

SEPTEMBER 2008 - LL764 PENSION COMMITTEE REPORT

OSFI requires that federally regulated pension plans that are not 100% funded must complete an actuarial valuation of the plan every year rather than every 3 years as required for fully funded plans. A snapshot is taken of the Plan's assets and liabilities as at January 1st of each year and the valuation is given to Air Canada in June of that year by the actuary, Mercer Canada. It is then released to the public and employees in August.

The actuarial report is 51 pages of accountant speak and columns of numbers that in the end tell us that while in 2006 our pension plans took 2 steps forward; in 2007 they took 1 big step back. The AC Main plan to which our OAC members belong went from 95% funded to 90% and the CAIL IAMAW plan went from 93% to 88% funded. On a going concern basis, the fund is actually in a surplus position and that surplus increased from \$440M to \$681M.

The Company has again prepared a very good and informative précis of the report and compiled it into a 4 page document that is available on the Aeronet. You will find it at the bottom of the My News page. It can also be found by selecting My HR > My Pension News > Air Canada Pension Update – August 2008. I encourage everyone to read it as it does a very good job of explaining exactly what happened to our pension plan and most North American pension plans in 2007.

I will not restate what the Company report explains very well. I will just summarize it by saying that everyone should be aware of what has happened to the world equity markets since August 2007 when the sub-prime mortgage debacle first started to surface in the US as well as a general slowdown in the North American economy. Both of these things have conspired to give us a - 0.5% return on Plan equity for 2007. This is the first year that I can remember that the Plan has had a negative return on investment. In fact over most of the last decade we have had double digit returns ranging from 9.8% to 15.5%.

These new valuation percentages will be in effect for all pension entitlement calculations until the next actuarial report is released in June 2009. For employees who retire and elect to receive a monthly pension benefit, they will receive 100% of their pension as always. The only effect this underfunded percentage has is that employees who leave the Company and elect to take a lump sum commuted value of their pension benefit will only receive an amount of their total value equal to the funded percentage; either 88% or 90% depending on which Plan you belong to.

They will be paid the remaining 12% or 10% in 5 years as long as the Plan is still in existence regardless of its funded percentage at that time. If the Plan were wound up in that 5 year period after you leave, then you will be treated like every other member who is owed money and receive a percentage of your money owed that is equal to the funded percentage at the time the Plan was wound up. This ensures that everyone who participates in the Plan shares the same risk and cannot avoid it by leaving the Plan early.

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, LL 764 Pension Committee