Myron Becker
Chief Labour Officer
Labour Relations

7550 Ogden Dale Road SE
Calgary Alberta
Canada T2C 4X9

March 19, 2022

Greg Edwards
General Chair LE West
101-10820 24 Street SE
Calgary, AB
T2Z 4C9

Dave Fulton
General Chair CTY West
101-10820 24 Street SE
Calgary, AB
T2Z 4C9

Ed Mogus
General Chair LE East
Suite 246, 6-1500 Upper Middle Rd
Oakville, ON
L6M 0C2

Wayne Apsey
General Chair CTY East
5334-361 Queen Street
Smiths Falls, ON
K7A 0A6

Gentlemen,

You issued Bulletin 10 dated March 15, 2022, providing your perception of CP's DB pension plan. There are many myths and partial explanations in your Bulletin 10 that we feel compelled to respond to.

Before responding to the myths contained in your Bulletin 10, there is a fundamental difference in the accounting methods used by the TCRC and CP to determine the impact of the Union's pension demands. The TCRC are relying on a Cash accounting method that hasn't been used since the 1990's because it does not reflect the true cost of pensions. The Cash accounting method does not factor the true cost of the pension plan to the Company and falsely provides the optics of readily available cash. The TCRC should be aware of and are ignoring the fact that CP is required by law to use *accrual accounting rules* that impact our operating ratio, net income, and balance sheet liabilities.

CP is proud to still offer a defined benefit pension plan however we must ensure the plan is sustainable not just for current pensioners and employees, but for our future employees as well.

Following is an overview of Pension Terms, your position and the Company's position, and our response to the Myths contained in your Bulletin 10 to our employees.

Following are **"Pension Terms"** used in this letter that are familiar to pension experts/Actuaries and a brief explanation of each:

Pension Term	Explanation
Accrual Accounting under US GAAP **(Generally Accepted Accounting Principles)**	Accrual accounting is the standard method that companies use to report their financial results. Large Canadian companies with operations in the United States often report under US GAAP including both CP and CN. The purpose of accrual accounting is to show the true cost of a Company's pension promises and the value of pension assets which are externally audited each year. As CP's pension plan is large, pension accounting can have a significant impact on key financial metrics and has impaired the company's debt rating in the past.

Cash Accounting	Put simply, the cash funding analysis used by the TCRC implies the Company cost is low or NIL when there is no immediate cash funding from the Company required to support the pension demands and is very short term focused. This ignores the substantial longer-term costs considered with accrual accounting and the impact on long-term sustainability.
Contribution Holiday	A situation where CP is not legally permitted to contribute to the Pension Plan due to income tax rules and we simply have no choice in the matter.
Defined Benefit (DB) Pension	Having a DB pension means that on retirement employees are entitled to a pre-determined amount without any exposure to investment risk. Members make contributions and earn service toward their pension each and every year worked with CP. This is in contrast to a Defined Contribution plan where the member takes on investment risk and is not guaranteed a pre-determined amount.
Defined Benefit (DB) Pension Plan	CP sponsors a DB Pension Plan to provide for the pensions owed to members. DB plans must comply with pension legislation and the Fund is held in a trust separate from the Company. CP has overall responsibility for the pension plan including investment decisions and contributing the necessary funds as required by law, therefore members can rest assured their DB pension is secure. The DB Pension Plan Caps provide a pension to employees based on the following pension caps and service calculation: $2,200 pension cap x 35 years of service = $77,000 annual pension $1,715 pension cap x 35 years of service = $60,025 annual pension
Pension Plan Surplus	The TCRC bulletin refers to surplus many times but the concept is fundamentally misunderstood. A pension plan doesn't have an actual surplus until that plan is terminated. If this were to happen, then all pensions that would have been paid to pensioners would be settled by an annuity; which CP never wants to see happen. They are confusing actual surplus with 'reported surplus' which is a calculation that goes into an actuarial valuation. This is a financial check-up that is performed from time to time to determine the plan's funded status and Company contributions.

Pension Improvement Account (PIA)	CP established PIAs as a way to share investment gains above a long-term sustainable rate of return. This is a sustainable way of providing improvements.
	
	Each participating Union has its own PIA account, and everything is tracked by a third party. When the account balance is sufficient, it is first used to sweep-up and then can be used to make pension improvements from a menu of options:
	
	- First: sweep-up hires since June 1, 2013 to the $2,200 cap;
	- Options menu:
	    o lower employee contributions;
	    o Increase the pension cap;
	    o Improved survivor pension for spouses; and/or
	    o Additional pension increases after retirement.
	
	Each participating Union decides how and when to use its account and once improvements are made through a plan amendment, they can never be undone. The PIA program has a good track record of delivering pension improvements for participating Unions.

