in commodity prices.

Third quarter

- The vulnerability of emerging market equities, bonds and currencies to the tapering of the U.S. monetary stimulus became evident as there were substantial sell-offs in markets, especially in developing countries with large current account deficits.
- U.S. equity markets jumped in September after the U.S. Federal Reserve delayed a widely-expected move to begin tapering its asset purchase program.

Fourth quarter

- Strong economic data in Europe confirmed better economic momentum on the continent.
- The U.S. Federal Reserve announced the beginning of the much-anticipated tapering of its asset purchase program.
- By the end of the quarter, bond yields were close to their highest levels of the year.

Canadian equities performed well in 2013, with a 13% return.

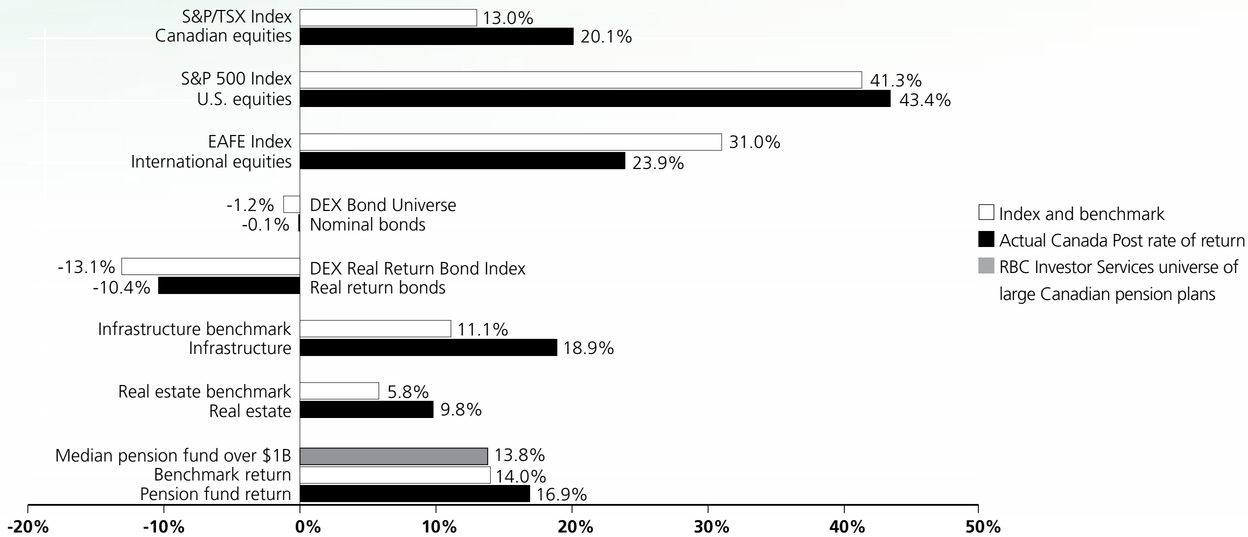
U.S. equities performed the best of all asset classes, with a 41% gain. Equities of other international developed markets (Europe and Japan, in particular) performed well at 31%. However, emerging market equities gained returns in Canadian dollars of only 4%.

The real estate asset class benefited again from the income stream it generates and modest valuation increases. This asset class offers inflation protection and a predictable stream of income.

Real return and nominal bond returns were negative as the expectation that the U.S. Federal Reserve would begin to scale back its monetary stimulus meant an increase in bond yields and a decline of bond prices. However, high yield bonds and corporate bonds continued to offer attractive yields.

Fund performance

The Plan earned a rate of return of 16.9% in 2013, above its benchmark rate of return of 14.0% and above the median gain of 13.8% experienced by the RBC Investor Services universe of large Canadian pension plans. This was the best performance in the Plan's history and the best outperformance against its benchmark. The Plan's rate of return ranked it in the first quartile of large Canadian pension plans.



Private equity is included in Canadian equities, U.S. equities and international equities, as applicable. The real estate benchmark is 50% TSX Equity Index and 50% DEX Bond Universe. The infrastructure benchmark is 50% Real Return Bond Index and 50% MSCI World Index.

All asset classes had positive returns, except nominal bonds and real return bonds. All classes outperformed their benchmarks except for international equities.

The Plan's equity investments provided the best returns, led by U.S. equities and international developed markets. Private equity and infrastructure had a very good year as well.

The Plan's Canadian real estate performance exceeded the median performance of real estate assets in Canada, as measured by RBC Investor Services.

