22 May 2015

Your National UPCE Executive have stated on more than one occasion, our concerns relating to the messaging around the Canada Post Pension Plan (the Plan). Alongside that, are our concerns with several aspects of the business direction that the Canada Post senior leadership has taken in recent years. We are currently concerned with the corporate message entitled "Canada Post Pension Plan 2014 Year-end Results"… but our concern is with something other than "market volatility and low discount rates."

The Canada Post 2014 Annual Report clearly states, that the "Canada Post segment reported a profit before tax of $194 million." Further, "The results were mainly due to three factors: strong growth in the Parcels business; new tiered pricing for Transaction Mail introduced as part of the Five-point Action Plan; and lower employee benefit costs."

Our first concern, especially when going-forward, is the unknown behind "lower employee benefit costs." It is clear that the pension plan is part of the larger Canada Post plan to lower benefit costs, but what is their target? Essentially, how much lower can benefit costs decrease, and which labour relations strategies will they engage in order to achieve hitting their target? As a small bargaining unit, our "benefit costs" continue to be minimal as compared to that of the whole organization.

Canada Post states, that "the Plan's financial position as at December 31, 2014, is a going-concern surplus of $481 million, and a solvency deficit to be funded of $6.8 billion. Without deficit funding relief, Canada Post would have had to contribute an additional $1.3 billion to the Plan in 2014, over and above the regular contributions of $251 million and special payments of $41 million. In addition, Plan members have contributed $244 million."

The **going-concern** valuation, looks at the plan's funded status on the basis that the plan will continue to operate indefinitely, whereas the **solvency** valuation, assumes that the plan suddenly stops operating as of the valuation date.

In essence, if we assume that the Plan will continue to exist – and our assets exceed our liabilities – then we have a surplus. However, it is also important to note that Canada Post is **legally** responsible for any plan shortfalls when there is a solvency deficit.

Historically and factually, from July 2007 to November 2008, Canada Post took a pension holiday, and made **zero** contributions to the plan. At the time, there was a solvency surplus. Shortly after the surplus, the Corporation started looking into a defined contribution pension plan, which was introduced to new management hires in 2010, and then slowly and methodically brought to the different bargaining tables. The Federal Government provided Canada Post with the ability to reduce its pension solvency payments by an amount equal to 15 percent of plan assets. As such, Canada Post made no special payments in 2011 & 2012, which obviously resulted in a significant savings for the Corporation. In 2013, the Corporation unveiled its 5 Point Action Plan, side by side with its four year pension solvency relief.

Canada Post's failure to make any solvency (or special payments) in years past, has now contributed directly to the current solvency deficit. In addition, the corporation missed a significant investment opportunity, since that money was never re-invested, which further contributed to the solvency deficit. Canada Post has avoided their responsibility of funding the Plan correctly for a number of years, and is now looking instead to balance that plan by finding a way to decrease our pension benefits. We will see if the tactic of "continuing conversations" with the Government of Canada, in order to affect current options or implement potential legislation in an attempt to significantly alter or remove the defined benefit component of the Plan, or make changes to accrued benefits, will raise its ugly head.

The Government of Canada released a consultation paper on target benefit plans for the federal jurisdiction, but we are yet to see any legislation emerge from it. New Brunswick allows for target benefit plans, which also includes the ability for a plan sponsor to make changes to accrued benefits, a process which we completely oppose.

It is also important to note, that the newly established Communications & Consultation (C & C) Group, was not created by Canada Post in good faith, so that they could share information with the pension plan membership. It was created, through the direction of OSFI, which arose from a joint complaint signed by **all** the bargaining groups at Canada Post regarding our concerns with the Plan, and Canada Post's lack of transparency.

In conclusion, while they are some truths regarding market volatility and discount rates, it remains important to note that there are many other large plans that currently have a solvency surplus. Half-truths and misconceptions about "market volatility and low discount rates," can be viewed as deceitful, when there are a number of other factors that need to be considered when we try to explain the current Canada Post pension solvency deficit.

On a side note, it was suggested to Canada Post to transfer a portion of the 2014 profits to the pension fund. We have yet to hear back from them on this request.

Always in solidarity,

National UPCE Executive