

## **Performance Incentive Plan (PIP) Design Features**

### **RCTC Represented Unionized Employees (Canada)**

Issuing Department: Industrial Relations

#### **Policy Statement**

Canadian Pacific Railway and the Rail Canada Traffic Controllers have agreed to implement a Performance Incentive Plan (the "Plan"), which is intended to recognize the contribution that each RCTC represented employee makes to the Railway's achievement of its business plans.

#### **Accountability**

A joint union/management RCTC Performance Incentive Steering Committee (the "Committee") will establish rules and regulations required to properly administer the plan.

On an annual basis, a two-person team (manager/and union representative) is responsible for establishing team objectives in alignment with the Transportation/Field Operations business plan (3%) and guiding participants in the setting of individual objectives aligned with the business plan (2%). The two-person team, in addition to managers and peers, are responsible for providing feedback throughout the year on participants' progress toward achieving objectives. The two-person team must obtain approval of team objectives (3%) and personal objectives (2%) with the designated Company Officer, conduct a mid year review, solicit feedback from managers and peers, evaluate performance against objectives by year end and report results to Human Resources/Industrial Relations.

Employees are responsible for setting their personal objectives (2%) and striving to achieve their annual PIP designated performance objectives and for soliciting performance feedback from their managers and peers.

## Process and Application

### Plan Year

The Plan Year runs from January 1 to December 31. Eligible earnings are calculated on the basis of a standard pay year (Pay Period 1- Pay Period 26).

### Eligibility

Subject to the following conditions, the Performance Incentive Program will apply to all RCTC represented employees who are in the Company's service on the effective date of the program.

- a) Newly hired employees, will be eligible for inclusion in their performance incentive program on their date of hire and their award will be pro-rated for the time worked.
- b) Employees on WCB, WIB, during the program period will be eligible only for time in active service during the program period. Their awards will be pro-rated for the time worked.
- c) Employees accepting temporary promotion to management positions will have their awards pro-rated for the time worked in a RCTC represented position.
- d) An employee who is receiving employment security benefits, SUB benefits, who has accepted a severance, bridging or early retirement package to voluntarily leave employment or who dies during the program period is eligible on a pro-rated basis for time worked in a RCTC represented position.
- e) Any employees dismissed during the program who are subsequently reinstated will be eligible only for time in active service during the program period.
- f) Employees who resign or are dismissed and not reinstated during a plan year will not be eligible for an award.

## Temporary Replacements

Unionized employees who temporarily assume a non-unionized position will be eligible for PIP under the PIP Plan for non-unionized employees, provided they meet the conditions for PIP eligibility in Policy 8503 (see Appendix "A") Compensation and Benefits for Unionized Employees who Temporarily Assume Non-Unionized Positions.

## Plan Objective

The objective of this program is to promote goal alignment between those directly responsible for rail traffic control and the Transportation/Field Operations business plan. Moreover, employees will have a greater opportunity to impact results and share success when corporate targets are attained.

## Target Award Level

The Target Award level for RCTC represented employees is 5% of eligible earnings. 3% of the Target Award level is designated for the accomplishment of Team objectives. 2% of the Target Award level is designated for the accomplishment of Individual objectives.

## Eligible Earnings and PIP Awards

Awards for RCTC represented employee will be and PIP Awards generated to a maximum of 5% of gross earnings while in active service as an RCTC represented employee during the plan year. Gross earnings represent all earnings including regular time, any overtime and shift differentials. Earnings during a period of temporary promotion to management, while on WIB, WCB, ES, SUB or from severance or retirement packages are not included in the calculation of eligible gross earnings.

Program awards will not be subject to the pension program.

Program awards will not be factored into the calculation of annual vacation earnings.

### PIP Objective Attainment Level

Performance on team objectives (3%) will be identical for all participants who share the same team objective.

Performance on individual objectives (2%) may vary according to performance of the individual participant.

Participants who fully achieve a PIP business objective will be entitled to 100% of the award allocated to that objective. Participants who partially achieve a PIP business objective are entitled to 25%, 50%, or 75% of the award allocated to that objective. Participants who fail to achieve an objective are not entitled to any portion of the award allocated to that objective.

### Potential CPR Payout Levels

Annually, the Management Resources and Compensations (MRC) Committee of the Board of Directors of Canadian Pacific Railway's Committee establishes a target operating ratio (Plan Target-OR). The target used for the non-unionized Performance Incentive Program, will be the same target used for the RCTC Program.

