# Canada Post Pension Plan REPORT TO MEMBERS 2016

**Total Compensation**

**Pension** | Pay and Incentives | Benefits | Health and Wellness

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 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 provides oversight of the administration of the Pension Plan, its investment results and strategies. Our oversight, governance and monitoring are engaged, prudent and professional. We not only comply with legislation, but also take care to adhere to the well-established principles of pension administrators.

The Plan continues to be well-managed. Its investments earned a rate of return of 7.9 per cent in 2016, outperforming our benchmark of 6.7 per cent. The 2016 rate of return is also higher than the 7.3 per cent result in 2015.

The Board is pleased with the initial results of the liability-driven investment strategy approved in August 2015 to minimize volatility in the Plan's financial situation. This resulted in a better match for the Plan's pension obligations.

Plan members, of course, include those employees yet to retire and those who have retired after years of serving Canadians. The Board and management are committed to Canada Post meeting its obligations to Plan members. We act in their best interest not only because we have a legal fiduciary duty to do so, but out of respect for Plan members and their service. While it will take more time for Canada Post and stakeholders to solve the pension challenges, our goal remains to achieve a sustainable Plan.

Finally, on behalf of the Board, I 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.

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

**Wayne Cheeseman**
Chief Financial Officer

**Scott G. McDonald**
Chief Human Resources Officer

A strong Plan sponsor – Canada Post – is the foundation of a strong Plan. Management continues to succeed in its efforts to strengthen Canada Post. In 2016, the Corporation continued to achieve encouraging results, particularly in growing the parcels business as Canada's no.1 parcel company. Management's decisions in 2016, as well as the strategies it adopted in recent years, are helping us on the journey to financial self-sustainability.

In May 2016, the Government of Canada began a review of Canada Post, first by asking an independent task force to examine options for the future. In a second stage, a parliamentary committee held hearings and reported its findings and recommendations in December. Changes to the Plan are still needed to secure the long-term financial viability of the Plan, and this has been an important topic throughout the review process.

Let us assure every Plan member that the Plan is benefitting from a well-chosen and capably executed investment strategy. By actively managing the portfolio on behalf of Plan members, we have added $265 million in value to the Plan in 2016, and $1.4 billion over the last 10 years, above the benchmark.

To sum up, the Plan continues to benefit from prudent investments and responsible administration. We look forward to resolving the long-term challenges it faces, and to securing its future for Plan members.

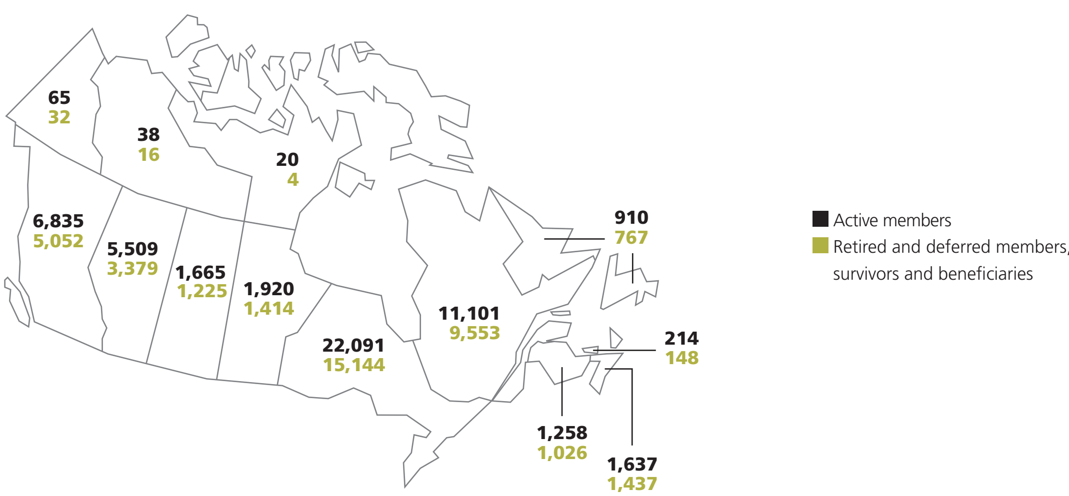
To sum up, the Plan continues to benefit from prudent investments and responsible administration. We look forward to resolving the long-term challenges it faces, and to securing its future for Plan members. We understand our responsibility to keep Plan members informed, and we reiterate our commitment to inform, consult and negotiate, as required.

# Membership Snapshot

| | 2012 | 2013 | 2014 | 2015 | 2016[1] |
|---|---|---|---|---|---|
| Active members | 57,923 | 55,509 | 54,147 | 53,238 | 53,263 |
| Percentage | 67.1% | 64.0% | 61.2% | 59.1% | 57.5% |
| Retired members | 26,236 | 28,715 | 31,219 | 33,448 | 35,707 |
| Percentage | 30.4% | 33.1% | 35.3% | 37.2% | 38.6% |
| Deferred members, survivors and beneficiaries | 2,193 | 2,548 | 3,051 | 3,353 | 3,603 |
| Percentage | 2.5% | 2.9% | 3.5% | 3.7% | 3.9% |
| **Total** | **86,352** | **86,772** | **88,417** | **90,039** | **92,573** |

1. For 2016, the information includes 91,015 members of the defined benefit (DB) component and 1,558 members of the defined contribution (DC) component of the Plan (1,360 active and 198 deferred members in the DC).

