

## **DB & DC PENSION AND BENEFITS**

### **- FOR ACTIVE ASSOCIATES FAQ**

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#### **DB Pension – General Questions**

- 1. What does the CCAA filing mean for the Company's registered pension plan and its assets?**
  - The assets of the Defined Benefit component of the Sears Registered Retirement Plan (SRRP) are held by CIBC Mellon - an independent trust company. Those assets are separate and apart from the Company's assets. As such, they are not subject to claims by the Company's creditors.
  
- 2. Is the DB component of the SRRP underfunded and in a deficit?**
  - The last valuation for the DB component of the SRRP that was filed with the pension regulator (FSCO) as at December 31, 2015 showed a going-concern surplus of \$28.9 million and a deficit on a wind-up basis of \$266.8 million. This means the SRRP would be in a deficit position if it were wound up.
  - That last valuation as of December 31, 2015 estimated that the assets of the pension plan were less than the liabilities under the pension plan and that the "transfer ratio" was approximately 81%.
  
- 3. Why is the DB component of the SRRP in a deficit?**
  - Every three years when a valuation is completed, the actuaries for the plan determine the estimated funded status of the pension plan. In determining the funded status of the pension plan, a number of factors and assumptions are used, such as interest rates and life expectancy of participants. These factors change over time which impact the level at which the plan is funded.
  - Once the valuation is completed, the funding requirements for the next three years are determined. Sears Canada has been making all required payments into the pension plan in accordance with the requirements of pension legislation.
  
- 4. Will the Company continue to make payments into the DB component of the SRRP?**
  - The Company has made all required payments with respect to the DB component of the SRRP as of June 22, 2017.
  - The Company expects to ask the Court's permission to suspend pre-existing payment obligations to reduce the financial strain on the Company and to give the Company the time and stability to enable it to restructure. The Company expects that this issue will be dealt with by the Court in a "Comeback Motion", which is currently scheduled to be heard on July 13, 2017.
  - Court materials regarding the Comeback Motion will be available on the Monitor's website. Also, as decisions are made, you will be updated on these decisions through [my.sears.ca](http://my.sears.ca). You can also find information concerning the CCAA proceedings on the Monitor's website at <http://cfcanada.fticonsulting.com/searscanada>.
  
- 5. Are my DB benefits guaranteed?**
  - The defined benefit assets of the registered pension plan are held by CIBC Mellon - an independent trust company. Those assets are separate and apart from the Company's assets. The entitlements

of DB pension plan participants are provided from the available assets in the defined benefit plan at this time.

**6. Am I entitled to withdraw the commuted value of my DB pension?**

- If you are an active associate: Pension legislation does not allow for active associates to transfer commuted values out of the pension plan.
- If you leave the Company: If you cease to be an employee of the Company then you will be sent a pension package to your home address outlining your options under the DB component of the SRRP. You will then be able to elect to defer your pension, start a monthly pension or take your commuted value with an initial payment at 81% of the commuted value. *(please see question 14 to explain why you would receive 81% of the commuted value)*

**7. Does the Company intend to wind-up the DB plan as part of the CCAA process?**

- At this time, decisions regarding the future treatment of the SRRP have not been made.

**8. If the SRRP is wound up, what happens to the assets in the plan?**

- The SRRP is registered in the Province of Ontario. In Ontario, if a pension plan is wound-up, the plan administrator would file a wind-up report with the Ontario pension regulator being the Financial Services Commission of Ontario (FSCO). Once a wind-up report is approved by the pension regulator, the plan assets are applied towards the pension entitlements of the participants. The defined benefit assets would be applied towards the defined benefit entitlements of all DB pension plan participants.
- Commencing the CCAA process does not trigger a wind-up of the pension plan nor has Sears Canada filed for a wind-up.

**9. What is the Pension Benefits Guarantee Fund (PBGF)?**

- The PBGF provides a degree of protection to Ontario members and beneficiaries of particular types of defined benefit pension plans (which include the Sears Canada Pension Plan) in the event the Company is unable to contribute the amount required on wind-up basis. The PBGF only applies in circumstances where the pension plan is wound-up. Commencing the CCAA proceeding does not trigger a wind-up nor has Sears Canada filed for a wind-up.

