Court File No. 05-CV-287556CP

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

DAVID KIDD, ALEXANDER HARVEY, JEAN PAUL MARENTETTE, GARRY C. YIP, LOUIE NUSPL, SUSAN HENDERSON and LIN YEOMANS

Plaintiffs

- and -

THE CANADA LIFE ASSURANCE COMPANY, A.P. SYMONS, D. ALLEN LONEY and JAMES R. GRANT

Defendants

Proceeding Under the *Class Proceedings Act, 1992*

RESPONDING MOTION RECORD OF THE CANADA LIFE ASSURANCE COMPANY

BLAKE, CASSELS & GRAYDON LLP
199 Bay Street
Suite 4000, Commerce Court West
Toronto, ON M5L 1A9

Jeff Galway (LSUC#: 28423P)
Tel: (416) 863-3859
Fax: (416) 863-2653

Lawyers for the Defendant,
The Canada Life Assurance Company

TO: **KOSKIE MINSKY LLP**
20 Queen Street West, Suite 900
Toronto, ON M5H 3R3

Mark Zigler (LSUC#: 19757B)
Tel: (416) 595-2090
Fax: (416) 204-2877

Clio M. Godkewitsch (LSUC#: 45412G)
Tel: (416) 595-2120
Fax: (416) 204-2827

Anthony Guindon (LSUC#: 53995T)
Tel: (416) 595-2118
Fax: (416) 204-2826

HARRISON PENSA LLP
450 Talbot Street, P.O. Box 3237
London, ON N6A 4K3

David B. Williams (LSUC#: 21482V)
Jonathan Foreman (LSUC#: 45087H)
Tel: (519) 679-9660
Fax: (519) 667-3362

Lawyers for the Plaintiffs, David Kidd, Alexander Harvey, Jean Paul Marentette, Susan Henderson and Lin Yeomans

SACK GOLDBLATT MITCHELL LLP
20 Dundas Street West
Suite 1100, Box 180
Toronto, ON M5G 2G8

Darrell Brown
Tel: (416) 979-4050
Fax: (416) 591-7333

Lawyers for the Plaintiffs, Garry C. Yip and Louie Nuspl

AND TO: **HICKS MORLEY HAMILTON STEWART STORIE LLP**
TD Tower, 39th Floor
Box 371, TD Centre
Toronto, ON M5K 1K8

John C. Field
Tel: (416) 864-7301
Fax: (416) 362-9680

Lawyers for the Defendants, A.P. Symons, D. Allen Loney and James R. Grant

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TAB 1

Court File No. 05-CV-287556CP

ONTARIO
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B E T W E E N:

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THE CANADA LIFE ASSURANCE COMPANY, A.P. SYMONS, D. ALLEN LONEY and JAMES R. GRANT

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Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF LINDA GREIG
(Sworn September 21, 2012)

I, **LINDA GREIG**, of the Town of Aurora in the Province of Ontario, **MAKE OATH AND SAY:**

1. I am a Senior Associate at Mercer (Canada) Limited ("Mercer"). I have knowledge of the matters to which I swear in this affidavit, except where such knowledge is stated to be based on information or belief, in which case I believe those facts to be true.

Background

2. I have been employed by Mercer since 1988. I am a Certified Employee Benefits Specialist and hold a Life Insurance Agent license in the Province of Ontario. I am the annuity specialist consultant for Mercer clients in Ontario, consulting to our clients around the structuring, process and placement of group annuity purchases. Since 2006, I have also been the annuity placement consultant to Mercer consultants across Canada.

Solicitation of Annuity Quotations

3. Mercer provides actuarial consulting services to The Canada Life Assurance Company.

4. In connection with the 2005 partial wind up of The Canada Life Canadian Employees Pension Plan (the "Plan") (the "Integration PWU"), on or about May 14, 2012, Mercer sent request for bid packages to seven insurance companies, inviting each company to submit a quotation on providing annuities for those Integration PWU members who elected (or who were deemed to have elected) to receive an immediate or deferred pension.

5. The seven companies in question were Sun Life Financial, Desjardins Financial Security, Industrial Alliance, BMO Life Assurance Company of Canada, Manulife Financial, Standard Life and Canada Life. These are the seven largest group annuity providers in Canada.

6. Each of the seven companies received the same bid package. A copy of my cover letter to Sun Life Financial (excluding the individual member data included in each bid package) is attached hereto as Exhibit "A".

7. In my letters to the seven annuity providers, the Plan was not specifically identified and Canada Life was referred to as ABC Canada Ltd.

8. By June 12, 2012, Mercer had been advised by each of the seven annuity providers that they would not be submitting an annuity quote in respect of the Integration PWU. There were two principal reasons given as to why each company was not prepared to quote. The first relates to the large percentage of individuals in the Integration PWU group who are entitled to a deferred pension (as opposed to an immediate pension). Given the longer time horizon over which deferred annuity payments are paid, insurers prefer quoting on annuity business where the proportion of deferred members to immediate pensioners is low.

9. The second reason for not providing an annuity quote articulated by the majority of the annuity providers related to the complicated indexing feature of the Plan (described in detail starting at page 12 of my letter). The concern was this feature would make the underwriting extremely difficult.

10. Some of the other concerns articulated by the seven annuity providers, in terms of why they were not prepared to quote for this group, included the high liability value of the group, the administrative complexity of the Plan, and the difficulty in finding suitable assets to appropriately match the liability of this annuity obligation stream.

11. Given the reasons provided by these seven companies as to why they were not prepared to provide an annuity quote in connection with the Integration PWU members, I think it is very unlikely that any of these insurance companies (which are the companies generally willing to provide group annuity quotes), if approached again, would quote on providing annuities for this group.

Indexed Annuity Pricing

12. Based upon my experience, I fully expect that even if an annuity quote could be obtained from an annuity provider for indexed pensions, where the indexing is solely linked to changes in the level of the Consumer Price Index (CPI), that any quote obtained would be substantially higher than the estimate that is generated by the application of the applicable Educational Note on estimating the cost of purchasing annuities issued by the Canadian Institute of Actuaries' Committee on Pension Plan Financial Reporting (the "Committee"). In recent years, to the extent that Canadian annuity providers have been prepared to quote on providing indexed annuities, where the indexing is linked to CPI, these quotes have been substantially higher than the estimated cost of purchasing these same annuities as per the guidance from the Committee.

13. I am aware of a Mercer client who went to market in 2012 to obtain indexed annuity quotes for pensions where the indexing was linked to CPI. Mercer received quotes from two insurers on the 220 members in question. Based upon Mercer's actuarial calculations, the implied discount rate utilized by the annuity providers who submitted the quotes was approximately 165 to 184 basis points lower than the discount rate guidance provided in the Committee's Educational Notes to estimate the cost of buying an indexed annuity. In other words, the cost to the Mercer client to purchase these indexed annuities was substantially higher than the estimated cost to purchase the indexed annuities based on the Committee's guidance.

SWORN BEFORE ME at the City of Toronto in the Province of Ontario, on September 21, 2012.

Commissioner for Taking Affidavits	**LINDA GREIG**

Elliot Patterson Saccucci, a Commissioner, etc., Province of Ontario, while a Student-at-Law. Expires April 27, 2014.

DAVID KIDD et al.	**- and -**	**THE CANADA LIFE ASSURANCE COMPANY et al.**	Court File No. 05-CV-287556CP
Plaintiffs		Defendants	

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at TORONTO
Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF LINDA GREIG
(Sworn September 21, 2012)

BLAKE, CASSELS & GRAYDON LLP
Barristers and Solicitors
199 Bay Street
Suite 4000, Commerce Court West
Toronto, ON M5L 1A9

Jeff Galway (LSUC #: 28423P)
Tel: (416) 863-3859
Fax: (416) 863-2653

Lawyers for the Defendant,
The Canada Life Assurance Company

TAB A

Exhibit "A"

Linda M. B. Greig
Senior Associate

161 Bay Street, P.O. Box 501
Toronto, Ontario M5J 2S5
416 868 2592
Fax 416 868 2131
linda.greig@mercer.com
www.mercer.ca

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Private & Confidential
Ms. Christine Romano
Director, Payout Annuity Pricing
Group Retirement Services
Sun Life Financial
225 King Street West, 15th Floor
Toronto, Ontario
M5V 3C5

14 May 2012

Subject: Request for Annuity Quote
Pension Plan for Employees of ABC Canada Ltd. (the "Plan")
Registration No. 1234567

Dear Christine:

ABC Canada Ltd. ("ABC") is the administrator of the above-noted Plan. On behalf of ABC, we invite you to submit a quotation on annuities for certain employees who are former members, retirees or beneficiaries included in the partial wind-up of the Plan. The Plan is registered under the *Pension Benefits Act* of Ontario and was partially wound up in 2005.

All the annuitants' data are detailed in the attached schedules as follows:

Group 1 Immediate annuities for 51 annuitants entitled to receipt of monthly pension payments from the Plan; and deferred annuities for 230 deferred annuitants.

Group 2 Immediate annuities for 51 annuitants entitled to receipt of monthly pension payments from the Plan; and deferred annuities for 230 deferred annuitants.

Group 3 Immediate annuities for 51 annuitants entitled to receipt of monthly pension payments from the Plan; and deferred annuities for 230 deferred annuitants.

Group 4 Immediate annuities for 52 annuitants entitled to receipt of monthly pension payments from the Plan; and deferred annuities for 229 deferred annuitants.

Group 5 Immediate annuities for 52 annuitants entitled to receipt of monthly pension payments from the Plan; and deferred annuities for 229 deferred annuitants.

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Please see the attached Description of Data Fields; these are included in the schedules.

Pensions for each annuitant are either indexed pensions or non-indexed pensions after retirement as indicated in the attached schedules (Post retirement indexing flag).

You are invited to submit a bid for any one or more Groups or on all the Groups. Please be specific in indicating which Groups you are bidding on as well as the pricing implications. Please specify if you would offer a bid improvement if more than one Group is placed with you.

For the immediate annuitants and the deferred annuitants in each Group, please insert the single premium for the pension amount in respect of each of the annuitants listed in the respective schedules. **Please note that the single premium for each annuitant must be entered in the attached schedules provided; otherwise, your quote will not be considered.**

The balance of this letter covers the following sections:

1. Immediate Annuitants
2. Deferred Annuitants
3. Plan Provisions for Deferred Annuitants
4. Administrative Arrangement for Assuris Split Pensions
5. Special Provision for Shortened-Life Expectancy
6. Indexation
7. Data Adjustments
8. Commissions and Other Conditions
9. Timetable
10. Information Required with the Quotation

The following documents are included as attachments to this request for annuity quote. These attached documents require your completion as part of your response to this request.

- Annuity Checklist
- Annuity Quote Questionnaire
- Annuity Quote Summary
- Insurer Quality Questionnaire

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1. Immediate Annuitants

(a) Payment of Benefits

The selected insurer will be expected to provide monthly payments for the immediate annuitants beginning with the **September 30, 2012 / October 1, 2012** payment. Most pensions are payable at the end of each month, however, for some annuitants, pensions are payable at the beginning of the month. The first payment is coincident with the annuitant's retirement date. For payments made on the last day of the month, the last payment is the payment coinciding with or immediately preceding the date of death of the annuitant, (subject to the form of pension selected). For greater clarity, the last payment for a pension that is payable at the beginning of the month is due on the first of the month of the annuitant's death.

(b) Forms of Pension

The forms under which pensions are payable are shown in the attached schedules. An explanation of each code is provided in the attached Description of Form of Pension Codes in the Description of Data Fields document.

2. Deferred Annuitants

Details of the Plan provisions applicable to each deferred annuitant are described in Section 3 below. Annuitants may have Class A, Class B and Class C benefits. The provisions applicable to each class are specified below.

Portability

All benefits accrued to the deferred annuitants are fully vested and are **non-commutable, subject to section 5 of this letter on shortened life expectancy or as required under applicable pension legislation.** These annuitants are not entitled to any lump sum or transfer options because they have already been offered their options and have elected (or have been deemed to have elected) a deferred or immediate pension.

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The commuted values of the benefits for the deferred annuitants where portability is required are to be calculated at the time the portability right is exercised by the annuitant, using the transfer value prescribed under the pension legislation applicable to the annuitant in effect at that time.

3. Plan Provisions for Deferred Annuitants

The following provisions apply to all the deferred annuitants, except where otherwise indicated. The monthly pension amount shown for the deferred annuitants is the amount payable at the earliest unreduced retirement date in the "normal form" of pension.

(a) Normal Retirement Date

The Normal Retirement Date:

(i) for Class A pensions, is the last day of the month in which the annuitant attains age 65;

(ii) for Class B pensions, is the last day of the month in which the annuitant attains age 60;

(iii) for Class C pensions, is the first day of the month coincident with or immediately following the annuitant's attainment of age 65.

If an annuitant has Class A and Class B pensions, these pensions must commence at the same time If the annuitant elects to commence his/her pension between age 60 and age 65, his/her Class A pension is reduced according to the appropriate retirement reduction for Class A pension, and his/her Class B pension is actuarially increased from his/her Class B normal retirement date to the pension commencement date.

If the annuitant has a Class C pension, the annuitant may commence the Class C pension at the same time as another Class pension or at a different time.

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(b) Normal Forms of Pension for Class A and Class B

The normal form of payment for the annuitant's benefit is determined at pension commencement. After such date the form of payment cannot be changed.

(i) Annuitant with a Spouse

For an annuitant with a spouse on pension commencement, the normal form of payment is a joint and survivor pension reducing to 60% on the death of the annuitant and payable to the later of the spouse's death and 60 months measured from the annuitant's pension commencement date. If the annuitant's spouse predeceases the annuitant, 60% of the pension continues after the annuitant's death to the annuitant's beneficiary or, if none, to the annuitant's estate, ceasing with the payment due for the later of the 60th monthly payment and the month coincident with or immediately preceding the annuitant's death. Alternatively, the annuitant's beneficiary or the administrator of the annuitant's estate may direct the commuted value of the remaining payments be made in a lump sum.

If there is no designated beneficiary or if a designated beneficiary predeceases the annuitant, the commuted value will be paid in a lump sum to the annuitant's estate. If a designated beneficiary, as a result of an annuitant's death, is entitled to payments of the benefits and the beneficiary dies before receiving any or all of the payments due to the beneficiary, the commuted value of the payments will be paid in a lump sum to the beneficiary's estate.

(ii) Annuitant without a Spouse

For an annuitant who does not have a spouse on pension commencement the normal form is one which is payable in equal monthly instalments for the lifetime of the annuitant with 60% of the pension guaranteed until the later of the 120th monthly payment and the month coincident with or immediately preceding the annuitant's death. The annuitant's beneficiary or the annuitant's estate shall be paid the commuted value of any remaining payments in a lump sum cash amount.

