

MERCER



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September 30, 2009

Mr. Charles Ohayon
Treasurer
Town of Hampstead
5569 Queen Mary Road
Hampstead, Québec H3X 1W5

Subject: Pension Plan for the Employees of the Town of Hampstead
Financial situation of the Plan and funding requirements

Dear Mr. Ohayon:

This letter aims at providing information on the current financial situation of the *Pension Plan for the Employees of the Town of Hampstead* (the “Hampstead Plan”) and to explain the funding requirements for the Town.

Mercer has served as the pension consultant and actuary for the Hampstead Plan for more than 30 years and I have myself been involved with Hampstead since 1999.

Pension Plan funding rules

The Town of Hampstead sponsors a defined benefit (DB) pension plan for its employees. Such DB plan promises a predetermined level of benefits at retirement (based on a formula), and assets must be set aside to fund such promise. The present value of the promised benefits is called the actuarial liabilities. When, at a given point in time, assets exceed actuarial liabilities, there is a funding excess (also called surplus); while inversely if actuarial liabilities exceed assets, there is a funding deficiency (or deficit).

The financial situation (surplus or deficit) of a pension plan varies over time. For example, everything else being equal, strong market performances will increase assets and cause for surpluses to develop in pension plans; while inversely poor market performances will shrink assets and create deficits.

The *Quebec Supplemental Pension Plans Act* (the “Act”) prescribes how a pension plan should be funded by the Plan sponsor, in order to secure the promised benefit. In short, for pension plans sponsored by municipalities, the Act currently requires that an actuarial

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valuation be performed at least every three (3) years and that the deficit revealed at such valuation be funded by the Plan sponsor over a period of 15 years. There is no obligation for a Plan sponsor to immediately fund the entire deficit revealed by a valuation. The required level of contribution is reassessed every three years (at the most). (It should be noted that different, more stringent pension funding rules apply to the private sector – in particular the obligation to fund the solvency deficiency over a period not exceeding five (5) years).

Financial situation of the Hampstead Plan as of December 31, 2007 (date of most recent actuarial valuation)

The following table summarizes the financial situation of the Hampstead Plan as of December 31, 2007, date of the most recent actuarial valuation of the Plan:

Financial situation of the Plan – Going-concern approach	December 31, 2007 After Plan split
Market value of assets	\$11,324,700
Actuarial liabilities	\$11,592,200
Funding excess (deficit)	\$ (267,500)

In accordance with the requirements of the Act, the Town of Hampstead is currently contributing an amount of \$27,228 per year to fund the funding deficiency of \$267,500 revealed at the most recent actuarial valuation.

Evolution of the financial situation of the Hampstead Plan

As of December 31, 2008, statistics indicate that approximately 90% of registered pension plans in Canada are in a deficit situation. Three (3) main factors, which have happened concurrently over the past few years, have contributed to this deterioration in the financial situation of Canadian pension plans:

- a drop in long-term interest rates;
- an improvement in life expectancy; and
- a strong decline in global stock markets in 2008.

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Based on our projections, the Hampstead Plan has also experienced a deterioration of its financial position in 2008. The deficit has been estimated at \$2.7 Millions as of December 31, 2008. This increase in the deficit is mainly the result of the negative return on Plan assets in 2008 (-9.5% return). (It should be noted that this return of -9.5% in 2008 was significantly superior to the average return achieved by Canadian pension funds – -15.9% at the median). This estimated deficit as of December 31, 2008, however, does not have to be funded immediately by the Town as no actuarial valuation is required to be filed until December 31, 2010. In fact, given strong returns on assets obtained so far in 2009 (approximately 13.2% return up to September 28, 2009), it can be estimated that the actuarial gain on assets since the beginning of the year is approximately \$1 Million.

Pension Plan governance and administration

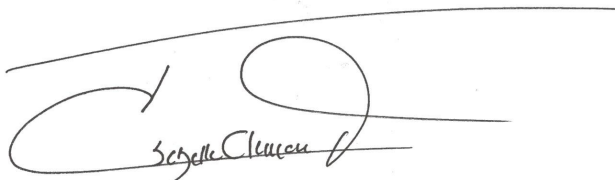
Since the reconstitution of the Town of Hampstead as of January 1, 2006, the Pension Committee has been meeting on a regular basis to monitor the required elements of the Plan administration (with appropriate documentation of such activities).

Actuarial valuations have been performed as required, and the Pension Committee and its delegatee have monitored that required contributions by both the Town and Plan members have been deposited into the pension fund in a timely manner.

The performance of the investment managers has also been monitored, including a detailed review of performance prepared by Mercer's investment specialists, leading to a change in investment managers. Since the change in investment managers (effective December 22nd, 2008) up to September 28, 2009, Plan assets have achieved a 17.0% rate of return.

We are available to discuss the content of this letter at your convenience.

Sincerely,



Isabelle Clément, FSA, FCIA
Principal