### Plan Target – OR

Subject to the MRC Committee's discretion the potential payout in each Plan Year for the Plan Target-Operating Ratio is:

- a) 1.0 times the Target Award Level where the actual CPR operating ratio for the Plan Year equals or exceeds the Plan Target-OR;
- b) 0 when the actual CPR operating ratio for the Plan Year is at or below the threshold level for the Plan Target-OR; and

Where the actual CPR operating ratio falls between the threshold and plan levels, the payout level will be prorated.

An operating income target or other targets may also be included in the plan to reflect changes to the PIP plan for unionized and non-unionized employees.

### CPR Net Loss

The MRC Committee has the discretion to adjust the amount of awards so that payment of awards under the Plan does not result in a net loss for CPR. No awards will be paid if CPR has a net loss for the Plan year.

Determination of OR-target achievement will be consistent with OR- target achievement for non-unionized and unionized employees.

### Calculation of Awards

Awards are calculated by performing the following calculation:

Target Award Level multiplied by the eligible earnings multiplied by the PIP attainment level on the designated PIP objectives multiplied by the payout level achieved by the Company.

For example:

Target Award Level	Eligible Earnings	Individual PIP Attainment Level	Company Achievement	PIP Award
5% x	\$50,000 x	100% x	95% =	\$ 2,375

### Payment of Awards

Awards to be paid out in any Plan year, will be paid as soon as possible after CPR financial results are determined, the MRC Committee has approved a payout, and the participants performance is assessed under the plan.

The payout will be included in a separate pay deposit, with any deductions as required by law.

If the payout is below \$25.00 for an employee, the award will be not be distributed.

## Core Values Rating

In order to receive a PIP Award Core Values must be adhered to. These include:

- Integrity/Trust
- Respect
- Drive for Results
- Leadership through Team Work
- Improvement and Innovation

An amount up to 100% of the PIP award may be withheld if values are not adhered to. Inclusion of values in the PIP program will be consistent with the inclusion of values in the PIP program for non-unionized participants.

## **Administration**

### Establishing, Setting Objectives, Process & Review

The following is an outline of the process for establishing PIP objectives and reviewing performance:

- 1) Departmental objectives and performance targets approved by the company
- 2) Department objects and performance targets shared with the RCTC Union (Department objectives and performance targets non-negotiable)
- 3) Department objectives and performance targets are communicated to program participants and objectives set (December/January):
  - a) Team objectives (3%) for non-unionized and RCTC represented employees are set based on departmental objectives.
    - i) A two-person team (manager/union representative) is responsible for development of objectives for RCTC represented employees. Where applicable, team objectives will be aligned to PIP objectives of non-unionized employees.
    - ii) Objectives must be approved by the designated Company Officer.

- b) Individual objectives (2%) for program participants are set based on departmental objectives
  - i) The two-person team (manager/union representative) supports development of individual objectives.
  - ii) Employees are responsible for setting individual objectives
  - iii) Objectives must be approved by the designated Company Officer
- 4) Feedback is provided through out year by supervisors and peers
- 5) Formal mid year review (June/July)
  - a) Two-person team (manager/union representative) conducts mid year review.
  - b) Manager representative solicits feedback from floor managers. Floor managers are assigned employees at beginning of year, provided with employee's objectives and advised that they will be required to participate in mid and year end review.
  - c) Union representatives solicits peer feedback
- 6) Final review (January). Two-person team (manager/union representative) conducts final reviews in January. Same procedure used as mid-year review. Year-end review is performed in conjunction with objective setting.

### Assigning Weights

PIP objectives are weighted according to their relative importance.

The total value of all PIP objectives must equal 100%. 60% of the weighting must be assigned to Team Objectives and 40% must be assigned to Individual Objectives.

Criteria for PIP Objectives

PIP objectives must meet the following criteria in order to be approved:

- Specific
- Measurable
- Results Oriented
- Attainable
- Time Framed

PIP objectives must be approved by the designated Company Officer. Objectives must not adversely affect other areas of the business. An objective that is shown to adversely affect other aspects of the business will be removed from the plan.

