

MAY 2009 – LL764 PENSION COMMITTEE REPORT

The *Pension Committee for Air Canada IAM&AW Employees Formerly Employed by CAIL*, as we are formally titled, met with the company in YUL on April 23rd for our semi-annual meeting. As you might expect, the financial news is dismal but nothing new. The latest results are for Q4, 2008 and reflect a decline in assets in the CAIL plan to \$671.5 M on 31 December 2008 from \$786.6M as at 31 December 2007.

There were a couple of items of note and importance for all of the plan members that emerged from this meeting. The first is that OSFI sent a letter to Air Canada on April 6th, 2009 and stated that all lump sum commuted value transfers from the plan would be paid out at 75% effective that date and not at the 88% funding level established by the 2007 funding level. This was being done to protect the funding level of the plan in anticipation that the 2008 solvency funding will decline to approximate that amount. The 75% payout ratio will remain in effect until the 2008 actuarial valuation is published in June. The funding ratio for payments made after June will be in accordance with the solvency funding level established by the 2008 valuation.

The plan has been underfunded since before CCAA and anyone who has terminated from Air Canada since 2004 and opted to take a lump sum transfer of their commuted value has had a percentage of it held back for 5 years as per the *PBSA*. The first of those hold back amounts will be processed and paid out starting at the end of 2009. Commencing in January 2010, these payouts will be completed on a monthly basis as the 5 year holdback periods expire.

The second issue has to do with the current solvency funding payments and schedule for 2009. As you are aware (through my incessant ramblings and the Company's direct mailout) the Company has petitioned the federal government for permanent changes to the *PBSA* to lessen the amount of their annual pension payments. The consultation process that is currently underway is designed to address this issue but its report will not be released until this summer and legislation will be enacted before the end of 2009 but it will not take effect until 2010.

Air Canada needs temporary relief for its 2009 pension payments. They have been given the ability to amortize the payments over 10 years instead of 5 years but it must be done under the existing *PBSA* rules. This means that Air Canada must have the agreement and consent of the Unions before they can avail of this funding extension. If these agreements are not finalized by the end of June when the actuarial valuation is complete, then they will have to file their payment schedule based on the existing 5

year method until such time as the Union's consent is obtained. At that time they can re-file and adjust the payment amounts accordingly.

Air Canada met with representatives from all 5 of its unions on April 15th and presented a wish list of amendments and give backs that they felt entitled to demand we agree to. All of this, including every employee being asked to give up credit for a full year of pensionable service yet still pay for it was laughable. This proposal would have more appropriately been tabled on April 1st. The IAM&AW DL140 representatives, our 3 negotiations committees and Dave Ritchie, GVP Canada all met in YVR on April 28th and unanimously rejected Air Canada's position. The IAM&AW has but one position; we will not endorse any lessening of our pension benefits to further enrich our executives and shareholders at our expense. They did it once but we will not let them do it again.

Email is the most effective way to reach me. I may be contacted at pres764@telus.net with any questions or concerns that you may have.

Respectfully Submitted,

Christopher Hiscock, Chairman, LL764 Pension Committee
COPE 15