**10. Would the Pension Benefits Guarantee Fund (PBGF) apply to me?**

- The PBGF can only apply with respect to Ontario members and beneficiaries.
- The PBGF can only apply if the pension plan is wound-up.
- The PBGF would only apply if the Ontario Superintendent of Financial Services makes a declaration that the PBGF applies.
- Commencing the CCAA proceeding does not trigger a wind-up of the SRRP.

**11. If during the CCAA process, the Company is sold to another organization, what happens to the SRRP? Would the purchaser be responsible? Can the terms of the plan be changed?**

- If the Company were to be sold to another company, any obligations of the purchaser regarding the SRRP would depend on the terms of the purchase agreement and transaction.

**12. What do I do if I have questions about the CCAA filing or what this means to my pension?**

- For questions relating to what this means for your pension during a CCAA proceeding, you follow regular process and contact the HR Service Centre at HRSC@sears.ca or 1-888-444-9444 (locally in Toronto 416-572-7300). Information regarding the CCAA proceedings will also be available on the Monitor's website at <http://cfcanada.fticonsulting.com/searscanada>.

**Active Associates - with DB pension benefit**

**13. Can I still retire and start receiving a monthly pension?**

- Yes, when you leave the Company if you are eligible to retire under the terms of the SRRP you can still elect to receive a monthly pension.

**14. The Company used to permit me to take 100% of the commuted value of my pension. Why has this now been changed to 81%?**

- The Ontario pension legislation permits, but does not require, a company to transfer 100% of the commuted value out of the pension plan. Prior to the CCAA filing, as was permitted under Ontario pension legislation, the Company had been transferring out 100% of the commuted value of the pension entitlement when a commuted value transfer was elected.
- In light of the CCAA filing, the Company will now follow the minimum standard under Ontario's pension legislation. This means if a commuted value is elected, it will be transferred at 81% based on the Transfer Ratio as shown in the actuarial valuation report prepared as at December 31, 2015. The Company will then have up to 5 years after your initial transfer to pay the difference.
- If on June 12, 2017 the Company had not received your signed form electing to receive your commuted value, then you will continue to be eligible to elect your commuted value, however as an initial payment, you will receive 81% of your commuted value and you will retain your entitlement to receive the remaining balance within 5 years after your initial transfer date.
- If the Company had received your completed and signed form prior to June 12, 2017 and you elected to receive your commuted value, you will receive one payment of 100% of the commuted value.

**15. How will I receive the remaining 19% of the Commuted Value? Is this payment guaranteed?**

- The minimum standard under Ontario's pension legislation requires that the balance of the commuted value of 19% is to be paid within 5 years after the date of the initial transfer. The additional payments, like the initial transfer amount are paid from the pension plan. This obligation is not affected by the Initial CCAA Order.
- Within 5 years, you will be contacted regarding payment of the outstanding balance and to confirm your transfer information is still accurate.

**16. If I would like to get an updated estimate of my commuted value, who do I contact?**

- The Company has recently mailed out or posted your annual pension statement on your my.sears.ca

profile with information as of December 31, 2016. This information will have the estimated commuted value as of December 31, 2016. This is an estimate and the amount may change at the time you may elect to receive your commuted value based on factors in place at the time of your elect.

- The Company does not provide mid-year commuted value estimates.
- If you terminate employment or retire, your final pension package will include your final benefit entitlements and options available to you.

**17. Where can I get more information on my current pension benefits for the DB component of the SRRP?**

- The Company has recently mailed out or posted your annual pension statement on your my.sears.ca profile with information as of December 31, 2016. Please log into your my.sears.ca account to receive your annual pension statement.

**18. If I would like to retire and commence a pension who should I contact?**

- Please follow regular process to notify your HR representative of your intent to retire or leave employment.

