

**THE CANADA LIFE CANADIAN EMPLOYEES PENSION PLAN (the “Plan”)**

**IMPORTANT INFORMATION ABOUT THE CLASS PROCEEDINGS**

**NOTICE TO PENSIONERS AND DEFERRED/VESTED MEMBERS**

**From: David Kidd, Alex Harvey, and Jean-Paul Marentette, Plaintiffs; on notice to all parties**

**This letter has been approved by the Court and is intended for all Pensioners, Deferred/Vested, and Quebec Cash-Out Members (or the spouses, estates, heirs, beneficiaries and representatives of those who have died) included in the Canada Life Class Action Settlement, approved by the Ontario Superior Court of Justice by order dated January 27, 2012 (the “Settlement”).**

**The purpose of this letter is to provide an update of events related to the Settlement since May 2012, as well as notice of next steps. Please be assured that, for those members who continue to be entitled to benefits under the Plan, nothing discussed in this letter affects benefits you have earned under the Plan, or the monthly benefit that you are currently receiving. Indexing of pensions under the Plan terms, for those eligible for it, is also unaffected. This letter describes proposed changes to the Settlement, as well as information regarding the source of payment of your pension benefits (for those members who continue to be entitled to benefits under the Plan).**

In May 2012 we wrote to the Class to explain that the estimated value of the Integrated PWU Surplus had decreased from an estimated \$54 million as of June 30, 2011 (net of projected expenses) to less than \$10 million as of December 31, 2011 (also net of expenses). The principal factors leading to this decrease in estimated surplus were described as 1) a change in the prescribed actuarial assumptions arising from a drop in interest rates, which operate to significantly increase the cost of settling members’ basic benefits; and 2) a higher take-up rate of the guaranteed pension option among members of the Integration PWU than what was assumed.

The effect of this decrease in estimated surplus is that there will be substantially less surplus to distribute than the amount used to calculate the surplus share estimates communicated in the Member Information Packages sent out in March 2011. The surplus estimate in connection with the Integration PWU was always, however, a variable amount (dependent on factors such as interest rate movements) and accordingly, the amount of surplus to be distributed was never guaranteed, nor can it be guaranteed at this time.

**The decrease in estimated surplus does not, however, impact your basic pension entitlement whatsoever.**

With the assistance of Class Counsel, we have been working to find ways to address this situation. After lengthy negotiations, we have reached an agreement with Canada Life which gives effect to the Settlement while taking into account the changed economic circumstances.

As your court-appointed representatives, we support the changes to the Settlement that have been negotiated, which represent the best possible outcome in difficult economic circumstances.

The parties will be bringing a motion in Court to amend the Settlement in accordance with an agreed set of terms (the “Amended Settlement”) on March 18, 2013 at 10 AM at Osgoode Hall, 130 Queen Street West, Toronto, Ontario. At the hearing, the Court will consider any objections to or comments concerning the proposed amendment to the Settlement. Objections or comments are to be made in writing and should be faxed (416-204-2897), emailed (canadalife@kmlaw.ca) or mailed to Koskie Minsky LLP at the address listed below on or before March 11, 2013. Koskie Minsky LLP will ensure that any objections and/or comments received are filed with the Court in advance of the hearing. Provided a Class member has made written submissions, subject to the Court’s discretion, that person shall be entitled to make oral submissions at the hearing to consider the proposed amendment to the Settlement. As the Court will only be considering the amendments to the Settlement, objections must be limited to the substance of the proposed amendments, and should not address the Settlement itself, which has already been approved by the Court. Do not write directly to the judge.

Amount of Surplus

The economic factors contributing to the initial decrease in surplus reported to you in Spring, 2012 have persisted. As a result, the net *estimated* Integration PWU Surplus available for distribution as at August 31, 2012 was **\$2.6 million**.

Under the Amended Settlement, the parties have agreed to augment the surplus available for distribution as follows:

- i Canada Life will waive its right to receive interest on its expense reimbursement from the Plan, in respect of the period from August 31, 2012 to December 31, 2013, and the amount otherwise payable to it will be added to the Integration PWU Surplus. It is estimated that this will increase the Integration PWU Surplus by approximately **\$800,000**;
- i Canada Life will waive reimbursement of a portion of its legal fees in the amount of **\$500,000**, and will apply this amount to the Integration PWU Surplus;
- i In addition, Class Counsel will forego the legal fees that were approved by the Court for work to be completed after the settlement in January 2012, estimated at **\$200,000**, and this amount will be paid solely to the benefit of the Integration PWU members and to the Pensioners and Deferred Vested Members.

