Canada Post Pension Plan REPORT TO MEMBERS 2015

Total Compensation

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

Contents

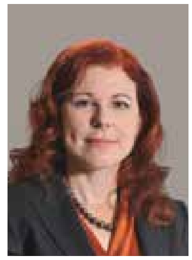
Privacy of pension records
Canada Post Corporation is subject to the *Privacy Act* and complies with the Canada Post Employee Privacy Policy. Personal information, including pension information, is treated in a secure and confidential manner.

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 is an unaudited extract of the financial statements. This Report and 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.

Message from the Chairperson



Siân M. Matthews
Chairperson of the Board of Directors

The Board of Directors has a fiduciary duty to act in the best interests of members of the Canada Post Corporation Registered Pension Plan. We take our duty seriously.

Our oversight of the administration of the Pension Plan, its investment results and strategies, is prudent and professional. Our governance and monitoring comply with legislation and the well-established principles of pension administrators. Our work stands up under scrutiny.

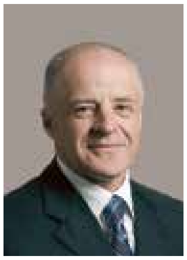
The Plan is well managed. Its investments earned a rate of return of 7.3 per cent in 2015. This is lower than the previous three consecutive years of double-digit returns. However, in a tougher year for investments, this result was still higher than the benchmark rate of return of 5.1 per cent. A number of large Canadian pension plans achieved better returns, but an equal number did worse.

While it will take more time for Canada Post and our stakeholders to arrive at a solution to the pension challenges, it remains our goal to achieve a sustainable Plan. Meanwhile, the employer continues to make regular contributions, as do Plan members. Total contributions into the defined benefit component amounted to $513 million in 2015.

On behalf of the Board, I would like to thank the Pension Committee and its Chairperson, A. Michel Lavigne, and Douglas D. Greaves, Vice-President, Pension Fund and Chief Investment Officer, for their stewardship, and the Investment Advisory Committee and the Pension Advisory Council for their advice.

The Board and management are committed to Canada Post meeting its obligations to Plan members, both those yet to retire and those who have retired after years of serving Canadians.

Message from the Chief Financial Officer and the Chief Human Resources Officer



Wayne Cheeseman
Chief Financial Officer

Scott G. McDonald
Chief Human Resources Officer

Canada Post's management and the Board of Directors are keenly aware that Plan members want peace of mind about the support the Plan will provide them in retirement.

Likewise, it is never far from our minds that Plan members are aging and the number of retirees is increasing. In 2015, in fact, seven per cent more retirees were drawing Plan benefits than in the previous year. As well, most people will live longer in retirement, and so receive benefits for longer than was the case for retirees a few decades ago. Longer retirements is one reason why funding pension plans is so challenging. Another major reason is that the Pension Plan is, year after year, disproportionately large compared to the Corporation's revenue and earnings before taxes.

Investing is one lever to address the long-term funding challenge, and our strategy is being adjusted accordingly. We have been shifting the investment mix to include more assets that reduce the risk of interest rate changes over time.

Canada Post is continuing the journey of assessing other levers to address the long-term challenges the Plan faces. It will work with bargaining agents, all employee groups and active and retired members to ensure the long-term viability of the Plan. We intend to keep our commitment to inform, consult and negotiate, as required.

A strong Plan sponsor – Canada Post – is the bedrock for a strong Plan. The Corporation is achieving encouraging results in its efforts to improve its financial self-sustainability.

> Investing is one lever to address the long-term funding challenge, and our strategy is being adjusted accordingly. We have been shifting the investment mix to include more assets that reduce the risk of interest rate changes over time.

In conclusion, the pension fund continues to benefit from prudent investments and responsible administration, but we must continue to work toward resolving its long-term challenges.

Defined Benefit (DB) Component – Overview of 2015

Assets

$21.9 billion

Net investment **assets** as at December 31, 2015

Rate of return in 2015

7.3%

Benchmark[1]

5.1%

In 2015, the Plan introduced Liability-Driven Investing (LDI) – an investment strategy that manages the Plan's assets relative to its liabilities and is considered an approach to reduce risk. The intent is to minimize volatility in the Plan's financial situation by better matching the assets with the liabilities. See pages 9-13 to learn more.

Funded status estimated as at December 31, 2015

Solvency deficit to be funded[2]
(3-year average)

$6.2 billion

77.8% funded

Going-concern surplus

$1.2 billion

106.4% funded

Solvency deficit market value[2]
(wind-up basis)

$5.9 billion

78.8% funded

The financial position of the Plan saw improvements in 2015 recognizing investment gains from previous years, and due to stable returns and interest rates – see page 20 to know more.

In 2015,

Benefits paid

$880 million

Contributions to the Plan

Members:

$237 million

Canada Post:

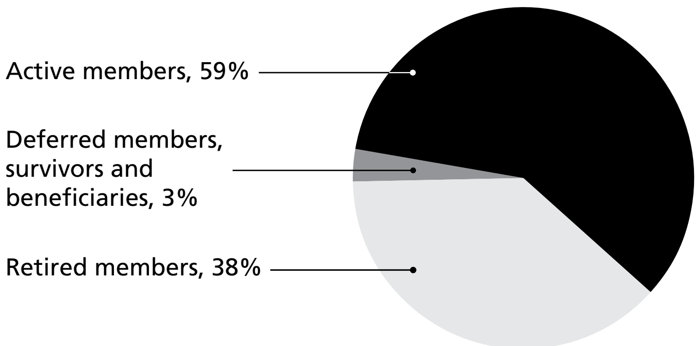
Current service
$242 million

Special payments
$34 million

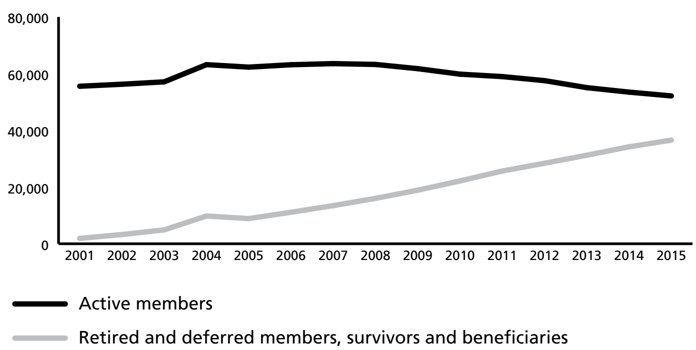
Without any deficit funding relief, Canada Post would have had to contribute an additional $1.4 billion in solvency special payments in 2015.

1. See glossary.
2. See page 23.

Membership in 2015



Changes in membership



The Plan continues to mature with retired members now representing 38% of the membership and 55% of the solvency obligations.

Member contacts

65,293

Member satisfaction score

4.4/5

cpcpension.com 2015 survey says

82% find that the website meets their needs

Competitive costs

Investments

$0.35 per $100 of assets – lower than our peer group's average of $0.38

Administration

$138 per member – lower than our peer group's average of $196

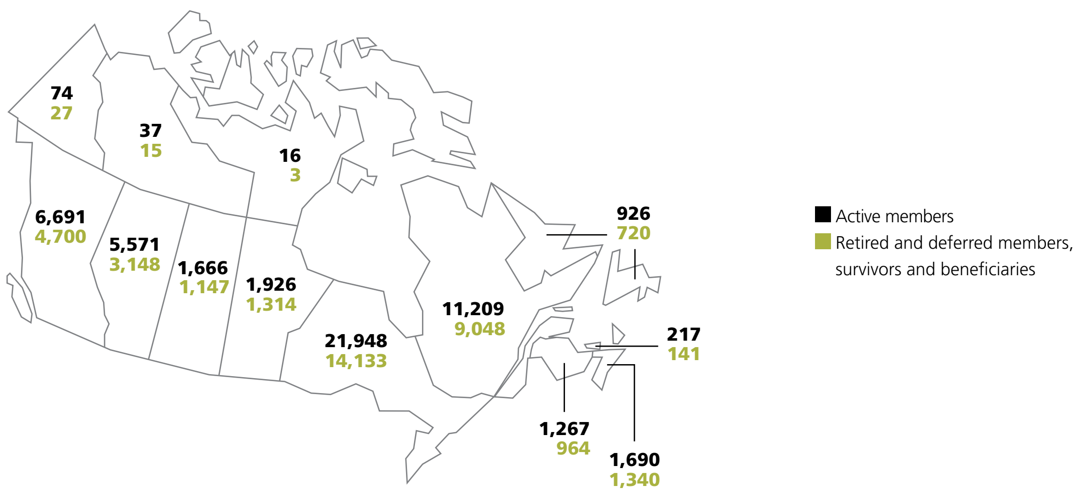
Source: 2014 and 2013 CEM Benchmarking surveys, respectively.

