

December 29, 2023

Sears.0001

Dear Plan participants and beneficiaries:

Re: Sears Canada Inc. Registered Retirement Plan (Reg. 0360065) (the “Plan”)

We are writing to provide you with an update on the status of the final stages of the wind up administration of the Plan.

Since its appointment, effective October 16, 2017, by the Ontario pension regulator, TELUS Health, formerly known as LifeWorks and prior to that as Morneau Shepell, (the “Administrator”) has been addressing numerous issues affecting the Plan such as the following:

- The Plan is one of the largest regulator-appointed pension plan wind ups in Canadian history. Since the Plan has participants (members, former members, retired members, and beneficiaries) in every jurisdiction, the Administrator must ensure that participants’ pension benefits are determined in accordance with the legislation of their respective jurisdiction.
- A claim was made under the Companies’ Creditors Arrangement Act (CCAA) against the estate of Sears Canada in the amount of the pension wind up deficit. In addition, there were three lawsuits involving the Plan. As a result of these legal actions, the Plan received gross proceeds of \$102 million, which were used to increase pension benefits of all Plan participants.
- The Administrator discovered an error made by Sears Canada in calculating pensions for some former Sears Canada employees who retired after 2006 or terminated after 2013 and elected a lump sum transfer value. The correction of this underpayment error will result in an increase in pension benefits for those participants who were affected by the error. The affected participants will be notified before the correction is made.
- There was a matter regarding whether the Ontario Pension Benefits Guarantee Fund (PBGF) provides coverage to Ontario SLH employees of SLH Transport, which was a subsidiary of Sears Canada. See Appendix on page 4 for more information.
- Another matter that only affected Ontario retired members was whether a Plan amendment made by Sears Canada in 2014 that changed the Plan’s inflation protection provision to a fixed formula of 0.5% per year was covered by the PBGF. See Appendix on page 4 for more information.

Since all substantial issues have been resolved, we can now enter into the final three stages of the wind up process: (1) filing and approval of the wind up report; (2) issuance of pension benefits statements; and (3) distribution of Plan assets.

1. Filing and Approval of the Wind Up Report

The Administrator will submit an actuarial report (the “Wind Up Report”) to the Ontario pension regulator. This report provides details about the assets and liabilities of the Plan, the value of pension benefits for all Plan participants, and the funded levels for each jurisdiction.

- Pension regulators will review the Wind Up Report to ensure that it complies with the legislation of their jurisdiction.
- The Administrator is working towards filing the Wind Up Report in the spring of 2024. We expect regulatory review and approval to take several months.

2. Issuance of Pension Benefits Statements

The timing and content of your pension benefits statements (the “Statements”) as well as the options to settle pension benefits depend on the legislation of each jurisdiction. The Administrator will issue customized Statements to each plan member after the pension regulator approves the Wind Up Report and we expect to have the majority of the Statements completed and returned to us from each Plan member within three to four months of issuance.

- For all Plan participants who had previously made an election and received a partial lump sum payment, the Statements will provide information regarding any additional lump sum amounts owing which must also be transferred, on a locked-in basis, to a financial institution, or paid in cash, less withholding tax, for amounts in excess of the maximum transfer value.

For all jurisdictions, except Québec

- After receiving approval of the Wind Up Report, the Administrator will issue Statements to all non-retired Plan participants to provide them with the option to transfer the value of their pension benefits based on the funded level of the jurisdiction, on a locked-in basis, to a financial institution or to receive an annuity from an insurance company.
- Retired members will have their final pension benefits settled through the purchase of a life annuity from an insurance company.

Québec

After receiving approval of the Wind Up Report, the Administrator will issue Statements to all retired members and non-retired Plan participants to provide them with the options.

- Non-retired members will receive Statements to indicate that their pension benefits based on the funded level are to be transferred, on a locked-in basis, to a financial institution or paid on a non-locked-in basis.
- Retired members will receive Statements that set out the following options:
 - (a) receive their pension entitlement based on the funded level in the form of a life annuity from an insurance company;
 - (b) have the pension based on the funded level temporarily administered by Retraite Québec who will later purchase a life annuity from an insurance company;
 - (c) transfer the lump sum commuted value of the pension based on the funded level, on a locked-in basis, to a financial institution.

Retraite Québec will hold in-person sessions to explain the process to retired members.

3. Distribution of Plan Assets (2025)

The settlement of benefits by lump sum payments or annuity purchases is estimated to start in the spring of 2025 and end by the end of 2025.

Annuities will be purchased in batches, by the Administrator at different times in 2025.