Real return bond yields and nominal bond yields increased over the year as expectations grew that the U.S. Federal Reserve would begin to reduce its asset purchasing program due to improving U.S. GDP growth and lower unemployment. Government and provincial bonds had negative returns. Canadian corporate bonds and U.S. and global high yield bonds performed well. The Plan made a modest reduction in its real return bond holdings early in the year and continued to make a transition from government bonds to Canadian corporate bonds.

The Plan's investment management costs of 0.29%, or $0.29 per $100 of average assets, were less than industry peers at 0.39%, or $0.39 per $100, as measured by the 2012 CEM Benchmarking Survey. The Plan's investment costs were $5.1 million lower than benchmark costs.

Outlook for 2014

- Based on positive results of alternative asset classes, we will work to increase the Plan's allocation of assets to reach the targeted balance.
- We will review the balance between internal and external portfolio management to reduce costs and maximize in-house expertise.
- We will maintain our commitment to earning returns above the benchmark portfolio by selecting the appropriate asset mix and risk level to meet the Plan's long-term funding objectives, taking into account economic and demographic changes.
- We will continue to implement strategies designed to increase returns without increasing risks.
- We aim to provide investment management services below median industry costs.

Equity holdings greater than 0.25% of Plan assets[1]

As at December 31, 2013 (in millions of dollars)

Toronto Dominion Bank	$240	1.25%
Royal Bank of Canada	229	1.19%
Bank of Nova Scotia	205	1.07%
Suncor Energy Inc.	147	0.77%
Canadian Natural Resources Ltd.	118	0.61%
Manulife Financial Corp.	111	0.58%
Canadian National Railway Co.	99	0.52%
Bank of Montreal	97	0.50%
Exxon Mobil Corporation	83	0.43%
Google Inc.	82	0.43%
Apple Inc.	82	0.43%
TransCanada Corp.	77	0.40%
BCE Inc.	73	0.38%
Enbridge Inc.	72	0.38%
Telus Corp.	70	0.37%
Magna International Inc.	69	0.36%
Thomson Reuters Corp.	67	0.35%
Canadian Imperial Bank of Commerce	63	0.33%
Potash Corp. of Saskatchewan	62	0.32%
Cenovus Energy Inc.	62	0.32%
Rogers Communications Inc.	56	0.29%
Shaw Communications Inc.	54	0.28%
Chevron Corporation	52	0.27%
Valeant Pharmaceuticals International Inc.	51	0.26%
Qualcomm Inc.	50	0.26%
Talisman Energy Inc.	48	0.25%
	$2,419	**12.60%**

1. As a percentage of overall fund.

Risk management strategy

Funding risk

Funding risk is one of the main risks faced by the Plan. It is the risk that the Plan's investment asset growth and contribution rates will not be sufficient to cover the Plan's pension obligations, resulting in an unfunded liability. The most significant factors in funding risk are low **discount rates** and investments failing to achieve expected returns.

The Plan's net funded position can change relatively quickly if there are changes in the value of the Plan's net investment assets or pension obligations. Such changes can result in a mismatch between the Plan's assets and its obligations. The Plan's pension obligations are also affected by non-economic factors like changes in member demographics and longevity.

The pension risk management officer oversees compliance with the Board-approved statements of investment policies and procedures, which set guidelines for appropriate risk levels through diversification of asset classes and types, industry sectors, geographic/economic areas, management styles, liquidity and market capitalization. The Board manages funding risk by monitoring and reviewing the funded ratio on a regular basis to ensure that funding objectives are suitable and that investment decisions are made in accordance with the statements of investment policies and procedures.

Investment risk

The Plan is subject to a variety of investment risks that could adversely affect its cash flows, financial position and income. Investment risks include credit risk and market risk (interest rate risk, currency risk, price risk and liquidity risk). Through investment risk management, measures are taken to minimize the potential adverse effect of these risks and to optimize gains over the entire portfolio in order to fulfill the promise to Plan members of providing pension benefits, at a reasonable cost.