Membership Snapshot

	2011	2012	2013	2014	2015[1]
Active members	59,228	57,923	55,509	54,147	53,238
Percentage	69.8%	67.1%	64.0%	61.2%	59.1%
Retired members	23,635	26,236	28,715	31,219	33,448
Percentage	27.8%	30.4%	33.1%	35.3%	37.2%
Deferred members, survivors and beneficiaries	2,019	2,193	2,548	3,051	3,353
Percentage	2.4%	2.5%	2.9%	3.5%	3.7%
Total	**84,882**	**86,352**	**86,772**	**88,417**	**90,039**

1. For 2015, the information above includes 88,689 members of the defined benefit (DB) component and 1,350 members of the defined contribution (DC) component of the Plan (1,097 active and 253 deferred members in the DC).

Members across Canada – December 31, 2015



Age of active and retired members – December 31, 2015

Age	Less than 30	30-39	40-49	50-59	60-69	70-79	More than 79
Active DB members	1,041	8,231	15,208	21,185	6,309	167	0
Active DC members	229	420	301	130	17	0	0
Retired DB members	0	20	174	6,018	21,244	5,769	223

Average age	**2015**	**2014**
Active DB members	49.5	49.2
Active DC members	38.0	38.0
DB members at retirement	60.1	59.7
Retired DB members	64.9	64.3

Did you know?

Over the next five years, 18,046 active DB members will have reached pensionable age.

Our Services to Members

Pension Centre for DB members

The Pension Centre is at the heart of member services, answering members' requests by telephone or mail and fulfilling transactions. The team provides services such as processing retirements, terminations and deaths as well as new retirees' pension payments, processing elective service purchases, updating retirees' life insurance beneficiaries and collecting employee contributions for leaves of absence. In addition, RBC Investor Services Trust provides services to retired members related to the payment of their DB pension benefits.

2015	2014	
51,675	57,705	Telephone calls from members to Pension Services
3,995	4,209	Telephone calls from retirees to RBC Investor Services Trust
9,623	11,222	Telephone calls to members
48,910	55,681	Transactions completed for members by Pension Services
121,797	198,824	Pension estimates using the online calculator
70	67	Pre-retirement seminars
1,998	2,075	Seminar participants
311	301	One-on-one consultations at seminars
4.4/5.0	4.4/5.0	Members satisfaction score
4.3/5.0	4.3/5.0	Target score

In 2015, Pension Services prepared almost 85,500 annual personalized pension statements for active members and, for the first time in 2015, for retirees, deferred members and survivors.

Pre-retirement seminars

In-person pre-retirement seminars are offered to DB members to help them get ready to embark on the retirement journey. These seminars are by invitation only for members who are within five years of an unreduced pension. Topics include the features of the Canada Post Pension Plan, post-retirement benefits, government programs, financial planning, wills and estate planning, and health and wellness. We consistently receive positive comments from members who have attended.

cpcpension.com

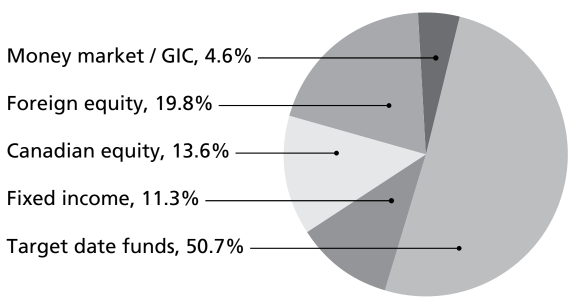
The website provides information about all the Canada Post pension programs: the defined benefit and defined contribution components of the Plan as well as the Group Retirement Savings Plan and the Voluntary Savings Plan. A new reporting tool put in place in 2015 allows us to better analyze the website's traffic. A survey conducted among users indicated that 66% consider the information easy to find and 82% said that the website met their needs. Pension Services will use the feedback from the survey to continue to improve the website.

The Pension Services team is committed to prompt, proactive and compassionate service for all Plan members. **See next page for services offered to DC members.**

Defined Contribution (DC) Component – Overview of 2015

As at December 31	2015	2014
Active DC members	1,097	665
Deferred DC members	253	81
Average contribution (% of pay)		
Canada Post	6.0%	6.0%
Members	3.6%	3.0%
Assets	$18.2M	$12.7M
Canada Post contributions	$4.0M	$2.9M
Members' contributions	$2.0M	$1.4M
Voluntary Savings Plan (VSP)		
VSP members	234	131
Assets	$1.9M	$1.3M
VSP member average contribution (% of pay)	4.1%	4.0%

Asset allocation as at December 31, 2015



Want to know how your investments did in 2015?

Refer to your Sun Life personalized statement dated December 31 received at home or go to your member website at **mysunlife.ca**

Did you know?

The number of members who have completed the Retirement Planner tool at **mysunlife.ca** increased by **89%** in 2015. Completing the Retirement Planner by answering a few easy questions will allow you to see if you are on track with your savings compared to your retirement goal. You will be able to track your progress on each account statement and online.

Our services to DC members

Sun Life Financial Customer Care Centre:
232 callers

Top three reasons for calls were account balances, process questions and forgotten access IDs and passwords

Transactions on mysunlife.ca member website: 515 users

Top three transactions were verifying account balances, transaction histories and investment performance

Members who completed the Retirement Planner tool: 158

2015 communications and new tools for DC members

- Annual VSP campaign to encourage members to contribute to the VSP.
- New combined statements for DC members, who are also members of the VSP, include information for both accounts in one convenient statement.
- New online payroll contribution calculator available on **mysunlife.ca** to help members see the net impact of increasing their payroll contribution.
- Save More Today campaign encourages members to increase their DC contributions and get the most of the Canada Post matching contributions.

95% The percentage of DC members contributing to their plan increased from 78% at the end of 2014 to **95%** at the end of 2015 as a result of this campaign, along with the change in the default contribution rate for employees who had not made a selection.

Webinars

DC members have access to a series of free 60-minute live educational webinars offered by Sun Life Financial. These interactive webinars are designed to provide easy to understand information about saving, financial and retirement planning, no matter what stage you are in your career.

Visit **cpcpension.com** > DC > Retirement > Seminars and webinars to learn more about the topics and their schedule.

Plan Governance

Canada Post's vision is for all Pension Plan members to have a financially secure retirement and its mission is to prudently administer and invest the Plan assets for the benefit of its members.

Canada Post, as Plan sponsor, is responsible for the funding of the Plan and its design as it determines the benefits offered to Plan members. Canada Post is also the Plan administrator and is responsible for managing the Plan and investing the pension funds.

The Board of Directors of Canada Post oversees these activities to ensure they are conducted responsibly and in the best interest of all Plan members. In carrying out its responsibilities, the Board follows its Standards of Conduct, which describe ethical rules on matters such as conflict of interest, care, diligence and skill (available at **canadapost.ca** > Corporate > Corporate Governance).

A robust governance structure was established by the Board for the defined benefit (DB) and defined contribution (DC) components of the Plan, and is depicted in the chart below. The Board committees are made up of selected Board members with specific expertise applicable to pension plan matters.

The Investment Advisory Committee and the Pension Advisory Council include representatives of the bargaining agents and advise the Pension Committee on investment and administrative matters.

For more information, visit **cpcpension.com** under Governance.

Canada Post Board of Directors
Oversees activities conducted by Plan sponsor and Plan administrator

Audit Committee
Reviews and recommends approval of the financial statements and reviews Plan audits

Pension Committee
Oversees the strategic direction of the Plan, fund investments and administration activities

Human Resources and Compensation Committee
Reviews and recommends pension benefit policies, Plan design and employee/ employer contribution rates

Investment Advisory Committee
Provides expert investment advice

Pension Advisory Council
Reviews communication, financial, actuarial and administrative aspects of the Plan

Membership of the Canada Post Board of Directors and committees as at December 31, 2015

Board of Directors

Siân M. Matthews (Chairperson) ★ ▲ ●
Deepak Chopra
Thomas Cryer FCPA, FCA ★ ▲
Michèle Desjardins ●
A. Michel Lavigne FCPA, FCA ★ ▲
Andrew B. Paterson ▲ ●
Alain Sans Cartier ★
William H. Sheffield BSc., MBA, ICD.D ★ ●
Sharon Sparkes MBA, CPA, CA ★ ▲
Donald Woodley ●

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

APOC Association of Postal Officials of Canada
CPAA Canadian Postmasters and Assistants Association
CUPW Canadian Union of Postal Workers
PSAC Public Service Alliance of Canada
UPCE Union of Postal Communication Employees

Member biographies are available at **cpcpension.com**.