- For retired members currently receiving a pension, the annuities purchased will be in the same form as the current pensions that members are receiving (life only or joint and

survivor). Deferred annuities will be purchased for members who have elected the pension option, but the members' pensions will start in the future. The Administrator will write to retired members who elected a joint and survivor form of pension to complete a form and confirm their spousal status.

- Insurance companies will be invited to submit their best annuity quotes, and once acceptable annuity quotes are obtained, the Administrator will sign annuity contracts with the insurance companies and purchase the annuities.
- The annuities purchased will be guaranteed by Assuris, an organization that protects annuitants should the insurance company become insolvent. Assuris guarantees up to \$60,000 annually or 90% of the annual annuity payments, whichever is higher.
- Federal legislation requires that pensions for SLH members may only be reduced after the Wind Up Report has been approved. When pension payments start to be made by the insurer, SLH retired members will see a reduction in their pensions; a) to a similar level as other Sears retired members, based on the funded level, and, b) to recover the overpayments that they have been receiving since 2017.
- Non-Ontario pension payments will be adjusted to the final funded level of each jurisdiction at the time of the annuity purchase. For Ontario pension payments, the final funded level is confirmed when the Wind Up Report is approved, and the final adjustments to pensions are planned to be made after the approval of the Wind Up Report, before the annuities are purchased, and will include the top up benefits provided by the PBGF. Therefore, when annuities are purchased in 2025, there will be no further adjustments to Ontario pension payments for members whose final jurisdiction (where they last worked) was Ontario. Members who had some Ontario service but whose final jurisdiction was not Ontario will be eligible to receive top up benefits provided by the PBGF after the benefits in the non-Ontario jurisdiction are determined.
- Within four months of the annuity purchase date, the insurance companies will take over the payments from CIBC and the administration of pensions from the Administrator.

To ensure that your information remains accurate, please keep us informed of any changes to your address, marital status and, for retired members, any changes to your banking information.

The Administrator will continue to administer this complex pension plan wind up in accordance with applicable pension legislation and act in the best interest of all Plan members. We will provide you with regular updates, and in the meantime, if you require any additional information or further assistance, please call our toll-free number 1-888-841-8956 or email us at searspension@telushealth.com.

Sincerely,

TELUS Health (Canada) Ltd.

In its capacity as Administrator for the Sears Canada Inc. Registered Retirement Plan and not in its personal capacity.

APPENDIX

ONTARIO PLAN MEMBERS

- The PBGF does not cover annual inflation protection increases after a plan's wind up date nor does it cover any increase in pension benefits due to a plan amendment that took effect within five years of the wind up date.
- Effective January 1, 2014, Sears Canada changed the Plan's annual inflation protection provision from a variable formula to a fixed formula of 0.5% per year. The Plan was wound up on October 1, 2017. Eligible Ontario retired members received the 0.5% increase in 2014, 2015, 2016 and 2017 but did not receive any further annual inflation protection increases after 2017.
- Earlier this year, the Ontario pension regulator made a decision that the value of the annual inflation protection increases received from 2014 to 2017 is not covered by the PBGF since the new fixed formula represented an increase in pension benefits. Therefore, the value of the increases received from 2014 to 2017 cannot be paid to Ontario retired members after 2017.
- Legal counsel for the Sears court appointed retiree representatives filed a notice of application for a judicial review of this decision in the Ontario Courts. This matter has been tentatively settled out of court on the basis that the annual inflation protection increases received between 2014 and 2017 would be paid until October 2023 but they would no longer be provided on a go forward basis on or after November 1, 2023. You will continue to receive the same pension that you are currently receiving until the final adjustment date which will take place before the annuities are purchased.
- Based on this settlement, it is estimated that 85% of Ontario retired members will see a reduction in payments of approximately \$5 to \$10 per month.

SLH ONTARIO PLAN MEMBERS

- SLH Transport, a company owned by Sears Canada, employed workers in Ontario who were members of the Plan. SLH Transport was federally incorporated on October 6, 1985.
- The Ontario pension regulator issued a decision that the pension benefits accrued by Plan members after October 6, 1985 who were employed in Ontario by SLH Transport are not covered by the PBGF since the PBGF does not cover federal employment.
- A hearing in front of the Financial Services Tribunal was requested in order to challenge this decision and to have the PBGF apply to all service after October 6, 1985.
- A settlement was reached whereby the PBGF will cover the pension benefits from October 6, 1985 to December 31, 1996, as SLH Transport did not engage in activities that fall under federal employment during this period. This increase is in addition to PBGF coverage of the pension benefits accrued in the Plan for service in Ontario prior to October 6, 1985.
- If you are a retired member receiving a pension or if you are entitled to a lump sum payment, any additional amounts owing to you resulting from the increased PBGF coverage with respect to your Ontario service will be incorporated at the time of final settlement.