## Members across Canada – December 31, 2016




## Age of active and retired members – December 31, 2016

| Age | Less than 30 | 30-39 | 40-49 | 50-59 | 60-69 | 70-79 | More than 79 |
|---|---|---|---|---|---|---|---|
| Active DB members | 1,044 | 8,214 | 15,064 | 20,795 | 6,586 | 199 | 1 |
| Active DC members | 229 | 511 | 396 | 189 | 35 | 0 | 0 |
| Retired DB members | 2 | 22 | 184 | 5,411 | 22,365 | 7,359 | 364 |

| Average age | 2016 | 2015 |
|---|---|---|
| Active DB members | 49.6 | 49.5 |
| Active DC members | 39.0 | 38.0 |
| DB members at retirement | 60.3 | 60.1 |
| Retired DB members | 65.5 | 64.9 |

**Did you know?**

Over the next five years, 17,932 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.

| 2016 | 2015 | |
|---|---|---|
| 49,653 | 51,675 | Telephone calls from members to Pension Services |
| 3,913 | 3,995 | Telephone calls from retirees to RBC Investor Services Trust |
| 8,541 | 9,623 | Telephone calls to members |
| 47,542 | 48,910 | Transactions completed for members by Pension Services |
| 120,270 | 121,797 | Pension estimates using the online calculator |
| 68 | 70 | Pre-retirement seminars |
| 2,195 | 1,998 | Seminar participants |
| 330 | 311 | 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 2016, Pension Services prepared almost 87,000 annual personalized pension statements for active members, 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 have received many 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. With the new reporting tool put in place in August 2015, 75,347 visits and 55,033 unique visitors were recorded in 2016.

**The Pension Services team is committed to prompt, proactive and compassionate service for all Plan members.**

# Defined Benefit (DB) Component – Overview of 2016

## Assets

**$23.1** billion

Net investment **assets** as at December 31, 2016

## Rate of return in 2016

**7.9%**

**Benchmark**[1]

6.7%

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, 2016

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

$6.7 billion

77.2% funded

**Going-concern surplus**

$1.8 billion

108.7% funded

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

$6.5 billion

78.1% funded

The financial position of the Plan saw improvements in 2016. This was a result of investment gains from previous years in the smoothed value of assets, good investment returns as well as a decrease in the **inflation** rate assumption. The improvements were offset by a decrease in the **discount rate** as well as the impact of assumption changes – see page 20 for more information.

### Contributions in 2016

**Members**

$229M

**Canada Post current service**

$241M

**Canada Post special payments**

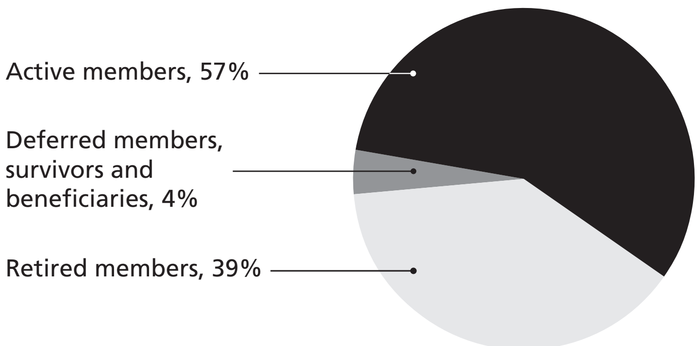
$34M

### Benefits paid in 2016

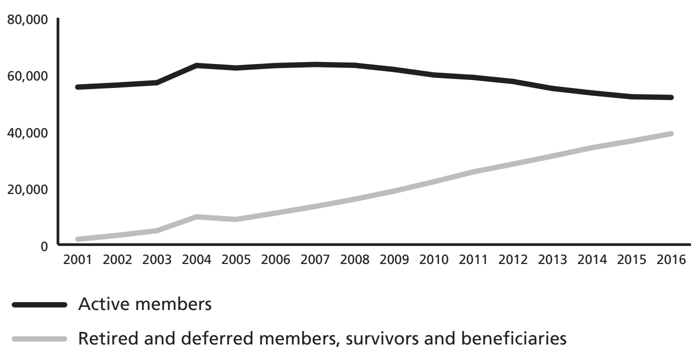
$939M

1. See glossary.
2. See page 23.

## Membership in 2016




## Changes in membership




The Plan continues to mature with retired members now representing 39% of the membership and around 57% of the solvency obligations.

**Member contacts**

62,107

**Members satisfaction score**

4.4/5

**cpcpension.com visits**

75,347

## Competitive costs

**Investments**

$0.36 per $100 of assets – lower than our peer group's average of $0.39

**Administration**

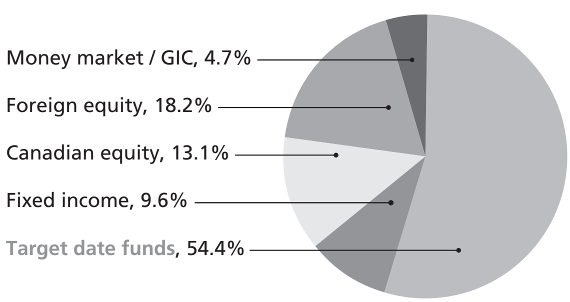
$128 per member – lower than our peer group's average of $208

Source: 2015 CEM Benchmarking surveys.

# Defined Contribution (DC) Component – Overview of 2016

| As at December 31 | 2016 | 2015 |
|---|---|---|
| Active DC members | 1,360 | 1,097 |
| Deferred DC members | 198 | 253 |
| **Average contribution (% of pay)** | | |
| Canada Post | 6.6% | 6.0% |
| Members | 3.8% | 3.6% |
| Assets | $26.0M | $18.2M |
| Canada Post contributions | $5.4M | $4.0M |
| Members' contributions | $3.1M | $2.0M |
| Investment income | $1.7M | $0.9M |
| Withdrawals and expenses | ($2.4M) | ($1.5M) |
| **Voluntary Savings Plan (VSP)** | | |
| VSP members | 309 | 234 |
| Assets | $2.7M | $1.9M |
| VSP member average contribution (% of pay) | 4.2% | 4.1% |

## Asset allocation as at December 31, 2016




## Want to know how your investments did in 2016?

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

**Did you know?**

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 financial and retirement planning for members at all stages of their careers. Visit **cpcpension.com** > DC > Retirement > Seminars and webinars to learn more about the topics, and register for an upcoming session on **sunlife.ca/mymoney**.