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A deferred annuitant with a spouse may not elect any form of pension which provides a benefit to the spouse that is less than 60% of the benefit paid to the annuitant unless a written waiver by the annuitant's spouse (and annuitant, where required) is provided in accordance with applicable pension legislation.

(c) Normal forms of Pension for Class C

The normal form of payment for the annuitant's Class C pension is a lifetime pension guaranteed for 10 years. For a deferred annuitant who has an eligible spouse at date of pension commencement, the following automatic form of pension is payable unless the appropriate waiver is provided.

The pension is payable in an amount as a Joint and Survivor form of pension, as required under applicable pension legislation providing for a continuation of the annuitant's pension to the Spouse after the death of the annuitant, for the Spouse's remaining lifetime. The amount of this pension is the actuarial equivalent of the normal form of pension for a member without a spouse.

(d) Optional Forms of Pension

In lieu of the normal form of pension and subject to the mandatory joint and survivor pension or waiver described in this Section 3, a deferred annuitant may elect any optional form permitted under the Income Tax Act and as allowed by the annuity provider. The amount of the optional form of pension will be the actuarial equivalent of the normal form of pension applicable to the annuitant described in Section 3(b) and (c) above.

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(e) Early Retirement Date

The Early Retirement Date:

(i) for Class A annuitant's pension, is the last day of any month on or after the attainment of age 55; and

(ii) for Class B annuitant's pension, is the last day of any month on or after the attainment of age 50;

(iii) for Class C annuitant's pension, is the first day of any month coincident with or immediately following the attainment of age 55; and

If an annuitant has both Class A pension and Class B pension, the annuitant can elect to commence his/her Class A pension as early as age 50, with the appropriate early retirement reduction (described in more detail below). The annuitant must commence his/her Class A and Class B pensions at the same time. If the annuitant has a Class C pension, the annuitant may commence the Class C pension at the same time as another Class pension or at a different time.

(f) Early Retirement Reductions

There are different early retirement provisions applicable to each class of pensions. The details are as follows:

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For Class A Pensions:

Early Retirement Reduction

If annuitant has:	Early retirement reduction:
Age 60 with more than 30 years of eligibility service	No reduction for early retirement
Age 60 with less than 30 years of eligibility service	The annuitant's pension will be reduced by 0.4% multiplied by the lesser of: • The number of months by which the pension commencement date precedes the annuitant's normal retirement date; and • The number of months by which the annuitant's eligibility service is less than 30 years.
Under age 60 with more than 30 years of eligibility service	The annuitant's pension will be reduced by 0.4% for each month by which the pension commencement date precedes the annuitant's attainment of age 60.
Under age 60 and less than 30 years of eligibility service	The annuitant's pension will be reduced by 0.4% multiplied by: • the number of months by which the pension commencement date precedes the annuitant's normal retirement date; minus • the number of months by which the annuitant's total eligibility service exceeds 25 years.

For annuitants who are entitled to "grow-in" as indicated in the schedules, the eligible service used to determine the early retirement reduction is the sum of the annuitant's eligible service at the annuitant's date of termination and the period between the annuitant's date of termination and the annuitant's pension commencement date. For other annuitants not entitled to "grow-in", the eligible service used is the annuitant's eligible service at the date of termination only.

For annuitants with both Class A and Class B pensions, the annuitant can elect to commence the Class A pension as early as age 50; however the amount of the Class A pension will be reduced so that the amount of Class A pension is the actuarial equivalent of the pension otherwise payable at age 55.

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14 May 2012
Ms. Christine Romano
Sun Life Financial

For Class B Pensions:
The annuitant's normal retirement date pension will be reduced by 0.4% for each month by which the annuitant's pension commencement date precedes the member's normal retirement date.

For Class C Pensions:
If the annuitant meets one of the two criteria below:
– eligible to retire at the date of termination; or
– entitled to "grow-in" as indicated in the schedules,
the annuitant's pension will be calculated as a percentage of the annuitant's normal retirement pension. The percentage is based on the annuitant's age at pension commencement and the annuitant's total eligibility service as specified in the following table:

Years of Eligibility Service*	Attained Age at Early Retirement Date									
	64	63	62	61	60	59	58	57	56	55
15+	100.0	100.0	100.0	100.0	100.0	95.2	90.4	85.6	80.8	76.0
14	95.2	95.2	95.2	95.2	95.2	95.2	90.4	85.6	80.8	76.0
13	95.2	90.4	90.4	90.4	90.4	90.4	90.4	85.6	80.8	76.0
12	95.2	90.4	85.6	85.6	85.6	85.6	85.6	85.6	80.8	76.0
11	95.2	90.4	85.6	80.8	80.8	80.8	80.8	80.8	80.8	76.0
10	95.2	90.4	85.6	80.8	76.0	76.0	76.0	76.0	76.0	76.0
9	95.2	90.4	85.6	80.8	76.0	71.2	71.2	71.2	71.2	71.2
8	95.2	90.4	85.6	80.8	76.0	71.2	66.4	66.4	66.4	66.4
7	95.2	90.4	85.6	80.8	76.0	71.2	66.4	61.6	61.6	61.6
6	95.2	90.4	85.6	80.8	76.0	71.2	66.4	61.6	56.8	56.8
5 or less	95.2	90.4	85.6	80.8	76.0	71.2	66.4	61.6	56.8	52.0

* Eligibility Service includes the deferred period for annuitants entitled to grow-in as indicated in the Appendix.

For other annuitants, the early retirement pension will be actuarially equivalent to the annuitant's pension payable at the normal retirement date.

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(g) Maximum Pension (Tested at Pension Commencement)

The total annual pension payable from the Plan cannot exceed the greater of $1722.22 and the applicable maximum pension limit as specified in the Income Tax Act, Canada at the members' date of termination, multiplied by the annuitant's total pensionable service in respect of the Class of pension being commenced.

The above maximum is reduced by 3% p.a. for each year by which pension commencement precedes the earlier of the date the annuitant would have attained age 60, 30 years of eligibility service or 80 points (age plus eligibility service) if the annuitant's employment had continued. This is referred to as the "ITA Maximum".

Upon pension commencement, the monthly pension payable in respect of the particular Class of pension is equal to the lesser of:

- the annuitant's uncapped pension with the appropriate early retirement reductions if applicable; and,
- the ITA Maximum as described above

(h) Death Benefit Before Pension Commencement

Class A and Class B Pensions

If an annuitant dies before the pension commencement date, the annuitant's spouse will receive an immediate pension equal to 60% of the pension accrued by the annuitant at the annuitant's death, with a guarantee of at least 120 monthly payments. Alternatively, the spouse may elect a deferred pension or a lump sum settlement equal to the value of the immediate pension.

If the annuitant has no spouse, the annuitant's beneficiary will receive a lump sum equal to the commuted value of 120 monthly payments of 60% of the normal retirement date pension accrued by the annuitant up to the annuitant's death.

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In either situation, the death benefit payable to the annuitant's spouse or beneficiary will be at least equal to the commuted value of the annuitant's benefits.

Class C Pensions

If an annuitant dies before the pension commencement date, the annuitant's spouse, or if there is no spouse, the beneficiary, will receive the commuted value of 100% of the annuitant's accrued pension. The annuitant's spouse can elect to have the death benefit paid as an immediate or deferred annuity.

If the annuitant is eligible to retire at the date of death and the annuitant has an eligible spouse, the commuted value of the death benefit payable to the annuitant's spouse will not be less than the commuted value of 60% of the pension the annuitant would receive if the annuitant had elected to commence his/her pension immediately prior to the date of death.

4. Administrative Arrangement for Assuris Split Pensions

The pension amounts of 111 immediate annuitants and 122 deferred annuitants as indicated in the schedules exceed the coverage guaranteed by Assuris. Their pension amounts have been split. The amount indicated under the "Monthly Assuris Split Pension (2) (3) and (4)" fields, to the extent your organization is unable to provide full Assuris coverage, are to be purchased by you, with a different insurer(s) in order to obtain 100% coverage. Each of these pensions is payable on the same terms and conditions as the amounts of pension payable by you in this annuity quotation. Please include the amount of the amount of single premium applicable for each Assuris split in the attached schedules assuming that you are retaining all 5 Groups of members.

The insurance company whose bid is chosen (the lead insurer) for a particular Group is required to handle the administration and payment of the annuities for the split pensions from the secondary insurer(s) for these annuitants. This arrangement would involve the lead insurer in the following responsibilities:

(a) securing proofs of age, as necessary;

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(b) co-ordinating annuity payments (i.e. making one payment in respect of an annuitant's total pension entitlement with appropriate tax withholding, recovering from the secondary insurer any amount guaranteed by the secondary insurer and issuing one T4 for the annuitant's total pension entitlement); and

(c) dealing with annuitants and beneficiaries (on change of payment on death, etc.) and co-ordinating with the secondary insurer involved.

In addtiion, the lead insurer will be responsible for determining the pension at early commencement based on the entire benefit and will be responsible for advising each of the other insurers of the adjusted amounts each insurer is to pay.

Any additional costs, terms and conditions that would apply to the above arrangement should be included on the attached Annuity Quotation Summary.

If pieces of pension can be carried by separate insurance companies within your corporate family, please so indicate in the annuity quotation providing the name of the other insurance company(ies) ("Affiliated Company(ies)"), as well as any additional costs, terms and conditions that would apply.

5. Special Provision for Shortened-Life Expectancy

Where permitted by applicable pension legislation of the province in which the annuitant was employed, in the event that the life expectancy of an annuitant is likely to be considerably shortened by reason of a disability or illness, the value of the annuitant's pension entitlement may be commuted in accordance with the prescribed conditions of the applicable pension legislation.

6. Indexation

The rate of indexing each year for annuitants entitled to indexed pensions, as indicated in the schedules, is based on the current plan indexing formula...that is the lesser of the increase in the cost of living and the average rate of return on the pension fund averaged

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over 15 years. Please see attached documents showing historical indexation, projected examples of future increases, as well as individual examples.

We have provided a summary of the historical fund returns from 1988 onwards and the historical CPI from 2004 onwards for your information. For each year in the future, ABC will provide you with the applicable year's fund return in order for you to calculate the appropriate increase for each individual.

Pension Indexing After Retirement for Class A and B Pensions

The monthly pensions payable to annuitants as indicated in the schedules and their respective spouses and beneficiaries shall be increased each January 1 following the annuitant's pension commencement date. The amount of the pension increase will be equal to (a) minus (b) where:

(a) is the lesser of (i) and (ii):

(i) the annuitant's monthly pension at his or her pension commencement date multiplied by the **cumulative** return based on the excess of the *Current Year Rate for Indexing* over 4% for each year measured from the annuitant's year of pension commencement to January 1 of the year; and,

(ii) the annuitant's monthly pension at his or her pension commencement date multiplied by the **cumulative** *Consumer Price Index Rate* measured from the annuitant's year of pension commencement date to January 1 of the Plan year.

(b) is the annuitant's monthly pension as at December 31 of the previous Plan year.

In no event shall the adjustment on any January 1 decrease the annuitant's pension below the amount of the monthly pension payable on December 31 of the immediately preceding year. The first increase, if any, after pension commencement is pro-rated based on the number of months the annuitant received a pension in the first calendar year of retirement. (For example, if an annuitant retires on August 31, 2003, the increase at January 1, 2004 would be pro-rated based on 5 months out of 12).

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For members with Class B Pensions, the first increase of the Class B Pension shall not take effect until the January 1 following the later of the commencement of the Class B Pension and the attainment of age 60. For greater certainty, this first increase will be the cumulative increase since the commencement of the Class B Pension.

Since the indexing for each individual is based on the cumulative increases in inflation compared to cumulative fund returns since pension commencement, the rate of increase in each particular year may vary from to individual to individual.

Definition of Current Year Rate for Indexing

The Current Year Rate for Indexing means the average of the Plan's fund rates of return over the first 15 of the preceding 16 Plan years.

Definition of Consumer Price Index Rate

The Consumer Price Index Rate means, as of January 1 of any year, the percentage increase in the Consumer Price Index for Canada- All Items (not seasonally adjusted) as published by Statistics Canada from October 31 of the first Plan year of the immediately preceding 2 Plan years to October 31 of the second Plan year of the immediately preceding 2 Plan years.

Pension Indexing After Retirement for Class C Pension

The monthly pensions payable to annuitants and their respective spouses and beneficiaries shall be increased each March 1 based on 50% of the average increase in the Consumer Price Index (all items, not seasonally adjusted) over the last three calendar years. However, in no event can the increase be greater than the previous year's CPI increase. The first increase commences on March 1 after at least 12 monthly payments have been made to the annuitant..

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7. **Data Adjustments**

ABC has tried to verify the data listed in the schedules. While every effort has been made to ensure that the data being provided is accurate, there may be instances where data may be changed at a later date including for pensioners' or spouses' deaths prior to September 30 / October 1, 2012. The Insurer must be willing to make an adjustment to the premium amount to reflect any data updates that will be submitted, on the same actuarial and other basis as that used for the original quote.

In addition there may be small movements from one Group to another or removal of annuitants from the Groups after the premium payment date.

Please confirm that the completion of the purchase is not contingent on 100% verification of the birth dates and any other relevant data.

However, there will be no adjustment to the premium if the correction to the personal data of the annuitants arises after the execution of the annuity contract by the selected insurer and ABC.

8. **Commissions and Other Conditions**

Commissions: No commissions will be payable.

Documents:
- A certificate is to be prepared for each annuitant.
- A welcome letter, approved by Mercer and ABC, is to be prepared for each annuitant and provided with each annuitant's certificate. If there is additional cost involved in the preparation or revision of your standard letter, please indicate the amount of cost.
- An annuity policy is to be prepared for submission to Mercer and ABC.

The selected insurer may wish to distribute a request for proof(s) of age and beneficiary designation, using the insurer's own forms, to those annuitants for whom these are not available.

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If your quotation is accepted, you will be provided with a pensioner file from the current provider containing the SINs of the immediate annuitants, their addresses, banking information, and tax deduction information.

In the event that the contact information for an annuitant is not current, please confirm how you would propose to treat such individual, and whether there would be any additional charges in this event.

Please also confirm the date the pensioner file is required by in order to make the September 30 / October 1, 2012 pensioner payment on time.

9. Timetable

Please submit your quotation before **12:00 noon on Monday, June 4, 2012** at our offices at 161 Bay Street, PO Box 501, Toronto, Ontario, M5J 2S5 (Fax: 416-868-2131 or alternate 416-868-2913) or (e-mail: linda.greig@mercer.com and alternate david.kearney@mercer.com).

