Newsletter as of October 2016

PENSION facts

PULP & PAPER INDUSTRY PENSION PLAN

Pension Plan Improvements

The Plan's adopted investment policy of investing the majority of the pension fund in a portfolio of fixed income assets such as bonds and mortgages has worked well and protected the Plan's financial position in a time of declining interest rates and market volatility. The portfolio was designed to ensure that the pension benefits would be paid with a high degree of certainty. In this regard, the decision to grant benefit improvements goes beyond short-term financial considerations. The Trustees believe in the importance of making conservative decisions to ensure the Plan can continue to meet its benefit payment obligations.

Every year, the actuary of the Plan performs a valuation of the Plan's liabilities and estimates its financial position before the Trustees consider and approve any benefit improvements. The last time benefit improvements were granted by the Plan was as of January 1, 2011 for active participants and January 1, 2009 for those in receipt of a pension.

The Plan is now in a stable financial position as a result of strong contributions and sound investment strategies despite the low interest rate environment. To that end, the Trustees have approved two benefit improvements to the Plan that will be effective January 1, 2017. The improvements are an Earnings update and a Pensioner increase which are described below.

Earnings Update

Effective January 1, 2017, the Trustees have approved an update to the earnings used to calculate your pension for service after 1996. At the end of 2016, the Plan Administrator will perform a test to determine which of the following calculations results in a higher pension value for you. The calculation resulting in the highest benefit will be your accrued benefit to December 31, 2016. If this test produces a smaller benefit, no change will be made to your December 31, 2016 accrued benefit. Included in this update will be members who have retired since the last earnings update. These retirees will have their benefits increased to reflect the earnings update at the time of their retirement.

Your January 1, 2017 annual statement will include the earnings update calculations. Your employer will distribute this statement to you by June 30, 2017, at which time the online projection tool will reflect the earnings update as well.

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Earnings Update Calculation

Your monthly pension value as of December 31, 2016 will be the greatest of:

Your benefit earned as at December 31, 2015 plus 1.55% of your 2016 earnings divided by 12

OR

1.55% of your total earnings for all the years after 1996 divided by 12 plus your benefit earned as at December 31, 2016 with respect to service prior to 1997

OR

1.55% of your average annualized earnings for the last five Plan years ending December 31, 2016 (2012-2016) times your Updated Credited Service to the end of December 31, 2016 divided by 12 plus your benefit earned as at December 31, 2016 with respect to service prior to 1997

Updated Credited Service Calculation

Your updated credited service at the end of 2016 will be calculated as follows:

$$\frac{\text{Total hours since January 1, 1997 or Plan entry date (if later than January 1, 1997)}}{1700}$$

to a maximum of the number of years that you were participating in the Plan after this date (the maximum is 20 years as at December 31, 2016).

Pensioner Increase

Eligible Pensioners* can benefit from post-retirement ad hoc pension increases. Due to the Plan's good financial position, pensioners who retired prior to 2009 will receive an increase of 2.25% of their pension effective January 1, 2017. As for pensioners who retired after 2008, pension increases will be prorated.

*Pensioner includes surviving spouse and beneficiaries receiving a pension

Update on Financial Position

There continues to be uncertainty and volatility in all markets which may lead to you wondering about the security of your pension. The majority of the Plan's assets are invested in high quality bonds in the Canadian market, thus ensuring that the Plan's assets continue to perform in line with expectations.

Pension plans are faced with a number of issues which may impact the future financing of the Plan. Some of these issues include longer life expectancies and the current low interest rate environment. These issues increase the cost of providing pension benefits and may, in the longer term, affect the Plan's ability to provide future benefit improvements. Although there are challenges, the Trustees are confident that the assets in the Plan are more than sufficient to cover current pensions in pay and the accrued pensions of all active and terminated vested participants. However, this type of benefit arrangement does not guarantee that under all circumstances benefits will continue to be fully supported by the Plan's assets.

The Trustees will continue to closely monitor the Plan's investments, the financial position of the Plan and the cost of providing pension benefits. Next year, the actuary of the Plan will once again perform a valuation of the Plan's liabilities and estimate the financial position of the Plan before the Trustees are able to consider any future benefit improvements.

Questions?

Contact your Pulp and Paper Pension Plan Administrator:

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