NON-CONFIDENTIAL

1 **Request IR-162:**

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3 **Please refer to Liberty IR-80 Attachment 4. Please provide the same Morneau report**
4 **survey for 2011, based on December 31, 2010 data, when it becomes available.**

5

6 Response IR-162:

7

8 Please refer to Attachment 1 for the Morneau Shepell 2011 survey of economic assumptions (of
9 assumptions used in 2010), which became available during the week of June 26th 2011.

Highlights of our annual survey results

SPECIAL REPORT

MORNEAU SHEPELL

In this report, Morneau Shepell is pleased to provide information on the assumptions being used by approximately 100 Canadian public companies in accounting for the costs of their defined benefit plans. This information is based on audited financial statements as at December 31, 2010. This is the eleventh year that the survey has been produced.

Accounting for publicly accountable enterprises (PAE) has moved to International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. As such, next year survey will reflect assumptions and figures in line with IFRS. Note that international accounting for pension and benefits is also undergoing significant changes that will apply starting in 2013. A special section later in this survey highlights the key items.

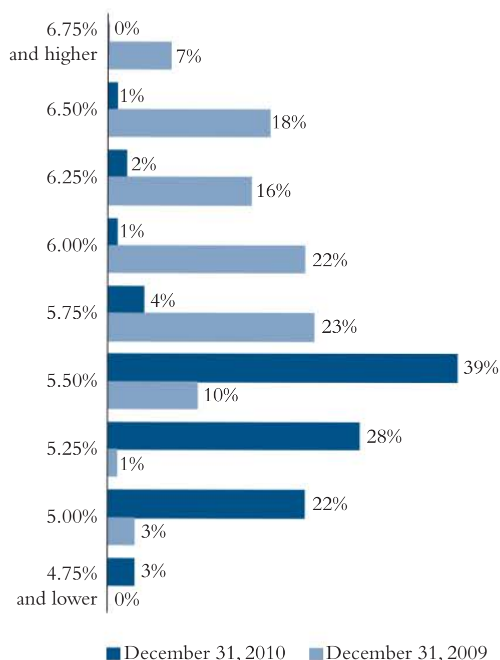
Discount Rate for Pension Plans

The year 2009 had seen an important decrease in discount rates used in determining pension costs for accounting purposes (see the Appendix for a description of "discount rate"), after the unusual increase that followed the financial crisis in 2008. For 2010, this downward trend has continued and the decrease is as significant as last year's. The range in discount rates used however has narrowed, compared to last year.

The following chart summarizes the discount rates used in the valuation of defined benefit pension plans. The median discount rate was 5.25% as at December 31, 2010 compared to 6.00% a year earlier.

About 89% of the companies used a discount rate between 5.00% and 5.50%.

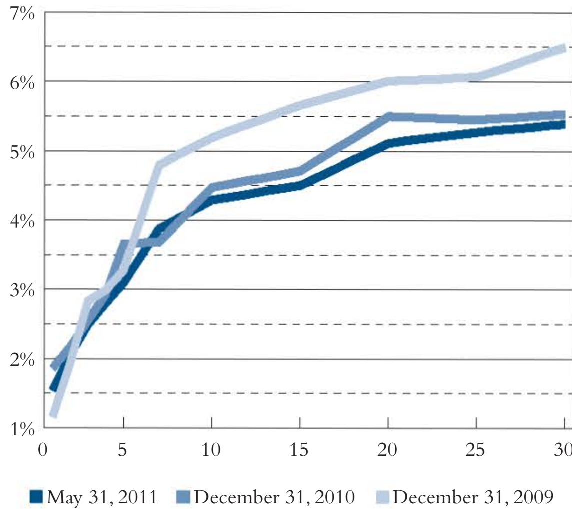
Discount Rate / Pension Plans



Roughly 90% of companies surveyed reduced their discount rate in 2010 with the typical reduction being 50 to 100 basis points.

Over time, the yields on high quality long term corporate bonds may vary considerably. The discount rate should be expected to vary in a similar fashion. For illustration, the graph below compares the yield curves as at December 31 for the years 2009, 2010, and May 2011.