Monday, June 4, 2012, 12:00 noon	Quotation to be returned to Mercer
Wednesday, June 6, 2012, 4:00 p.m.	Quotation guarantee expiry date
Wednesday, June 6, 2012, 4:00 p.m.	Acceptance letter to selected insurer
Wednesday, June 20, 2012, 5:00 p.m.	Payment of premium to selected insurer
September 30 / October 1, 2012	First pension payment date

If you are unable to quote on this group annuity, please notify us immediately.

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10. Information Required with the Quotation

Please complete and provide:

1. the single premium for each annuitant by inserting the amount in the field provided on each of the attached schedules;
2. an outline of any conditions in your quotation that do not satisfy the specifications in this letter;
3. the enclosed Annuity Checklist;
4. the attached Annuity Quote Questionnaire;
5. the attached Annuity Quote Summary; and
6. the attached Insurer Quality Questionnaire.

Please also confirm or indicate:

1. that your quotation will be guaranteed and irrevocable until 4:00 p.m. **June 6, 2012;**

2. that the immediate annuitants will receive their first pension payment on **September 30 / October 1, 2012;**

3. that there will be an adjustment to the single premium amount in the event of the death of an immediate annuitant occurring before the first pension payment date, September 30 / October 1, 2012;

4. that you will make an adjustment to the premium amount, if necessary, on the same actuarial and other basis as that used for the original quote, in the event of:
   - correction to the personal data of the annuitants;
   - the death of a deferred annuitant, or
   - the removal of a deferred annuitant from the attached schedules, or
   - the addition of a deferred annuitant who was included in the wind-up of the Plan and who elects a pension option after the mailing of this letter.

   However, there will be no adjustment to the premium if the correction to the personal data of the annuitants arises after the execution of the annuity contract by your company and ABC;

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5. the basis on which you will determine the "actuarial equivalent" of any benefit to be provided in accordance with the terms of this letter and your quotation;

6. that in the event an actuarial commuted value calculation is required, your company will use the basis as prescribed by the applicable pension legislation in effect at the relevant time;

7. the basis used for the quotation (including interest rates, mortality by age if a standard mortality table is not used, and expense factors). **We will treat this information in strict confidence and we will use it only to confirm the reasonableness of the single premium quoted in relation to the underlying assumptions;**

8. that there are no additional administration fees once the annuity has been purchased;

9. the basis on which you will adjust the single premium should the transfer of premium not occur on the agreed-upon date; and

10. the person at your company who may be contacted on June 6, 2012 to confirm the acceptance of your quotation, if accepted, including telephone and fax number.

If ABC accepts a particular quotation, such acceptance shall be communicated to the selected insurer by letter delivered electronically or via facsimile transmission to the insurer at the address set out in the insurer's quotation at or before 4:00 p.m. on **June 6, 2012**.

On **June 20, 2012**, ABC shall deliver to the selected insurer payment in an amount equal to the insurer's quotation. Payment to the insurer may be made by such means as ABC and the insurer mutually agree.

This letter, the attached Schedules, Appendices and all related materials are provided to the recipients in the strictest of confidentiality, and solely for the purpose of facilitating the annuity purchase. No documentation may be released to any person outside of the recipient insurance company's employment without Mercer's prior written authorization.

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Please remember to include all of the requested information and data, and return to:

Mercer
Attention: Linda Greig and (alternate) David Kearney
161 Bay Street, PO Box 501
Toronto, Ontario M5J 2S5
Fax No. (416) 868-2913
E-mail: linda.greig@mercer.com and david.kearney@mercer.com

If you have any questions, please feel free to contact Linda Greig at 416-868-2592 or David Kearney at 416-868-2068.

Sincerely,

Linda B Greig

Linda M. B. Greig
Senior Associate

Copy: Doug Johnson, Mercer
David Kearney, Mercer
Ben Ukonga, Mercer
Sally Chan, Sun Life

Enclosures

1. Annuity Checklist
2. Annuity Quote Questionnaire
3. Annuity Quote Summary
4. Insurer Quality Questionnaire
5. Annuitant Data Files (5 Groups)
6. Annuity Data – Field descriptions
7. Plan Indexation – historical data and example of projection
8. Sample indexation calculation

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ANNUITY CHECKLIST

Pensión Plan for Employees of ABC Canada Ltd.

Insurer: ______________________________

Have you completed and returned the Annuity Quote Questionnaire by June 4, 2012? ☐

Have you provided the documentation requested and outlined any conditions in your quotation that do not satisfy the specifications as requested in Section 10? ☐

Have you responded to items 1 - 10 in Section 10? ☐

Have you included the Annuity Quote Summary? ☐

Have you filled in the "Single Premium" for each annuitant in the respective fields in each of the schedules for each Group? ☐

Have you provided the information requested in the Insurer Quality Questionnaire? ☐

Please return all material to:

Linda Greig and David Kearney
Mercer
161 Bay Street, P.O. Box 501
Toronto, Ontario M5J 2S5
Fax: (416) 868-2913
E-mail: david.kearney@mercer.com and linda.greig@mercer.com

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ANNUITY QUOTE QUESTIONNAIRE

Pension Plan for Employees of ABC Canada Ltd.

Insurer: ______________________

1. Under which regulatory authority(ies) is your insurance company licensed to conduct annuity business in Canada.

   ____

2. How frequently (i.e. monthly, quarterly, annually, etc.) is your corporate licence to conduct business being renewed?

   ____

3. Is your insurance company a member of Assuris, and will the annuities issued be of the type which are guaranteed by Assuris? If not, please explain.

   ____

4. At the last calculation date (please specify date), what was your insurance company's available capital and surplus as a percentage of the Minimum Continuing Capital and Surplus Requirement (MCCSR) established in accordance with the CLHIA formula?

   ______________________ at date: ______________________

5. If this case were awarded to your insurance company, to what extent would the figure in 4 above change?

   ____

Prepared by*: ______________________

Name: ______________________

Date: ______________________

* This Questionnaire should be signed by an officer of the insurance company.

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ANNUITY QUOTE SUMMARY

Pension Plan for Employees of ABC Canada Ltd.

Insurer: ______________________

Return to: Linda Greig and David Kearney
Mercer
161 Bay Street, P.O. Box 501
Toronto, Ontario M5J 2S5
Fax: (416) 868-2913 E-mail: linda.greig@mercer.com
david.kearney@mercer.com

	Total Lives	Total Pension	Premium
• Group 1 (pensioners)			
• Group 1 (deferreds)			
Subtotal Group 1			
• Group 2 (pensioners)			
• Group 2 (deferreds)			
Subtotal Group 2			
• Group 3 (pensioners)			
• Group 3 (deferreds)			
Subtotal Group 3			
• Group 4 (pensioners)			
• Group 4 (deferreds)			
Subtotal Group 4			
• Group 5 (pensioners)			
• Group 15(deferreds)			
Subtotal Group 5			
Grand Total			

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ANNUITY QUOTE SUMMARY (cont'd)

Total Single Premium for all Groups Insurer will accept $ ____________________

Please specify which Group or combination of Groups that the Insurer is willing to accept.

Group	Yes/No
1	
2	
3	
4	
5	

The person responsible for making binding decisions for the insurance company, if a decision must be made during the period for which the quotation is guaranteed, or if adjusted single premium figures are required once the guarantee expires, is:

Name: ____________________

Title: ____________________

Insurance Company: ____________________

Address: ____________________

Telephone Number: ____________________

Fax Number: ____________________

Prepared By: ____________________
(signature)

Name: ____________________ Date: ____________________
(Please Print)

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INSURER QUALITY QUESTIONNAIRE

Pension Plan for Employees of ABC Canada Ltd.

Insurer: ______________________________

1. Briefly describe your organisation that is issuing the annuity contracts including:

   - Brief history of the firm (including purchases and divestitures)
   - The ownership structure and type of insurance company
   - The date the firm was established in Canada

2. Please provide a copy of the most recent reports on your rating by independent credit rating agencies, if such ratings exist. Has your rating been adjusted downward over the last 5 years? If so, briefly explain what has contributed to such changes.

3. Please confirm your volume of annuity business as at December 31, 2011 (and that of your Affiliated Company, if applicable) in terms of:

   - Annual amount of pension paid;
   - Number of cheques issued each month;
   - Number of direct deposits made each month;
   - Actuarial reserve for annuities in the course of payment;
   - Actuarial reserve for deferred annuities.

4. Please confirm whether or not the group annuity business or some portion of the group annuity business is reinsured.

5. Please confirm that you will provide an information package for each former member for whom a deferred annuity is purchased prior to the start date of their respective annuity and confirm what is included in the package.

6. Please confirm your services for the annuitants including:

   - How the annuitants will contact you for questions or changes
   - Your service standards for responding to annuitants questions
   - Your service standards for annuitant transactions
   - Your service standards for providing information packages

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Pension Plan for Employees of ABC Canada Ltd.

Annuity Data

Description of Data Fields

Description of Data Fields

Field Name	Field Description
EE Number	Unique employee identification number
Gender	M for male F for female
Birth Date	
Date of Employment	
Date of Plan Entry	
Class A Pensionable Service	Pensionable service under Class A provisions
Class B Pensionable Service	Pensionable service under Class B provisions
Prior Plan Eligibility Service	Prior plan service to be used for eligibility purposes
Total Eligibility Service	Total service to be used for eligibility purposes
Province of Employment	*AB, BC, MB, NB, NL, NS, ON, PE, QC, SK*
Marital Status Statement Date at July 1, 2011	S for single M for married
Spouse date of birth at statement date	
Member Date of Death	
Survivor Date of Death	
Termination Date	
Normal retirement date	
Earliest unreduced retirement date	
Pension commencement date	
For pension in payment	
Post Retirement Indexing Flag	FALSE Pension not indexed TRUE Pension indexed annually after pension commencement
Uncapped Monthly Pension	Uncapped monthly lifetime pension payable at earliest unreduced retirement date
Pension Form	Form of payment for monthly pension commenced on pension commencement date, as described below
Date of Last Guaranteed Payment	
Survivor Percentage	

ROR Pension	Monthly registered plan pension at Pension Commencement Date multiplied by the cumulative return based on the excess of the Current Year Rate[1] for Indexing over 4% for each year to January 1, 2012.
CPI Pension	Monthly registered plan pension at Pension Commencement Date multiplied by the cumulative Consumer Price Index for each year to January 1, 2012
Pension in Pay	Monthly registered plan pension in pay as at January 1, 2012 (with/without indexing, as applicable)
Grow-in flag	Flag for members entitled to grow-in

Description of Pension Form Codes

Code	Description
LA	Life only pension
CC	Life pension with a guarantee period, with 100% of the pension guaranteed during the guarantee period
CCRXX	Life pension with a guarantee period, reducing on death of member with XX% of the pension guaranteed during the guarantee period
CO	Term Certain, pension ends on end date provided
CA	Joint & Survivor pension with no guarantee period
CAC	Joint & Survivor pension with a guarantee period, 100% of the pension guaranteed during the guarantee period, reducing to survivor percentage on the later of death of member and end of guarantee period
CACRXX	Joint & Survivor pension with a guarantee period, with XX% of the pension guaranteed during the guarantee period
JLCRXX	Joint & Last Survivor pension with a guarantee period, with, XX% of the pension guaranteed during the guarantee period

[1] Current Year Rate for Indexing is defined in the RFQ document

Description of Indexing Codes

Code	Description
A	No indexing
G	Guaranteed Post retirement indexing
L	Guaranteed post retirement indexing for Class B pensions – for early retirements, no indexing prior to age 60, cumulative indexing giving January 1 of year following attainment of age 60
N	No indexing

Description of Pension Forms for Class C Pensions

Code	Description
Life Guaranteed - #	Life with a guarantee period, 100% of pension guaranteed
J&S XX% - No Guar	Joint & Survivor pension, XX% continuing to spouse on death of member
J&S XX% - Guar #	Joint & Survivor with a guarantee, 100% of the pension is guaranteed during the guarantee period, reducing to XX% on later of death of member and end of the guarantee period
Class C Pension Guarantee	Years of guaranteed payments from date of pension commencement
Class C Monthly Pension	Monthly registered plan pension as at February 1, 2012

Description of Status Codes

Code	Description
Deferred	Terminated vested and elected (or was deemed to have elected) a deferred pension for Class A, Class B, and/or Class C service
Deferred (Retired for Class C Service)	Terminated vested and elected a deferred pension for Class A service, and elected to commence pension for Class C service.
Retired	Commenced pension for Class A, Class B, and/or Class C service on pension commencement date
Retired (beneficiary)	Commenced pension for Class A, Class B, and/or Class C service on pension commencement date, deceased on Member Date of Death with beneficiary in receipt of pension
Retired (Deferred Class C Service)	Commenced pension for Class A and/or Class B service on pension commencement date, and elected a deferred pension for Class C service

Pension Plan for Employees of ABC Canada Ltd.
Sample Post Retirement Pension Increases

			DOR = March 31, 2003				DOR = June 30, 2003			
Year	Current Yr. Rate of Indexing - 4%	Consumer Price Index Rate	(1)	(2)	Min(1, 2)	% Increase	(1)	(2)	Min(1, 2)	% Increase
2003			$1,000	$1,000	$1,000	n/a	$1,000	$1,000	$1,000	n/a
2004	5.000%	1.580%	$1,042	$1,013	$1,013	1.32%	$1,029	$1,009	$1,009	0.92%
2005	4.940%	2.290%	$1,093	$1,036	$1,036	2.29%	$1,080	$1,032	$1,032	2.29%
2006	4.570%	2.640%	$1,143	$1,064	$1,064	2.64%	$1,129	$1,060	$1,060	2.64%
2007	5.820%	0.930%	$1,210	$1,074	$1,074	0.93%	$1,195	$1,069	$1,069	0.93%
2008	5.340%	2.470%	$1,274	$1,100	$1,100	2.47%	$1,259	$1,096	$1,096	2.47%
2009	4.950%	2.600%	$1,337	$1,129	$1,129	2.60%	$1,321	$1,124	$1,124	2.60%
2010	2.880%	0.090%	$1,376	$1,130	$1,130	0.09%	$1,359	$1,125	$1,125	0.09%
2011	3.880%	2.440%	$1,429	$1,157	$1,157	2.44%	$1,412	$1,153	$1,153	2.44%
2012	3.490%	2.900%	$1,479	$1,191	$1,191	2.90%	$1,461	$1,186	$1,186	2.90%