Assessing PIP Objectives

The overall PIP rating is equal to the sum of all PIP objectives. The value of each objective is determined by multiplying the weight of each objective by its achievement level. For example:

Objective 1 (team objective), 30% of 100% (fully met)	=	30%
plus		
Objective 2 (team objective), 20% of 75% (partially met)	=	15%
plus		
Objective 3 (team objective), 10% of 100% (fully met)	=	10%
plus		
Objective 4 (individual objective) 25% of 100% (fully met)	=	25%
plus		
Objective 5 (individual objective) 15% of 100% (fully met)	=	15%
<u>PIP attainment level:</u>		<u>95%</u>



### Reporting Results

By January 31<sup>st</sup>, annually, the two-person team (manager/union representative) should have PIP attainment levels recorded on HRIS.

### Appeal Process

PIP awards and ratings of objectives and values are not arbitral. If an individual wishes to appeal the performance ratings as established by the two-person team (manager/union representative), an appeal may be submitted to the Vice President HR/IR and the National President, Rail Canada Traffic Controllers, for final resolution.

**APPENDIX "A"**

**Compensation and Benefits for Unionized Employees who  
Temporarily Assume Non-Unionized Positions**  
Non-Unionized Employees (Canada)

Issuing Department: Human Resources

**Policy Statement** Canadian Pacific Railway ensures consistent benefits, wages and incentive plan treatment of unionized employees who temporarily assume non-unionized positions.

**Accountability** Managers must approve these temporary assignments. They must immediately advise their payroll coordinator, in writing, of any change in status of these employees in order to ensure the maintenance of accurate HRIS records and payment of wages.

Payroll coordinators must ensure that these employees are properly coded in the Human Resources Information System (HRIS). Payroll coordinators may change the status of these employees on HRIS only when provided with written approval from the appropriate manager.

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**Process and Application**

**Scope** This policy applies to all unionized employees who temporarily assume a non-unionized position in Canada. They are typically categorized as:

- Relieving supervisors (i.e. vacation, sick leave)
- Acting supervisors (i.e. in vacant position temporarily)

## ***Canadian Pacific Railway***

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### **Policy 8503**

Compensation & Benefits for Unionized  
Employees who Temporarily Assume  
Non-Unionized Positions

- Temporary supervisors (i.e. special project, seasonal work program)
- Clerks

Base Salary Compensation	Upon assuming the temporary non-unionized position, the employee is entitled to a minimum of 80% of the salary range of that position. Furthermore, the Salary Program policy applies to those who assume the position for 3 or more consecutive months duration in a calendar year. Any base salary adjustments will be based on the setting and achievement of Performance Management Program (PMP) objectives.
PMP/PIP Objectives	Upon assuming a temporary position of 3 or more months duration in a calendar year, the employee must set PMP/PIP objectives. PIP objectives should reflect or support gainshare objectives whenever possible.
PIP Eligibility	<p>Employees who accept a temporary position and were participants in a Gainshare Program in their unionized position, will be eligible for PIP participation if they:</p> <ul style="list-style-type: none"> <li>• have at least 6 consecutive months of company service;</li> <li>• assume the temporary position on or before October 1 of a calendar year;</li> <li>• maintain the non-unionized position for at least 3 consecutive months</li> <li>• set and achieve PIP objective(s)</li> </ul> <p>Unionized employees who did not participate in the Gainshare Program prior to assuming the temporary non-unionized position will be eligible for PIP participation if they:</p> <ul style="list-style-type: none"> <li>• assume the temporary position on or before July 1 of a calendar year;</li> <li>• maintain the position for at least 6 consecutive months; and</li> <li>• set and achieve PIP objective(s)</li> </ul>

Gainshare Eligibility	<p>Unionized employees who participated in the Gainshare program prior to assuming the temporary non-unionized position will continue to be eligible for gainshare participation if:</p> <ul style="list-style-type: none"><li>• the non-unionized position is for less than 3 consecutive months duration in a calendar year (i.e. the employee is not eligible for PIP participation)</li><li>• performance improves and the baseline set for gainshare objectives is exceeded</li></ul>
Performance Incentive Program Award	<p>The PIP award reflects the achievement of PIP objectives, the individual's target award level and Company performance.</p>
Benefits Eligibility	<p>Individuals are eligible for the benefits as indicated below, from date of appointment if the assignment is for more than 30 consecutive calendar days.</p> <p>Those who maintain the temporary non-unionized position for shorter periods (less than 30 calendar days) will continue to be covered on the unionized benefits plans.</p>
Pension Plan	<p>Employees in temporary assignments will continue to benefit from the provisions of the Pension Plan applicable to their unionized position.</p>