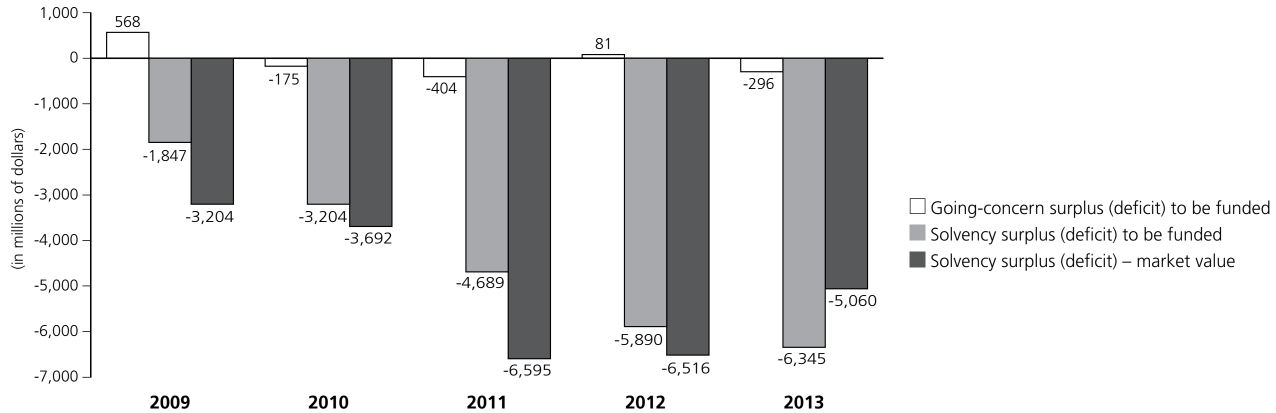
The risk management framework guides the development of investment strategies to meet overall objectives. Each asset class has its own risks and limits, such as limits on exposures, amounts, terms and counterparties. Each asset class and its associated risks are closely monitored by the pension risk management officer and the Investment Management team, and appropriate action is taken according to the Plan's policies.

Every quarter, investment risks are reviewed by the Pension Committee and the Investment Advisory Committee based on reports from the Investment Management team.

Financial Position Highlights

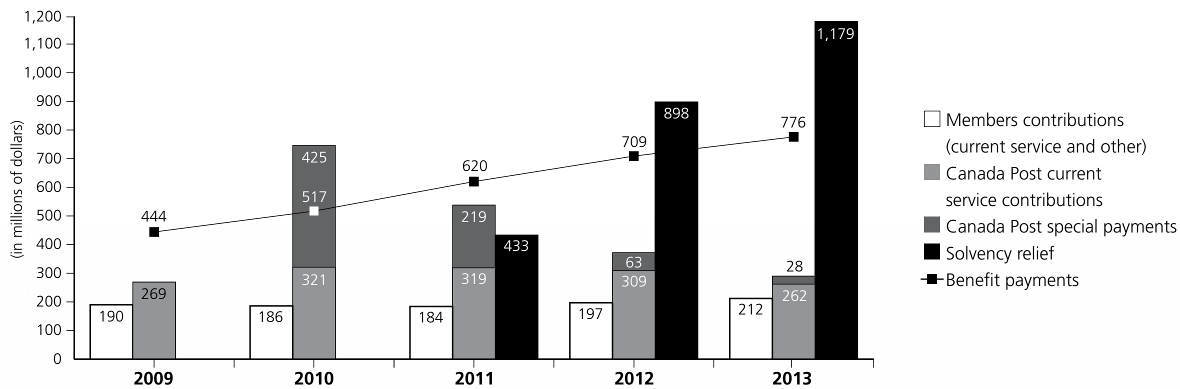
Plan's funded status

In 2013, the Plan's going-concern deficit to be funded was estimated at $296 million, primarily as a result of changes in **actuarial assumptions** to reflect the increased life expectancy (new mortality table). The solvency deficit to be funded grew to an estimated $6.3 billion. (For more information, see the Funding Valuation Summary page 20.)



Contribution and benefit payments

The chart below shows contributions made by Canada Post and Plan members as well as the amount of solvency relief used. Canada Post has used solvency relief measures since the Government of Canada introduced them in 2011. The chart also shows total benefits paid to members. Pension benefit payments continued to increase as more members retired.



Summary of Financial Statements

Net assets available for benefits

The Canada Post Corporation Registered Pension Plan posted a 16.9% return in 2013, the best return since its inception. The Plan ended the year with net assets available for benefits of $19,270 million (including $8 million in the DC component), an increase of $2,495 million from $16,775 million at the end of 2012.

Changes in net assets available for benefits

The $2,495 million increase in net assets available for benefits represents investment income of $2,849 million and contributions of $502 million, offset by pension benefit payments of $776 million and expenses of $80 million.