Investment Advisory Committee

J. Lorne Braithwaite BComm, MBA (Chairperson)
Phillip H. Doherty BComm, MBA, CPA, CA
Douglas D. Greaves HBA, CFA, ICD.D
Richard L. Knowles CFA, HBA
A. Michel Lavigne FCPA, FCA

Union and association representatives
Isla Carmichael Ph.D, M.Ed, MA
Hugh Mackenzie MA, ICD.D

Pension Advisory Council

Canada Post representatives
Douglas D. Greaves HBA, CFA, ICD.D (Chairperson)
Steven Galezowski MBA, CPA, CA, CBV, CFA
Lou Greco MBA, CPA, CMA
Kateri Saumure BA Cmn
Brad Smith EMBA, CEBS, H.R.C.C.C.

Elected representatives
Mary Bishop CPA, CA, CEBS (all retired members)
Nelson Chan MBA, CPA, CMA (management and exempt employees)
Angelo Colacci (all active members)
William (Bill) R. Price BA, MA (all retired members)

Union and association representatives
Daryl Bean (PSAC/UPCE)
Madeleine Cleroux (CUPW)
Beverly Collins (CUPW)
Guy Dubois (APOC)
Rona Eckert (CUPW)
Sylvain Lapointe (CUPW)
Daniel Maheux (CPAA)
François Paradis (PSAC/UPCE, APOC, CPAA)

Delegated duties and responsibilities to qualified professionals

The Pension Committee of the Board delegates the investment and administrative activities of the Plan to the Canada Post Investment Division, Pension Finance and Pension Services teams. These teams are formed of qualified professionals who have the knowledge, skills, information resources and expertise to fulfill their specialized functions. In addition to the internally managed investment mandates, the Pension Committee also selects reputable external investment managers to execute specific investment mandates in accordance with our statements of investment policies and procedures.

The Pension Committee also uses other external service providers with specialized expertise, such as actuarial and consulting firms, as required. For more information on how the Plan is administered and supported, visit **cpcpension.com** under Governance overview.

Our good governance practices

Monitoring

This practice includes the quarterly review of investment performance and funded ratios, as applicable. Service performance, service provider contracts, investment managers (internal and external) and service level agreements are also monitored regularly.

Assessment

Governance practices are assessed annually using the questionnaires of the Canadian Association of Pension Supervisory Authorities (CAPSA). The Pension Committee reviews results to determine how successfully the Plan follows CAPSA's principles for pension plans and prudent investment practices that satisfy the prudent person rule legislative requirements. See **capsa-acor.org**.

Audit

Regular audits are conducted by independent external auditors and by our internal auditors. In 2015, an internal audit engagement was conducted on the in-house pension investment process of the DB component and results were favourable. In addition, the Office of the Superintendent of Financial Institutions (OSFI) can carry out on-site governance reviews from time to time.

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. In addition, the Pension Committee consults with the Pension Risk Management Officer who provides advice on any potential risk exposures.

Communication

Communication with DB and DC members of the Plan occurs through a number of publications and initiatives. In 2015, we met legislative requirements to communicate with members with the 2014 Report to Members, personalized statements for active members and retired DB members, notification of Plan amendments and the *Pension Plan News* and *Intouch* newsletters. DC members received additional communications from Sun Life Financial, the DC service provider. Most of the publications noted here, as well as the Plan's audited financial statements, are available at **cpcpension.com**.

In 2015, the **Communications and Consultation Group (C&C Group)** was established. The 12 representatives were elected or appointed, as set out in the C&C framework. The C&C Group will provide input on how best to communicate and consult Plan members. The Group met for the first time in November 2015. Representatives' biographies and a description of their mandate are available at **cpcpension.com** under C&C Group.

Risk Management Strategy

There are many factors that can pose a risk to the health of a pension plan. The main ones are funding risk and investment risk.

There are three main levers available to pension plan sponsors to manage pension risks:

Funding policy
(contributions from employer and employees)

Investment policy
(return enhancement and/or risk reduction strategies and risk transfer strategies such as longevity insurance and buying annuities)

Benefits policy
(level and type of benefits offered)

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 declining **discount rates** and investments failing to achieve expected returns.

Currently, the most significant risk relates to the interest rates. For indexed plans like the Canada Post Pension Plan, it is the real interest rates, which are the interest rates net of **inflation**. The sustained low level of interest rates in recent years has been among the most significant contributors to the growth in solvency deficits.

In addition to interest rate risk, investments carry market risk, arising from the fact that financial markets are unpredictable. As a consequence, returns are not guaranteed and, for some types of investments, can be quite volatile.

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.

Liability-Driven Investing (LDI): Asset-liability studies are conducted from time to time to guide the Plan's investment strategy taking into account economic and demographic factors. The Plan has become more mature as Plan members age and the number of retirees increases. The asset-liability study completed in 2015 had a primary focus of minimizing the volatility between net investment assets and pension obligations. Liability-driven investing was introduced as a result. LDI is an investment strategy that manages the Plan's assets relative to its liabilities and is considered a form of reducing risk or de-risking.

The intent is to minimize funding volatility, which is done primarily by attempting to better match the Plan's assets with the liabilities. As a first step, the fixed income target allocation would be increased. Secondly, long duration **bonds** (i.e. bonds with a duration of 14-15 years) would also be increased – better matching the Plan's liabilities. Thirdly, the target allocation to **alternative assets** (real estate and infrastructure) would be increased gradually to potentially enhance long-term returns, while diversifying risk.

The timing for full implementation of the LDI strategy is not optimal currently since interest rates are at historical lows. If de-risking occurs too quickly, it will not allow the Plan's funded position to improve as interest rates normalize. Therefore, a 10-step dynamic investment de-risking **glide path** was established to make automatic shifts in asset allocations when the solvency ratio increases to specified levels. This approved approach will ensure a gradual movement toward the ultimate target asset mix and will enable the funded position to improve with rising interest rates. The Plan will perform an asset-liability study every three years (or when the funding ratio reaches a certain threshold) in order to assess and possibly adjust the investment strategy.

The Pension Committee 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 Statement of Investment Policies and Procedures – DB component and in consideration of the Plan's demographics and long-term obligations.

The Pension Risk Management Officer oversees compliance with the statements of investment policies and procedures approved by the Pension Committee, which establish guidelines for prudent risk levels through diversification of asset classes and types, industry sectors, geographic/economic areas, management styles, liquidity and **market capitalization**. Unintended risks, such as large exposures or concentration in a particular industry sector, are clearly identified to the appropriate investment manager, as well as to the Chief Investment Officer and the Pension Committee.

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 equity risk through stock holdings as well as interest rate risk and credit risk within the fixed income portfolio. Investments are subject to price risk and liquidity risk. Price risk or valuation risk is when the price paid for an asset is too high. The Investment Division team and external investment managers meticulously review the financial metrics prior to making an investment to prevent overpaying. Liquidity risk is the inability to buy or sell an investment in a timely manner at a fair price. A large portion of total assets have daily liquidity and the Investment Division team monitors short-term funding needs on a weekly basis.

Investments are also made in foreign markets so there is exposure to currency risk, which is partially mitigated through tactical **hedging** strategies. Additional 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, concentrations, leverage and counterparties. Each asset class and its associated risks are closely monitored by the Pension Risk Management Officer and the Investment Division 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 Division team.

Other risks

The Plan faces other risks that are not of a financial nature, such as demographic factors including the longevity of pensioners (how long retirees are living compared to what was expected) and the rules surrounding the funding of pension plans that are under the jurisdiction of the *Pension Benefits Standards Act, 1985*, and other applicable legislation and standards. We monitor pension industry trends and the developments in legislations to respond appropriately when changes occur.

Statements of investment policies and procedures

The Pension Committee has established two statements of investment policies and procedures to effectively monitor and manage investment risk within the Plan.

The Statement of Investment Policies and Procedures – Defined Benefit component (SIPP-DB) is the governing document that provides guidance for investing the DB assets of the Plan. The SIPP-DB details fund governance, Plan characteristics, liabilities, investment objectives, asset-mix policy, permitted investments and constraints, as well as other requirements concerning the investment and administration of the Plan's DB assets.