			DOR = March 31, 2004				DOR = June 30, 2004			
Year	Current Yr. Rate of Indexing - 4%	Consumer Price Index Rate	(1)	(2)	Min(1, 2)	% Increase	(1)	(2)	Min(1, 2)	% Increase
2004			$1,000	$1,000	$1,000	n/a	$1,000	$1,000	$1,000	n/a
2005	4.940%	2.290%	$1,041	$1,019	$1,019	1.91%	$1,028	$1,013	$1,013	1.34%
2006	4.570%	2.640%	$1,089	$1,046	$1,046	2.64%	$1,076	$1,040	$1,040	2.64%
2007	5.820%	0.930%	$1,152	$1,056	$1,056	0.93%	$1,138	$1,050	$1,050	0.93%
2008	5.340%	2.470%	$1,214	$1,082	$1,082	2.47%	$1,199	$1,076	$1,076	2.47%
2009	4.950%	2.600%	$1,274	$1,110	$1,110	2.60%	$1,259	$1,104	$1,104	2.60%
2010	2.880%	0.090%	$1,310	$1,111	$1,111	0.09%	$1,295	$1,105	$1,105	0.09%
2011	3.880%	2.440%	$1,361	$1,138	$1,138	2.44%	$1,345	$1,132	$1,132	2.44%
2012	3.490%	2.900%	$1,409	$1,171	$1,171	2.90%	$1,392	$1,164	$1,164	2.90%

			DOR = March 31, 2005				DOR = June 30, 2005			
Year	Current Yr. Rate of Indexing - 4%	Consumer Price Index Rate	(1)	(2)	Min(1, 2)	% Increase	(1)	(2)	Min(1, 2)	% Increase
2005			$1,000	$1,000	$1,000	n/a	$1,000	$1,000	$1,000	n/a
2006	4.570%	2.640%	$1,038	$1,022	$1,022	2.20%	$1,027	$1,015	$1,015	1.54%
2007	5.820%	0.930%	$1,098	$1,032	$1,032	0.93%	$1,086	$1,025	$1,025	0.93%
2008	5.340%	2.470%	$1,157	$1,057	$1,057	2.47%	$1,144	$1,050	$1,050	2.47%
2009	4.950%	2.600%	$1,214	$1,084	$1,084	2.60%	$1,201	$1,077	$1,077	2.60%
2010	2.880%	0.090%	$1,249	$1,085	$1,085	0.09%	$1,238	$1,078	$1,078	0.09%
2011	3.880%	2.440%	$1,298	$1,112	$1,112	2.44%	$1,284	$1,105	$1,105	2.44%
2012	3.490%	2.900%	$1,343	$1,144	$1,144	2.90%	$1,328	$1,137	$1,137	2.90%

			DOR = March 31, 2011				DOR = June 30, 2011			
Year	Current Yr. Rate of Indexing - 4%	Consumer Price Index Rate	(1)	(2)	Min(1, 2)	% Increase	(1)	(2)	Min(1, 2)	% Increase
2011			$1,000	$1,000	$1,000	n/a	$1,000	$1,000	$1,000	n/a
2012	3.490%	2.900%	$1,029	$1,024	$1,024	2.42%	$1,020	$1,017	$1,017	1.68%

Pension Plan for Employees of ABC Canada Ltd.

HISTORIC DATA

Year	Fund Rate of Return	Current Year Rate for Indexing	Current Year Rate for Indexing minus 4%	CPI Inflation
1987	5.10%			
1988	14.70%			
1989	16.40%			
1990	-2.90%			
1991	17.70%			
1992	6.60%			
1993	20.90%			
1994	-3.59%			
1995	14.42%			
1996	20.87%			
1997	14.04%			
1998	8.65%			
1999	14.21%			
2000	9.00%			
2001	-5.89%			
2002	-10.08%			
2003	13.71%	10.01%	6.01%	3.21%
2004	10.98%	9.00%	5.00%	1.58%
2005	15.82%	8.94%	4.94%	2.29%
2006	10.51%	8.57%	4.57%	2.64%
2007	0.67%	9.82%	5.82%	0.93%
2008	-10.15%	9.34%	5.34%	2.47%
2009	11.43%	8.95%	4.95%	2.60%
2010	8.62%	6.88%	2.88%	0.09%
2011	3.20%	7.88%	3.88%	2.44%
2012		7.49%	3.49%	2.90%

2011 fund rate of return not finalized

Pension Plan for Employees of ABC Canada Ltd.

PROJECTING FUTURE INCREASES-EXAMPLE
Assumed Fund Rate of Return 5.5%
Assumed Increase in CPI 2.0%

Year	Fund Rate of Return	Current Year Rate for Indexing	Current Year Rate for Indexing minus 4%	CPI Inflation
1987	5.10%			
1988	14.70%			
1989	16.40%			
1990	-2.90%			
1991	17.70%			
1992	6.60%			
1993	20.90%			
1994	-3.59%			
1995	14.42%			
1996	20.87%			
1997	14.04%			
1998	8.65%			
1999	14.21%			
2000	9.00%			
2001	-5.89%			
2002	-10.08%			
2003	13.71%			
2004	10.98%	9.00%	5.00%	1.58%
2005	15.82%	8.94%	4.94%	2.29%
2006	10.51%	8.57%	4.57%	2.64%
2007	0.67%	9.82%	5.82%	0.93%
2008	-10.15%	9.34%	5.34%	2.47%
2009	11.43%	8.95%	4.95%	2.60%
2010	8.62%	6.88%	2.88%	0.09%
2011	3.20%	7.88%	3.88%	2.44%
2012	5.50%	7.49%	3.49%	2.90%
2013	5.50%	6.31%	2.31%	2.00%
2014	5.50%	5.75%	1.75%	2.00%
2015	5.50%	5.54%	1.54%	2.00%
2016	5.50%	4.95%	0.95%	2.00%
2017	5.50%	4.72%	0.72%	2.00%
2018	5.50%	5.48%	1.48%	2.00%
2019	5.50%	6.52%	2.52%	2.00%
2020	5.50%	5.97%	1.97%	2.00%
2021	5.50%	5.61%	1.61%	2.00%
2022	5.50%	4.92%	0.92%	2.00%
2023	5.50%	4.58%	0.58%	2.00%
2024	5.50%	4.91%	0.91%	2.00%
2025	5.50%	5.95%	1.95%	2.00%
2026	5.50%	5.55%	1.55%	2.00%
2027	5.50%	5.35%	1.35%	2.00%
2028	5.50%	5.50%	1.50%	2.00%
2029	5.50%	5.50%	1.50%	2.00%
2030	5.50%	5.50%	1.50%	2.00%

2011 fund rate of return not finalized

Appendix D -Projection 2

PROJECTING FUTURE INCREASES-EXAMPLE
Assumed Fund Rate of Return 6.5%
Assumed Increase in CPI 2.0%

Year	Fund Rate of Return	Current Year Rate for Indexing	Current Year Rate for Indexing minus 4%	CPI Inflation
1987	5.10%			
1988	14.70%			
1989	16.40%			
1990	-2.90%			
1991	17.70%			
1992	6.60%			
1993	20.90%			
1994	-3.59%			
1995	14.42%			
1996	20.87%			
1997	14.04%			
1998	8.65%			
1999	14.21%			
2000	9.00%			
2001	-5.89%			
2002	-10.08%			
2003	13.71%			
2004	10.98%	9.00%	5.00%	1.58%
2005	15.82%	8.94%	4.94%	2.29%
2006	10.51%	8.57%	4.57%	2.64%
2007	0.67%	9.82%	5.82%	0.93%
2008	-10.15%	9.34%	5.34%	2.47%
2009	11.43%	8.95%	4.95%	2.60%
2010	8.62%	6.88%	2.88%	0.09%
2011	3.20%	7.88%	3.88%	2.44%
2012	6.50%	7.49%	3.49%	2.90%
2013	6.50%	6.31%	2.31%	2.00%
2014	6.50%	5.81%	1.81%	2.00%
2015	6.50%	5.67%	1.67%	2.00%
2016	6.50%	5.15%	1.15%	2.00%
2017	6.50%	4.99%	0.99%	2.00%
2018	6.50%	5.81%	1.81%	2.00%
2019	6.50%	6.92%	2.92%	2.00%
2020	6.50%	6.44%	2.44%	2.00%
2021	6.50%	6.14%	2.14%	2.00%
2022	6.50%	5.52%	1.52%	2.00%
2023	6.50%	5.25%	1.25%	2.00%
2024	6.50%	5.64%	1.64%	2.00%
2025	6.50%	6.75%	2.75%	2.00%
2026	6.50%	6.42%	2.42%	2.00%
2027	6.50%	6.28%	2.28%	2.00%
2028	6.50%	6.50%	2.50%	2.00%
2029	6.50%	6.50%	2.50%	2.00%
2030	6.50%	6.50%	2.50%	2.00%

2011 fund rate of return not finalized

TAB 2

Court File No. 05-CV-287556CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N:

DAVID KIDD, ALEXANDER HARVEY, JEAN PAUL MARENTETTE, GARRY C. YIP, LOUIE NUSPL, SUSAN HENDERSON and LIN YEOMANS

Plaintiffs

- and -

THE CANADA LIFE ASSURANCE COMPANY, A.P. SYMONS, D. ALLEN LONEY and JAMES R. GRANT

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF WALLACE B. ROBINSON (Sworn September 24, 2012)

I, **WALLACE B. ROBINSON**, of the City of London, in the Province of Ontario, MAKE OATH AND SAY:

1. I am Assistant Vice-President, Pension Benefits, at The Canada Life Assurance Company ("Canada Life"). I am a Fellow – Canadian Institute of Actuaries and a Fellow – Society of Actuaries and I am familiar with The Canada Life Canadian Employees Pension Plan (the "Plan") and the proposed settlement of this proceeding. I therefore have knowledge of the matters to which I swear in this affidavit, except where such knowledge is stated to be based on information and belief, in which case I believe those facts to be true.

Estimate of the Integration Partial Wind Up Surplus

2. As of the date of the settlement approval motion in this matter (January 27, 2012), the most recent Mercer estimates of the surplus in the Plan attributable to the Integration partial wind up (the "Integration PWU") and the Indago, Adason and Pelican proposed partial wind ups (the "Indago PWU", "Adason PWU" and "Pelican PWU", respectively) was approximately $64.3M (Integration PWU $54M; Pelican PWU $2.9M; Indago PWU $1.3M and Adason PWU $6.1M). These estimates were as at a point in time namely as at June 30, 2011.

3. Between June 30, 2011 and December 31, 2011, however, there were two external events which significantly impacted the estimate of the Integration PWU surplus causing a decrease in the estimated surplus. As discussed in a memorandum entitled "Canada Life Canadian Employees Pension Plan –Partial Wind-Up Surplus

Update" (attached to my affidavit as Exhibit "A"), the two biggest factors contributing to the decrease in the estimated surplus attributable to the Integration PWU between June 30, 2011 and December 31, 2011 were the dramatic and persistent drop in interest rates over the relevant period and the fact that significantly more Integration PWU members than expected elected (or were deemed to have elected) a guaranteed pension as opposed to transferring the commuted value of their pension entitlement out of the Plan.

4. Subsequent to the settlement approval motion, Canada Life was advised by Mercer that as at December 31, 2011 the estimated surplus attributable to the Integration PWU had decreased from approximately $54M to approximately $8M (assuming all Integration PWU members who had not yet chosen their payment option with respect to their basic benefits were deemed to have elected to receive a guaranteed pension).

5. The most recent estimate of the Integration PWU surplus provided by Mercer (as at August 31, 2012) is $3.1M. The assumptions used to generate this estimate are contained in a report prepared by Mercer dated September 12, 2012. A copy of this report is attached to my affidavit as Exhibit "B" (see scenario 2 – page 5).

Transfer of Integration PWU Members to Ongoing Plan

6. In May of this year, acting upon Canada Life's direction, Mercer approached seven annuity providers and asked them to quote on providing annuities for the Integration PWU members who had elected (or were deemed to have elected) to receive a guaranteed pension. None of the seven annuity providers in question were prepared to quote on this business.

7. As plan administrator, Canada Life is required under the *Pensions Benefits Act* (Ontario) to settle the basic benefits of persons affected by a partial wind up. Given the fact that no insurer was prepared to quote on providing annuities, in order to complete the Integration PWU and in order to implement the settlement, Canada Life's only option is to settle basic benefits by transferring the assets and liabilities related to these Integration PWU members into the on-going portion of the Plan and pay the pensions for this group out of the Plan. This transfer would be done in accordance with Financial Services Commission of Ontario ("FSCO") policy W100-233 (a copy of which is attached hereto as Exhibit "C"). As discussed in this policy, FSCO's position is that plan administrators are not required to purchase annuities for members affected by a partial plan wind-up; instead, administrators can settle the basic benefits of affected partial wind-up members by transferring the assets and liabilities of those members to the on-going portion of the pension plan.

8. As discussed at page 3 of the FSCO policy, where annuities are purchased for partial wind-up members through an insurance company, the cost to settle the liabilities is known and the partial wind-up surplus or deficit is the amount left after the annuity purchase cost and plan wind-up expenses are deducted from the partial wind-up assets.

9. The FSCO policy goes on to note that where an administrator chooses not to purchase annuities for the partial wind up members, the transfer of assets and liabilities to the ongoing plan is based upon the estimated cost of purchasing annuities. This estimate is to be calculated based on guidance contained in Educational Notes published by the Canadian Institute of Actuaries' Committee on Pension Plan Financial Reporting (the "CIA Committee").

10. The estimated Integration PWU surplus of $3.1M as at August 31, 2012 (referred to in paragraph 5 above) is based upon the estimated cost of purchasing annuities calculated in accordance with the CIA Committee's Educational Notes.

11. The amount of the pension payable to Integration PWU members will be the same whether their pension is provided by way of an annuity or is provided from the Plan.

Impending Change to the CIA Committee's Guidance on Estimating the Premium Cost of Indexed Annuities

12. In May of this year, in an Educational Note, the CIA Committee discussed its guidance in respect of estimating the cost of purchasing an indexed annuity. A copy of this note is attached hereto as Exhibit "D". In this note, the CIA Committee stated that while the data concerning the pricing of indexed annuities is extremely limited, information collected from insurers who provided illustrative quote data revealed that the premiums quoted were substantially higher than the estimated premiums calculated in accordance with the guidance provided by prior Educational Notes.

13. In this same Educational Note, the CIA Committee went on to state:

> The PPFRC intends to conduct further research in 2012 regarding the pricing of indexed annuities. The analysis will include confirmation as to whether the insurers would be willing to actually transact on the basis reflected in the illustrative annuity quotes. This research may result in the revision of future guidance for estimating the cost of purchasing indexed annuities.