Investment income – comprising interest, dividend, realized and unrealized gains and losses – was $2,849 million for 2013, compared to $1,556 million for 2012. The return of 16.9% represented solid results in 2013. The Plan outperformed its benchmark rate of return of 14.0% and placed in the first quartile when compared to its peers of large Canadian pension plans.

Plan contributions in 2013 were $502 million compared to $569 million in 2012, a decrease of $67 million. The decrease was due to lower **current service costs** resulting from changes in economic assumptions and lower special payments. Again in 2013, Canada Post obtained approval from the Minister of Finance and the Minister of Transport to use solvency relief measures permitted by legislation for all federally regulated pension plans. The total amount of relief as at December 31, 2013, was $2.4 billion. The maximum available relief under these measures was $2,889 million, equal to 15% of Plan assets as at December 31, 2013.

Pension benefit payments for 2013 were $776 million compared to $709 million in 2012, an increase of $67 million. This was mostly the result of a 9% increase in the number of retirees over 2012.

Changes in pension obligations

Pension obligations were $18,039 million (including $8 million in the DC component) compared to $16,461 million in 2012, an increase of $1,578 million. The increase was largely due to a change in demographic assumptions used to estimate pension obligations. In 2013 the Plan's demographic assumptions were reviewed and an updated mortality table was adopted. The updated mortality table has enabled organizations to estimate the effect of Canadians' longer life expectancy and retirement on pension obligations. Findings were based on a study done by the Canadian Institute of Actuaries and adjusted by the Plan's **actuary** for our specific experience.

Surplus (deficit)

The difference between assets available for benefits and pension obligations as at December 31, 2013, resulted in a surplus of $1,231 million as disclosed in the financial statements, based on standards of the Chartered Professional Accountants of Canada (CPA Canada). The going-concern deficit to be funded as of the same date was estimated at $296 million. The difference between the accounting surplus of $1,231 million and the estimated going-concern deficit of $296 million was an **actuarial asset value adjustment (or smoothing)** of $1,527 million. This actuarial adjustment is no longer permitted as a valuation methodology for accounting purposes under CPA Canada Section 4600 since 2011.

	Estimated impact (in millions of dollars)
Going-concern surplus at the end of 2012	$81
Gain on investments on smoothed value of assets[1]	647
Changes in actuarial assumptions	(1,190)
Other factors	166
Estimated going-concern deficit at the end of 2013	**$(296)**

1. Gain on market-value investments (before **smoothing** adjustment) was $1,802 million.

The full set of audited financial statements, including notes, is available at **cpcpension.com** or by request.

Five-year financial review

Financial position (in millions of dollars)	2013	2012	2011	2010[1]	2009[2]
Assets					
Investments	$19,145	$16,690	$15,283	$15,200	$13,399
Investment related receivables	193	173	118	103	144
Contribution / other receivables	102	108	107	123	130
Total assets	**19,440**	**16,971**	**15,508**	**15,426**	**13,673**
Liabilities					
Investment related liabilities	139	151	44	46	77
Accounts payable and accrued liabilities	31	45	33	22	20
Total liabilities	**170**	**196**	**77**	**68**	**97**
Net assets available for benefits	**19,270**	**16,775**	**15,431**	**15,358**	**13,576**
Actuarial asset value adjustment	–	–	–	–	1,344
Actuarial value of net assets available for benefits	**$19,270**	**$16,775**	**$15,431**	**$15,358**	**$14,920**
Pension obligations and surplus (deficit)					
Pension obligations	$18,039	$16,461	$16,570	$16,038	$14,367
Surplus (deficit)	1,231	314	(1,139)	(680)	553
Total pension obligations and surplus (deficit)	**$19,270**	**$16,775**	**$15,431**	**$15,358**	**$14,920**

Changes in net assets available for benefits (in millions of dollars)	2013	2012	2011	2010[1]	2009[2]
Investment income	**$2,849**	**$1,556**	**$32**	**$1,444**	**$1,882**
Contributions – Sponsor					
Current service	262	309	319	321	269
Special payments	28	63	219	425	–
Contributions – Members					
Current service	207	190	177	177	184
Past service and other	5	7	7	9	6
Total contributions	**502**	**569**	**722**	**932**	**459**
Less					
Benefits					
Retirement and survivor pensions	694	624	554	466	392
Commuted value transfers and other	82	85	66	51	52
Total benefits	**776**	**709**	**620**	**517**	**444**
Administration expenses					
Plan administration	17	16	15	13	4
Investment fees	63	56	46	41	26
Total administration expenses	**80**	**72**	**61**	**54**	**30**
Increase in net assets	**$2,495**	**$1,344**	**$73**	**$1,805**	**$1,867**