The Statement of Investment Policies and Procedures – Capital Accumulation Plans (SIPP-CAP) is the governing document for the investment structure of the **capital accumulation plans** (CAP) offered by Canada Post, including the DC component of the Plan. The SIPP-CAP covers fund governance, the investment structure and beliefs, as well as other requirements in the investment and administration of the CAP assets. The investment objectives set out in the SIPP-CAP are fulfilled as a part of the contractual obligations of the DC service provider, Sun Life Financial.

The SIPP-DB and the SIPP-CAP are reviewed and approved once a year by the Pension Committee. The **actuary** of the Plan and the members of the Pension Advisory Council (PAC) receive a copy of the updated SIPP-DB and SIPP-CAP after their approval. The SIPPs of the Plan are available at **cpcpension.com** under Governance documents.

Our Investments – DB Component

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

It is my pleasure to report another year of strong investment performance by the Canada Post Corporation Registered Pension Plan.

Net investment assets of the Plan totalled $21.9 billion at December 31, 2015, compared to $20.9 billion the previous year. The Plan delivered a return of 7.3% for 2015 and ranks on par with the median of large Canadian pension plans, according to RBC Investor Services.

In the mid-term, the four-year return was 11.2%, and the long term, the 10-year return was 6.4%. This compares favourably with the fund's portfolio **benchmarks** of 9.6% and 5.7% for the same periods. The Plan's evolving investment strategy contributed to this investment success. By actively managing our portfolio we have added $449 million to the Plan's asset size in 2015, and $1,257 million over the last 10 years, compared to the benchmark.

In 2015, U.S. and international **equities**, private equity and infrastructure assets, bonds and real estate had positive returns. Refer to the graphs on pages 14-15.

The asset-liability study announced last year was completed and approved by the Board of Directors in 2015. The study focused on making the Plan more sustainable by gradually reducing the volatility between net investment assets and pension obligations, while maintaining the return on investments. The study recommended a multi-step liability-driven investment strategy that will guide the Plan for the next five to 10 years. Specifically, a glide path has been developed based on pre-determined funded status targets. As targets are reached, the Plan will move assets from equities to bonds, lengthen the **bond duration** to better match pension obligations and increase the allocation to alternative assets.

Here are some activities that affected the Plan's net investment assets in 2015:
Bond assets increased following a reduction in Canadian, U.S. and international equities, additional funding and market gains. In line with the new liability-driven investment strategy, the Plan established a long-duration bond portfolio, which has been managed internally since October 2015.
The Plan continued to add to its alternative investment assets, namely real estate, private equity and infrastructure, as part of the long-term investment strategy. These assets help cushion the Plan from capital market volatility.
Private equity and infrastructure assets increased in 2015 due to currency gains, market gains and additional funding. The Plan continues to diversify and add to its alternative asset classes, according to its strategy. This diversification enables it to take advantage of future growth opportunities in equity markets and alternative assets, while holding an appropriate balance of fixed income assets based on the Plan's membership and long-term obligations.
The Plan expanded its geographic exposure by investing in U.S.-based real estate.
The internally managed Canadian bond assets increased by 25% from 2014 due to management insourcing, additional funding and market gains. Managing assets internally reduces costs and adds flexibility.

Investment objectives

The Plan has become more mature as Plan members age and the number of retirees increases. This warrants a liability-driven investment strategy in which the Plan's asset mix better matches its liabilities and interest rate risk is reduced over time. In addition, it's anticipated that such a strategy will reduce the Plan's funded status volatility. The first step calls for an increase in bond holdings and the extension of bond durations. This will lead to a better match of assets to liabilities. Furthermore, alternative investment holdings will increase gradually depending on investment opportunities. The glide path is based on funded status triggers. An asset mix change will occur when a predetermined funded status is reached.

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.

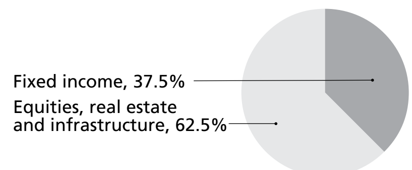
Over the long term, investment performance is evaluated against the Plan's funding objectives and against the **rate of return** needed for the Plan to meet its pension obligations to members over time, as determined by the actuarial valuation. Over the short term, the Plan relies on a benchmark portfolio 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.

Asset mix

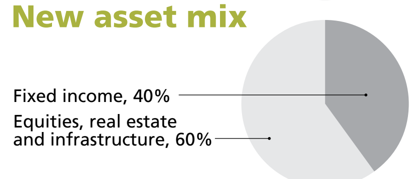
The Plan's asset mix is designed to maximize growth opportunities, minimize risks and meet the requirements of the risk management framework and the Statement of Investment Policies and Procedures for the DB component (SIPP-DB), which was updated to reflect the long-term liability-driven investment strategy approved by the Board. The Plan's asset mix targets were adjusted down to 60% from 62.5% in equities, real estate and infrastructure, and adjusted up to 40% from 37.5% in fixed income as part of the first step in the implementation of the liability-driven investment strategy.

The asset class mix is meant 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%. It is estimated that this rate can support the Plan's investment objectives and the growth of its pension obligations.

Previous asset mix



New asset mix



At any given time, the asset mix may vary from the long-term targets. The SIPP-DB has minimum and maximum limits to allow for flexibility as market conditions change. The Plan's actual asset mix as at December 31, 2015, was 62.3% in equities, real estate and infrastructure, and 37.7% in fixed income. The strong returns in 2015 are attributable to the fund's above-target allocation to equities.

The performance of each asset class is measured against its own relevant benchmark. In 2015, the Plan held U.S. equities in the upper range of its allocation for this type of investment. During the year, it reduced its U.S., Canadian and international equity positions, taking advantage of market gains. These gains were re-allocated to Canadian bonds, real estate, infrastructure, private equities and international (non-U.S.) small cap equities. The investment team uses its knowledge and expertise to manage the investment portfolio in accordance with the guidance provided by the SIPP-DB.

Market review and financial market performance

Similar to past years, global growth in 2015 was uneven. The U.S. economy grew by 2.4%, the same rate as last year, as the unemployment rate dropped to its lowest level since April 2008. Europe exhibited disappointingly low growth, despite the start of the European Central Bank's (ECB) quantitative easing program in March 2015. Japan's economy shrank in the midst of its own stimulus program. Market volatility, the degree to which the market's value fluctuates, trended up from August onward.

China's economic restructuring from exports and investments toward domestic consumption was reflected in a lower **gross domestic product** (GDP) of 6.9%, the lowest rate since 1990. This slowdown has hurt global economies, in particular those of Japan and other Asian countries.

Demand for commodities continued to fall due to the restructuring in China and the strength of the U.S. dollar. Oil prices continued to fall due to rising supplies. Taken together, this hurt emerging economies and commodity exporting countries, including Canada. In turn, Europe was affected since China and emerging markets account for one-quarter of Eurozone exports.

In a well-publicized move, the U.S. Federal Reserve increased interest rates by 0.25% in December for the first time since 2006. Strengthening U.S. economic conditions did little to ease market concerns that an interest rate increase was premature. The U.S. dollar continued to appreciate against other developed and emerging market currencies. As for the Canadian dollar, it declined relative to the U.S. dollar, Japanese yen and the euro.

In the public markets, U.S. equities had the highest returns, followed by international small cap equities and fixed income.

Nominal and real return bond returns were positive. High **yield** bonds underperformed due to weakness in commodity related sectors.

Fund performance

The Plan earned a rate of return of 7.3% in 2015, compared to its benchmark return of 5.1%. The Plan's 7.3% return is the same as the median return experienced by the RBC Investor Services universe of large Canadian pension plans.

In the mid-term, the four-year return was 11.2%, and in the long term, the 10-year return was 6.4%. This compares favourably with the fund's portfolio benchmarks of 9.6% and 5.7% for the same periods. The Plan's evolving investment strategy contributed to this investment success.

The Plan's private equity, U.S. equity and infrastructure investments provided the best returns for the year, followed by international equities, real estate, bonds and Canadian equities.

Private equity and infrastructure asset classes profited from currency gains on investments denominated in U.S. dollars and British pounds, as both currencies appreciated relative to the Canadian dollar, asset valuation increases and income received. U.S. equities grew through currency gains on U.S. dollar-denominated assets and asset valuation gains.

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

Outlook for 2016

Funded status volatility, the movement of investment returns and pension obligations, will be monitored closely. The asset-liability study and glide path will be updated at a minimum every three years or as soon as a funded ratio of 90% is reached.