## Services to DC members

**Members who called the Sun Life Financial Customer Care Centre:** 309

Top three reasons for calls were account balances, withdrawals and retirement/termination

**Members who visited mysunlife.ca:** 619

Top three sections viewed were account balances, transaction histories and investment performance

**2016 communications for DC members**

- Annual VSP campaign to encourage members to contribute to the VSP.
- Information on my money @ work webinars offered by Sun Life Financial.
- Sun Life Financial money UP promotion aimed at increasing knowledge of workplace retirement savings plans and increasing financial literacy.
- Notification of fund management fee reduction.

**Discover my money tools and change your investments at mysunlife.ca**

Are you on track to reach your retirement goals? Use the **Retirement Planner** tool to see if you are on track with your savings.

Want to find out which investment options are right for you? Use the **Asset Allocation** tool.

If you are a "Help me do it" or "Do it myself" investor, you may want to choose the automatic **Re-balancing** tool. By choosing this feature, your asset mix re-balances itself every quarter without your intervention.

As at December 31, 2016, **217** members completed the Retirement Planner tool, **206** members completed the Asset Allocation tool and **359** members completed the Re-balancing tool.

**37%** **The increase in DC members who completed the Retirement Planner tool in 2016**

Complete the Retirement Planner tool by answering a few easy questions and see if you are on track with your savings, compared to your retirement goal. You will be able to track your progress toward your retirement goal on each account statement and online.

# 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 > About Us > Corporate governance > Roles and responsibilities of the Board).

A robust governance structure was established by the Board for the Plan and is depicted in the chart below.

The committees that report directly to the Board are made up of selected Board members with expertise applicable to pension plans. The Investment Advisory Committee and the Pension Advisory Council (PAC) include representatives of the bargaining agents and advise the Pension Committee on investment and administrative matters. The reports of the PAC meetings can be found at **cpcpension.com** > Governance > Pension Advisory Council > PAC meetings.

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


## Membership of the Canada Post Board of Directors and committees as at December 31, 2016

### 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 Communications Employees

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

### Investment Advisory Committee

J. Lorne Braithwaite BComm, MBA (Chairperson)
Phillip H. Doherty BComm, MBA, FCPA, FCA
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
Patricia Vincent BComm, CCP

**Elected representatives**
Mary Bishop CPA, CA, CEBS (retired members)
Angelo Colacci (all active members)
William (Bill) R. Price BA, MA (retired members)
David Taylor (management and exempt employees)

**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. Investment compliance checklists, service performance, service provider contracts, investment managers (internal and external) and service level agreements are also monitored regularly.

### Assessment

Effective governance and prudent investment 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 guidelines. See **capsa-acor.org**.

### Audit

Regular audits are conducted by independent external auditors and by our internal auditors. 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. The risk management strategy appears on the next page.

### Communication

Communication with DB and DC members of the Plan occurs through a number of publications and initiatives. In 2016, we met legislative requirements to communicate with members by producing the 2015 Report to Members, personalized statements for active members and retired DB members, and the *Pension Plan News* and *In touch* newsletters, which included a notification of Plan amendments. 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 2016, the **Communications and Consultation Group (C&C Group)** met twice, and discussed potential information gaps and reviewed communication options for future outreach to Plan members. An email address was set up to provide an opportunity for Plan members to reach out to the C&C Group representatives with any questions/concerns (GroupeCCGroup@canadapost.ca). The membership and the meeting reports of the C&C Group are available at **cpcpension.com** > 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 interest rates. For indexed plans like the Canada Post Pension Plan – DB component, it is real interest rates, which are 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 risk reduction 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 part of the first step, the fixed income target allocation is increased. Long duration **bonds**, i.e., with a duration of 14-15 years, are also increased – better matching the Plan's liabilities. Finally, the target allocation to **alternative assets**, i.e., real estate and infrastructure, is increased gradually to potentially enhance long-term returns, while diversifying risk.

An upward movement in interest rates away from their historical lows, allows for the continued movement along the **glide path** of the LDI strategy. However, 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 statements of investment policies and procedures.

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 $23.1 billion at December 31, 2016, compared to $21.9 billion the previous year. The Plan delivered a return of 7.9% for 2016, which exceeded its **benchmark** return by 1.2%, and ranks above the median of large Canadian pension plans, according to RBC Investor & Treasury Services.

In the mid-term, the Plan's four-year average annual return was 10.7%, outperforming its benchmark by 1.5%. In the long term, the 10-year average annual return was 5.8%, above the benchmark by 0.7%. The Plan's evolving investment strategy contributed to this investment success. By actively managing our portfolio we have added $265 million in value above the Plan's benchmark return in 2016. The value added above the benchmark return was $1,368 million over the last 10 years.

In 2016, all asset classes had positive returns, led by Canadian **equities**, real estate, U.S. small cap equities, emerging markets equities, infrastructure and private equity assets. Refer to the graphs on pages 14-15.

The asset-liability study was 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 predetermined funded status targets. The first step, taken in 2015, included a move of assets from equities to bonds, a lengthening of **bond duration** and the continued addition to alternative assets. This approach will continue as subsequent targets are reached.

| Here are some activities that affected the Plan's net investment assets in 2016: |
| --- |
| All asset classes achieved positive returns. Some of the market gains made by Canadian, U.S. and International equities and bonds were harvested to fund alternative investments. |
| Due to strong market gains, Canadian equities assets increased by 14% even as some gains were used to fund other asset classes. |
| The real estate assets **rate of return** was 11.0% due to market gains and additional funding of U.S. real estate.<br>As part its liability-driven investment strategy, the Plan continued to add to its alternative investment assets, namely real estate, infrastructure and private equity, maintaining a high rate of return. These assets help cushion the Plan from capital market volatility. |
| The Plan expanded its geographic exposure by investing in U.S.-based real estate. |
| Management insourcing of Canadian bond assets was completed in 2016. Managing assets internally reduced costs and increased flexibility. In 2016 the Plan tilted toward quality corporate credit over government debt. Initial investments in private debt were made. |

## 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, completed in 2016, called for an increase in bond holdings and the extension of bond durations. This has led to a better match of assets to liabilities. Furthermore, alternative investment holdings will continue to 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. There were no funded status triggers in 2016.