Under the Settlement, Class Members will receive at least the promised \$1000 minimum lump-sum payment. In accordance with the current Settlement, if any member of the Integration PWU Group, or any Pensioner or Deferred Vested Member, would be receiving less than \$1000 in surplus, the surplus shares for individuals receiving more than \$1000 would be reduced and a portion of their surplus would be re-allocated to those who would otherwise receive less than \$1000, to bring everyone up to \$1000. Under the Amended Settlement, however, Canada Life will make any top-up payments required to bring the surplus share for members of the Integration PWU Group up to that \$1000 level, if such a member would otherwise be receiving less than \$1000 (estimated cost to Canada Life of **\$1,200,000**).

While these aspects of the Amended Settlement are intended to increase the amount of Integration PWU Surplus ultimately available for distribution, it is important to note that the amount of surplus to be distributed cannot be guaranteed.

*Possible Second Surplus Distribution*

The Settlement provided for a one-time payment of surplus shares to members of the Integration Partial Wind Up, to Pensioners and Deferred Vested Members, to Quebec Cash-Out Members, and to members affected by the Prior Partial Wind-Ups. Under the Amended Settlement, the parties have now agreed that a second surplus distribution may also occur in the future, as further described below.

Under the Amended Settlement, there may be a second distribution of surplus to members of the Integration PWU Group, to eligible Pensioners and Deferred Vested members, and to Quebec Cash-Out Members, if a surplus exists as at December 31, 2014 (the “2014 Gross Surplus”) related to the assets and liabilities transferred to the ongoing portion of the Plan in respect of the Integration PWU Group members who do not elect to transfer their benefits out of the Plan. If the certified actuarial report of the Plan actuary discloses such a surplus, then a portion of such surplus, calculated in accordance with the terms of the Amended Settlement, will be distributed to these groups subject to the following calculations and limits:

- i 10% of the 2014 Gross Surplus shall be deducted off the top and remain in the Plan as a cushion;
- i The 2014 Gross Surplus will be reduced to take into account any contributions and other payments (together with interest at the Plan rate of return) made by Canada Life into the Plan after August 31, 2012 and that are notionally allocated to the assets and liabilities related to the Integration PWU Group members;
- i 69.66% of the net Surplus will be paid to the Integration PWU Group, to eligible Pensioners and Deferred Vested members, and to Quebec Cash-Out Members, in accordance with the percentages set out in the Settlement;
- i The total amount of all surplus payments to the Integration PWU Group, to eligible Pensioners and Deferred Vested Members, and to Quebec Cash-Out Members under the possible second distribution will be capped at \$15 million;
- i The amounts distributed to members of the Integration PWU Group, to eligible Pensioners and Deferred Vested Members, and to Quebec Cash-Out Members will be calculated in accordance with the formula set out in the Amended Settlement, which takes into consideration amounts paid under the initial surplus distribution;
- i In order to avoid distributing numerous small amounts, the threshold for surplus payments under the possible second distribution is \$100: if, based on the formula under the Amended Settlement, any individual would be receiving \$100 or less, no payment will be made to that individual and the individual’s surplus share will instead be shared with the remaining members (if any) who are receiving \$100 or more.

The drop in the estimated Integration PWU surplus is a regrettable consequence of economic circumstances beyond the control of the parties. The Amended Settlement gives effect to intentions under the original Settlement based on the much lower surplus, but gives hope for a future distribution of surplus if the underlying economic assumptions improve. We recommend the Amended Settlement as fair and reasonable, and in the best interests of the Class as a whole.

The Settlement for members of the Pelican, Adason and Indago groups, and the contribution holidays for active Plan members, are not changing under the Amended Settlement.

A copy of the proposed amendment to the Settlement can be found on our Representative Counsel's website, at <http://www.kmlaw.ca/Case-Central/Overview/?rid=56>.

### **Next Steps**

As stated above, the parties are bringing a motion for approval of the Amended Settlement on March 18, 2013, at 10:00 a.m. Any Class member who wishes to object to the amendments to the Settlement may do so by submitting their objection in writing to Class Counsel at the following address by no later than March 11, 2013:

**Koskie Minsky LLP, Barristers & Solicitors, 20 Queen Street West  
Suite 900, Box 52, Toronto, Ontario M5H 3R3 Attn: Canada Life Class Action**

If the amendment to the Settlement is approved, the plaintiffs will file an application in the Quebec Superior Court for recognition and enforcement of the Court Approval in Ontario. Following the court processes, the parties will seek the required regulatory approvals.

Assuming all the court and regulatory approvals are obtained, the surplus distribution will proceed.

If you have any questions, please contact Representative Counsel, Koskie Minsky LLP, at 1-800-286-2266 or [canadalife@kmlaw.ca](mailto:canadalife@kmlaw.ca)

**PLEASE DO NOT CALL JUSTICE PERELL OR THE ONTARIO SUPERIOR COURT  
OF JUSTICE**