Changes in pension obligations (in millions of dollars)	2013	2012	2011	2010[1]	2009[2]
Interest on pension obligations	$939	$954	$928	$890	$850
Benefits accrued	486	507	533	497	560
Changes in actuarial assumptions	1,069	(704)	(397)	853	(596)
Changes in plan provisions	–	–	67	–	–
Net experience losses (gains)	(140)	(157)	21	(52)	(110)
Benefits paid	(776)	(709)	(620)	(517)	(444)
Net increase (decrease) in pension obligations	**$1,578**	**$(109)**	**$532**	**$1,671**	**$260**

1. In preparing its first financial statements in accordance with CPA Canada Section 4600 and International Financial Reporting Standards (IFRS), the Plan adjusted amounts reported in 2010 in accordance with CPA Canada Section 4100.
2. In 2010, the Plan changed its accounting policy for determining the actuarial asset value adjustment. Amounts for 2009 were restated for comparability.

Funding Valuation Summary

(DB component of the Plan)

Canada Post is required to file annual actuarial valuations of the Plan with the federal pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). An actuarial valuation is a report on the health of the Plan, which presents the funded status of the Plan on a going-concern and solvency basis at a specific date.

Actuarial valuation as at December 31, 2012

In June 2013, we filed an actuarial valuation as at December 31, 2012, with OSFI. It reported a going-concern surplus of $81 million, for a funded ratio of 100%.

The solvency deficit to be funded based on the average of the last three years' solvency ratios was $5,890 million, for an average solvency ratio of 75%.

However based on market value, the deficit was $6,516 million, for a solvency ratio of 72%.

Estimated actuarial valuation as at December 31, 2013

The current estimate of the financial position of the Plan, as at December 31, 2013, is a going-concern deficit to be funded of approximately $296 million, for a funded ratio of 98.4%.

The solvency deficit to be funded, using the three-year average solvency ratio method, is estimated at $6,345 million, for an average solvency ratio of 73.9%.

The solvency deficit using the market value of Plan assets is estimated at $5,060 million, for a solvency ratio of 79.2%.

The going-concern funded status deteriorated in 2013 due to changes in actuarial assumptions, mainly the adoption of an updated mortality table that reflects a longer life expectancy of Plan members. Demographic assumptions were revised following the findings of a recent study conducted by the Canadian Institute of Actuaries and the analysis done by actuaries of our Plan's specific experience. Findings showed that members are living longer and receiving their pension benefits for a longer period. In addition, the smoothed assets valuation method did not recognize, in the current year, all gains from strong investment returns in 2013. These gains will be recognized over a five-year period to minimize fluctuations.

Estimated deficits as at December 31, 2013

Solvency deficit (to be funded)[1]
$6.3 billion – 73.9% funded

Solvency deficit (market value)[1]
$5.1 billion – 79.2% funded

Going-concern deficit (to be funded)
$296 million – 98.4% funded

The solvency deficit using the market value of Plan assets decreased from $6,516 million at the end of 2012 to an estimated $5,060 million at the end of 2013. Strong investment returns in 2013, all recognized in the current year with the market value, were partially offset by new actuarial assumptions (mainly related to members living longer in retirement), as shown in this high-level reconciliation of the solvency deficit (right).

	Estimated impact[1] (in millions of dollars)
Solvency deficit at the end of 2012	$(6,516)
Gain on investments	2,180
Increase in discount rate	1,346
Changes in actuarial assumptions	(1,760)
Other factors	(310)
Estimated solvency deficit at the end of 2013	**$(5,060)**

The solvency ratio improved slightly in 2013 but the solvency deficit to be funded deteriorated further (from $5,890 million to an estimated $6,345 million). This is due to a decrease in the average solvency ratio over the three-year period used for this valuation (2011, 2012 and 2013) compared to the previous one (2010, 2011 and 2012), since there was a higher solvency ratio in 2010 than in 2013.

Even though the Plan's financial statements report a surplus based on accounting standards, the funding requirements are based on the solvency and going-concern results. Funding requirements dictate how much money must be contributed to the Plan by Canada Post.