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 includes the long-term liability-driven investment strategy approved by the Board. In accordance with the strategy, the Plan's asset mix targets as at December 31, 2016, remained at 60% in equities, real estate and infrastructure, and 40% in fixed income.

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 2.0% for a total of 6.5%. It is estimated that this rate can support the Plan's investment objectives and the growth of its pension obligations.

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, 2016, was 62.4% in equities, real estate and infrastructure, and 37.6% in fixed income. The strong returns in 2016 are partly attributable to the fund's above-target allocation to equities.

The performance of each asset class is measured against its own relevant benchmark. In 2016, the Plan held Canadian and 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 real estate, infrastructure and private debt. 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

U.S. economic growth was encouraging, with strength from household purchases, capital expenditures and government spending. Continued monetary stimulus in Europe and a weak euro supported Europe's growth even as the spectre of U.K.'s exit from the Eurozone and upcoming European elections lurked in the background. Better labour market conditions supported household consumption, while manufacturing and exports fared well. In Japan, monetary and fiscal stimulus and structural reform continued with mixed results in boosting inflation and employment, while the depreciation of the yen after the U.S. presidential election boosted exports.

The Chinese government stimulated its economy with an expansion of credit for infrastructure and real estate projects. While economic growth slowed as expected, manufacturing activity turned up and domestic demand continued to support the economy. Emerging markets benefited from higher commodity prices and rising demand from developed economies. However, the currencies of export-dependent economies depreciated in the fourth quarter on concerns of more protectionist policies from the U.S.

The Canadian economy was boosted by a rebound in copper and base metal prices, and energy exports after the Alberta wildfires and OPEC's decision to cut output. The expectation of higher interest rates benefited the financial sector. Oil prices moved up after hitting a low in the first quarter. Oil and natural gas prices rallied further following the OPEC agreement to cut oil production in the fourth quarter. Industrial commodities, including copper, rebounded with Chinese manufacturing growth and speculation of an increase in U.S. infrastructure spending. Precious metals were strong early in 2016 and pulled back in the fourth quarter on expectations of further interest rate hikes, a stronger U.S. dollar and improving growth prospects for the U.S.

The Canadian dollar appreciated modestly relative to the U.S. dollar. However, the persistently strong U.S. dollar relative to other major currencies and emerging markets currencies weighed on international equity returns.

After announcing its intention in December 2016, the U.S. Federal Reserve raised interest rates by 25 basis points – it was only the second rate rise in a decade.

In public equity markets, Canadian and emerging markets equities and U.S. small cap equities performed best.

High **yield** credit and corporate bonds performed well as the yield premium (spread) over sovereign bonds narrowed. Sovereign bond yields (U.S. and Canadian) moved higher in the fourth quarter of 2016, particularly after the U.S. election, as U.S. treasuries declined in price. The prospect of major U.S. fiscal stimulus would mean higher growth, higher inflation and higher interest rates (tighter monetary policy) in the future.

## Fund performance

The Plan earned a rate of return of 7.9% in 2016, compared to its benchmark return of 6.7%. The Plan's 7.9% return was above the median return experienced by the RBC Investor & Treasury Services universe of large Canadian pension plans.

In the mid-term, the four-year average annual return was 10.7%, and in the long term, the 10-year average annual return was 5.8%. This compares favourably with the fund's portfolio benchmarks of 9.2% and 5.1% for the same periods. The Plan's evolving investment strategy contributed to this investment success.

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

The real estate asset class generated sizeable valuation increases and gains from asset sales. This asset class offers inflation protection and a predictable stream of income.

Infrastructure profited from asset valuation increases and income received. Private equity benefited from valuation gains and profits from the exit of some early investments.

## Outlook for 2017

**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.

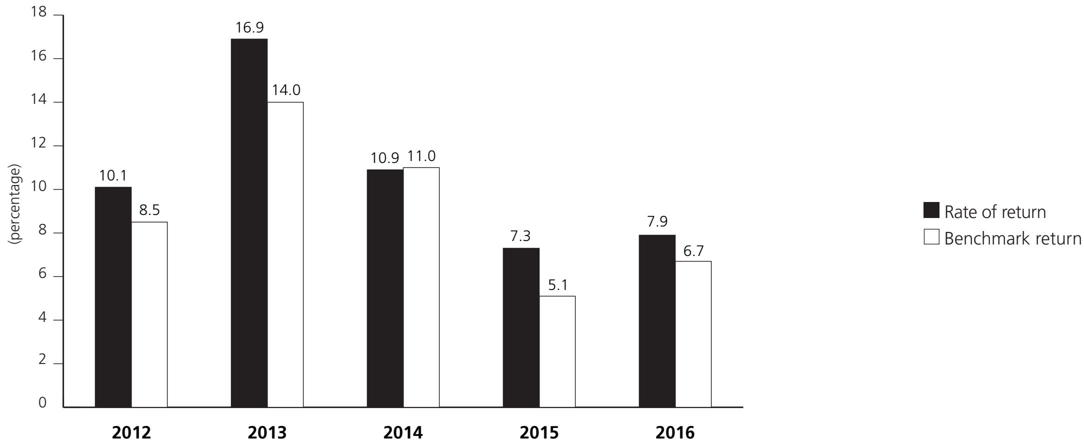
**Investments in alternative assets will continue to grow.** Reaching our target allocation will take time. The Investment Division team is very selective about the quality of assets and the purchase price of these investments.

**We will continue to expand our geographic exposure** by investing in European real estate and adding to U.S. real estate.

**We will finalize a derivative strategy** that will allow the Plan to improve returns and manage risks. This strategy is subject to Board approval.