**Active Associates - Defined Contribution (DC) Pension**

**19. Is my money protected in the DC pension plan? Am I entitled to 100% when I leave or retire?**

- The assets of the defined contribution pension plan are held by Sun Life Financial - an independent insurance company. Those assets are separate and apart from the Company's assets. They are not subject to claims by the Company's creditors.
- As you have been making contributions into your DC pension plan the Company has made all matching contributions into your account at Sun Life at the same time. This money is 100% vested and is not reduced as a result of the CCAA proceeding.

**20. Will I continue to make contributions into the DC plan?**

- Associates who remain actively employed and are eligible for the DC pension plan will continue to participate in Sears Canada's DC pension plan, subject to the regular terms and conditions of the plan.
- You will continue to make any DC contributions that you have elected to make and the Company intends to continue to make any matching contribution. You can continue to make changes to your investment selections and you may change your contribution percentage at any time in the same manner as before the CCAA filing.
- Please contact Sun Life Financial or visit [www.sunlife.ca/member](http://www.sunlife.ca/member) if you wish to make changes to your pension contributions or investments.

**21. Will the Company continue to make contributions into the DC pension plan?**

- Associates who remain actively employed and are eligible for the DC pension plan will continue to participate in Sears Canada's DC pension plan, subject to the regular terms and conditions of the plan.

- Sears Canada intends to continue to make all matching contributions to the DC pension plan in accordance with the terms of the plan.

### **Active Associates – Health, Dental, Life Insurance and Discount**

#### **22. What happens to my Health and Dental, life insurance and discount?**

- All benefits coverage in place including your health, dental, life insurance and discount remain in place as an actively employed associate. There is no change to your coverage as a result of the CCAA proceeding.

### **Retiree Benefits – Health, Dental, Life insurance and Discount**

If based on your age and years of service, you qualified to receive retiree health and dental when you retire from the Company, please see the FAQ's below.

#### **23. What happens to my retiree health and dental benefits when I leave the Company?**

- The Initial CCAA Order permits the Company to suspend pre-existing obligations to reduce the financial strain on the Company and to give the Company the time and stability to enable it to restructure.
- At this time, any decisions on the continuation of retiree health and dental benefits will be governed by the Initial CCAA order and will be addressed in a "Comeback Motion" which is currently scheduled to be heard on July 13, 2017.
- Court materials regarding the Comeback Motion, which is currently scheduled to be heard on July 13, 2017 will be available on the Monitor's website. Also, as decisions are made, you will be updated on these decisions through my.sears.ca. You can also find information concerning the CCAA proceedings on the Monitor's website at <http://cfcanada.fticonsulting.com/searscanada>.

#### **24. What happens with my retiree life insurance when I leave, do I still have retiree life insurance?**

- The Initial CCAA Order permits the Company to suspend pre-existing obligations to reduce the financial strain on the Company and to give the Company the time and stability to enable it to restructure.
- Retiree life insurance benefits are currently insured through Sun Life Assurance Company – an independent insurance company – and the Company currently makes premium payments to Sun Life with respect to that coverage. At this time, the Company does not intend to suspend premium payments to Sun Life with respect retiree life insurance benefits and expects Sun Life to continue to process claims relating to retiree life insurance in the same manner as they were prior to the CCAA filing.
- The Company expects that the issue of suspending payments with respect to retiree life insurance will be dealt with by the Court in a "Comeback Motion".
- Court materials regarding the Comeback Motion will be available on the Monitor's website. Also, as

decisions are made, you will be updated on these decisions through my.sears.ca. You can also find information concerning the CCAA proceedings on the Monitor's website at <http://cfcanada.fticonsulting.com/searscanada>.

**25. What happens to my retiree Sears discount?**

- At this time, Sears Canada has not suspended the Sears retiree discount and thus the Sears retiree Sears discount is currently still available, all in the same manner as it was prior to the CCAA filing.

**Questions:**

Should you have a specific question in regards to the administration of your pension or benefits (i.e address change, passing of spouse, etc.) please follow regular process and contact the HR Service Centre at HRSC@sears.ca or 1-888-444-9444 (locally in Toronto 416-572-7300).