14. In an Educational Note supplement dated August 16, 2012, the CIA Committee reiterated the point made in its earlier note that the illustrative premium quotes provided by insurers to the CIA Committee were substantially higher than the estimated premiums calculated in accordance with the guidance provided by prior Educational Notes, and that the Committee was in the process of conducting further research regarding the pricing of indexed annuities. The Committee again stated that this research may result in the revision of future guidance for estimating the cost of purchasing indexed annuities. A copy of the August 16, 2012 Educational Note supplement is attached hereto as Exhibit "E".

15. Based upon these Educational Notes, Canada Life is concerned that if there is a delay in transferring assets and liabilities related to the Integration PWU members to the ongoing Plan, the guidance provided by the CIA Committee that is used to estimate the cost of purchasing annuities may change in the interim. Given the CIA Committee's statements that the premium quotes provided by insurers for the illustrative quotes are "substantially higher" than the guidance provided by prior Educational Notes, any such change made to the CIA's Guidance will increase the estimated cost of purchasing indexed annuities.

16. By way of example, based upon the figures provided in the Mercer September 12, 2012 report (Exhibit "B" hereto), if the new CIA Committee's guidance resulted in a reduction of 50 bps (0.5%) in the net rate of return used to calculate the cost of purchasing indexed annuities, and had this new guidance been in effect as of August 31, 2012, then as at that date there would have been no Integration PWU surplus but an estimated Integration PWU deficit of approximately $19.5M. For each additional 50 bps reduction in the net rate of return there would be a further increase in the estimated deficit of an additional $22.5M. If a deficit arises in the Integration PWU prior to the transfer of Integration PWU assets and liabilities to the on-going Plan, that deficit will have to be funded in full by Canada Life prior to the transfer of the Integration PWU assets and liabilities to the on-going Plan.

17. I would note that if the Integration PWU assets and liabilities are transferred to the on-going Plan prior to any change in the CIA Committee's guidance, any subsequent change in the CIA Committee's guidance for indexed annuities could result in a solvency deficit arising in the on-going Plan (as the CIA Committee's guidance is also utilized by actuaries when they prepare an actuarial valuation). That said, any deficit that arises in respect of the on-going Plan as a result of a change in the CIA Committee's guidance would not have to be funded by Canada Life immediately, but could be funded over a five-year period starting from the date of the next actuarial valuation.

18. Given the likelihood (in my view) that there will be a change in the CIA Guidance which will lead to an increase (likely a significant increase) in the estimated cost of purchasing indexed annuities, there is some urgency in Canada Life effecting the transfer of Integration PWU assets and liabilities to the on-going plan prior to this change becoming effective so as to preserve some surplus for distribution to the Integration PWU members and to avoid the prospect of Canada Life having to fully fund a large Integration PWU deficit. In this regard, I note that changes in the CIA Committee's guidance can be announced with retroactive effect (as recently occurred when the CIA Committee changed its guidance with respect to estimating the cost of purchasing non-indexed annuities-see the August 16, 2012 Educational Note Supplement attached hereto as Exhibit "E").

Minimum Surplus Allocations Under the Surplus Sharing Agreement

19. At paragraphs 32-36 of his affidavit sworn September 20, 2012, Mr. Robertson speaks to the $1000 minimum surplus allocation to Eligible PWU Group Members and Inactive Eligible Non-PWU Group Members. In his affidavit, Mr. Robertson indicates that Inactive Eligible Non-PWU members' share of available surplus based on Mercer's August 31, 2012 estimate would be insufficient to meet the minimum $1000 payment under the SSA.

These statements by Mr. Robertson do not accurately reflect the terms of the SSA under which $1.65M, not $0.39M, would be allocated to Inactive Eligible Non-PWU Group Members based on the August 31, 2012 estimate.

20. Under the Surplus Sharing Agreement (the "SSA"), section 7(a) provides that the "Final Partial Wind Up Surplus" shall be shared 30.34%/69.66% between Canada Life and the Eligible PWU Group Members ("Eligible Member Group Surplus Share"). "Final Partial Wind Up Surplus" is defined in section 2(a)(iv) of the SSA to mean the aggregate (net of administrative and legal expenses) of the Integration PWU surplus, the Indago PWU surplus, the Adason PWU surplus and the Pelican PWU surplus.

21. Section 7(c) of the SSA goes on to provide that the Eligible Member Group Surplus Share shall be allocated as between Eligible PWU Group Members ("Eligible PWU Group Surplus Allocation") and the Inactive Eligible Non-PWU Group Members ("Inactive Eligible Non-PWU Group Surplus Allocation") on the following basis:

(i) The Eligible PWU Group Surplus Allocation shall be 57.22% of the Final Partial Wind Up Surplus; and

(ii) The Inactive Eligible Non-PWU Group Surplus Allocation shall be 12.44% of the Final Partial Wind Up Surplus.

22. Section 7(c) of the SSA then states that the Eligible Non-PWU Group Surplus Allocation shall be allocated and distributed among individual Inactive Eligible Non-PWU Group Members in accordance with section 8 of the SSA. Section 8(d) of the SSA provides that the Inactive Eligible Non-PWU Group Surplus Allocation shall be allocated among the Inactive Eligible Non-PWU Group Members *pro rata* to their wind up liabilities, subject to a minimum allocation of $1,000.

23. Accordingly, the surplus to be allocated to the Inactive Eligible Non-PWU Group members is 12.44% of the aggregate of the surplus allocable to each of the Integration PWU, Indago PWU, Adason PWU and Pelican PWU.

24. Based upon the Mercer September 12, 2012 report, the estimated surplus for each of the Integration PWU, Indago PWU, Adason PWU and Pelican PWU as at August 31, 2012 was as follows:

Integration PWU	$3.1M
Indago PWU	1.1M
Adason PWU	6.2M
Pelican PWU	2.9M
	$13.3M

25. Accordingly, based on the surplus estimates as at August 31, 2012 the Inactive Eligible Non-PWU Group Member surplus share under the SSA would have been 12.44% of $13.3M or $1.65M.

26. There are 1418 Inactive Non-PWU Group members. Not all of the 1418 Inactive Non-PWU Group members, however, are Inactive Eligible Non-PWU Group members (ie some of these individuals did not provide the requisite consent required under the SSA.) Even if the $1.65M were distributed *pro rata* amongst the 1418 Inactive Non-PWU Group members, the result would be an individual surplus allocation of $1,167 per Inactive Non-PWU Group member.

27. Given that section 7(d) of the SSA explicitly provides that for the Eligible PWU Group Members the Final Partial Wind Up Surplus is not to be shared as a common pool but allocated to each partial wind up, I agree with Mr. Robertson that based on the August 31, 2012 Mercer estimates, approximately $1.77M in surplus would be allocated to the Integration PWU members resulting in an allocation of approximately $825 per member.

SWORN BEFORE ME at the City of London, in the Province of Ontario, on September 24, 2012.

S L Savage
Commissioner for Taking Affidavits

Wallace B Robinson
WALLACE B. ROBINSON

DAVID KIDD et al.	- and -	THE CANADA LIFE ASSURANCE COMPANY et al.	Court File No. 05-CV-287556CP
Plaintiffs		Defendants	

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at TORONTO
Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF WALLACE B. ROBINSON
(Sworn September 24, 2012)

BLAKE, CASSELS & GRAYDON LLP
Barristers and Solicitors
199 Bay Street
Suite 4000, Commerce Court West
Toronto, ON M5L 1A9

Jeff Galway (LSUC #: 28423P)
Tel: (416) 863-3859
Fax: (416) 863-2653

Lawyers for the Defendant,
The Canada Life Assurance Company

TAB A

This is Exhibit "A" referred to in the Affidavit of Wallace Robinson sworn before me this 24 day of September 2012.

S Z Saag

A Commissioner, Etc.

Canada Life Canadian Employees Pension Plan
Partial Wind-Up Surplus Update

The following table shows the estimated surplus of the Integration PWU and the 3 Prior PWUs as of June 30, 2010, December 31, 2010, June 30, 2011 and December 31, 2011 as calculated by Mercer. The total estimated surplus for all 4 partial wind-ups has decreased from $71.0 million as of June 30, 2010 to $34.0 million as of December 31, 2011. However, as can be seen from the table below, it is only the estimate of the Integration PWU surplus that has decreased (from $62.2 million as of June 30, 2010 to $23.7 million as of December 31, 2011).

SURPLUS ($ millions)

	June 30, 2010	December 31, 2010	June 30, 2011	December 31, 2011
Integration PWU	$62.2	$63.8	$54.0	$23.7
Pelican PWU	$2.5	$2.9	$2.9	$2.9
Indago PWU	$1.2	$1.3	$1.3	$1.2
Adason PWU	$5.1	$6.4	$6.1	$6.2
Total	**$71.0**	**$74.5**	**$64.3**	**$34.0**

As of June 30, 2011, Integration partial wind-up members had not yet chosen their payment option with respect to their basic benefits, that is, they had not elected the transfer option or the guaranteed pension option. Therefore for each estimate of Integration PWU surplus up until that date, assumptions were made by Mercer relating not only to applicable interest and inflation rates, but also as to which election members would choose for the payment of their benefit entitlement (transfer value or a guaranteed pension). With respect to the guaranteed pension option, the estimated costs of purchasing annuities were based on the preliminary guidance from the Canadian Institute of Actuaries' Committee on Pension Plan Financial Reporting on the estimated costs of purchasing annuities.

For the December 31, 2011 estimate of the Integration PWU surplus, the *actual* elections made by the members to that date (1419 of 2149 Integration pwu members had made elections) were used to determine the cost of settling the basic benefit entitlement, and the estimated surplus value remaining. For those members who had not yet elected an option as at that date, the assumptions that were applied in the June 30, 2011 estimate re which option members would elect were used.

Note that if the assumption regarding which option members will choose is altered such that all Integration PWU members who have not yet made an election are deemed to have elected the guaranteed pension option (the required default option communicated in member information packages), then the estimate of the Integration Partial wind-Up surplus as of December 31, 2011 is reduced from $23.7 million to approximately $8 million.

The interest rate and inflation assumptions used to calculate the estimated costs of purchasing annuities are shown in the following table.

Indexed annuities interest assumptions	**June 30, 2010**	**December 31, 2010**	**June 30, 2011**	**December 31, 2011**
	4.0%			
During deferred period	**3.65**	**4.5%**	**4.2%**	**3.35**
After deferred period		**3.5%**	**3.5%**	**2.5%**
Inflation assumption	**2.2%**	**2.4%**	**2.5%**	**2.0%**

The attached table shows the change in Integration PWU surplus due to various factors for each six-month period from January 1, 2010 to December 31, 2011. The most significant factors in the recent change in the Integration PWU surplus estimate are the change in the interest rate used to calculate the cost of annuities, and the high annuity take-up rate.

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Canada Life Canadian Employees Pension Plan

Integration PWU Surplus Estimates
Assuming 3 Prior PWUs are Declared

	Surplus Estimate in $ million				
	Period				Total Period
	January 1, 2010 June 30, 2010	July 1, 2010 December 31, 2010	January 1, 2011 June 30, 2011	July 1, 2011 December 31, 2011	January 1, 2010 December 31, 2011
Surplus at beginning of period	**$70.7**	**$62.2**	**$63.8**	**$54.0**	**$70.7**
Changes in surplus during period due to:					
Investment income less interest required on reserves	$0.2	$8.2	$0.9	$1.8	$11.1
actual experience-January 1, 2011 valuation			($2.0)		($2.0)
change in interest/inflation assumptions re annuity purchase	($6.2)	($5.3)	($7.5)	($28.5)	($47.5)
effect of election of guaranteed pensions				($10.2)	($10.2)
asset allocation refinement				$5.9	$5.9
ongoing expenses allocated to Integration PWU	($0.7)	($0.9)	($0.9)	($1.7)	($4.2)
other	($1.8)	($0.4)	($0.3)	$2.4	($0.1)
Surplus at end of period	**$62.2**	**$63.8**	**$54.0**	**$23.7**	**$23.7**

TAB B

This is Exhibit "B" referred to in
the Affidavit of Wallace Robinson
sworn before me this 24 day
of September 2012.

S L Savage

A Commissioner, Etc.

Benedict O. Ukonga, FSA, FCIA, CFA
Principal

MERCER

161 Bay Street
P.O. Box 501
Toronto, Ontario M5J 2S5
416 868 7385 Fax 416 868 7555
ben.ukonga@mercer.com
www.mercer.ca

September 12, 2012

Ms Amy Metzger
Counsel - Litigation
The Canada Life Assurance Company
255 Dufferin Avenue
London, Ontario
N6A 4K1

Privileged & Confidential
Prepared for the Advice of Counsel

Subject: Estimate of the financial position on a solvency basis of the portions of the Canada Life Registered Plan affected by the 2005 partial wind-up and the potential Indago, Adason and Pelican partial wind-ups

Dear Amy:

As requested, this letter provides an estimate of the financial position of the portion of the Canada Life Canadian Employees Pension Plan (the "Canada Life RPP" or the "Plan") affected by the June 30, 2005 partial plan wind-up (the "2005 PWU group") and the portions of the Plan affected by the potential Indago, Adason and Pelican partial wind-ups on a solvency basis as at August 31, 2012.

Similar to our previous updates, we have estimated the financial position of the 2005 PWU group under two scenarios:

- Scenario 1: assuming that terminations of Indago, Adason Property Management and Pelican Foods employees who were members of the Plan (the "Historical Potential PWU groups") do **not** trigger separate partial wind-ups of the Plan; and
- Scenario 2: assuming that separate partial wind-ups of the Plan are triggered by the terminations of Indago, Adason Property Management and Pelican Foods employees who were members of the Plan.

The estimated financial positions of the Historical Potential PWU groups are only shown under scenario 2.

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Please note the following:

- The liabilities of the 2005 PWU group and the historical potential wind-up groups have been calculated based on market conditions at August 31, 2012. The assumptions used are summarized in Appendix A. They also reflect our current understanding of the provisions of the Canada Life Registered Plan.

- Under Scenario 2, the liabilities of the Indago, Adason and Pelican Foods employees include the estimated liabilities for additional benefits that would arise if partial wind-ups of the Plan were declared in respect of each of these groups.

- For the 2005 PWU group, the cumulative pending expense payments have been updated from June 30, 2012 to August 31, 2012 by increasing the amount at June 30, 2012 with the expenses for this group for July and August 2012 (provided by Canada Life). For the historical potential partial wind-up groups, we have left the cumulative pending expense payments unchanged from the amounts at June 30, 2012. We do not expect these amounts to have materially changed as at August 31, 2012 from their respective amounts at June 30, 2012.