**We will maintain our commitment to meeting the Plan's long-term funding objectives.** Through appropriate asset allocation and risk mitigation regarding 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



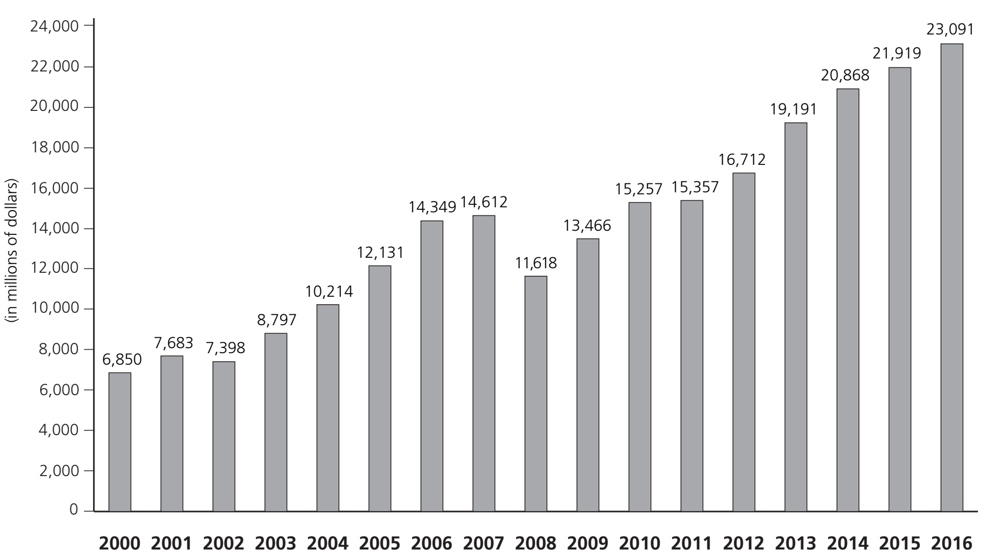

## Rate of return

| | Over the last 10 years | In 2016 |
|---|---|---|
| Our Plan | 5.8% | **7.9%** |
| Our benchmark | 5.1% | **6.7%** |
| Peer group benchmark[1] | 5.5% | **6.1%** |
| Rate of return objective over time | 6.5% | |

By actively managing our portfolio, we have added $265 million in value above the Plan's benchmark return in 2016. The value added above the benchmark return was $1,368 million over the last 10 years.

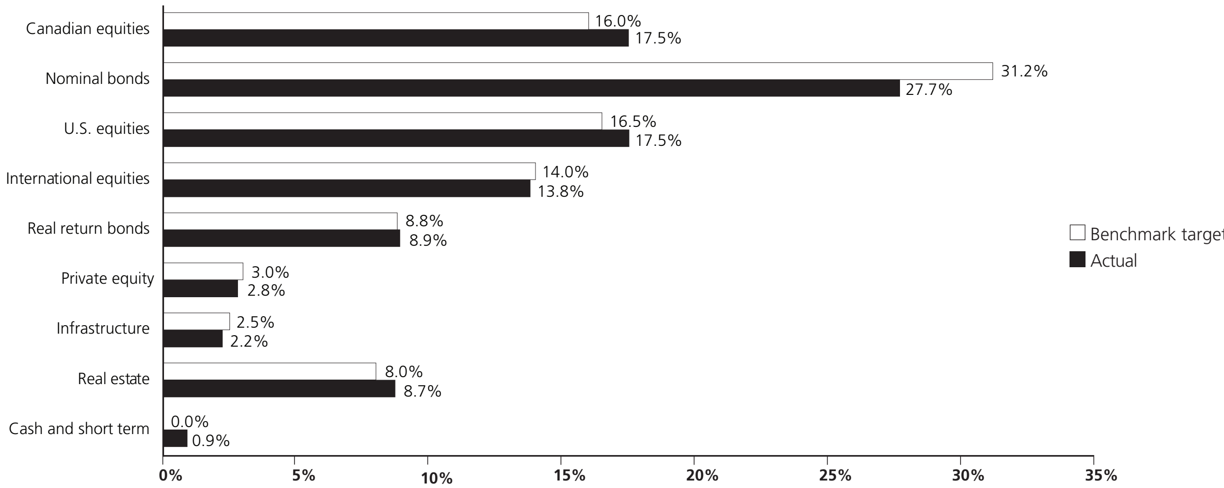
1. RBC Investor & Treasury Services based on the performance of large Canadian pension plans (more than $1 billion).

## Net investment assets



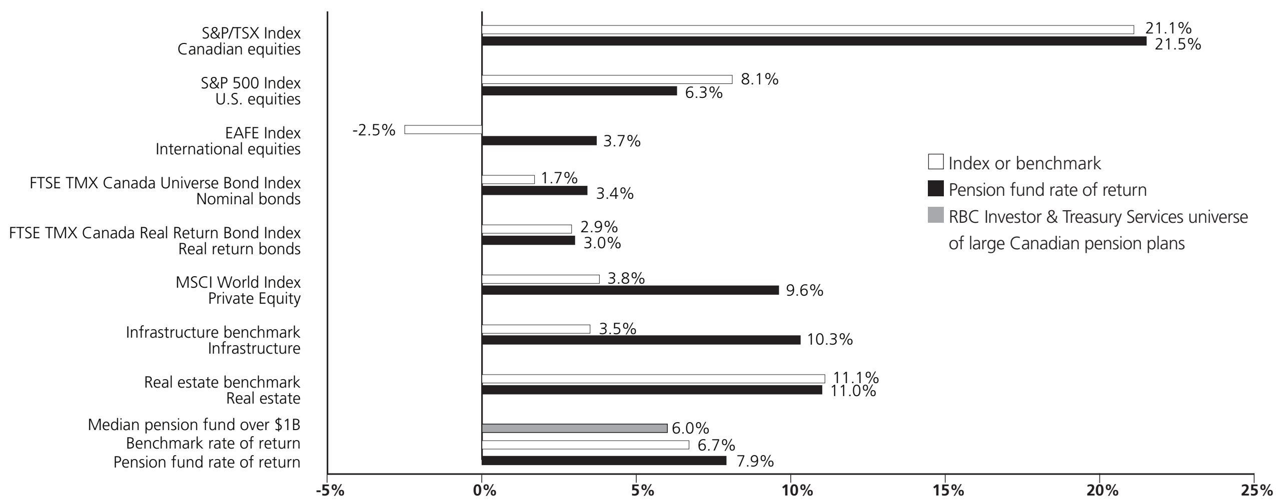

Net investment assets are defined as investments plus investment related receivables, minus investment related liabilities.