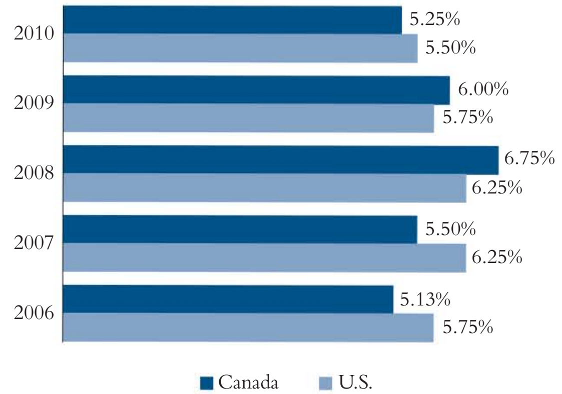
High-Quality Corporate Bonds



If the yield curve were to remain at the May 2011 levels until the end of the year, we would expect discount rates at December 31, 2011 to be about 20 basis points lower on average than those used at December 31, 2010.

The following chart compares the median discount rates in our survey to those from a U.S. survey[1]. We see that the rates in Canada this year are slightly lower than the estimated U.S. rates.

Median Discount Rate by Country



Discount Rate for Non-Pension Benefits

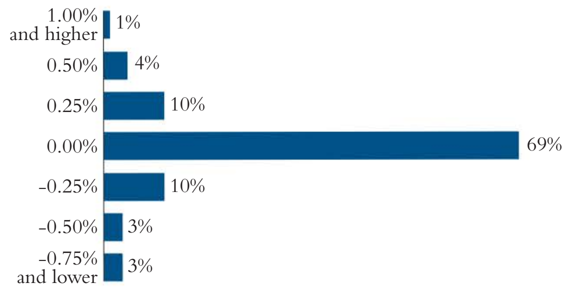
The duration of non-pension post-employment benefits is often significantly different from that for pensions. For example, the duration of the accrued benefit obligation (ABO) for a retiree medical plan is often higher than that for pensions. As a result, the choice of discount rate for the valuation of post-employment benefits can be different in theory than it is for pensions. (See the Appendix on selecting the discount rate for more on this.) While some companies use different rates for the different types of plans, many companies elect to use a single blended rate, or else they simply use the rate for the most material plan.

[1] Source : *Survey of Economic Assumptions used for SFAS No. 87 and SFAS No. 106 Purposes,* prepared by Deloitte & Touche Human Capital Advisory Services (U.S.). (Estimate for 2010)

The median rate used as at December 31, 2010, for non-pension benefits is 5.4%, which is slightly higher than the median rate used for pensions.

The following chart shows the difference between the discount rate used in the valuation of non-pension benefits and that used for pension plans. (A positive value indicates a higher rate for non-pension benefits than for pensions and vice versa.)

Difference in Discount Rates (Non-Pension Benefits vs. Pensions)



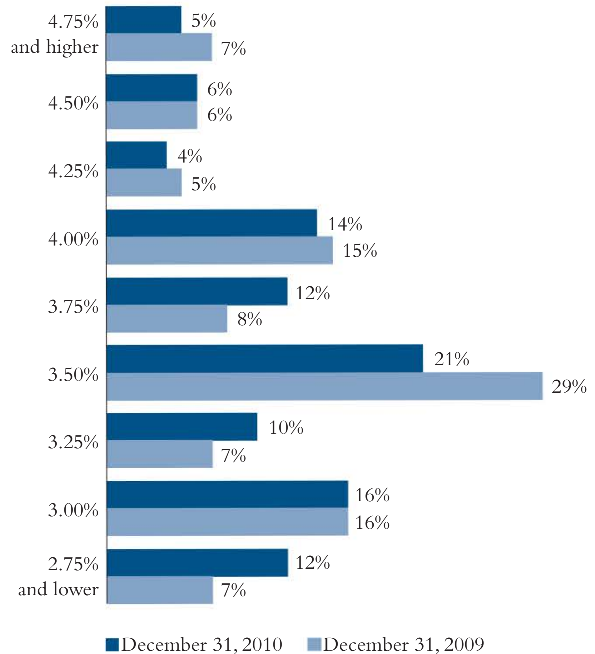
While in most cases companies have used the same discount rate for pensions and non-pension benefits, 15% used a higher discount rate for non-pension benefits (compared to 23% in our previous survey).

Rate of Compensation Increase

Plans that provide pay-related benefits are required to make an assumption about the rate of compensation increases. CICA 3461 indicates that it should reflect "future changes attributed to general price levels, productivity, seniority, promotion, and other factors".