  As mentioned in our earlier estimates, these cumulative pending expense payments are being held as "payables" against the assets allocated to the respective groups[1]. Appendix B provides further information on these cumulative pending expense payments:

The cumulative pending expense payments are as follows:

Group	Cumulative pending expense payments
June 2005 partial wind-up group	$14.2 million
Indago	$0.0 million
Pelican	$0.1 million
Adason Property Management	$0.4 million

[1] Plan assets were segmented before pending expense payments were deducted, therefore, cumulative pending expense payments are being held as payables against the respective groups' allocated assets.

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Estimated Financial Position as at August 31, 2012

Under Scenario 1, assuming partial wind-ups are not declared as a result of the terminations of Indago, Adason Property Management and Pelican Foods employees who were members of the Plan, the estimated financial position of the 2005 PWU group at August 31, 2012 is as follows. For comparison purposes, we show the estimated financial position at June 30, 2012 (and based on the new CIA annuity purchase guidance, which became effective June 30, 2012).

Estimated financial position for 2005 PWU group ($ million)	August 31, 2012	June 30, 2012
Assets	$312.7	$311.6
Pending asset transfer	$6.9	$6.7
Liabilities	($286.5)	($285.8)
Pending expense payments	($14.2)	($14.0)
Surplus	$18.9	$18.5
Provision for future termination expenses	($12.7)	($12.7)
Surplus net of termination expenses	$6.2	$5.8

The provision for future termination expenses for the 2005 PWU group, of $12.7 million, is an estimate of the future administrative, communications, actuarial, legal and other fees related to the partial wind-up that was provided by Canada Life.

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A reconciliation of the change in the estimated financial position from June 30, 2012 to August 31, 2012 is as follows:

(millions)	
Estimated surplus at June 30, 2012	$5.8
Investment return on assets allocated to the partial wind-up group	$2.2
Interest on liabilities at 2.7%	($1.3)
Impact of election of commuted values	$1.3
Change in estimated costs of purchasing annuities	($1.8)
Increase in pending expense payments	($0.2)
All other factors	$0.2
Estimated surplus at August 31, 2012	$6.2

Impact of potential partial wind-up declarations in respect of Indago, Adason and Pelican

Under Scenario 2, assuming that terminations of employees of Indago, Adason Property Management and Pelican Foods are declared to be separate partial wind-ups of the Plan, the estimated financial position of the different groups within the Plan (excluding Crown DC account balances) as at August 31, 2012 are as follows:

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Estimated financial position at August 31, 2012 ($ million)	**2005 PWU group**	**Indago**	**Adason**	**Pelican**
Assets	$316.5[2]	$1.5	$12.2	$4.3
Liabilities	($286.5)	($0.2)	($5.2)	($1.1)
Pending expense payments	($14.2)	$0.0	($0.4)	($0.1)
Surplus	$15.8	$1.3	$6.6	$3.1
Termination expenses	($12.7)	($0.2)	($0.4)	($0.2)
Surplus net of termination expenses	$3.1	$1.1	$6.2	$2.9

A reconciliation of the estimated financial position from June 30, 2012 for Indago, Adason and Pelican to the estimated financial position at August 31, 2012 shown in this letter is presented below:

($ millions)	**Indago**	**Adason**	**Pelican Foods**
Estimated surplus at June 30, 2012	$1.1	$6.1	$2.9
Investment return on allocated assets	$0.0	$0.2	$0.1
Interest on liabilities	$0.0	($0.0)	$0.0
Increase in provision for future termination expenses	($0.0)	($0.0)	($0.0)
Changes in estimated costs of purchasing annuities	$0.0	$0.0	$0.0
All other factors	($0.0)	($0.1)	($0.1)
Estimated surplus at August 31, 2012	$1.1	$6.2	$2.9

[2] Reflects pending asset transfer as a result of data changes made

Membership data, assumptions, and methodology

For the purpose of preparing the above estimates:

- We have used membership data as at August 31, 2012 for the 2005 PWU and as at December 31, 2011 for the Indago, Adason and Pelican potential partial wind-up groups.

- For the 2005 PWU group, we have reflected members' actual elections for the settlement of their basic benefits.
  - For members who elected a lump sum transfer, we have reflected the payment of their commuted values. We have reflected lump sum payments that the Company has indicated will be made up to September 14, 2012;
  - For members who elected an immediate or deferred pension, we have reflected the estimated cost of settling their benefits through the purchase of deferred or immediate annuities;
  - For members whose settlement elections have not been received, we have assumed these members would elect, or be deemed to elect, an immediate or deferred pension. We have estimated the cost of settling their benefits through the purchase of deferred or immediate annuities.

  In addition, under scenario 2, we have assumed all Indago, Adason, and Pelican Foods employees with remaining benefit entitlements[3] would elect, or be deemed to elect, to have their benefits settled through the purchase of immediate or deferred annuities.

- The calculations were prepared based on our current understanding of the provisions of the Canada Life Registered Plan;

- We have used the economic assumptions (specifically interest rate and inflation) consistent with the economic conditions at August 31, 2012;

  The assumptions used in our calculations are summarized in Appendix A;

[3] This excludes members who have already received a lump sum transfer (at their initial termination dates) but are entitled to additional benefits as a result of a partial wind-up being declared

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- We have relied on the August 31, 2012 market value of assets provided to us by Canada Life;

- The estimated financial positions are expressed on a solvency basis;

- The estimated cost of purchasing annuities is based on the Canadian Institute of Actuaries' Educational Note: Assumptions for Hypothetical Wind-up and Solvency Valuations with Effective Dates Between December 31, 2011 and December 30, 2012 effective June 30, 2012;

  We note that in Canada, there is very limited data available in the market regarding the pricing of annuities indexed to inflation. The market for these annuities is also virtually non-existent. As a result, it is possible, maybe even likely, that the actual cost of purchasing these annuities will exceed (potentially materially) the estimates shown in this letter.

If you have any questions regarding the above, we would be glad to discuss them with you in more detail at your convenience. As always, you can reach me at (416) 868 7385.

Sincerely,

Benedict O. Ukonga, FSA, FCIA, CFA
Principal

Copy:
Wally Robinson: Great-West Life | London Life | Canada Life
Doug Johnson, Joseph Tang, James Dalton: Mercer

MERCER

Appendix A: Key Assumptions

	August 31, 2012	June 30, 2012
Benefits assumed to be settled through annuity purchase		
Nominal interest rate	Immediate retirement Indexed: 2.36% per year Non-indexed: 3.04% per year Deferred retirement Indexed: 3.04% during the deferral period, 2.36% after commencement Non-indexed: 3.04% per year	Immediate retirement Indexed: 2.35% per year Non-indexed: 3.05% per year Deferred retirement Indexed: 3.05% during the deferral period, 2.35% after commencement Non-indexed: 3.05% per year
Mortality rate	UP 94 with generational mortality improvements (sex distinct)	UP 94 with generational mortality improvements (sex distinct)
Inflation	1.95% per year	1.90% per year
Post retirement indexing	We have assumed that the life insurance company would price the annuities as if they were fully indexed for inflation.	We have assumed that the life insurance company would price the annuities as if they were fully indexed for inflation.
Provision for future wind-up expenses:	June 2005 PWU: $12.7 million Indago: $0.0 million Adason: $0.4 million Pelican: $0.1 million	$13 million for the June 30, 2005 partial wind-up (based on information provided by Canada Life). To be determined for the other potential partial wind-ups groups.
Member settlement elections	All remaining members of the 2005 PWU group, and remaining Indago, Adason and Pelican members are assumed 100% immediate or deferred annuities	All remaining partial-windup members assumed 100% immediate or deferred annuities
Basis	Solvency	Solvency

MERCER

Appendix B

Reconciliation of the assets allocated to the 2005 PWU group (under scenario 1 and before pending expenses)

Reconciliation from June 30, 2012 to August 31, 2012

	2005 PWU group
June 30, 2012	$311,648,000
PLUS	
Members' contributions	$0
Company's contributions	$0
Investment income	$2,182,000
	$2,182,000
LESS	
Pension and lump sums paid	$1,123,000
	$1,123,000
August 31, 2012	$312,707,000

Pending Expense Reimbursements[4]

(millions)	2005 PWU group	Indago	Adason	Pelican
June 30, 2012	$14.0	$0.0	$0.4	$0.1
Estimated plan Expenses – July and August 2012	$0.2	$0.0	$0.0	$0.0
August 31, 2012	$14.2	$0.0	$0.4	$0.1

[4] Cumulative pending expenses as provided by Canada Life

TAB C

This is Exhibit "C" referred to in
the Affidavit of Wallace Robinson
sworn before me this 24 day
of September 2012.

S L Savage

A Commissioner, Etc.

Financial Services Commission of Ontario
Commission des services financiers de l'Ontario

Ontario

SECTION:	Wind Up
INDEX NO.:	W100-233
TITLE:	Distribution of Benefits on Partial Wind Up Where Immediate or Deferred Pensions are Not Purchased
APPROVED BY:	Superintendent of Financial Services
PUBLISHED:	FSCO website (June 2010)
EFFECTIVE DATE:	March 10, 2010

Note: Where this policy conflicts with the Financial Services Commission of Ontario Act, 1997, S.O. 1997, c. 28 (FSCO Act), Pension Benefits Act, R.S.O. 1990, c. P.8 (PBA) or Regulation 909, R.R.O. 1990 (Regulation), the FSCO Act, PBA or Regulation govern.

Note: The electronic version of this policy, including direct access to all linked references, is available on FSCO's website at www.fsco.gov.on.ca. *All pension policies can be accessed from the* **Pensions** *section of the website through the* **Pension Policies** *link.*

Administrators of pension plans (administrators) are no longer required to purchase annuities for members affected by a partial wind up who are receiving pension payments, or who chose or were deemed to have chosen a deferred pension (Affected Group). However, administrators may still purchase annuities for the Affected Group, as provided under section 43 of the PBA, if it determines that it is prudent to do so.

This policy outlines a procedure for administrators to follow in the event that the administrator chooses **not** to purchase annuities for the Affected Group. This policy also provides guidance on the determination of the value of the liabilities for the Affected Group and the timing of the transfer of the assets and liabilities relating to the Affected Group to the on-going portion of the pension plan. Unless specifically noted otherwise in this policy, the term "transfer" refers to the transfer of the assets and liabilities of the Affected Group.

Please note that this policy does not apply to members affected by the partial wind up who are eligible and have elected a transfer of the commuted value of the pension benefit out of the pension plan under section 42(1) of the PBA.

If administrators and their agents have questions about plan wind ups, they should refer to the PBA and Regulation. Additional information may also be obtained from other policies published by FSCO that deal with wind up issues. Policies are intended to clarify the interpretation of the PBA and Regulation in certain situations and to assist administrators and their agents in understanding the requirements of the PBA, Regulation and FSCO's practices so that full compliance can be achieved.

Background

The July 29, 2004 Supreme Court of Canada decision in respect of Monsanto Canada Inc. required the distribution of any surplus related to the wound up portion of the plan as part of the partial wind up process in order to complete the distribution of assets related to the partial wind up. In this process, the administrator was required to distribute all of the assets of the plan associated with the partial wind up. To satisfy that requirement, the Superintendent took the position that the purchase of annuities was necessary to settle the benefits that were payable to members, former members (including retired members) and other persons affected by the wind up who did not elect a transfer of the commuted value of their benefits. However, on December 2, 2009, the Financial Services Tribunal in a decision in respect of an Imperial Oil Limited pension plan held that administrators may satisfy the requirement to distribute plan assets related to the Affected Group's benefits on partial wind up by transferring the assets to the on-going portion of the plan and are not required to purchase annuities for this group.

Communicating the impact of the decision not to purchase annuities

In the event of a partial wind up, the plan administrator will need to make a decision as to whether or not to purchase annuities for some or all of the Affected Group. This decision must be communicated to FSCO and to all persons affected by the partial wind up.

If the administrator decides not to purchase some or all of the annuities, the administrator will be required to transfer the assets and liabilities in respect of the members of the Affected Group who chose to receive their pension benefits from the pension plan, to the on-going portion of the pension plan in order to complete the distribution of assets related to the partial wind up (Note: The transfer is said to be a notional transfer as the assets and liabilities of the Affected Group will simply remain in the plan).

FSCO will require the administrator to advise all persons affected by the partial wind up as to the impact on their pension benefit when a pension payment is being provided under the pension plan as opposed to it being provided through an annuity purchased from an insurance company. This information is to be included in the individual statement issued to all persons affected by the partial wind up (setting out the person's entitlement under the plan and the options available to those persons) as required under section 72(1) of the PBA and section 28(2) of the Regulation. The information being provided should clearly indicate that their pension benefits will be payable or continued to be payable from the pension plan and that any subsequent settlement will be subject to the terms of the plan and its funded status at that time.

Partial Windup Reports already Filed

In a situation where a partial wind up report has been filed with FSCO indicating that annuities are to be purchased for the Affected Group and the administrator subsequently decides not to purchase the annuities, the administrator is required to advise FSCO of the decision, revise the report to reflect the change and file the revised report with FSCO for review. Furthermore, for those members who made elections based on the administrator' s previous decision to purchase annuities, the administrator is required to provide a revised statement to the Affected Members who made an election to receive an immediate or deferred pension on the premise that annuities will be purchased for them. The revised statement will include the information described above where annuities are not being purchased.

Basis for Determining the Value of Immediate and Deferred Pensions

Section 29(8) of the Regulation does not permit the payment of commuted values or purchase of annuities until the partial wind up deficit, if any, has been fully funded (except for a payment of the current value of any additional voluntary and/or required contributions made by the member employee prior to the wind up date). Where there is a partial wind up deficit as at the wind up date, section 31(2) of the Regulation requires additional funding over no more than 5 years annually in advance or funding by way of an immediate lump sum.

Where annuities are purchased for the Affected Group through an insurance company, the cost to fully settle the liabilities is known and the wind up surplus or deficit is calculated as the difference between the assets allocated to the partial wind up group and the sum of the following:

(a) commuted value entitlements (for eligible members who elect commuted value transfers under section 73(2) of the PBA),
(b) any cash lump sum payment payable under sections 39(4), 50, 63(2), 63(3) and 63(4) of the PBA,
(c) the annuity purchase premium paid to a life insurance company (for members who are eligible for and chose or were deemed to have chosen an immediate or a deferred pension), and
(d) partial wind up expenses.

Where an administrator chooses not to purchase annuities for the Affected Group, the wind up surplus or deficit is calculated the same way as above except that, instead of an actual annuity purchase premium paid to a life insurance company, the value of the immediate and deferred pensions would be based on the applicable guidance from the Educational Notes published by the Canadian Institute of Actuaries' Committee on Pension Plan Financial Reporting for the purpose of estimating annuity premiums as at the date a determination is to be used.