## 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% S&P/TSX Capped Composite 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 2015 CEM Benchmarking Survey | |
|---|---|
| | Per $100 of average assets |
| Plan | $0.36 |
| Peer group | $0.39 |
| The Plan's investment costs were $7.5 million below the benchmark costs. | |

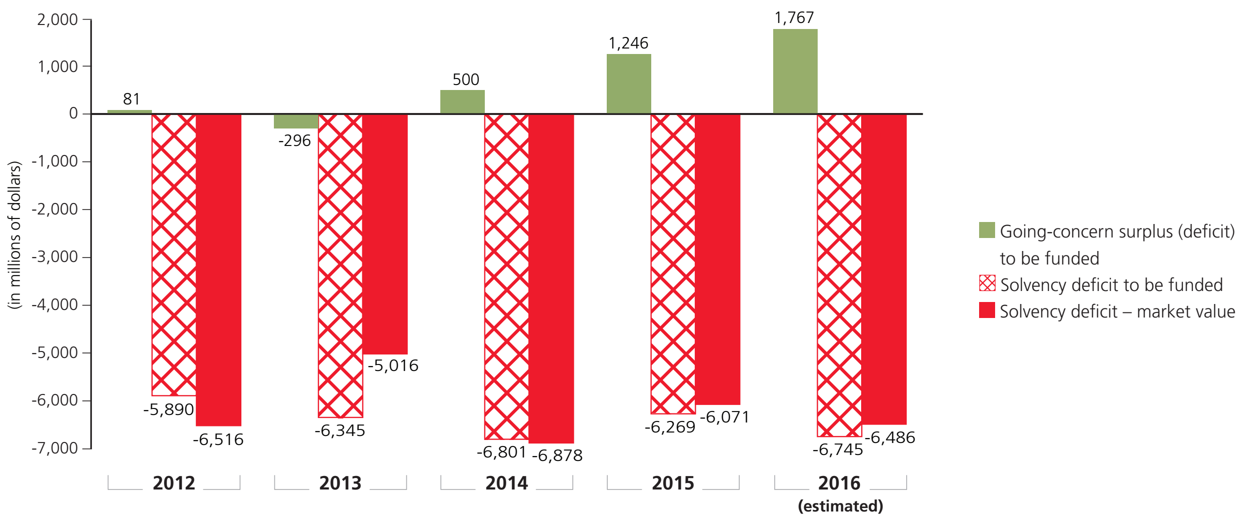
## Equity holdings greater than 0.25% of Plan assets

As at December 31, 2016 (in millions of dollars)

| | Market value | Percentage of overall fund |
|---|---|---|
| Toronto Dominion Bank | $245 | 1.06% |
| Royal Bank of Canada | 235 | 1.02 |
| Bank of Nova Scotia | 176 | 0.76 |
| Bank of Montreal | 132 | 0.57 |
| Canadian Natural Resources Ltd. | 124 | 0.54 |
| Manulife Financial Corp. | 110 | 0.48 |
| Apple Inc. | 105 | 0.45 |
| Enbridge Inc. | 102 | 0.44 |
| Suncor Energy Inc. | 99 | 0.43 |
| Canadian National Railway Co. | 89 | 0.38 |
| BCE Inc. | 86 | 0.37 |
| Canadian Imperial Bank of Commerce | 80 | 0.34 |
| Microsoft Corp. | 79 | 0.34 |
| TransCanada Corp. | 79 | 0.34 |
| Thomson Reuters Corp. | 76 | 0.33 |
| Sun Life Financial Inc. | 67 | 0.29 |
| Magna International Inc. | 67 | 0.29 |
| Bank of America Corp. | 64 | 0.28 |
| Johnson & Johnson | 63 | 0.27 |
| JPMorgan Chase & Co. | 62 | 0.27 |
| Telus Corp. | 60 | 0.26 |
| Amazon.com Inc. | 59 | 0.25 |
| Facebook Inc. Class A | 58 | 0.25 |
| Rogers Communications Inc. Class B | 57 | 0.25 |
| | **$2,373** | **10.28%** |

# 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 7.9% return in 2016. The Plan ended the year with net assets available for benefits of $23,192 million (including $26 million in the DC component), an increase of $1,187 million from $22,005 million (including $18 million in the DC component) at the end of 2015.

## Changes in net assets available for benefits

The $1,187 million increase in net assets available for benefits represented investment income of $1,721 million and contributions of $512 million, offset by pension benefit payments of $941 million and expenses of $105 million.

Investment income – comprising interest, dividend, as well as realized and unrealized gains and losses – was $1,721 million for 2016, compared to $1,522 million for 2015.

Plan contributions in 2016 were $512 million compared to $519 million in 2015, a decrease of $7 million.

Pension benefit payments for 2016 were $941 million compared to $882 million in 2015, an increase of $59 million. This was mostly the result of a 6.8% increase in the number of retirees over 2015.