This is a **high level summary** of the positions of the TCRC and the Company. It is expanded on in our summary of **The Facts**.

TCRC Position	CP Position
CP is on a contribution holiday while members still have to contribute	CP contributed over $2.5 billion in the last 15 years, and due to the accumulated impact of these contributions, CP cannot contribute any more to the plan, by law.
CP Pension Plan surplus is excessive under the Income Tax Act	Surplus is not at all excessive for a plan of this size. Currently, the plan pays over $600 million a year in benefit payments to pensioners. Having a modest surplus is prudent risk management.
Pension Cap is not common	Cap type arrangements apply to 700,000 Canadians in flat benefit capped plans. Canada's other rail employers - CN and VIA Rail - also have caps.
No pension plan improvements in a decade	Each and every TCRC General Chairman has continually rejected this free opportunity to participate in the Pension Improvement Account from its inception in 2014, again during the 2018 bargaining round and once again during the current bargaining round. Since 2014, you could have provided the improvements you are again seeking at the bargaining table by participating in the Pension Improvement Account, in the same manner as other CP participating unions have done.
We're entitled to higher pensions because we contribute to the plan	Over 90% of defined benefit participants in Canada are required to contribute to their plan, this does not mean they are entitled to surplus or higher pension. CP alone, not members, bears the financial risk of covering deficits.
No mention of labour market comparable	Pensions at CP for hires prior to June 1, 2013 are 28% higher than other railway plans while new hires since June 1, 2013 match the other Canadian railways
Short term and short sighted focus – there is surplus therefore pension improvements are affordable and don't impact the Pension Plan's long term sustainability.	CP has a long term focus and wants to continue offering a DB pension to new employees. CP must ensure that it not only has funds available for current pensioners and employees, but for our future employees as well. Granting the union's demands risks a chain reaction of further demands from other unions and retirees.
Share price ahead of workers and members	CP is proud to offer a DB pension plan to allow our workers to retire with peace of mind, despite these plans becoming more and more rare in the private sector

TCRC Myth	The Facts
1. The union bulletin would have you believe that CP is taking a contribution holiday on the backs of members who **"…continue to contribute approximately $40 Million towards their pension while CP continues to benefit from the contribution holiday."**	- To maintain the health of the pension plan CP has made the vast majority of contributions that led to the current surplus – over $2.5 billion in the last 15 years, which currently exceeds legally required contributions by more than $400 million. - Canadian tax law recognizes the accumulated impact of substantial contributions CP made in the past such that Company contributions are not currently permitted by law.
2. The union bulletin states the plan surplus **"…is in fact so large, that under the Income Tax Act rules it is considered excessive…"**	There are a few myths in this statement that need to be addressed: - The *Income Tax Act* of Canada has strict rules on maximum Company contributions to a pension plan. Anything above a threshold surplus level is defined as 'excess surplus' and Company contributions are not permitted, rightly so, as contributions are tax deductible. This means the reported surplus exceeds a threshold, it does not mean the surplus is excessive and this statement is not true. - The bulletin leaves an overall impression that surplus is a sure thing and unions can use it however they like. They are confusing actual surplus with 'reported surplus' which is a calculation in the actuarial valuation report that is filed to meet funding requirements under pension legislation. A pension plan doesn't have an actual surplus until it is terminated and all pensions are settled by annuity which CP never wants to see happen. The facts are that a reported surplus is simply an estimate and will always fluctuate with market conditions. - With approximately $14 billion of assets, CP sponsors one of the largest pension plans in Canada. The surplus is not at all excessive for a plan of our size. Currently, the plan pays over $600 million annually in benefit payments to retired railroaders. Having a modest surplus is prudent risk management. For example, at times in 2020 the pension plan had an estimated solvency *deficit* greater than $1 billion. CP seeks to build surplus in good times so that the plan can be resilient in bad times.
3. "The pension cap is not common in defined benefit plans and something unique to railway plans."	- Note the current pension caps were put in place by an arbitrator. - DB pension plans are becoming rare as less than 10% of private sector employees in Canada enjoy the security of a lifetime retirement benefit. Therefore TCRC members are already on more solid footing compared to others. There are still over 400 DB plans in Canada covering 700,000 employees that cap benefits to a flat dollar amount to control costs while still providing a DB pension, such as in the auto industry. - As for the railway plans, it is true that CP, CN, and VIA Rail all have pension caps. While no two pension plans are exactly alike, the TCRC failed to point out that pensions at CP for hires prior to June 1, 2013 are 28% higher than the other railway plans while new hires since June 1, 2013 match the other railways.