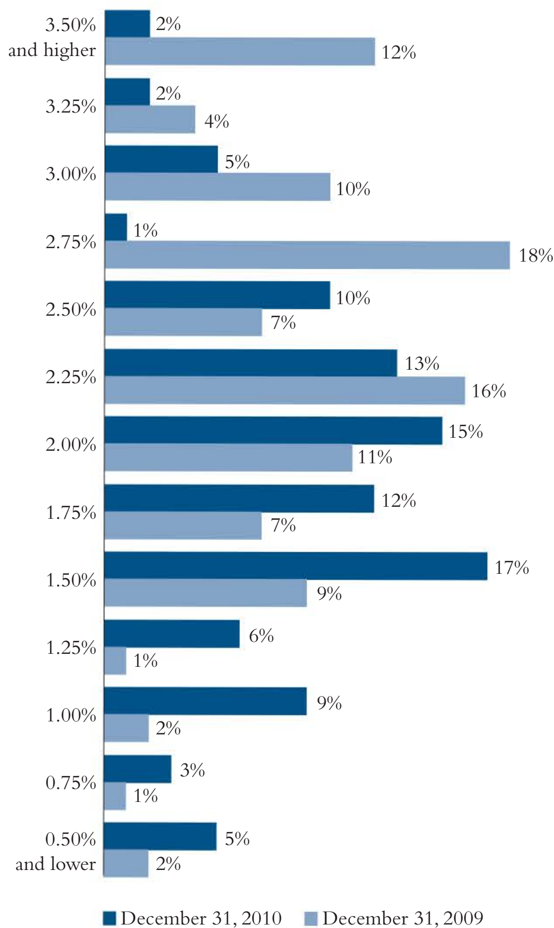
The median compensation increase assumption as at December 31, 2010, was 3.5%, identical to last year's median, with 73% of companies using rates between 3.0% and 4.0%. Given how low this assumption is in some cases, it is quite likely that some companies are not properly reflecting the impact of individual job progression in their disclosed assumption.

Rate of Compensation Increase



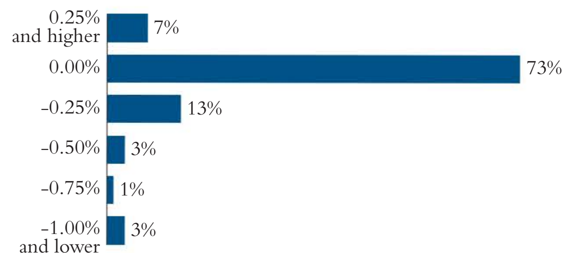
The following graph shows the spread between the discount rate and the rate of compensation increase. The spread generally has a significant impact on the ABO for defined benefit pension plans. The median spread is 1.8% as at December 31, 2010, which is about 60 basis points lower than last year. The decrease in the spread will result in higher ABO.

Spread: Discount Rate / Compensation



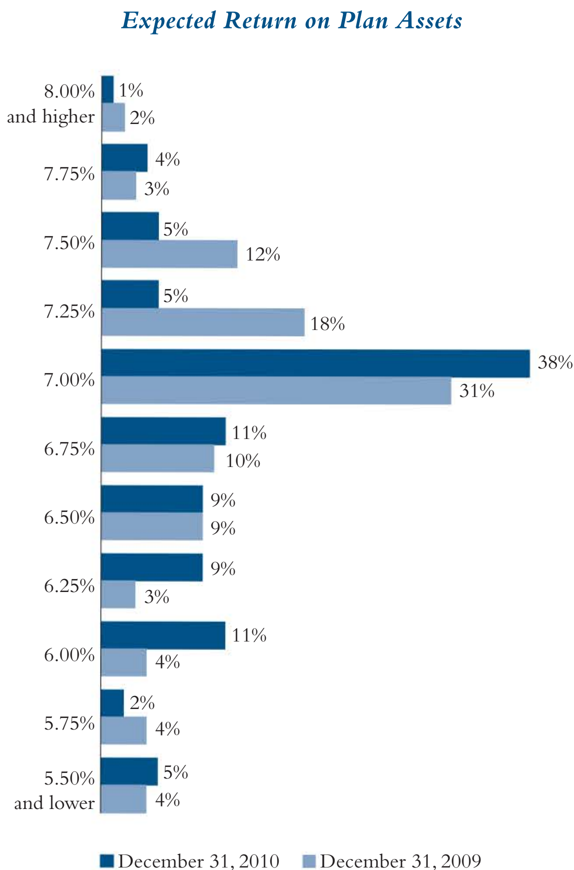
Our survey shows that 27% of companies changed the rate of compensation increase assumption by at least 0.25% (up or down) at December 31, 2010. There is some debate over how frequently this assumption should be changed. In the "Supplement to the Employee Future Benefits Implementation Guide" the CICA states that the requirement to be internally consistent applies to all assumptions except for the discount rate. Assumptions other than the discount rate should be based on a long-term view and should be revised only when a significant change in expected long-term economic conditions occurs.