## Changes in pension obligations

Pension obligations were $20,301 million (including $26 million in the DC component) compared to $19,234 million (including $18 million in the DC component) in 2015, an increase of $1,067 million. The increase is mainly due to interest accrued on the pension obligations, new benefits accrued and changes in **actuarial assumptions** partially offset by benefits paid during 2016.

| (in millions of dollars) | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| Accounting basis | DB | DC | Total | DB | DC | Total |
| Net assets | 23,166 | 26 | 23,192 | 21,987 | 18 | 22,005 |
| Pension obligations | 20,275 | 26 | 20,301 | 19,216 | 18 | 19,234 |

## Surplus (deficit)

The difference between assets available for benefits and pension obligations as at December 31, 2016, resulted in a surplus of $2,891 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 $1,767 million. The difference between the accounting surplus of $2,891 million and the estimated going-concern surplus of $1,767 million is an **actuarial asset value adjustment (or smoothing)** of $1,124 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) | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments | $23,075 | $21,884 | $20,824 | $19,145 | $16,690 |
| Investment related receivables | 160 | 196 | 212 | 193 | 173 |
| Contribution / other receivables | 112 | 110 | 112 | 102 | 108 |
| **Total assets** | **23,347** | **22,190** | **21,148** | **19,440** | **16,971** |
| **Liabilities** | | | | | |
| Investment related liabilities | 118 | 143 | 155 | 139 | 151 |
| Accounts payable and accrued liabilities | 37 | 42 | 48 | 31 | 45 |
| **Total liabilities** | **155** | **185** | **203** | **170** | **196** |
| **Net assets available for benefits** | **$23,192** | **$22,005** | **$20,945** | **$19,270** | **$16,775** |
| **Pension obligations and surplus** | | | | | |
| Pension obligations | $20,301 | $19,234 | $18,632 | $18,039 | $16,461 |
| Surplus | 2,891 | 2,771 | 2,313 | 1,231 | 314 |
| **Total pension obligations and surplus** | **$23,192** | **$22,005** | **$20,945** | **$19,270** | **$16,775** |

| **Changes in net assets available for benefits** (in millions of dollars) | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|
| **Investment income** | **$1,721** | **$1,522** | **$2,083** | **$2,849** | **$1,556** |
| **Contributions – Sponsor** | | | | | |
| Current service | 246 | 246 | 254 | 262 | 309 |
| Special payments | 34 | 34 | 41 | 28 | 63 |
| **Contributions – Members** | | | | | |
| Current service | 226 | 229 | 240 | 207 | 190 |
| Elective service and other | 6 | 10 | 5 | 5 | 7 |
| **Total contributions** | **512** | **519** | **540** | **502** | **569** |
| **Less** | | | | | |
| **Benefits** | | | | | |
| Retirement and survivor pensions | 847 | 800 | 747 | 694 | 624 |
| Commuted value transfers and other | 94 | 82 | 105 | 82 | 85 |
| **Total benefits** | **941** | **882** | **852** | **776** | **709** |
| **Administration expenses** | | | | | |
| Plan administration | 21 | 21 | 19 | 17 | 16 |
| Investment fees | 84 | 78 | 77 | 63 | 56 |
| **Total administration expenses** | **105** | **99** | **96** | **80** | **72** |
| **Increase in net assets** | **$1,187** | **$1,060** | **$1,675** | **$2,495** | **$1,344** |

| **Changes in pension obligations** (in millions of dollars) | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|
| Interest on pension obligations | $1,100 | $1,067 | $1,035 | $939 | $954 |
| Benefits accrued | 474 | 466 | 494 | 486 | 507 |
| Changes in actuarial assumptions | 532 | 49 | (70) | 1,069 | (704) |
| Net experience losses (gains) | (98) | (98) | (14) | (140) | (157) |
| Benefits paid | (941) | (882) | (852) | (776) | (709) |
| **Net increase (decrease) in pension obligations** | **$1,067** | **$602** | **$593** | **$1,578** | **$(109)** |

# 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 2016 and provided results as at December 31, 2015.

## Actuarial valuation results – Going concern

| Going-concern funded status of the Plan as at December 31 | | | | |
|---|---|---|---|---|
| | 2016 estimated | | 2015 actual | |
| | in millions of dollars | funded ratio | in millions of dollars | funded ratio |
| Going-concern assets (smoothed value) | 22,042 | | 20,446 | |
| Going-concern obligations | 20,275 | | 19,200 | |
| Going-concern surplus | 1,767 | 108.7% | 1,246 | 106.5% |

The financial position of the Plan saw improvements in 2016. This was a result of investment gains from previous years in the smoothed value of assets, good investment returns as well as a decrease in the inflation rate assumption. The improvements were offset by a decrease in the discount rate as well as the impact of assumption changes.

## Actuarial valuation results – Solvency

| Solvency funded status of the Plan as at December 31 | | | | |
|---|---|---|---|---|
| | 2016 estimated | | 2015 actual | |
| | in millions of dollars | funded ratio | in millions of dollars | funded ratio |
| Solvency assets (market value) | 23,146 | | 21,967 | |
| Solvency obligations | 29,632 | | 28,038 | |
| Solvency deficit (based on market value of Plan assets) | (6,486) | 78.1% | (6,071) | 78.3% |
| Solvency deficit to be funded (using three-year **average solvency ratio** method) | (6,745) | 77.2% | (6,269) | 77.6% |

The solvency deficit using the market value of Plan assets increased from $6,071 million at the end of 2015 to an estimated $6,486 million at the end of 2016. The increase was mainly due to the impact of a decrease in the annual net discount rate from 1.2% to 1.1% and changes in actuarial assumptions resulting from a 2016 experience study partially offset by investment gains.

The average solvency ratio over the three-year period used for the valuation declined in 2016, going from 77.6% to 77.2%. This resulted in the solvency deficit to be funded increasing from $6,269 million at the end of 2015 to an estimated $6,745 million at the end of 2016.

If the Plan had been terminated and wound up on December 31, 2015, there would not have been enough assets to pay 100% of the pension benefits.

Members living longer and receiving their pension for longer requires that larger amounts of money be put aside to fund pensions.

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.

## Contributions

| **Contributions** (in millions of dollars) | 2016 | 2017[1] |
|---|---|---|
| Members | 229 | 226 |
| Canada Post regular contributions | 241 | 271 |
| Canada Post special payments[2] | 34 | 38 |
| **Total contributions** | **504** | **535** |

| **Current service cost sharing[3]** (regular contributions) | 2016 | 2017[1] |
|---|---|---|
| Members | 48% | 45% |
| Canada Post | 52% | 55% |

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

The special payments made by Canada Post in 2016 and estimated to be made in 2017 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. Under these measures, 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.