TCRC Myth	The Facts
4. "Today 2022, a decade later, our members have received no pension improvements and the same caps are still in place today..."	- In 2014, when CP negotiated the Pension Improvement Account with participation of all of the unions representing employees at CP, the TCRC refused to participate. The company offered the TCRC the opportunity to sign the PIA during the 2014, 2018 and the current round of bargaining. - Therefore, **the union statement is true only because TCRC leadership refused to join the PIA. Had they joined, based on actual PIA experience they could have already provided a sweep-up for all new hires since June 1, 2013 bringing them to the $2,200 cap with no catch-up member contributions for past service.** In fact, the PIA is structured so that a sweep-up must happen first before anything else so that new hires are treated equitably (which is over 40% of the current TCRC membership since June 1, 2013).
5. "We have asked for the pension cap to be raised by less than 5%, not much given this is the first pension increase in 10 years. This increase doesn't even cover inflation during the period."	- The current caps were put in place by an arbitrator and there is no obligation for them to change. CP introduced the Pension Improvement Account as a way to make improvements beyond the arbitrated ruling which TCRC leadership has refused. - In recognition of the lower cap, post June 1, 2013 hires contribute less to the plan. A higher cap comes with higher contributions and the requirement for pension arrears to cover the shortfall. The TCRC ignores that an increase in the manner they are seeking comes with a retroactive payment required by each affected employee, in some cases as high as $25,000.
6. "In terms of the cost to the Plan, the Union's entire pension request is worth approximately 1% of the current ongoing surplus which is not much relative to how much members have contributed, and continue to contribute, to the Pension Plan."	- In fact, over 90% of DB participants in Canada must contribute to their plan. Contributions are required by our Plan Rules as members set aside some of their earnings toward their saving for retirement in the form of a DB pension. To make sure members don't pay too much, there is protection in federal legislation that guarantees members don't pay for more than half the value of their pension. - The TCRC argues that its members contribute to the pension plan and are therefore entitled to a share of surplus via benefit improvements, however this is simply not the case. As the plan sponsor, CP alone, not members, bears the financial risk including the responsibility to pay for a deficit and is subject to stringent pension legislation. - TCRC's argument is dangerous, not just for CP's plan, but also for the many DB plans in Canada that hold a responsible level of surplus to protect their plans from market volatility.
7. "Despite other claims, our pension request does not negatively impact other members of the Plan or the overall sustainability of the Plan."	- TCRC is demanding significant changes to the caps that were implemented following arbitration in 2012. CP is responsible for the entire plan, not just the TCRC members. It would be irresponsible to risk the plan's long-term viability by implementing costly improvements for a minority of plan participants; this risks a chain reaction and other unions and retirees might expect similar improvements leading to escalating costs.

TCRC Myth	The Facts
	- TCRC's analysis has also failed to consider the consequences on compounding costs over the long-term. In fact, the burden of reporting pension costs under financial accounting standards directly contributed to the closure of the majority of DB plans in the private sector from the late 1990's. Today, DB plans are rare in the private sector and Defined Contribution plans are becoming the norm including for CP's salaried employees. - CP competes with other railways for business and maintaining a cost structure in line with our competition is vital to our long-term success and ability to grow. The pension demands could put us at a competitive disadvantage relative to other railways.
8. "Unfortunately the Company has, once again, prioritized their share price ahead of their workers and members' ability to retire with peace of mind."	- **This is the biggest TCRC myth**. In spite of the trend of disappearing DB pension plans in Canada, CP is proud to still provide a defined benefit plan because it allows our workers to retire with peace of mind. Offering a DB pension plan enables CP to recruit and retain talented railroaders who are key to the success of our business today. - Over the last 15 years, as pension plans in Canada have struggled, CP has been committed to the health of its pension plan and ensuring we have adequate funding to meet our future obligations. We have contributed over $2.5 billion to the pension plan over this time. In fact, CP made $1.75 billion of voluntary pre-payments which was funded through a combination of borrowing, a costly equity issuance, and reduced investment in the business. - CP would also remind members that Canadian pension regulations strictly dictate that once funds are contributed to the pension plan, they can never be withdrawn by the Company. - The Company is pleased that almost 60% of the employees who you represent are shareholders and participants in the Employee Share Purchase Plan and will benefit from ownership in the Company.

We trust the foregoing provides clarity to facts surrounding the Pension Plan. In closing it is disappointing that we are facing a work stoppage for something the TCRC could have signed in 2014, 2018 and today without the Company asking for anything in return. We are available to review the foregoing with you and your Actuary at your convenience.