1. The final solvency deficits, as measured in the final actuarial valuation as at December 31, 2013, may differ significantly from these estimated values.

Comparison with other DB pension plans

Many Canadian pension plans returned to a solvency surplus in 2013 after more than a decade of deficits due to strong stock markets and rising long-term interest rates. Mercer, our Plan actuary, estimated that around 60% of Canadian pension plans were in a solvency deficit position at the end of 2013, an improvement compared to 94% at the beginning of the year.

The results were not as favourable for the very few fully indexed plans like ours. Guaranteed inflation protection requires more conservative evaluation methods and creates higher costs and higher volatility. In addition, the impact of members living longer is greater on plans that pay indexed benefits.

Some plans have reduced their benefit provisions to improve their sustainability and affordability.

> Volatility makes it difficult for a company to manage costs, predict financial results and ensure payment capacity or cash availability. This is even more evident when the size of the plan's obligations and funding requirements are disproportionally large compared to the company's revenue capacity.

Contributions

Employee contributions in 2013 amounted to $210 million and are estimated at $234 million for 2014. This estimate reflects changes to the employee contribution rate in 2014 to maintain employee/employer cost sharing of 50/50. In 2013, employees contributed 44% of the current service cost and Canada Post contributed 56%, in addition to special payments.

Contributions to the Plan (in millions of dollars)	2013	2014[1]
Members	$210	$234
Canada Post current service	258	250
Canada Post special payments	28	34
Total contributions	**$496**	**$518**

Current service cost sharing (regular contributions)	2013	2014[1]
Members	44%	48%
Canada Post	56%	52%

1. Estimate

Employer current service contributions in 2013 amounted to $258 million. For 2014, employer current service contributions are estimated at $250 million.

After applying solvency relief measures, employer special payments of $28 million were made in 2013 and are estimated at $34 million for 2014. These are mainly top-up payments (transfer deficiency) made to pay the full **commuted value** when someone leaves the Plan. The 2014 estimate includes the new funding requirement, equal to 40% of the commuted value, recently imposed by OSFI to allow the payment of commuted values out of the Plan. OSFI imposed this additional condition given that the Plan's solvency ratio is below 100% and that no special payments will be made into the Plan over the next four years due to pension relief.

Pension relief

Since 2011, Canada Post has used solvency relief measures available to all Crown corporations under the *Pension Benefits Standards Act*, *1985,* to reduce solvency payments. The cumulative amount of the relief as at December 31, 2013, was $2,390 million. The maximum amount available under these measures was equal to 15% of Plan assets (or $2,889 million). Canada Post expected to reach this limit in 2014.

In February 2014, the Government of Canada adopted regulations proposed in December 2013 that provide Canada Post with relief from the need to make special payments into the Plan for four years (from 2014 to 2017). Without any pension relief, Canada Post would have had to make special payments of an estimated $1.3 billion in 2014. This is cash the Corporation does not have.

Funding valuation history

A funding valuation must be filed with the Office of the Superintendent of Financial Institutions. OSFI requires that the funding valuation be done on both a going-concern and solvency basis. Prior to 2010, a mandatory funding valuation had to be filed every three years, unless the plan was in a solvency deficit position. However, plan sponsors could voluntarily file earlier, if desired. Since 2010, there has been a requirement to file a funding valuation every year, unless the solvency funded status is greater than 120%. Our 2013 funding valuation will be filed by June 2014.