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 to 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 | 2016 |
|---|---|---|---|---|---|---|
| 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 | 1,254 |

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 $1,288 million in 2016 (including $34 million in top-up payments). This would have brought total contributions from Canada Post to $1,529 million in 2016, or 59% of the 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 2016 funding valuation will be filed by June 2017.

| | **Estimated** | **Filed funding valuations[1]** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| As at December 31 (in millions of dollars) | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2007** | **2006** | **2005** |
| **Going concern** – assuming the Plan continued in operation | | | | | | | | | | | |
| Market value of assets | $23,166 | $21,987 | $20,932 | $19,262 | $16,775 | $15,431 | $15,376 | $13,576 | $14,666 | $14,430 | $12,211 |
| Asset smoothing adjustment | (1,124) | (1,541) | (1,832) | (1,527) | (352) | 716 | 488 | 1,357 | (266) | (1,340) | (715) |
| Smoothed value of assets | 22,042 | 20,446 | 19,100 | 17,735 | 16,423 | 16,147 | 15,864 | 14,933 | 14,400 | 13,090 | 11,496 |
| Funding target | 20,275 | 19,200 | 18,600 | 18,031 | 16,342 | 16,551 | 16,039 | 14,365 | 13,143 | 12,097 | 11,145 |
| Funding surplus (deficit) | $1,767 | $1,246 | $500 | $(296) | $81 | $(404) | $(175) | $568 | $1,257 | $993 | $351 |
| Funded ratio | 108.7% | 106.5% | 102.7% | 98.4% | 100.5% | 97.6% | 98.9% | 104.0% | 109.6% | 108.2% | 103.1% |
| **Assumptions used for going-concern valuations** | | | | | | | | | | | |
| Discount rate | 5.50% | 5.80% | 5.80% | 5.80% | 5.80% | 5.80% | 5.80% | 6.20% | 6.00% | 6.00% | 6.00% |
| Inflation rate | 2.00% | 2.25% | 2.25% | 2.25% | 2.25% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Real return rate (net of inflation) | 3.50% | 3.55% | 3.55% | 3.55% | 3.55% | 3.30% | 3.30% | 3.70% | 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) | $23,146 | $21,967 | $20,912 | $19,250 | $16,763 | $15,419 | $15,364 | $13,573 | $14,664 | $14,428 | $12,209 |
| Solvency obligations | 29,632 | 28,038 | 27,790 | 24,266 | 23,279 | 22,014 | 19,056 | 16,777 | 14,215 | 14,145 | 13,410 |
| Solvency – market value | | | | | | | | | | | |
| Surplus (deficit) | ($6,486) | ($6,071) | $(6,878) | $(5,016) | $(6,516) | $(6,595) | $(3,692) | $(3,204) | $449 | $283 | $(1,201) |
| Solvency ratio | 78.1% | 78.3% | 75.3% | 79.3% | 72.0% | 70.0% | 80.6% | 80.9% | 103.2% | 102.0% | 91.0% |
| Solvency – to be funded | | | | | | | | | | | |
| Surplus (deficit) | $(6,745) | $(6,269) | $(6,801) | $(6,345) | $(5,890) | $(4,689) | $(3,204) | $(1,847) | $449 | $283 | $(1,201) |
| Solvency ratio | 77.2% | 77.6% | 75.5% | 73.9% | 74.7% | 78.7% | 83.2% | 89.0% | 103.2% | 102.0% | 91.0% |
| **Assumptions used for solvency valuations** | | | | | | | | | | | |
| Discount rate (real return rates, net of inflation) | | | | | | | | | | | |
| For commuted values | | | | | | | | | | | |
| Rate for first 10 years | 1.10% | 1.30% | 1.30% | 1.70% | 1.10% | 1.30% | 1.70% | 2.10% | 2.50% | 2.25% | 2.00% |
| Rate after 10 years | 1.30% | 1.80% | 1.60% | 2.30% | 1.30% | 1.60% | 2.30% | 2.70% | 2.50% | 2.25% | 2.25% |
| For annuities | 1.10% | 1.20% | 1.10% | 1.80% | 1.50% | 1.60% | 2.20% | 2.70% | 3.00% | 2.50% | 2.25% |

1. A funding valuation for the year 2008 was not required by OSFI.

## 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?

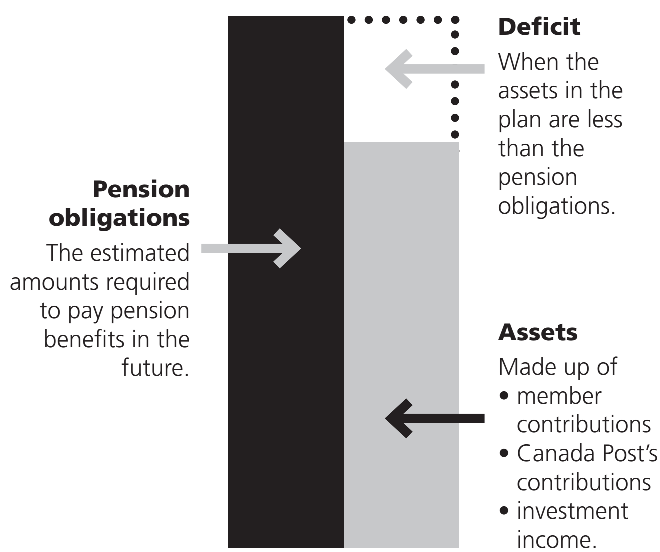
The solvency valuation assumes a pension plan is terminated on the date of valuation. This test allows pension regulators to verify that, in such an unlikely situation, plan members would be paid the benefits fully owed to them to that point. It has a short-term view and the results are strongly affected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

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.

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). These regulations replace the solvency relief measures mentioned above.

Funding relief does not reduce or eliminate Canada Post's obligation to fully fund the Plan and it remains responsible for funding any deficits.

# 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 three 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 predetermined 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.

**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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