Investments in alternative assets will continue to grow. Reaching our target allocation will take time. The Investment Division team is very selective about the quality of assets and the purchase price of these investments.

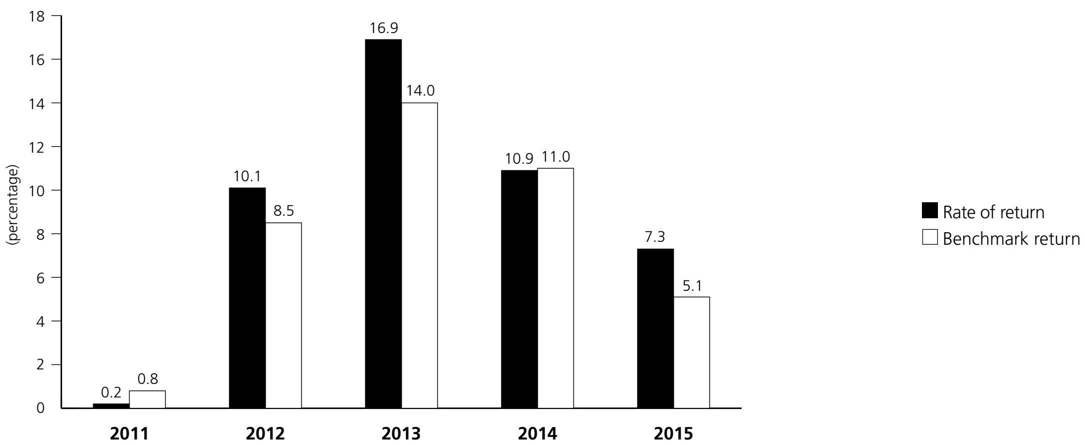
We will **expand our geographic exposure** by investing in European real estate.

We will continue to **bring more externally managed Canadian bond** assets in-house to reduce investment management fees and add flexibility.

We will continue to **assess derivative strategies** to improve returns and manage risks.

We will maintain our commitment to meeting the Plan's long-term funding objectives. Through appropriate asset allocation and risk mitigation in respect to our liabilities, we aim to earn returns above the benchmark portfolio, taking into account economic and demographic changes. We will continue to implement strategies designed to increase returns without taking undue risks.

Rate of return against benchmark



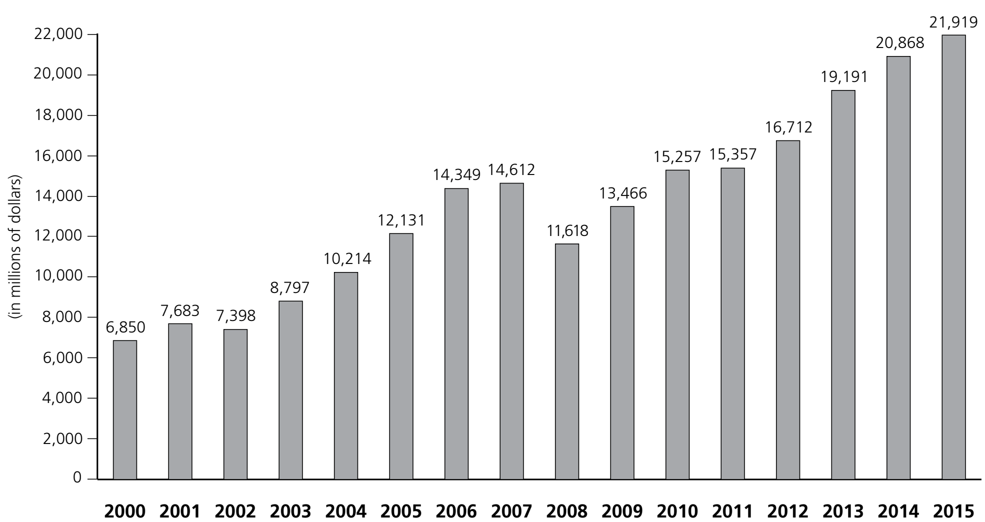
Rate of return

	Over the last 10 years	In 2015
Our Plan	6.4%	**7.3%**
Our benchmark	5.7%	**5.1%**
Peer group benchmark[1]	6.0%	**7.3%**
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).

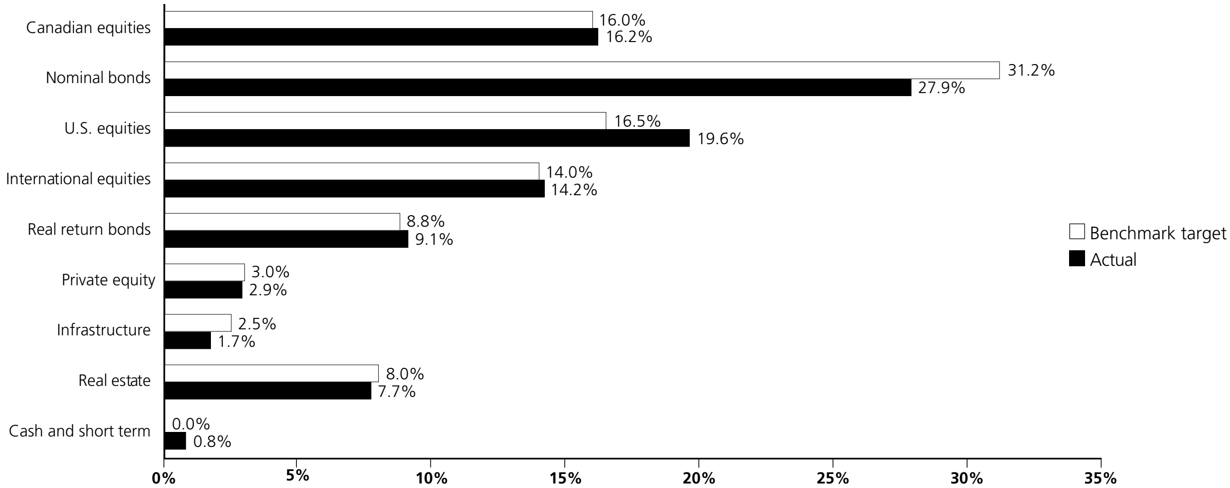
By actively managing our portfolio, we have added $449 million to the Plan's asset size in 2015, and $1,257 million over the last 10 years, compared to the benchmark.

Net investment assets



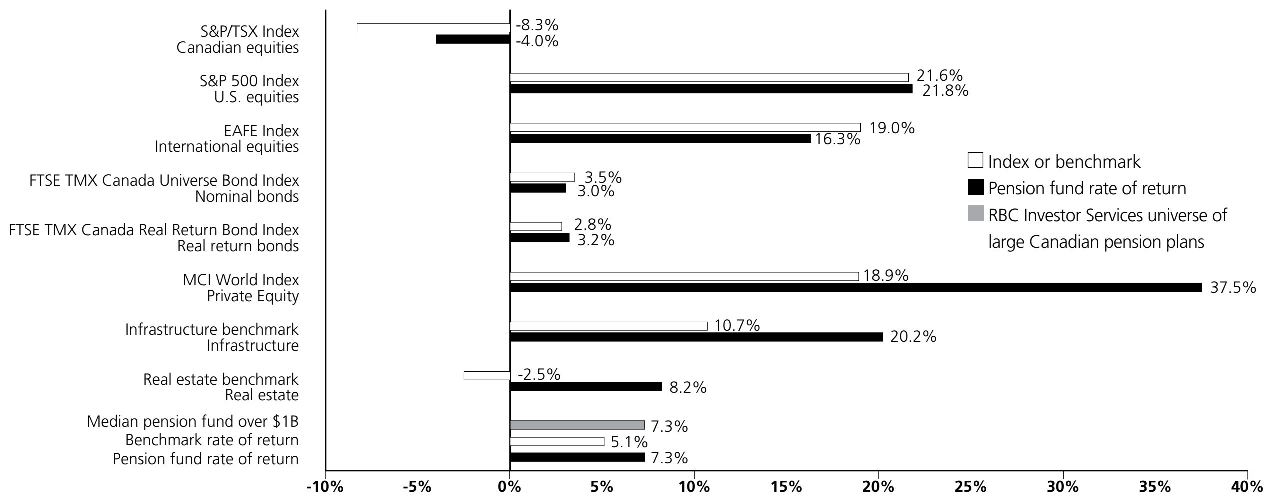
Net investment assets are defined as investments plus investment related receivables minus investment related liabilities.

Asset mix



International equities include emerging markets. Numbers may not add up due to rounding.