Sincerely,

Myron Becker
Chief Labour Officer
Canadian Pacific Railway

Carole Field

Carole Field
Managing Director, Pension Plan Management
Canadian Pacific Railway

TEAMSTERS CANADA RAIL CONFERENCE

General Committees of Adjustment Canadian Pacific Railway

Dave Fulton
Wayne Apsey
General Chairmen
Conductors, Trainmen, Yardmen

Greg Edwards
Ed Mogus
General Chairmen
Locomotive Engineers

March 15, 2022 ***VIA EMAIL***

ALL TCRC LOCAL CHAIRS – CPR WESTERN AND EASTERN REGIONS – BULLETIN 10

No doubt you have been reading the information distributed by CP regarding collective bargaining and given the numerous requests we feel it's necessary to respond. As we continue to bargain in good faith, we are extremely disappointed to see the misleading statements released by CP, and the inaccurate picture being painted. As your TCRC leadership, we'd like to update you on our position and share the facts with you. We have consulted with both actuarial and legal support during this process and offer these comments.

<u>CP Pension Plan Status</u>

The most recent actuarial valuation prepared as of January 1, 2021 shows the plan to be in a very healthy position with approximately $4 Billion of surplus on an ongoing long-term basis (145% funded). This surplus is expected to grow substantially in the future as the interest earned on the surplus alone is expected to total over $200 Million annually. With the fund's favourable returns during 2021, the Plan's current ongoing surplus position will be even greater.

The Plan's financial position on a solvency basis, which is a hypothetical windup, is also an important consideration when looking at the affordability of pension improvements. As of January 1, 2021, a healthy surplus of over $1 Billion would have existed had the Plan been wound up on that date. Again, with last year's favourable investment return, along with an increase in prescribed interest rates, the Plan's current hypothetical windup surplus will be even greater.

The **<u>modest</u>** ongoing surplus, according to the Company, is in fact so large, that under the Income Tax Act rules it is considered excessive, and CP is now taking a contribution holiday. What this means is that the company is no longer contributing their share of the pension cost to the Plan and is saving $35 Million in contributions annually. Members continue to contribute approximately $40 Million towards their pensions while CP continues to benefit from the contribution holiday. Since Plan inception, approximately 30% of all money put into the fund has come from member contributions thereby contributing to the current surplus position.

<u>TCRC Pension Request</u>

Today, 2012 the Plan was not in as good of shape as it is today, and because of the arbitration at that time, pensions were capped to help get the Plan back on more sustainable ground. While the cap limited the pension provided to members, it also benefited CP as pension costs were also limited. The pension cap is not common in defined benefit plans and something unique to railway plans.

Example: A member with a final average earnings of $140,000 with 35 years of service will receive an annual pension of $77,000 under the current plan terms. If the $2,200 cap was not in place, the annual pension would be approximately $94,000.

Today 2022, a decade later, our members have received no pension improvements and the same caps are still in place today, despite the Pension Plan being in a significantly improved position. We did not agree to enter the company's Pension Improvement Account as we were not willing to agree to the terms and forfeit the right to bargain pensions in the future. Instead, we decided to request pension improvements through the bargaining process which is where we are today.

Contrary to what you may have read, our pension request is by no means unreasonable. We have asked for the pension cap to be raised by less than 5%, not much given this is the first pension increase in 10 years. This increase doesn't even cover inflation during the period. We have also asked that all members, including new hires since 2013, be treated equitably and provided the same pension benefits as members hired prior to 2013.

In terms of the cost to the Plan, the Union's entire pension request is worth approximately 1% of the current ongoing surplus which is not much relative to how much members have contributed, and continue to contribute, to the Pension Plan. The company's contribution holiday will not be impacted. It is difficult to comprehend how this request could be seen as unreasonable as suggested by the company.

Despite other claims, our pension request does not negatively impact other members of the Plan or the overall sustainability of the Plan. In fact, several other unions have already received pension improvements similar to our request.

Final Comments

Our members have dedicated their careers to working for the Canadian Pacific and rightfully demanding a fair pension. Unfortunately, the Company has, once again, prioritized their share price ahead of their workers and members' ability to retire with peace of mind.

Please know that we are very concerned with the prospect of a lock out or strike for not only our members, but for all Canadians. We understand the potential impact of a work stoppage and are committed to getting to a resolution. At the same time, our demands are not unreasonable and there is no excuse why we should not be able to negotiate an acceptable collective agreement.

We trust this explanation will provide some insight and dispel some misinformation regarding this important demand. As you all know, neither party has given notice of a work stoppage but be assured, we will keep you immediately informed on any further developments.

In Solidarity,

Dave Fulton
General Chairman - CTY West

Greg Edwards
General Chairman - LE West

Wayne Apsey
General Chairman - CTY East

Ed Mogus
General Chairman - LE East

cc: Lyndon Isaak, President, TCRC, Dave McCulloch, Vice President TCRC, Christopher Friesen, Secretary-Treasurer TCRC