Change in Compensation Increase Assumption (2010 vs. 2009)



Expected Long-Term Return on Plan Assets

CICA 3461 specifies that the expected rate of return on plan assets should reflect a long-term view. The following chart shows the return assumption disclosed at the end of 2010 versus 2009.

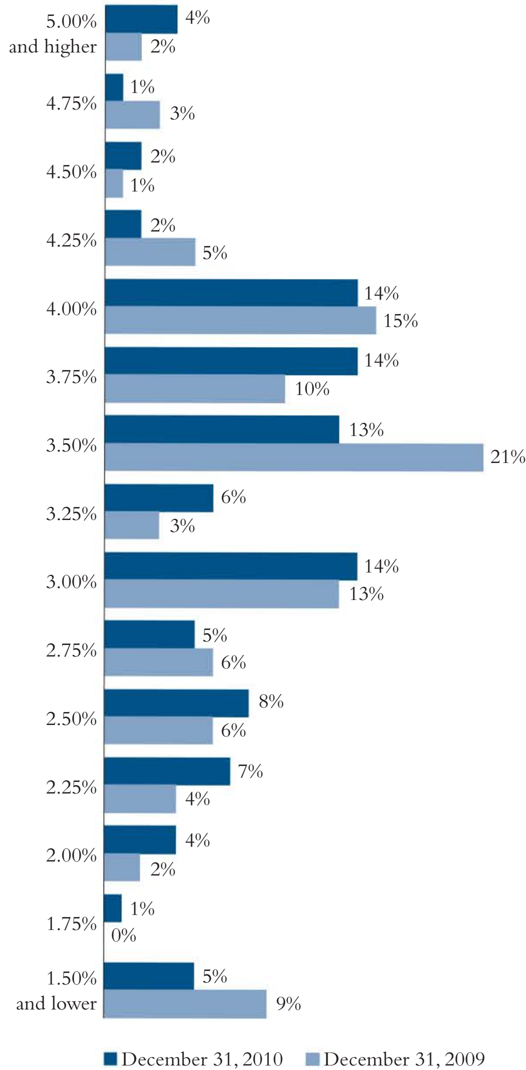


The median expected long-term rate of return on plan assets is 7.0%, the same as in the December 31, 2009 survey. However, the distribution of rates has expanded somewhat compared to last year and 47% of companies have used rates below 7.0% (34% in 2009). In recent years, there has been a very slow but steady decline in this assumption.

For most pension plans, the actual return earned in 2010 was higher than the assumed long-term rate of return on assets. The actual median return for diversified pension funds was 10.6 in 2010 according to the *Performance Universe of Pension Managers' Pooled Funds* produced by Morneau Shepell.

The following graph shows the spread between the expected return on plan assets and the rate of compensation increase. The median spread was 3.25% as at December 31, 2010, a small decrease from last year's median at 3.5%. It is expected that this spread will be fairly stable from one year to the next.

Spread: Expected return on plan assets / Compensation

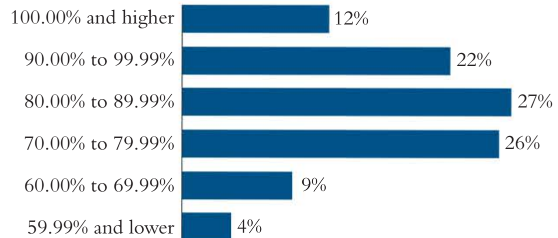


Our survey results show that about 41% of companies reduced the spread by at least 0.25% as at December 31, 2010.

Pension Plans Financial Situation and Financial Assumptions

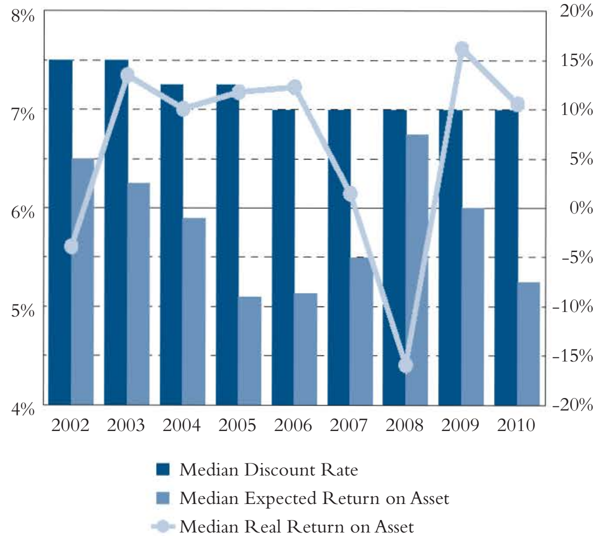
The companies in our survey show an 85% overall ratio of pension assets to ABO for accounting purposes. This result may be viewed as a little understated since it includes some non-registered plans for which no funding is legally enforced under Canadian regulatory environment. The ratio is highly influenced by the actual return on plan assets, the discount rate assumption and special contributions made to cover pension plan deficits. The distribution of companies based on their overall ratio at December 31, 2010 is shown in the following chart.