Rates of return by asset class and total plan



The real estate benchmark is 50% TSX Equity Index and 50% FTSE TMX Canada Universe Bond Index. The infrastructure benchmark is 50% FTSE TMX Canada Real Return Bond Index and 50% MSCI World Index. Numbers may not add up due to rounding.

Investment management costs

As measured by the 2014 CEM Benchmarking Survey	
	Per $100 of average assets
Plan	$0.35
Peer group	$0.38
The Plan’s investment costs were $6 million below the peer group average costs.	

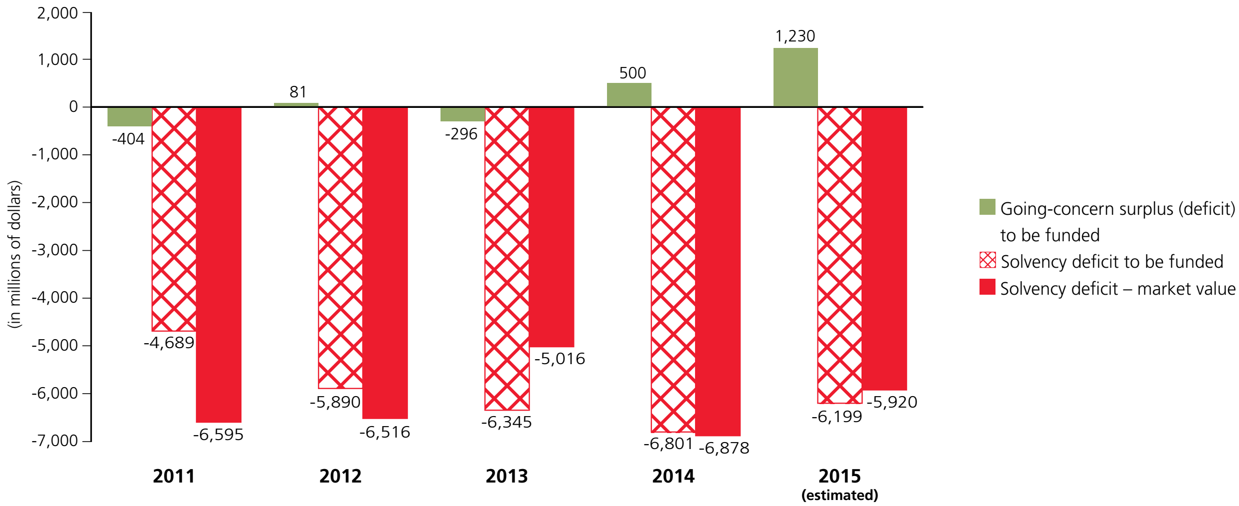
Equity holdings greater than 0.25% of Plan assets

As at December 31, 2015 (in millions of dollars)

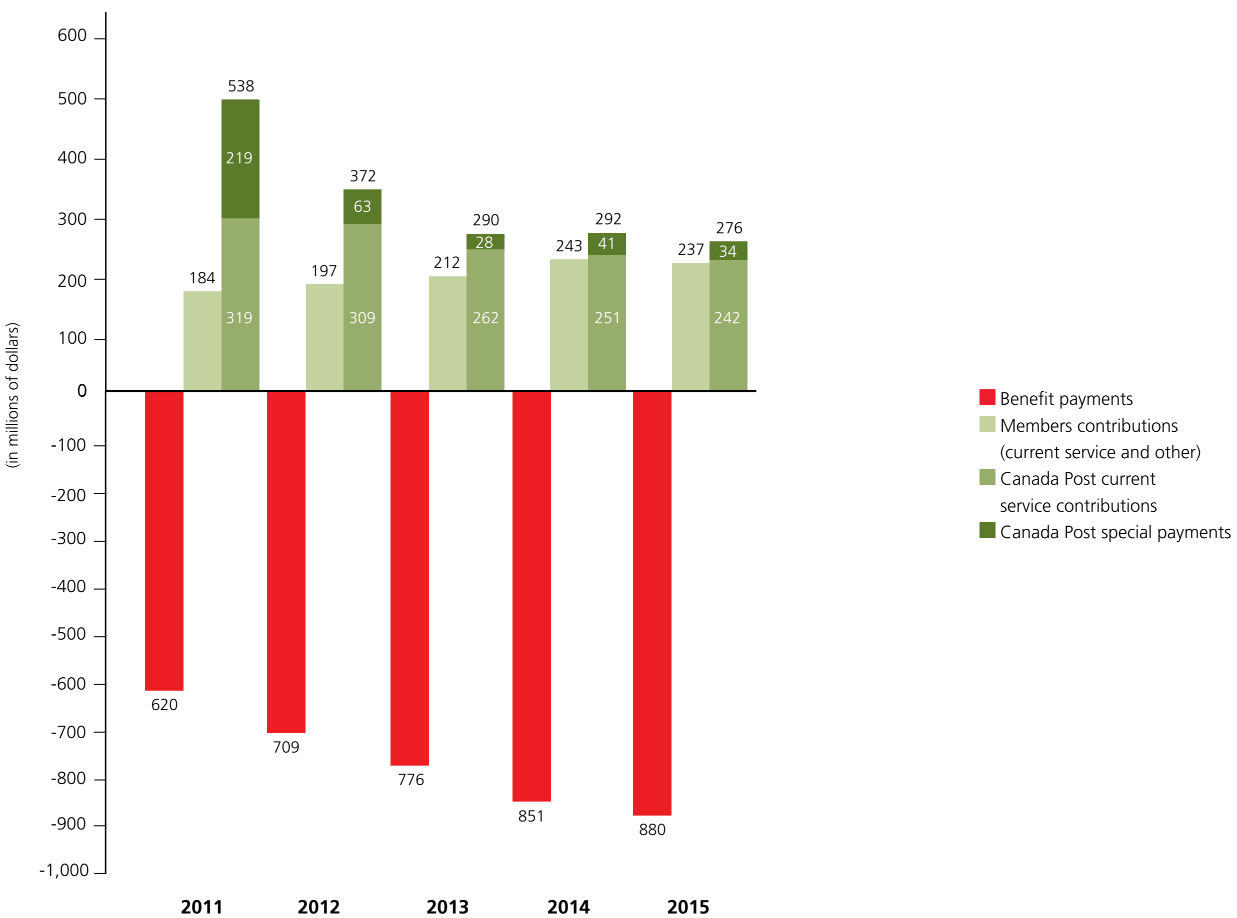
	Market value	Percentage of overall fund
Toronto Dominion Bank	$195	0.89%
Royal Bank of Canada	189	0.86
Bank of Nova Scotia	140	0.64
Apple Inc.	125	0.57
Bank of Montreal	106	0.48
Manulife Financial Corp.	100	0.46
Suncor Energy Inc.	99	0.45
Alphabet Inc.	98	0.45
Canadian National Railway Co.	88	0.40
Canadian Natural Resources Ltd.	80	0.37
Thomson Reuters Corp.	76	0.35
Johnson & Johnson	74	0.34
Enbridge Inc.	73	0.33
Canadian Imperial Bank of Commerce	67	0.31
Sun Life Financial Inc.	65	0.30
Facebook Inc.	65	0.30
Amazon.com Inc.	63	0.29
Pfizer Inc.	62	0.28
JPMorgan Chase & Co.	60	0.28
Bank of America Corp.	57	0.26
Telus Corp.	55	0.25
	$1,937	**8.85%**

Financial Position Highlights – DB Component

Plan's funded status



Contributions and benefit payments



Canada Post contributions represent amounts paid after taking into account deficit funding relief.

Summary of Financial Statements

Net assets available for benefits

The Canada Post Corporation Registered Pension Plan posted a 7.3% return in 2015. The Plan ended the year with net assets available for benefits of $22,005 million (including $18 million in the DC component), an increase of $1,060 million from $20,945 million (including $13 million in the DC component) at the end of 2014.

Changes in net assets available for benefits

The $1,060 million increase in net assets available for benefits represents investment income of $1,522 million and contributions of $519 million, offset by pension benefit payments of $882 million and expenses of $99 million.

Investment income – comprising interest, dividend, as well as realized and unrealized gains and losses - was $1,522 million for 2015, compared to $2,083 million for 2014.

Plan contributions in 2015 were $519 million compared to $540 million in 2014, a decrease of $21 million.

Pension benefit payments for 2015 were $882 million compared to $852 million in 2014, an increase of $30 million. This was mostly the result of a 7% increase in the number of retirees over 2014.

