The Canada Post pension plan

CUPW believes it is both prudent and necessary to exempt Canada Post Corporation (CPC) from the requirement to make solvency funding payments to the Canada Post Pension Plan as would be required under the *Pension Benefits Standards Act* (Canada) ("PBSA") solvency funding rules once the current solvency deficit funding relief ends in 2018.

Financial situation improving

An examination of the *2015 Canada Post Pension Plan Report to Members* reveals that the financial situation of the plan is improving significantly, from the perspective of both the solvency deficit and the going concern surplus.

According to the *2015 Canada Post Pension Plan Report to Members* the difference between assets available for benefits and pension obligations as of December 31, 2015, resulted in a surplus of $2,771 million (page 18). The estimated going concern surplus, using the five year smoothing approach, is $1,230 million. This represents a major improvement from 2014 which reported a surplus of $2,313 million (page 19) and a going concern surplus of $500 million (page 20).

Whereas the going concern surplus increased in 2015, the solvency deficit decreased. Using the three year average solvency ratio method, the solvency deficit decreased from $6,801 million in 2014 to $6,199 million in 2015 (page 20). The solvency deficit based on market value of plan assets decreased from $6,878 million in 2014 to $5,920 million in 2015. (page 20).

Solvency relief appropriate and necessary

During the past five years, exceptionally low solvency discount rates dramatically increased the plan’s solvency obligations. Had it not been for CPC’s ability to use solvency relief measures during 2011-2013 and the four year special relief measures introduced in February 2014, CPC would have been bankrupted as a result of its obligations to make special solvency payments. However this temporary exemption expires in 2018, and unless action is taken, Canada Post will find itself in a very precarious financial situation.

Solvency payments counterproductive and unnecessary

It is the position of CUPW that, in the case of Canada Post, the solvency funding rules under the PBSA are unnecessary and counter-productive. The solvency funding rules were introduced in the 1980s in part to respond to insolvencies of private sector employers. We believe that, like many other public and broader public sector entities, there is a very low risk Canada Post will be wound up at any time soon. Indeed the federal government has specifically excluded privatization from the mandate of the Canada Post Review. This reflects the intention of the government to keep Canada Post within the federal public sector for the foreseeable future.

Requiring Canada Post to fund the plan to the solvency measure (and during a period of historically low interest rates) would be counterproductive. It would divert resources away from other priorities for Canada Post unnecessarily. Forcing large and unsustainable payments from Canada Post to the plan to protect against a remote risk would actually serve to undermine the continuance of the defined benefit plan itself – the very thing the solvency funding rules were introduced to protect.

Recommendation: That the Standing Committee recommend that the Canada Post Pension Plan receive a permanent exemption from the requirement to make solvency funding payments.

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