	Estimated[1]	Filed funding valuations[2]									
(in millions of dollars)	**2013**	**2012**	**2011**	**2010**	**2009**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Going concern – assuming the Plan continued in operation											
Market value of assets	$19,262	$16,775	$15,431	$15,376	$13,576	$14,666	$14,430	$12,211	$10,307	$8,918	$7,500
Asset smoothing adjustment	(1,527)	(352)	716	488	1,357	(266)	(1,340)	(715)	(103)	325	974
Smoothed value of assets	17,735	16,423	16,147	15,864	14,933	14,400	13,090	11,496	10,204	9,243	8,474
Funding target	18,031	16,342	16,551	16,039	14,365	13,143	12,097	11,145	10,108	9,359	8,446
Funding surplus (deficit)	$(296)	$81	$(404)	$(175)	$568	$1,257	$993	$351	$96	$(116)	$28
Funded ratio	98.4%	100.5%	97.6%	98.9%	104.0%	109.6%	108.2%	103.1%	100.9%	98.8%	100.3%
Assumptions used for going-concern valuations											
Discount rate	5.8%	5.8%	5.8%	5.8%	6.2%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Inflation rate	2.25%	2.25%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Solvency – assuming the Plan was terminated on the date of valuation											
Market value of assets (net of termination fees)	$19,250	$16,763	$15,419	$15,364	$13,573	$14,664	$14,428	$12,209	$10,305	$8,916	$7,481
Solvency obligations	24,310	23,279	22,014	19,056	16,777	14,215	14,145	13,410	11,338	9,425	7,940
Solvency – market value											
Excess (deficit)	$(5,060)	$(6,516)	$(6,595)	$(3,692)	$(3,204)	$449	$283	$(1,201)	$(1,033)	$(509)	$(459)
Solvency ratio	79.2%	72.0%	70.0%	80.6%	80.9%	103.2%	102.0%	91.0%	90.9%	94.6%	94.2%
Solvency – to be funded											
Excess (deficit)	$(6,345)	$(5,890)	$(4,689)	$(3,204)	$(1,847)	$449	$283	$(1,201)	$(1,136)	$(184)	$(459)
Solvency ratio	73.9%	74.7%	78.7%	83.2%	89.0%	103.2%	102.0%	91.0%	90.0%	98.0%	94.2%
Assumptions used for solvency valuations											
Discount rate (real return rates, net of inflation)											
For commuted values											
Rate for first 10 years[3]	1.70%	1.10%	1.30%	1.70%	2.10%	2.50%	2.25%	2.00%	2.50%	3.25%	3.75%
Rate after 10 years[3]	2.30%	1.30%	1.60%	2.30%	2.70%	2.50%	2.25%	2.25%	3.25%	3.25%	3.25%
For annuities	1.80%	1.50%	1.60%	2.20%	2.70%	3.00%	2.50%	2.25%	2.50%	2.90%	N/A

1. The final solvency deficits, as measured in the final actuarial valuation as at December 31, 2013, may differ significantly from the estimated values.
2. A funding valuation for the year 2008 was not required by OSFI.
3. 15 years before 2005.

Questions and answers about actuarial valuations

What is an actuarial valuation and what does it determine?

An actuarial valuation is like a report card for the long-term financial health of a pension plan as of a specific date. An independent actuary is hired by the Canada Post Board of Directors to conduct an actuarial valuation. The valuation compares the plan assets to pension obligations to see whether there is a surplus or a deficit of funds to cover the value of accumulated pension benefits.

Pension obligations represent the cost of future pension benefits, based on Plan members' pensionable earnings and pensionable service earned to the date of the calculation. To calculate pension obligations, the actuary makes assumptions about the future, such as expected inflation, rates of return on invested assets, salary increases, retirement age, life expectancy and several other factors.

The Office of the Superintendent of Financial Institutions requires that actuarial valuations be done on both a going-concern and solvency basis. These valuations use hypothetical situations to assess a pension plan and protect the interests of its members.

What is a going-concern valuation?

The going-concern valuation assumes that a pension plan continues in operation and is longer term in focus. It determines if there are enough assets in the plan for pension benefits to be paid in the future for accumulated service to date. It also assesses whether the level of contributions made by plan members and the plan sponsor is enough to cover the current service cost.

What is a solvency valuation?

The solvency valuation assumes a pension plan is terminated on the date of valuation. This test allows pension regulators to verify that, in such an unlikely situation, plan members would be paid the benefits fully owed to them to that point. It has a short-term view and the results are strongly affected by the market interest rate on that date.

What happens if there are deficits?

If an actuarial valuation reports a solvency deficit – a shortfall of solvency plan assets to solvency obligations – the plan sponsor is required to make special payments into the plan over five years or less to eliminate the deficit. The plan sponsor may also request to use solvency relief measures, if they are available.

If an actuarial valuation reports a going-concern deficit – a shortfall of going-concern plan assets to going-concern obligations – the plan sponsor is required to make special payments into the plan over 15 years or less to eliminate the deficit.

In a given year, plan sponsors must pay the amount necessary to cover the ongoing current service cost in excess of employee contributions. If there are deficits, the sponsor must also make special payments to reduce the deficits, over the appropriate time period as described above, unless solvency relief measures are used.

What are solvency relief measures?