Pension plans ratio of asset value to accounting ABO (distribution of companies)



As mentioned, the ratio is highly influenced by return on assets and discount rate, for which we have summarized historical data.

Key financial assumptions and actual return on assets



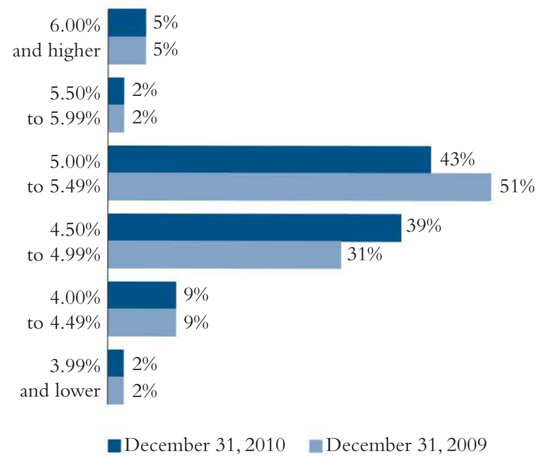
Medical Cost Trend

Where retiree medical coverage is offered, a key assumption in the valuation of the ABO is the rate of future medical cost increases. CICA 3461 provides guidance on factors that companies should consider in selecting this assumption.

Often, medical costs are assumed to increase at a higher rate in the short term, declining in steps to an ultimate rate over a period of several years.

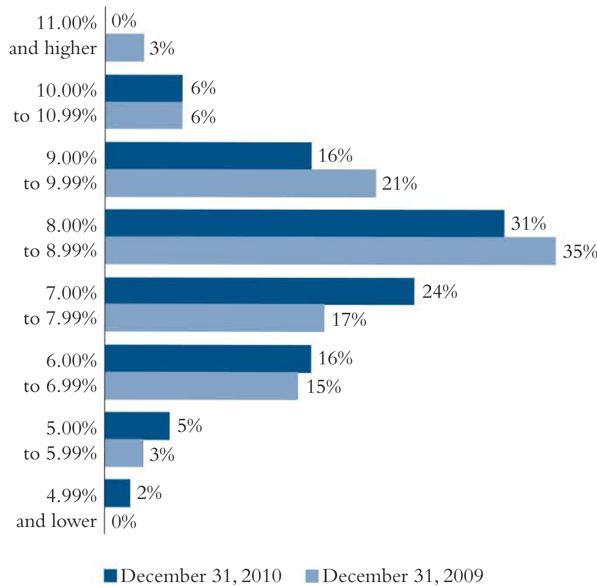
The following charts show the December 31, 2010 medical cost trend assumption compared to December 31, 2009. About 82% of companies used an ultimate trend rate between 4.5% and 5.5%. The median is unchanged at 5.0%.

Ultimate Medical Cost Trend



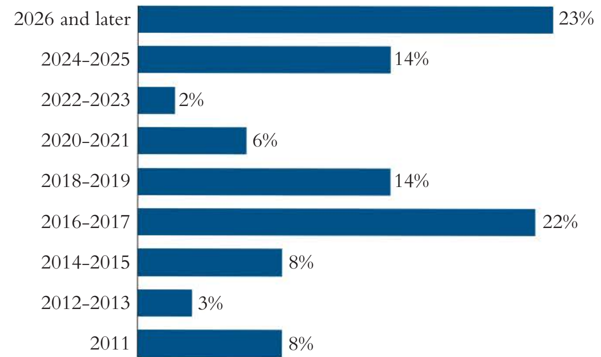
The median assumption for the short-term medical cost trend rate was 8.0%, unchanged from last year. There has been a continuing decrease in the number of companies using an assumption of 10% or higher, with just 6% of the companies now in this category compared with 9%, 19%, 28%, 36% and 45% respectively in the previous 5 years. 47% of companies used an assumption of less than 8% (compared to 35% last year).