## Company Benefits

Basic Term Life Insurance	Coverage is provided by Canada Life under the non-unionized plan. Employees with dependents receive coverage equal to twice their annual base salary. Employees without dependents receive coverage equal to their annual base salary. The completion of a new beneficiary card is required by Canada Life.												
Alberta Health & BC Medical	CPR shares Alberta Health Care and BC Medical insurance premiums with employees on a 50/50 percent basis.												
Extended Health and Vision	<p>Coverage is provided by Sun Life under different schedules with the same terms and conditions as the unionized plans.</p> <ul style="list-style-type: none"> <li>• Plan number 25040 Schedule III-X for employees affiliated with the BLE and UTU</li> <li>• Plan number 25040 Schedule III-Z for employees affiliated with all other unions (TCU, IBEW, BMWE, CAW, RCTC, CPPA)</li> </ul>												
Dental Plan	Coverage is provided by Great-West Life under the same terms and conditions as the unionized plan.												
Short-Term Disability	<p>Short-term disability coverage is provided by the company sponsored STD plan for non-unionized employees based on a service-related schedule as follows:</p> <table border="0"> <thead> <tr> <th style="text-align: left;"><u>Years of Company Service</u></th> <th style="text-align: left;"><u>Benefits</u></th> </tr> </thead> <tbody> <tr> <td>less than 1</td> <td>4 weeks @ 100%, 22 weeks @ 70%</td> </tr> <tr> <td>1 and less than 2</td> <td>9 weeks @ 100%, 17 weeks @ 70%</td> </tr> <tr> <td>2 and less than 3</td> <td>13 weeks @ 100%, 13 weeks @ 70%</td> </tr> <tr> <td>3 and less than 4</td> <td>17 weeks @ 100%, 9 weeks @ 70%</td> </tr> <tr> <td>4 and less than 5</td> <td>22 weeks @ 100%, 4 weeks @ 70%</td> </tr> </tbody> </table>	<u>Years of Company Service</u>	<u>Benefits</u>	less than 1	4 weeks @ 100%, 22 weeks @ 70%	1 and less than 2	9 weeks @ 100%, 17 weeks @ 70%	2 and less than 3	13 weeks @ 100%, 13 weeks @ 70%	3 and less than 4	17 weeks @ 100%, 9 weeks @ 70%	4 and less than 5	22 weeks @ 100%, 4 weeks @ 70%
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4 and less than 5	22 weeks @ 100%, 4 weeks @ 70%												

5 and greater                      26 weeks @ 100%

Long-Term Disability	Long-term disability coverage is provided by Canada Life under the non-unionized plan. Participation in the plan is mandatory with premiums paid by the employee through payroll deduction. Premiums range from \$0.05 to \$0.25 per \$100 of monthly salary depending on age and participation in the company pension plan.
Annual Vacation	The individual's annual vacation entitlement remains unchanged.
Supplemental Maternity Benefits	Company sponsored supplemental maternity benefits are provided. Employment Insurance benefits will be topped-up according to the non-unionized Maternity Leave policy.
Bereavement Leave	Bereavement leave with pay is provided for a maximum of three (3) consecutive working days that occur during the seven (7) days immediately following the day of the death according to the Bereavement Leave policy.

## **Administration**

Procedures	<p>Managers must advise their payroll coordinator in writing whenever their unionized employees assume a non-unionized position as well as when they return to their unionized positions. For payroll and benefits purposes, instructions must include: employee name and number, assignment start and end dates, identification of temporary nature of the position and cost center of the position.</p> <p>With the change in basic term life insurance coverage, employees must contact the Human Resources Service Centre to obtain a new beneficiary card, complete it and return it to the HR Service Centre.</p>
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**Additional  
Information**

Employees who require additional information or guidance should contact their human resources representative.

R.A. Shields  
Vice President  
Human Resources and Industrial Relations

Cross Reference:

- Policy 3001, Compensation Program
- Policy 3410, Salary Program
- Policy 3411, Performance Incentive Plan
- Policy 6411, Performance Management Program
- Policy 7101, Bereavement Leave
- Policy 7403, Maternity Leave
- Policy 8012, Short-Term Disability
- Policy 8201, Extended Health & Vision Plan (non-scheduled)
- Policy 8206, Dental Care Plan (non-scheduled)
- Policy 8402, Basic Term Life Insurance
- Policy 8406, Long Term Disability