Solvency relief measures were put in place by the Government of Canada in 2011. They are available to all defined benefit pension plans subject to the *Pension Benefits Standards Act, 1985*, including those of Crown corporations like Canada Post. The measures help pension plan sponsors meet their funding obligations with less sensitivity to short-term economic conditions. The maximum amount of relief available under these measures cannot exceed 15% of the market value of the plan's assets at the end of the most recent plan year. Canada Post expected to reach the maximum amount of relief in 2014.

Canada Post has used solvency relief measures since 2011. According to requirements, it obtained approval each year from the Minister of Finance and the Minister of Transport. Relief measures do not reduce or eliminate Canada Post's obligation to fully fund the Plan and it remains responsible for funding any deficits.

The Government of Canada introduced new regulations for Canada Post. What does this mean for the Plan?

In February 2014, the Government of Canada adopted regulations proposed in December 2013 that provide relief to Canada Post from the need to make special payments into the Plan for four years (from 2014 to 2107). Without any relief, Canada Post would have had to make special payments of an estimated $1.3 billion in 2014 alone. This temporary relief period will provide time needed to make structural changes so that the Plan remains sustainable and affordable for Canada Post and Plan members, and secure for retirees.

Glossary

Actuarial asset value adjustment (or smoothing): Represents the difference between the actual return and the actuarial assumption for return on the plan's assets, which is then amortized over five years. Smoothing is an evaluation method commonly used by pension plans for going-concern valuations. It evens out highs (gains) and lows (losses) in investment returns. It helps stabilize results, to avoid significant contribution changes, up and down from one year to another, for employees and the employer. It is similar to budgeted payments for utility bills.

Actuarial assumptions: Factors used by an actuary in forecasting uncertain future events affecting pension cost. They involve such things as estimating interest and investment earnings, inflation, mortality rates and retirement patterns.

Actuary: A professional who is responsible for calculating the liabilities of pension plans and the costs of providing pension plan benefits. Under the *Pension Benefits Standards Act, 1985*, all actuarial reports must be prepared by a person who is a Fellow of the Canadian Institute of Actuaries.

Asset: Item with monetary value, such as cash, stocks, bonds and real estate.

Benchmark: A point of reference used as a basis for evaluation or comparison. An index can be used as a benchmark against which the performance of a group of similar assets can be measured or compared.

Bond: Debt issued by a corporation or government, which provides a promise to the holder that the principal and a specified amount of interest will be repaid within a specific period of time. Investing in a bond is like lending money to a government or organization.

Commuted value: An estimated value of future pension benefits expressed in today's dollars. It is a calculation based on actuarial assumptions and market rates, which may fluctuate over time.

Current service cost: The additional pension obligation to be created over the coming year, as another year of credited service is added for current employees contributing to the plan.

Discount rates: Long-term interest rates used to calculate pension obligations.

Equities: Common and preferred stocks that represent a share in the ownership rights of a company and the right to collect dividends from profits. Private equities are equities that are not publicly traded.

Inflation: Occurs when purchasing power declines due to an increase in the prices of goods and services.

Market capitalization: The total market value of all of a company's outstanding shares.

Pension obligations: The actuarial present value of pension benefits for service completed up to a particular date, calculated using best estimate assumptions.

Rate of return: The amount gained or lost on an investment over a period of time, normally as a percentage of initial investment. Real return is a return adjusted for inflation. Net return is a return adjusted for expenses.

Smoothing: See actuarial asset value adjustment (or smoothing).

Yields: Interest (adjusted for amortization of discount or premium) or dividend income as related to the cost of an investment in bonds or shares.

Thank you for reading the 2013 Report to Members

Last year, we printed three million fewer pages and saved 20 trees when we published a shorter Report to Members. We also asked for your opinion and over 1,100 of you took the time to return the survey card. From your answers, 65% of you believed that the new format of the Report gave you just the right amount of information.

The Report to Members is an important part of Canada Post's commitment, as Plan administrator, to always keep you informed about the status of your pension plan.

If you would like to review the complete audited financial statements of the Plan, they are available online at **cpcpension.com**. You may also request to have a copy mailed to you by calling the Pension Centre at 1-877-480-9220.

Information

Canada Post Pension Services
Questions about the Plan

1-877-480-9220
1-866-370-2725 (TTY)
613-683-5908 (outside North America)

8 a.m. to 6 p.m. (ET)
Monday to Friday

cpcpension.com

RBC Investor Services
Questions about pension payments

1-800-876-4498

8 a.m. to 8 p.m. (ET)
Monday to Friday

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1 PLACE VILLE MARIE
MONTRÉAL QC H3B 1Z3