Short-Term Medical Cost Trend



The median year in which the medical cost increase rate reaches the ultimate rate is 2019. We have seen an increase in recent 2 years in the period used for medical cost to reach ultimate trend. This situation may reflect the conclusion by some that the medical cost has not necessarily reduced significantly over the years since introduction of the accounting standards and that ultimate rate will in fact be reached at a later date than initially expected. We will carefully follow up on this assumption in future surveys.

Ultimate Medical Cost Trend
(year in which ultimate rate is attained)



Asset and Obligation Measurement Date

CICA 3461 requires that the employee future benefits be measured at fiscal year end or at a date up to three months prior to that date. All companies in our survey have a December 31 fiscal year end and 93% of them used December 31 as their measurement date. Among the other 7%, September 30 and November 30 dates were used.

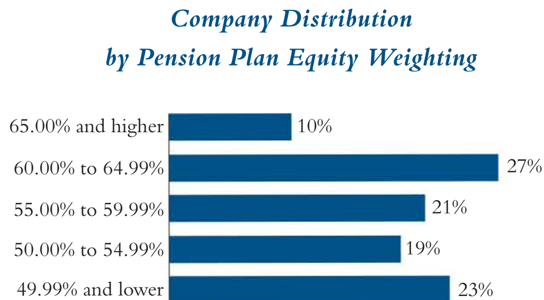
It should be noted that IFRS does not permit early measurement dates. As such, this section will no longer apply next year.

Pension Plan Asset Allocation

The allocation of pension fund assets between equities, fixed income and other assets must be disclosed. Additional categories may be added if it helps to improve the reader's understanding of the investment risks faced by the fund.

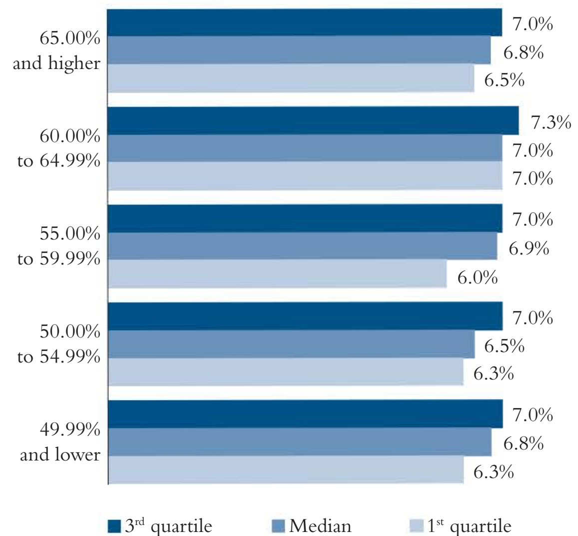
The average asset allocation as at December 31, 2010, was 54% in equities, 40% in fixed income and 6% in other assets. The distribution of the proportion of funds invested in equities is shown below:

Company Distribution by Pension Plan Equity Weighting



Since the expected long-term return on assets assumption is based in part on asset allocation, we have compared the assumption used to the equity weighting. Theoretically, a pension plan holding a higher proportion of its assets in equities should have a higher expected rate of return on assets than a pension plan with a lower equity allocation. However, based on this year's survey, our findings make it difficult to support that theory.

Long-Term Rate of Return Assumption for Varying Levels of Equity

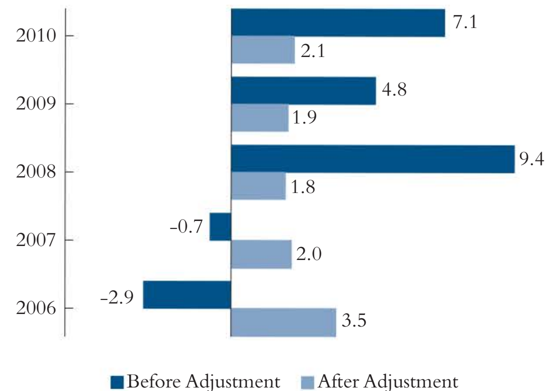


Pension Expense Before and After Adjustment

This 2011 survey presents results for companies with a total of $128 billion in pension assets. The following graph shows the difference between the pension expense before and after adjustment for each year since 2006 in aggregate for all companies in our survey. The expense after adjustment represents the actual expense found in the financial statements. The expense before adjustment is the notional expense one would experience in a full mark-to-market accounting environment (i.e. one in which there is immediate recognition of all changes in assets and ABO). In 2010, the total recognized expense amounted to $2.1 billion (i.e. expense after adjustment). In the absence of any amortization, the expense before adjustment would have been $7.1 billion.