Timing of Transfer of the Assets and Liabilities of the Affected Group

Where there is a deficit as at the partial wind up date, section 75 of the PBA and section 31 of the Regulation require additional contributions to be made into the pension fund by the plan sponsor to increase the level of the funded position of the wind up assets to 100%. Until this funding is complete (either by way of amortized payments over no more than 5 years or an immediate lump sum), the administrator is required to track the assets and liabilities relating to the partial wind up separate and apart from the assets and liabilities relating to the on-going portion of the pension plan. When there is no further amount to be funded under section 75 of the PBA, the transfer of the assets and liabilities relating to the Affected Group to the on-going portion of the pension plan can occur once written confirmation from the actuary of full funding of the partial wind up is received by FSCO. FSCO will also require administrators to provide written confirmation to FSCO that the transfer of the assets and liabilities of Affected Group to the on-going portion of the pension plan has occurred. Confirmation about the transfer as set out above can be included in the annual reports required by section 32 of the Regulation, or can be provided in a separate letter addressed to the Superintendent.

In a situation where the sponsor of a pension plan is required to fund a partial wind up deficit and the financial position of the wound up portion of the pension fund after settlement of all benefits reveals there are assets remaining, the employer may apply for a refund of overpayment of contributions (under section 78(4) of the PBA) equal to an amount that is not in excess of the required payments made to fund the partial wind up deficit. If, after the refund of overpayment to the employer, there still remain assets then that amount may be distributed as surplus assets in accordance with the PBA and Regulation.

Where there is a surplus as at the partial wind up date and the financial position of the wound up portion of the pension fund after the wind up effective date shifts to a deficit position, the employer must pay the deficit in the manner and the times set out in section 31 of the Regulation. If the payment date is more than five years from the partial wind up date the payment must be paid in a lump sum payment. Once funding is complete, the transfer of the assets and liabilities relating to the Affected Group to the on-going portion of the pension plan can occur provided that confirmation of full funding of the partial wind up is received by FSCO.

Where there is a surplus as at the wind up date, the transfer of the assets and liabilities of the Affected Group can occur prior to the completion of the surplus distribution. The form of surplus distribution may be a lump sum cash payment or an increase to pension benefits to members affected by the wind up. For more information regarding the distribution of surplus on partial wind up, see policies S900-901 ("Allocation of Surplus to Members, Former Members and Other Persons on Wind Up") and S900-910 ("Distribution of Surplus to Employer on Partial Wind Up").

Tracking the pension benefits of the Affected Group

The notional split between the wound up and on-going portions of the pension plan must be maintained until all assets relating the partial wind up have been settled, including a surplus distribution, if any. That is, upon the (notional) transfer of the assets and liabilities relating to the Affected Group to the on-going portion of the pension plan, the administrator must ensure that Affected Group receive the pension benefit they are entitled to (including any grow-in entitlement as provided for Ontario members, early retirement subsidies, etc.)

Completion of Partial Wind Up

The administrator must advise the Superintendent in writing once all assets have been distributed from the wound up portion of the pension plan. Once the Superintendent is advised of this distribution, the file on the partial wind up will be closed.

TAB D

This is Exhibit "D" referred to in
the Affidavit of Wallace Robinson
sworn before me this 24 day
of September 2012.

S L Savage
A Commissioner, Etc.

Seeing Beyond Risk Canadian Institute of Actuaries Institut canadien des actuaires Voir au-delà du risque

Educational Note

Assumptions for Hypothetical Wind-Up and Solvency Valuations with Effective Dates Between December 31, 2011, and December 30, 2012

Committee on Pension Plan Financial Reporting

May 2012

Document 212032

Ce document est disponible en français

Members should be familiar with educational notes. Educational notes describe but do not recommend practice in illustrative situations. They do not constitute Standards of Practice and are, therefore, not binding. They are, however, intended to illustrate the application (but not necessarily the only application) of the Standards of Practice, so there should be no conflict between them. They are intended to assist actuaries in applying Standards of Practice in respect of specific matters. Responsibility for the manner of application of Standards of Practice in specific circumstances remains that of the members in the pension practice area.

Seeing Beyond Risk Canadian Institute of Actuaries Institut canadien des actuaires Voir au-delà du risque

Memorandum

To: All Pension Actuaries

From: Phil Rivard, Chair
Practice Council

Gavin Benjamin, Chair
Committee on Pension Plan Financial Reporting

Date: May 24, 2012

Subject: **Educational Note—Assumptions for Hypothetical Wind-up and Solvency Valuations with Effective Dates between December 31, 2011, and December 30, 2012**

This educational note provides guidance on assumptions to be used for hypothetical wind-up and solvency valuations for 2012. It confirms the initial guidance for 2012 assumptions that was provided in an announcement issued on February 6, 2012.

The Committee on Pension Plan Financial Reporting (PPFRC) would like to express its gratitude to BMO Assurance, The Co-Operators, Desjardins Financial Security, Great-West Life, Industrial Alliance, Manulife, Standard Life, and Sun Life for providing the committee with data.

In an educational note provided in 2010, the PPFRC included additional draft guidance on the assumptions to be used for hypothetical wind-up and solvency valuations for very large plans and plans with benefits indexed to the Consumer Price Index in situations where an alternative settlement method was being hypothesized. Comments were invited from pension actuaries and other interested parties. Subsequently, the Actuarial Standards Board established a designated group (DG) to review the practice-specific standards with respect to the selection of assumptions for hypothetical wind-up and solvency valuations. The DG has completed its review and concluded that significant changes to the standards are not appropriate at this time. Consequently, the PPFRC has resumed the process of developing additional guidance relating to the selection of assumptions for hypothetical wind-up and solvency valuations for very large and/or indexed plans in situations where an alternative settlement method is being hypothesized.

The PPFRC is also conducting further research regarding the pricing of indexed annuities and the effect on annuity pricing of the duration of the obligations being purchased.

360 Albert Street, Suite 1740, Ottawa ON K1R 7X7
613.236.8196 613.233.4552
secretariat@actuaries.ca / secretariat@actuaires.ca
actuaries.ca / actuaires.ca

The PPFRC expects to issue additional and/or revised guidance as soon as practical following the completion of the above activities.

In accordance with the Institute's Policy on Due Process for the Approval of Guidance Material other than Standards of Practice, this educational note has been prepared by the PPFRC and has received final approval for distribution by the Practice Council effective May 24, 2012.

As outlined in subsection 1220 of the Standards of Practice, "*The actuary should be familiar with relevant Educational Notes and other designated educational material.*" That subsection explains further that a "practice which the Educational Notes describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation." As well, "Educational Notes are intended to illustrate the application (but not necessarily the only application) of the standards, so there should be no conflict between them."

If you have any questions or comments regarding this educational note, please contact Gavin Benjamin at his CIA Online Directory address, gavin.benjamin@towerswatson.com.

PR, GB

TABLE OF CONTENTS

1. INTRODUCTION

According to paragraph 3330.16 of the Standards of Practice, the assumptions used for actual and hypothetical wind-up valuations would

- in respect of benefit entitlements that are assumed to be settled by purchase of annuities, reflect single premium annuity rates,
- in respect of benefit entitlements that are assumed to be settled by lump sum transfer, reflect the standards in section 3500 respecting commuted values, and
- in respect of benefit entitlements that are assumed to be settled in some other manner, reflect the manner in which such benefits would be settled.

This document has been prepared by the Committee on Pension Plan Financial Reporting (PPFRC) and is intended to provide actuaries with guidance in selecting appropriate assumptions for hypothetical wind-up and solvency valuations in respect of benefit entitlements that are assumed to be settled by purchase of annuities or by lump sum transfer with effective dates on or after December 31, 2011, and prior to or on December 30, 2012. For greater clarity, this document does not provide detailed guidance on selecting appropriate assumptions for hypothetical wind-up and solvency valuations in respect of benefit entitlements that are assumed to be settled in a manner other than the purchase of annuities or lump sum transfer.

This educational note confirms the initial guidance for 2012 assumptions that was provided in an announcement issued on February 6, 2012.

2. SETTLEMENT METHODS

To comply with paragraph 3330.16 of the Standards of Practice, the actuary would make an assumption for each class of plan members as to the portion of liabilities settled by annuity purchase, commuted value transfer or other manner of settlement. Typically, classes of plan members would include at least

- active members not eligible for retirement,
- active members eligible for retirement,
- retired members and surviving spouses, and
- deferred vested members.

In determining the appropriate assumption for the method of settlement, the actuary would consider

- any legislative requirements to offer specific settlement options to various classes of members,
- the settlement provisions of the plan and, in particular, the options to be provided to members upon plan wind-up,
- the benefit provisions of the plan, for example,

- where a plan has generous ancillary benefits, an election to receive a commuted value transfer may be affected by the maximum transfer limits imposed under section 8517 of the Income Tax Act (Canada) Regulations, or
- where a plan has inflexible retirement options and few optional forms of payment, a member may prefer to elect a commuted value transfer to increase flexibility in payment terms,

- the postulated scenario upon which the hypothetical wind-up is based,
- past experience of the plan, when relevant, and
- any experience from actual wind-ups of comparable plans of which the actuary may be aware.

All requirements of the Standards of Practice with respect to the development and reporting of assumptions would apply to this assumption.

3. BENEFITS ASSUMED TO BE SETTLED BY LUMP SUM TRANSFER

For hypothetical wind-up valuations, of which solvency valuations are a subset, paragraph 3240.05 of the Standards of Practice states, "*For a hypothetical wind-up valuation, the actuary should assume that the wind-up date, the calculation date and the settlement date are coincident.*"

Accordingly, the wind-up liabilities for benefits expected to be settled through the payment of a lump sum transfer would be determined in accordance with section 3500 of the Standards of Practice, applying the assumptions consistent with the particular valuation date.

4. BENEFITS ASSUMED TO BE SETTLED BY PURCHASE OF NON-INDEXED GROUP ANNUITIES

Methodology

The PPFRC began collecting data from insurers on a quarterly basis in 2009. Six insurers agreed to provide quotes, on a confidential basis, on illustrative blocks of business. The insurers that agreed to provide this information are Desjardins Financial Security, Great-West Life, Industrial Alliance, Manulife, Standard Life, and Sun Life Financial. In late 2011, two additional insurers, BMO Assurance and The Co-Operators, agreed to provide quotes on the same basis.

The PPFRC prepared data for two illustrative blocks of business for non-indexed pensions that were then provided to the insurers. One illustrative block is intended to be representative of a large purchase (i.e., with a total premium greater than $15 million) and the other illustrative block is intended to be representative of a small purchase (i.e., with a total premium less than $15 million).

The characteristics of the illustrative blocks of business, as follows, are:

Large Purchase (approximately $39 million total premium)

Retirees

• Number	229
• Average age	66
• Average monthly lifetime pension	$700
• Number with bridge pension payable to age 65	44
• Average monthly bridge pension	$322

Deferred vested

• Number	95
• Average age	46
• Average monthly lifetime pension at age 65	$642

Small Purchase (approximately $6.4 million total premium)

Retirees

• Number	24
• Average age	66
• Average monthly lifetime pension	$710
• Number with bridge pension payable to age 65	5
• Average monthly bridge pension	$412

Deferred vested

• Number	37
• Average age	46
• Average monthly lifetime pension at age 65	$678

Based on current interest rate levels and assuming that the pensions are not indexed, the durations of the illustrative blocks are as shown here.

	Large Purchase	Small Purchase
Retirees	10.9	10.7
Deferred vested	24.4	24.5
Combined	13.5	17.4

Using these data, the insurers indicated that they would provide realistic quotes (i.e., as though the quotes truly represent blocks of business on which they are bidding) as of the agreed-upon dates. Based on the quotes, the PPFRC then calculated the implicit discount rate underlying each quote.

The insurers indicated that it would not be appropriate, for competitive reasons, for the PPFRC to disclose the individual discount rates underlying the insurer quotes, including the discount rate associated with the most competitive quote. Also, the insurers indicated that, in their view, it is not appropriate to rely solely on the most competitive illustrative quote for purposes of establishing group annuity purchase discount rate assumptions because the capacity at which group annuities can be transacted at the best illustrative price might be limited. For example, a particular insurer may not be transacting actual sales at a particular date, even though illustrative quotes are provided at that date, if the insurer has met its capacity limit.

After lengthy discussions, the PPFRC and the insurers agreed that, for purposes of providing guidance on group annuity purchase discount rates, it would usually be appropriate to reference the average of the discount rates for the three most competitive quotes. In reaching this conclusion, the PPFRC considers the magnitude of the spread between the illustrative quotes (which data are confidential).

The guidance contained in this educational note is partially based on quotes provided by the eight insurance companies on illustrative group annuity business using pricing conditions at December 31, 2011. These data were collected on the same basis as the illustrative quotes as of December 31, 2010 (as described in the May 2011 educational note), and are consistent with the methodology adopted as of each quarter end in 2011. Consistent with the analysis performed at previous quarter ends, the illustrative quote information was supplemented with data on the pricing of actual group annuity purchases during the fourth quarter of 2011 provided by certain actuarial consulting firms.

Analysis

The results of the illustrative non-indexed quotations at December 31, 2011, based on the UP94 generational mortality tables (with the AA improvement scale), are summarized below and compared to the previous illustrative quote information provided by the insurers as at September 30, 2011.

AVERAGE OF THE THREE MOST COMPETITIVE QUOTES (USING UP94 GENERATIONAL MORTALITY TABLES)				
	Large Purchase		Small Purchase	
	30/09/2011	31/12/2011	30/09/2011	31/12/2011
Retirees				
• Discount rate	3.57%	3.28%	3.56%	3.36%
• Spread over CANSIM V39062	+ 0.89%	+ 0.87%	+ 0.88%	+ 0.95%
Deferred vesteds				
• Discount rate	3.59%	3.46%	3.52%	3.50%
• Spread over CANSIM V39062	+ 0.91%	+ 1.05%	+ 0.84%	+ 1.09%

The illustrative quotes suggest that an appropriate discount rate for estimating the cost of purchasing a non-indexed group annuity for immediate pensions be determined as the unadjusted yield on Government of Canada (GoC) long-term bonds (CANSIM V39062) increased arithmetically by approximately 90 basis points (bps), in conjunction with the UP94 generational mortality tables.

The pricing information for *actual* group annuity purchases during the fourth quarter of 2011 was also considered. In particular, the data on the actual purchases of non-indexed annuities during the month of December 2011 that were available to the PPFRC produced an average spread of approximately 90 bps above the prevailing unadjusted yield on GoC long-term bonds (CANSIM series V39062).