Changes in pension obligations

Pension obligations were $19,234 million (including $18 million in the DC component) compared to $18,632 million (including $13 million in the DC component) in 2014, an increase of $602 million. The increase represents the interest accrued on the pension obligations plus new benefits accrued, offset by benefits paid during 2015.

(in millions of dollars)	2015			2014		
Accounting basis	DB	DC	Total	DB	DC	Total
Assets	21,987	18	22,005	20,932	13	20,945
Pension obligations	19,216	18	19,234	18,619	13	18,632

Surplus (deficit)

The difference between assets available for benefits and pension obligations as at December 31, 2015, resulted in a surplus of $2,771 million, as disclosed in the financial statements based on standards of the Chartered Professional Accountants of Canada (CPA Canada).

The going-concern surplus as of the same date is estimated at $1,230 million. The difference between the accounting surplus of $2,771 million and the estimated going-concern surplus of $1,230 million is an **actuarial asset value adjustment (or smoothing)** of $1,541 million. The smoothed assets valuation method recognizes gains or losses on investments over a five-year period to minimize fluctuations due to market volatility. This actuarial adjustment is no longer permitted as a valuation methodology for accounting purposes under CPA Canada Section 4600 since 2011.

The full audited financial statements, including notes, are available at cpcpension.com or by request.

Five-year financial review

Financial position (in millions of dollars)	**2015**	**2014**	**2013**	**2012**	**2011**
Assets					
Investments	$21,884	$20,824	$19,145	$16,690	$15,283
Investment related receivables	196	212	193	173	118
Contribution / other receivables	110	112	102	108	107
Total assets	**22,190**	**21,148**	**19,440**	**16,971**	**15,508**
Liabilities					
Investment related liabilities	143	155	139	151	44
Accounts payable and accrued liabilities	42	48	31	45	33
Total liabilities	**185**	**203**	**170**	**196**	**77**
Net assets available for benefits	**$22,005**	**$20,945**	**$19,270**	**$16,775**	**$15,431**
Pension obligations and surplus (deficit)					
Pension obligations	$19,234	$18,632	$18,039	$16,461	$16,570
Surplus (deficit)	2,771	2,313	1,231	314	(1,139)
Total pension obligations and surplus (deficit)	**$22,005**	**$20,945**	**$19,270**	**$16,775**	**$15,431**

Changes in net assets available for benefits (in millions of dollars)	**2015**	**2014**	**2013**	**2012**	**2011**
Investment income	**$1,522**	**$2,083**	**$2,849**	**$1,556**	**$32**
Contributions – Sponsor					
Current service	246	254	262	309	319
Special payments	34	41	28	63	219
Contributions – Members					
Current service	229	240	207	190	177
Elective service and other	10	5	5	7	7
Total contributions	**519**	**540**	**502**	**569**	**722**
Less					
Benefits					
Retirement and survivor pensions	800	747	694	624	554
Commuted value transfers and other	82	105	82	85	66
Total benefits	**882**	**852**	**776**	**709**	**620**
Administration expenses					
Plan administration	21	19	17	16	15
Investment fees	78	77	63	56	46
Total administration expenses	**99**	**96**	**80**	**72**	**61**
Increase in net assets	**$1,060**	**$1,675**	**$2,495**	**$1,344**	**$73**

Changes in pension obligations (in millions of dollars)	**2015**	**2014**	**2013**	**2012**	**2011**
Interest on pension obligations	$1,067	$1,035	$939	$954	$928
Benefits accrued	466	494	486	507	533
Changes in actuarial assumptions	49	(70)	1,069	(704)	(397)
Changes in plan provisions	–	–	–	–	67
Net experience losses (gains)	(98)	(14)	(140)	(157)	21
Benefits paid	(882)	(852)	(776)	(709)	(620)
Net increase (decrease) in pension obligations	**$602**	**$593**	**$1,578**	**$(109)**	**$532**

Funding Valuation Summary – DB Component

Canada Post is required to file annual actuarial valuations of the Plan on a going-concern and solvency basis 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. It presents the funded status of the Plan on a going-concern and solvency basis at a specific date. The latest actuarial valuation was filed in June 2015 and provided results as at December 31, 2014.

Actuarial valuation results – Solvency

Solvency funded status of the Plan as at December 31				
	2015 estimated		2014 actual	
	in millions of dollars	funded ratio	in millions of dollars	funded ratio
Solvency assets (market value)	21,970		20,912	
Solvency obligations	27,890		27,790	
Solvency deficit (based on market value of Plan assets)	(5,920)	78.8%	(6,878)	75.3%
Solvency deficit to be funded (using three-year **average solvency ratio** method)	(6,199)	77.8%	(6,801)	75.5%

The solvency deficit using the market value of Plan assets decreased from $6,878 million at the end of 2014 to an estimated $5,920 million at the end of 2015. The improvement in the deficit was mainly due to investment gains and an increase in the annual net discount rate from 1.1% to 1.2% used to evaluate the liabilities of benefits to be paid from the Plan.

The average solvency ratio over the three-year period used for the valuation improved in 2015, going from 75.5% to 77.8%. Therefore the solvency deficit to be funded decreased from $6,801 million to an estimated $6,199 million due to this increase in the average solvency ratio, partially offset by increased pension obligations.

Members living longer and receiving their pension for longer requires that larger amounts of money be put aside to fund pensions. A rough rule of thumb is that every additional year of life expectancy adds 3.5% to pension obligations.

When interest rates are low, more money needs to be put aside. For example, you would need to have about $1.2 million on average if you retire at age 60 to get a $50,000 annual pension similar to the one offered by our Plan at a 4% interest rate. This amount increases by over 15% to $1.4 million, when interest rates drop to 3%.

Multiply this amount by the number of members in our Plan, and you can see that a small change in discount rates has a significant impact on the overall pension obligations. A discount rate decrease would result in an increase in pension obligations on a solvency basis. Similarly, an increase in discount rates would result in a decrease in pension obligations.

1% decrease in discount rates

$5.4 billion in solvency obligations

Actuarial valuation results – Going-concern

Going-concern funded status of the Plan as at December 31				
	2015 estimated		2014 actual	
	in millions of dollars	funded ratio	in millions of dollars	funded ratio
Going-concern assets (smoothed value)	20,446		19,100	
Going-concern obligations	19,216		18,600	
Going-concern surplus	1,230	106.4%	500	102.7%

The financial position of the Plan saw improvements in 2015 recognizing investment gains from previous years in the smoothed value of assets, and due to stable investment returns and interest rates in 2015.

Contributions

Contributions (in millions of dollars)	**2015**	**2016**[1]
Members	237	225
Canada Post regular contributions	242	240
Canada Post special payments[2]	34	33
Total contributions	**513**	**498**

Current service cost sharing[3] (regular contributions)	**2015**	**2016**[1]
Members	49%	48%
Canada Post	51%	52%

1. Estimate.
2. After applying deficit funding relief.
3. Excluding contributions for elective service.

The special payments made by Canada Post in 2015 and estimated to be made in 2016 are top-up payments (transfer deficiency). The top-up payments are required to pay the full **commuted value** when someone leaves the Plan because the solvency ratio is below 100%, and include additional top-up payments required by OSFI since 2014 given the deficit funding relief.

Deficit funding relief

Over the past few years, low solvency discount rates increased the Plan's solvency obligations and deficits significantly. From 2011 to 2013 Canada Post used solvency relief measures, as permitted by pension legislation for all federally regulated pension plans.

In February 2014, the Government of Canada introduced the C*anada Post Corporation Pension Plan Funding Regulations*. They provide relief to Canada Post from the need to make special payments into the Plan for four years (2014-2017). For Canada Post, these regulations replace the solvency relief measures available under the *Pension Benefits Standards Act, 1985*. This is a temporary relief period that recognizes the operational challenges facing Canada Post. Special payments are expected to resume in 2018 at the end of the relief period. See page 23 to know more.

Relief (in millions of dollars)	**2011**	**2012**	**2013**	**2014**	**2015**
Solvency relief under the *Pension Benefits Standards Act, 1985*	433	898	1,179	–	–
Relief under the *Canada Post Corporation Pension Plan Funding Regulations*	–	–	–	1,269	1,360

With deficit funding relief comes additional potential risk for the Plan and its members. There is a lower value of Plan assets than would be the case if Canada Post had the cash necessary to make the special payments. Therefore, there is a risk of some deterioration of the solvency and going-concern valuations over the relief period. The effect will depend on factors such as investment returns and interest rates. While the Plan is currently able to pay all benefits to members as they become due, and is projected to continue to be able to do so over the relief period, Canada Post needs to find long-term solutions to ensure that the Plan is sustainable and affordable for Plan members and the Corporation.