As it was the case in 2009, gains occurred in 2010 on plan assets, but more important losses were suffered on ABO by the decreasing discount rate. Therefore, the impact of this year's adjustments was generally to defer the actuarial loss, and to reduce the pension expense.

Pension Expense (Income) Before/After Adjustment (in billions of dollars)



The "pension expense before adjustment" illustrates the expense volatility that would be experienced if the accounting rules for employee future benefits were changed to require full mark-to-market accounting without amortizations.

Upcoming Changes to International Accounting Standards

As mentioned earlier, accounting for Canadian publicly accountable enterprises has moved to International Accounting Standards, leading to a transition process.

Another transition is expected in 2013 as changes to pension and benefits accounting will apply. Based on IASB publications, here are the key modifications:

> No more deferral of gains and losses and past service costs;
> Increased volatility in the statement of financial position through other comprehensive income;
> Different presentation of pension and benefit plans expense components (operating, financing, remeasurements);
> No more use of expected return on assets assumption (replaced by use of the discount rate);
> More comprehensive disclosure requirements (mostly related to risks).

Keep on following our edition of *News & Views* on our Web site to get a more detailed view of the changes.

For More Information

This survey is intended to provide information regarding the assumptions disclosed by a wide range of companies and, as such, can provide an indication of trends. The assumptions used for your own employee benefit plans will depend on a number of factors.

For more information, speak to your Morneau Shepell consultant.

Appendix – Selecting the Discount Rate

In general, the ABO is highly sensitive to the discount rate assumption. For example, a 25 basis point decrease in the discount rate can increase the ABO by as much as 5%, which would in turn increase the annual expense.

CICA 3461 provides general guidance for the selection of the discount rate assumption. The discount rate should be determined by reference to market interest rates on high-quality debt instruments or to the interest rate at which the ABO could be settled. However, the precise methodology for computing this rate is not prescribed.

Since Canadian standards are similar to those of the United States, standard practice is to consider guidance provided by the Securities and Exchange Commission ("SEC"). The SEC has determined that the discount rate should reflect the yield of a portfolio of high quality fixed income instruments (rated as AA or better by Moody's) that have the same duration as the plan's ABO.

Information on high quality Canadian corporate bonds (rated AA or higher) is generally available from independent sources, and can serve as a starting point in the determination of the discount rate.

HUMAN RESOURCE CONSULTING AND ADMINISTRATIVE SOLUTIONS

Morneau Shepell Inc. is Canada's largest human resource consulting and outsourcing firm focused on pensions, benefits, employee assistance program (EAP) and workplace health management and productivity solutions. We offer business solutions that help our clients reduce costs, increase employee productivity and improve their competitive positions by supporting their employees' financial security, health and well-being.

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LONDON	MONTRÉAL	OTTAWA	PITTSBURGH
519.438.0193	514.878.9090	613.238.4272	412.919.4800
QUÉBEC	ST. JOHN'S	TORONTO	VANCOUVER
418.529.4536	709.753.4500	416.445.2700	604.642.5200

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1 **Request IR-163:**
2
3 **Please refer to NSPI RB-02 to RB-16 Attachment 2, page 3 of 11. Morneau references a**
4 **CIA Educational Note regarding the discount rate being issued in Q2 2011. Please provide**
5 **this report, when available.**
6
7 Response IR-163:
8
9 The Canadian Institute of Actuaries (CIA) Educational Note regarding the discount rate has not
10 yet been issued. NSPI does not have an updated timeline on when it will be available.

REDACTED

1 **Request IR-164:**

2

3 **Please refer to NSPI RB-02 to RB-16 Attachment 2, page 11 of 11. Please provide a**
4 **description of the SERP program, including the "discretionary" portion of the program**.

5

6 Response IR-164:

7

8 The response to this request is confidential.

Request IR-165:

Please refer to Liberty IR-82 (b) and IR-80 Attachment 1, page 11 of 43. The first reference indicates that pension losses may be amortized over 5 years, and the latter indicates 9 years. Please provide clarifying information regarding these two statements and NSPI's interpretation and historical actions.

Response IR-165:

Liberty IR-82 (b) refers to the recognition of actuarial investment losses in the market related (or "smoothed") value of assets used for pension accounting calculation purposes. The corresponding reference to this in Liberty IR-80 is Attachment 1, page 10 of 43 under the heading "Expected Return on Assets".