While the illustrative quotes do indicate differences in the pricing for immediate and deferred annuities, some of the insurers provide their quotes on the basis that the immediate and deferred annuities are comingled in the same purchase. As a result, and based on both the illustrative quotes and the actual group annuity data, the PPFRC has concluded that there is not sufficient evidence at this time to differentiate the guidance on pricing of group annuities for large and small annuity purchases, and immediate and deferred annuities.

Guidance for Non-indexed Pensions

Based on the analysis described above, the PPFRC has concluded that an appropriate discount rate for estimating the cost of purchasing a non-indexed group annuity would be determined as the unadjusted yield on GoC long-term bonds (CANSIM V39062) increased arithmetically by 90 bps, in conjunction with the UP94 generational mortality tables. This guidance applies to both immediate and deferred pensions and also applies regardless of the overall size of a group annuity purchase.

Example

As at December 31, 2011, the unadjusted CANSIM V39062 rate was 2.41%. This rate would form the basis for developing an appropriate underlying discount rate for valuations of non-indexed group annuities with effective dates of December 31, 2011, and January 1, 2012, to be used in conjunction with the UP94 generational mortality tables. Prior to rounding, an applicable underlying discount rate would then be determined as 2.41% + 0.90% = 3.31%.

Each actuary would use discretion in determining whether to round discount rates to the nearest multiple of five, 10, or 25 basis points. Consistency in the application of such rounding would be maintained.

5. INDEXED PENSIONS

As in prior years, data regarding the pricing of annuities indexed to the Consumer Price Index (CPI) are extremely limited. None of the data obtained regarding actual annuity purchases during the fourth quarter of 2011 pertain to indexed annuities. In most cases, the contributing insurers did provide illustrative quote data for the sample blocks on a CPI-indexed basis. It may be noted that the premiums quoted for the illustrative quotes on this and prior occasions are substantially higher than the guidance provided by prior educational notes.

The PPFRC intends to conduct further research in 2012 regarding the pricing of indexed annuities. The analysis will include confirmation as to whether the insurers would be willing to actually transact on the basis reflected in the illustrative annuity quotes. This research may result in the revision of future guidance for estimating the cost of purchasing indexed annuities.

Accordingly, an acceptable proxy for estimating the cost of purchasing a group annuity where pensions are fully indexed to the rate of change in the CPI would be the unadjusted yield on GoC real-return long-term bonds (CANSIM series V39057) in conjunction with the UP94 generational mortality tables. This guidance applies to both immediate and deferred pensions and also applies regardless of the overall size of a group annuity purchase. As at December 31, 2011, the unadjusted CANSIM V39057 rate was 0.45%.

In situations where pensions are partially indexed, indexed to a measure other than the CPI, or contain a deferred component, the actuary would make appropriate provisions for such situations consistent with the guidance provided in this educational note and other relevant educational notes.

6. INDIVIDUAL ANNUITY PRICING

The PPFRC observes that, particularly during a period of capital market turbulence, the pricing of individual and group annuities can differ for reasons such as:

- there is a greater risk of anti-selection for individual annuities,
- the size of the average monthly pension is usually larger for individual annuities,
- individual annuities may have less complex ancillary features,
- the ability to find appropriate fixed-income investments to back the annuity obligation may be a lesser issue for individual annuities due to the relatively small premium size, particularly during a period in which many fixed-income instruments are highly illiquid, and
- the group annuity pricing is underwritten at the time of the quote, while individual annuity pricing for a particular quote may be "automated".

As a result of these factors, the pricing of individual and group annuities can differ significantly, as occurred in late 2008 and early 2009. Where an actuary considers that a plan's hypothetical wind-up or solvency obligations could be settled by the purchase of individual annuities, yields based on relevant individual annuity quotations could be reflected in establishing the annuity purchase discount rate assumption.

7. LARGE PLANS

As noted in prior educational notes, due to capacity constraints within the Canadian group annuity market, it is possible that large plans would not be able to purchase annuities upon plan wind-up. While the capacity of the group annuity market is not clearly known, it is the PPFRC's understanding that during the past few years total transactions in the Canadian group annuity market were less than $1.5 billion annually. Also, as discussed above, the availability of CPI-indexed annuities of any size may be severely limited.

It may be possible to market a large annuity as a series of smaller annuities over a reasonable period of time, thereby enabling a plan with greater annuity liabilities to access the annuity market anyway. However, this approach may not be suitable, or even possible, in every instance. For example, it may not be possible to settle groups representing annuity liabilities exceeding approximately $500 million over a reasonable period of time, even through a series of smaller annuities. Further, large plans with inflationary increases tied to an external index (i.e., CPI related) would likely have difficulty in settling liabilities successfully through a group annuity purchase.

It is very difficult to predict how the benefits of members in receipt of a pension would be settled for large plans with, effectively, no access to group annuity markets. In the absence of any practical experience, the actuary would make a reasonable hypothesis for the manner in which the benefits may be settled. In making such hypothesis, the actuary would consider relevant legislative requirements and regulatory guidance. Based on this hypothesis, the actuary would then develop appropriate assumptions.

Note that, in most circumstances where a plan wind-up is hypothesized, the principles underlying the determination of annuity prices would continue to apply. For example, if it is hypothesized that liabilities are to be settled through an establishment of a replicating portfolio, an actuary would be guided by the underlying philosophy used by insurance companies in pricing group annuities (i.e., that high-quality fixed-income assets with characteristics similar to the liabilities are used to "immunize" the purchase, with further adjustments for expenses and possibly margins for adverse deviations).

8. MORTALITY

Whether or not the actuary is considering a settlement mechanism other than the purchase of annuities, the mortality experience of pensioners can be a factor in developing an appropriate basis. The determinant is whether future pensioner mortality would be expected to be materially higher or lower than average either due to credible and persistent experience or to occupational or demographic factors.

There is evidence that insurers may consider demonstrable substandard mortality experience submitted when establishing the pricing basis for specific group annuities. Insurers also increasingly appear to be considering occupational or pension size data in establishing mortality assumptions for specific group annuities.

The actuary would consider an adjustment to regular annuity purchase assumptions where there is demonstrated substandard or super-standard mortality or where an insurer might be expected to assume significantly shorter or longer than normal longevity based on occupational or demographic factors. In such cases, the actuary would be expected to make provisions for future improvements in mortality in a manner consistent with the mortality improvements inherent in the assumed annuity purchase basis.

9. WIND-UP EXPENSES

Unless the actuary is satisfied that the expenses of wind-up are not to be charged to the pension fund, the actuary would make an assumption regarding these expenses and the assumption would be explicit. Expenses normally include such items as fees related to preparation of the actuarial wind-up report, fees imposed by a pension supervisory authority, legal fees, costs related to the purchase of annuities, and administrative costs related to the settlement of benefits. Actuaries may refer to the educational note Expenses in Funding Valuations for Pension Plans for further guidance.

10. RETROACTIVE APPLICATION

If an actuary has already prepared a funding valuation report with an effective date on or after December 31, 2011, before the publication of this guidance, the actuary would consider paragraphs 1820.33 through 1820.36 of the Standards of Practice to determine whether it is necessary to withdraw or amend the report.

11. FUTURE GUIDANCE

The PPFRC intends to continue monitoring group annuity pricing on a quarterly basis. Actuaries may use the spreads indicated above for valuations with effective dates on and after December 31, 2011, up to December 30, 2012, pending any further guidance or other evidence of change in annuity pricing.

Given the volatility in group annuity pricing which has occurred in the past few years, it is entirely possible that revised guidance could become necessary during the year and, if that occurs, there will necessarily be some delay (such as 60 to 90 days) between the effective date of data collection and the publication of revised guidance. When reporting results of a valuation, within a period of 60 to 90 days of the effective date of the valuation, the actuary may wish to alert users of the report to the possibility that revisions could be needed in the event of new guidance being published.

Moreover, actuaries may wish to be mindful of the volatility in group annuity prices when communicating advice related to future hypothetical wind-up and solvency valuations.

The PPFRC is currently developing guidance and/or conducting research with respect to alternative settlement methods, the pricing of indexed annuities, and the effect of liability duration on annuity pricing.

Responsibility for the manner of application of Pension-specific Standards of Practice in specific circumstances remains that of the member in the pension practice area.

TAB E

This is Exhibit "E" referred to in
the Affidavit of Wallace Robinson
sworn before me this 24 day
of September 2012.

S L Savage
A Commissioner, Etc.

Seeing Beyond Risk Canadian Institute of Actuaries Institut canadien des actuaires Voir au-delà du risque

Memorandum

To: All Pension Actuaries

From: Gavin Benjamin, Chair
Committee on Pension Plan Financial Reporting

Date: August 16, 2012

Subject: **Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective June 30, 2012**

Document 212066

The most recent guidance from the Committee on Pension Plan Financial Reporting (PPFRC) regarding assumptions for hypothetical wind-up and solvency valuations was provided in an educational note supplement dated June 30, 2012, which was based on a review of data collected in the first quarter of 2012. The review concluded that there was not sufficient evidence to warrant changing the guidance provided in a May 24, 2012, educational note. This guidance concluded that for valuations with effective dates on and after December 31, 2011, an appropriate discount rate for estimating the cost of purchasing a non-indexed group annuity would be determined as the unadjusted average yield on Government of Canada (GoC) marketable bonds with maturities over 10 years (CANSIM series V39062) increased arithmetically by 90 bps, in conjunction with the UP94 generational mortality tables. This guidance applies to both immediate and deferred pensions and also applies regardless of the overall size of a group annuity purchase.

Methodology

The guidance published on June 30, 2012, as to estimated purchase costs for non-indexed group annuities was partially based on quotes provided by eight insurance companies on illustrative group annuities using pricing conditions as at March 31, 2012, and supplemented by data from certain actuarial consulting firms on actual group annuity purchases during the first and early second quarters of 2012.

Analysis

In an effort to continue to monitor group annuity pricing, the PPFRC obtained illustrative quotes on a similar basis to those obtained at March 31, 2012, but based on pricing conditions as at June 30, 2012 (however, it is noted that one of the eight insurers did not provide illustrative quotes at June 30, 2012). The illustrative non-indexed quotations at March 31 and June 30, 2012, may be summarized as follows:

AVERAGE OF THE THREE MOST COMPETITIVE QUOTES (USING UP94 GENERATIONAL MORTALITY TABLES)	Large Purchase		Small Purchase	
	31/03/2012	30/06/2012	31/03/2012	30/06/2012
Retirees				
• Discount rate	3.43%	2.98%	3.52%	3.05%
• Spread over CANSIM V39062	+ 0.88%	+ 0.73%	+ 0.97%	+ 0.80%
Deferred vesteds				
• Discount rate	3.69%	3.25%	3.70%	3.31%
• Spread over CANSIM V39062	+ 1.14%	+ 1.00%	+ 1.15%	+ 1.06%

If considered in isolation, over the three-month period, the illustrative quotes show a decrease of approximately 10 to 15 bps in the spread of the discount rates over the unadjusted average yield on GoC marketable bonds with maturities over 10 years (CANSIM V39062), in conjunction with the UP94 generational mortality tables.

The pricing information for the actual group annuity purchases for non-indexed pensions in the second quarter of 2012 that was available to the PPFRC produced an average spread which was in the range of 75 to 85 bps above the prevailing unadjusted average yield on GoC marketable bonds with maturities over 10 years (CANSIM V39062).

As a result, the PPFRC concluded that, effective June 30, 2012, a revision to the guidance contained in the educational note supplement published on June 30, 2012, is appropriate.

Guidance for Non-indexed Pensions

Based on the analysis described above, the PPFRC has concluded that, for valuations with effective dates on and after June 30, 2012, an appropriate discount rate for estimating the cost of purchasing a non-indexed group annuity would be determined as the unadjusted average yield on GoC marketable bonds with maturities over 10 years (CANSIM series V39062) increased arithmetically by 80 bps, in conjunction with the UP94 generational mortality tables. This guidance applies to both immediate and deferred pensions and also applies regardless of the overall size of a group annuity purchase.

The revised guidance on spreads applies to valuations with effective dates on and after June 30, 2012 up to December 30, 2012, pending any further guidance or other evidence of change in annuity pricing.

Example

As at June 30, 2012, the unadjusted CANSIM V39062 rate was 2.25%. This rate would form the basis for developing an appropriate underlying discount rate for valuations of non-indexed group annuities with effective dates of June 30, 2012. Prior to rounding, an applicable underlying discount rate would then be determined as 2.25% + 0.80% = 3.05%.

Guidance for Indexed Pensions

The data regarding the pricing of annuities indexed to the Consumer Price Index (CPI) continue to be extremely limited. Only one actual annuity purchase during the first and second quarters of 2012 pertained to indexed annuities. In most cases, the contributing insurers did provide illustrative quote data for the sample blocks on a CPI-indexed basis. It may be noted that the premiums quoted for the illustrative quotes on this and prior occasions are substantially higher than the guidance provided by prior educational notes. The PPFRC is in the process of conducting further research regarding the pricing of indexed annuities. This research may result in the revision of future guidance for estimating the cost of purchasing indexed annuities.

Until any revised guidance is issued, the guidance for estimating the cost of purchasing indexed annuities contained in the May 24, 2012, educational note continues to apply.

Validity of May 2012 Educational Note

With the exception of the revisions to the guidance contained in this educational note supplement, actuaries would continue to reference the May 24, 2012, educational note for guidance with respect to the selection of assumptions for hypothetical wind-up and solvency valuations with effective dates between June 30, 2012, and December 30, 2012.

Actual Annuity Pricing

The purpose of this educational note supplement is to provide actuaries with guidance related to the establishment of assumptions for hypothetical wind-up and solvency valuations. It is worth noting that the pricing for an actual group annuity purchase depends on many factors, with the result that the actual price may differ from the guidance provided herein. Some of the factors that may affect pricing of a particular purchase include, but are not limited to:

- The duration of the pensions being purchased;
- The proportion of deferred vested members included in the group being purchased;
- The average pension amount for the pensions being purchased;
- The mortality experience anticipated by the insurance companies bidding on the purchase; and
- Competitive pressures in the group annuity market at the time of the purchase.

DAVID KIDD et al. Plaintiffs - and - **THE CANADA LIFE ASSURANCE COMPANY et al.** Defendants

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RESPONDING MOTION RECORD OF THE CANADA LIFE ASSURANCE COMPANY

BLAKE, CASSELS & GRAYDON LLP
199 Bay Street
Suite 4000, Commerce Court West
Toronto, ON M5L 1A9

Jeff Galway (LSUC#: 28423P)
Tel: (416) 863-3859
Fax: (416) 863-2653

Lawyers for the Defendant,
The Canada Life Assurance Company