



Human Resources

Ressources humaines

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January 23, 2019

Mr. Mark Schaan
Director General
Marketplace Framework Policy Branch
Innovation, Science, and Economic Development Canada
235 Queen Street, 10th Floor
Ottawa, Ontario K1A 0H5

Re: Consultation on Enhancing Retirement Security for Canadians

Dear Mr. Schaan:

The Canadian National Railway Company (CN) is pleased to provide our comments to you on behalf of Innovation, Science, and Economic Development (ISED), Finance Canada, the Minister of Seniors, and Employment and Social Development Canada on your consultation paper entitled Enhancing Retirement Security for Canadians (the **Consultation Paper**).

CN sponsors one of the largest private defined benefit (DB) pension plans in Canada with over \$18B of assets covering nearly 55,000 members, pensioners and other former members, and surviving spouses. CN also sponsors defined contribution (DC) pension plans for certain members of its workforce. Our submission addresses a specific item in the Consultation Paper that is highly relevant to CN and its pension plans.

Conditional Benefits

We are deeply concerned with the suggestion contained under “Clarifying Benefit Entitlements” that the *Pension Benefits Standards Act, 1985 (PBSA)* is not permissive of benefits that are conditional on plan funding and/or on the plan’s continued operation. We are also concerned that the clarification contemplated to the Federal pension legislation on that matter may compromise benefits that are highly valued by both CN and the CN plans’ members. We view the PBSA as supportive of such

conditional benefits and note that many federally regulated plans, including several of CN’s pension plans, contain conditional benefits.

Specifically, several of CN’s pension plans provide for future year CPI-linked indexation benefits that are conditional on cumulative asset returns or cumulative gains and losses on assets and liabilities in prior years (**Conditional Indexation Benefits**). For example, in the CN Pension Plan (CNPP), CN’s largest pension plan, in addition to a guaranteed minimum annual indexation, Conditional Indexation Benefits are only payable in the following year where the cumulative gains and losses on plan experience attributed to retirees in prior years, as tracked through what is called the “Escalation Account”, are sufficient to fund such benefits.


By way of background, the current form of Conditional Indexation Benefits in the CNPP was established in 1989 after discussions with CN’s unions and pensioner representatives. It was designed and implemented as a responsible way to provide indexation benefits to CN’s retirees in “good years”, and to avoid creating further liabilities for CN and the plan in “bad years”. Each year, CN reviews the prior year’s performance of the CNPP with the CN Pension Committee, a committee comprised of union representatives, retirees and company representatives, and reports on the performance to its retiree population, informing them of the level of indexation, if any, to be paid in the year. Although historically some amount of indexation has been paid to retirees, it is well-communicated and well-understood by CN’s retirees that the Conditional Indexation Benefits are not guaranteed, are conditional on plan performance, and may not be payable in any given year.

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It is CN's view that the Conditional Indexation Benefits provided for in CN's pension plans are a model of a well-functioning, sustainable benefit design. We therefore urge the Government of Canada not to restrict CN's ability to provide such benefits.

We thank you for the opportunity to provide CN's views to the Government of Canada on this important topic and we look forward to an ongoing dialogue with you on this initiative.

Sincerely,



Kim Madigan
Senior Vice-President, Human Resources

cc. Sean Finn, Executive Vice-President Corporate Services and Chief Legal Officer
Lynn Hemmings, *Finance Canada*