The reference to nine years in Liberty IR-80 Attachment 1, page 11 of 43 is in respect of the amortization period for the amount of actuarial experience gains and losses subject to amortization.

The following is additional information on how the five and nine year periods are used to determine amortization of actuarial gains and losses:

(a) Adjust existing balance of Unamortized Actuarial Experience Losses/ (Gains) by the difference between market value and smoothed asset value of assets (i.e., the amount of investment gains/losses are not fully recognized in the smoothed asset value until five years after the (gain) /loss).

(b) Determine if Adjusted Unamortized Actuarial Experience exceeds the greater of 10 percent of (a) the Obligations or (b) Market related value of assets ("10% Corridor Rule").

1
2 (i) If no: amortization is not required.
3
4 (ii) If yes: the amount by which the Adjusted Unamortized Actuarial Experience
5 exceeds the 10 percent Corridor is divided by the average remaining service
6 period of nine years.

NON-CONFIDENTIAL

1 **Request IR-166:**

2

3 **Please refer to Liberty IR-84. Please provide the annual reports on return on pension plan**
4 **assets and pension asset allocations for 2009, 2010 and 2011**.

5

6 Response IR-166:

7

8 Please refer to NPB IR-99 Attachment 13 for the annual investment analytics reports from RBC
9 Dexia for 2009 and 2010. The annual report for 2011 will not be available until 2012. Other
10 than the summaries contained in the actuarial funding valuation reports, please refer to
11 NBP IR-99 part (a); NSPI does not prepare any other annual reports on return on pension plan
12 assets and pension asset allocations.

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1 **Request IR-167:**

2

3 **Please refer to Liberty IR-86 Attachment 1. Please provide an explanation of how "Total**
4 **Actual NSPI employee Plan (DB provision)" is calculated, and how it relates to the**
5 **components of total contributions included in the chart above.**

6

7 Response IR-167:

8

9 The "Total Actual NSPI employee Plan (DB Provision)" is equal to the sum of the "NSPI EMP"
10 and the "NSPI Special Fund".

11

12 Every year, NSPI receives a valuation funding report from their actuaries, Morneau Shepell.
13 This report provides information on the financial position of the plan and the minimum required
14 NSPI contributions for the upcoming year. NSPI budgets to contribute at least this amount over
15 the calendar year. Please refer to NBP IR-99 part (a) for recent actuarial funding valuation
16 reports.

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Request IR-168:

Please refer to Liberty IR-82, line 31. Please provide the annual net losses and gains on pension assets for each year from 2007 through 2010, and the net unamortized cumulative gain or loss at the end of each such period.

Response IR-168:

Please refer to Attachment 1, filed electronically. The net unamortized cumulative gain or loss is comprised of both:

(a) gains and losses on pension assets (item J) and
(b) actuarial experience gains or losses on the obligations (item K).

Attachment 1 reconciles the net unamortized cumulative gain or loss (item L) for the period December 31, 2007 to December 31, 2010.

Please note that items J and K represent the new amount of the gain or loss during the current year. The net unamortized amount (item L) is not tracked separately by:

(a) gains and losses on pension assets and
(b) actuarial experience gains or losses on the obligations.

REDACTED

1 **Request IR-169:**

2

3 **Please refer to Liberty IR-85, page 2 of 2. Please update the chart calculating prepaid**
4 **pensions to reflect the latest update in forecasts for 2011, as referenced.**

5

6 Response IR-169:

7

8 Based on the most up to date information, the net recognized amount under US GAAP
9 (comparable to prepaid pension amount under Canadian GAAP (CICA 3461)) for the 2012 test
10 period is [REDACTED]. [REDACTED]
11 [REDACTED], determined as follows:

12

Item	Amount ($M)	Documentation
Prepaid Start of 2011	[REDACTED]	Please refer to Liberty IR-80 Attachment 1.
Less: 2011 Pension Expense	[REDACTED]	Please refer to Liberty IR-80 Attachment 1.
2011 Company Contribution	[REDACTED]	Please refer to Liberty IR-80 Attachment 1.
Prepaid Start of 2012	[REDACTED]	Please refer to Liberty IR-80 Attachment 1.
Less: 2012 Pension Expense	[REDACTED]	Please refer to RB-02 - RB-16, Attachment 2.
2012 Company Contribution	[REDACTED]	Please refer to RB-02 - RB-16, Attachment 2.
Prepaid End of 2012	[REDACTED]	Calculated based on above inputs

13 * After one-time adjustment downwards of $4.5 million as part of transition from Canadian GAAP to US GAAP.