Regular pension contributions (current service) from Canada Post and from Plan members continue to be made during the relief period. The relief applies only to special payments to fund the deficit. Canada Post, as Plan sponsor, is responsible for addressing any deficit in the Plan and ensuring the Plan is sustainable.

During the temporary relief period, Canada Post as Plan administrator, continues to file annual valuations with regulators to monitor the Plan's status. This status is communicated to all Plan members on at least an annual basis.

Without any funding relief, Canada Post special payments required to fund the deficit would have been $1,394 million in 2015 (including $34 million in top-up payments). This would have brought total contributions from Canada Post to $1,636 million in 2015, or 62% of pensionable payroll.

Funding valuation history

OSFI requires that a 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, it is required to file a funding valuation every year, unless the solvency funded status is greater than 120%. Canada Post's 2015 funding valuation will be filed by June 2016.

	Estimated	Filed funding valuations[1]									
As at December 31 (in millions of dollars)	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2007**	**2006**	**2005**	**2004**
Going concern – assuming the Plan continued in operation											
Market value of assets	$21,987	$20,932	$19,262	$16,775	$15,431	$15,376	$13,576	$14,666	$14,430	$12,211	$10,307
Asset smoothing adjustment	(1,541)	(1,832)	(1,527)	(352)	716	488	1,357	(266)	(1,340)	(715)	(103)
Smoothed value of assets	20,446	19,100	17,735	16,423	16,147	15,864	14,933	14,400	13,090	11,496	10,204
Funding target	19,216	18,600	18,031	16,342	16,551	16,039	14,365	13,143	12,097	11,145	10,108
Funding surplus (deficit)	1,230	$500	$(296)	$81	$(404)	$(175)	$568	$1,257	$993	$351	$96
Funded ratio	106.4%	102.7%	98.4%	100.5%	97.6%	98.9%	104.0%	109.6%	108.2%	103.1%	100.9%
Assumptions used for going-concern valuations											
Discount rate	5.80%	5.80%	5.80%	5.80%	5.80%	5.80%	6.20%	6.00%	6.00%	6.00%	6.00%
Inflation rate	2.25%	2.25%	2.25%	2.25%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Real return rate (net of inflation)	3.55%	3.55%	3.55%	3.55%	3.30%	3.30%	3.70%	3.50%	3.50%	3.50%	3.50%
Solvency – assuming the Plan was terminated on the date of valuation											
Market value of assets (net of termination fees)	$21,970	$20,912	$19,250	$16,763	$15,419	$15,364	$13,573	$14,664	$14,428	$12,209	$10,305
Solvency obligations	27,890	27,790	24,266	23,279	22,014	19,056	16,777	14,215	14,145	13,410	11,338
Solvency – market value											
Surplus (deficit)	($5,920)	$(6,878)	$(5,016)	$(6,516)	$(6,595)	$(3,692)	$(3,204)	$449	$283	$(1,201)	$(1,033)
Solvency ratio	78.8%	75.3%	79.3%	72.0%	70.0%	80.6%	80.9%	103.2%	102.0%	91.0%	90.9%
Solvency – to be funded											
Surplus (deficit)	$(6,199)	$(6,801)	$(6,345)	$(5,890)	$(4,689)	$(3,204)	$(1,847)	$449	$283	$(1,201)	$(1,136)
Solvency ratio	77.8%	75.5%	73.9%	74.7%	78.7%	83.2%	89.0%	103.2%	102.0%	91.0%	90.0%
Assumptions used for solvency valuations											
Discount rate (real return rates, net of inflation)											
For commuted values											
Rate for first 10 years[2]	1.30%	1.30%	1.70%	1.10%	1.30%	1.70%	2.10%	2.50%	2.25%	2.00%	2.50%
Rate after 10 years[2]	1.80%	1.60%	2.30%	1.30%	1.60%	2.30%	2.70%	2.50%	2.25%	2.25%	3.25%
For annuities	1.20%	1.10%	1.80%	1.50%	1.60%	2.20%	2.70%	3.00%	2.50%	2.25%	2.50%

1. A funding valuation for the year 2008 was not required by OSFI
2. 15 years before 2005.

Questions and answers about actuarial valuations – DB component

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.

OSFI 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 the required contributions to be made by plan members and the plan sponsor to cover the **current service cost**.

What is a solvency valuation?

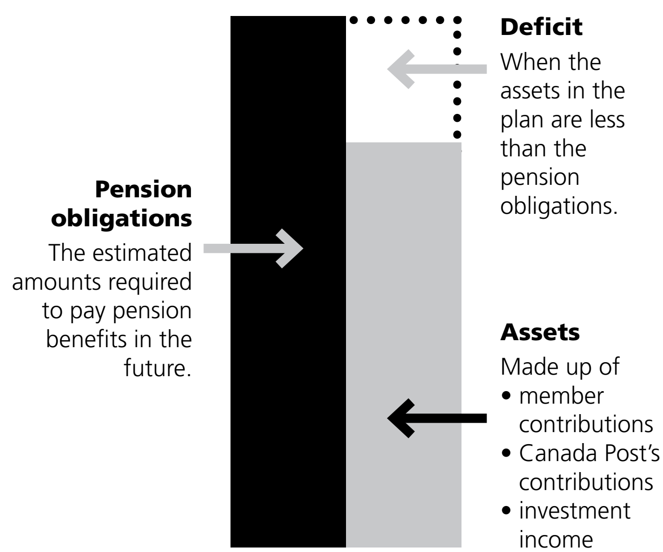
The solvency valuation assumes a pension plan is terminated on the date of valuation. This test allows pension regulators to verify that, in such an unlikely situation, plan members would be paid the benefits fully owed to them to that point. It has a short-term view and the results are strongly affected by the market interest rate on that date. The solvency valuation is done on a market-value basis, which measures the worth of the plan's assets on the date of valuation and is used in the case of a wind-up of the plan. It is also done on a to-be-funded basis, which uses a three-year average solvency ratio method. This method lessens the effects of short-term market volatility and is used for funding purposes.

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, based on the solvency deficit to be funded, 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, as described above, unless solvency relief measures are used.



What are solvency relief measures?

Since 2011, solvency relief measures have been available to all defined benefit pension plans subject to the *Pension Benefits Standards Act, 1985*, including those of Crown corporations like Canada Post based on approval from the Minister of Finance and the Minister of Public Services and Procurement. The measures help pension plan sponsors meet their funding obligations with less sensitivity to short-term economic conditions. The maximum amount of relief cannot exceed 15% of the market value of the plan's assets at the end of the most recent plan year. 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, what does this mean for Canada Post?

In February 2014, the Government of Canada adopted the *Canada Post Corporation Pension Plan Funding Regulations*. They provide relief to Canada Post from the need to make special payments into the Plan for four years (2014 to 2017).

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 and 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.

Alternative assets: Holdings that are considered non-traditional assets, for example infrastructure and real estate. Alternative assets are less liquid than traditional investments and are better suited to longer investment horizons. They also offer inflation protection for indexed pension plans.

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

Average solvency ratio: A method of measuring solvency using the average of 3 years' results. This method lessens the effects of short-term market volatility and is used for funding purposes.

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.

Bond duration: An approximate measure of a bond's price sensitivity to changes in interest rates, expressed in years. It is the weighted average of the time to each coupon and principal payment.

Capital accumulation plans (CAP): Tax assisted investment or savings plan that permits the members of the CAP to make investment decisions among options offered within the plan.

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.

Glide path: A gradual, step-by-step asset allocation based on a pre-determined funded status target. The approach is designed to gradually shift assets out of return-seeking assets that rely on equity exposure into liability-hedging long duration fixed income assets. The movement from one asset allocation to the next is activated by a trigger – the funded status of the plan until the desired asset allocation is achieved.

Gross domestic product (GDP): The total market value of all goods and services produced in a country in a given year. It equals total consumer investment and government spending, plus the value of exports minus the value of import.

Hedging: Reducing the risk of an investment by making an offsetting investment.

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 or liabilities: The actuarial present value of pension benefits for service completed up to a particular date, calculated using actuarial 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).

Target date fund: A fund that has an asset mix chosen with a specific timeframe in mind, such as a retirement date. A target date fund automatically shifts toward a more conservative asset mix as the target maturity date of the fund approaches.

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

This report, the audited financial statements and more information about the Plan are available at cpcpension.com.

Do you have suggestions for this report or other pension publications? Send us an email at pension.services@canadapost.ca.

Information

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Questions about the Plan

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