

DECEMBER 2008 - LL764 PENSION COMMITTEE REPORT

Unless you have been on a 3 month retreat away from civilization you are aware of the meltdown that has occurred in the international markets since September of this year. While you may not have any direct investments in stocks, bonds, mutual funds or T bills, each and every one of us have our entire pension assets invested in a variety of these instruments. The Air Canada Master Trust Fund is the amalgamated investment pool comprised of all of the assets of Air Canada's 11 pension plans.

The MTF stood at \$10.88 billion as of January 1st, 2008 and was 90% funded on what is known as a solvency trust basis meaning it had a deficit of about \$1.1 billion. There are 2 types of actuarial tests or measures done to assess the health of pension plans. The first is what is called a going concern basis. This looks at the total assets and liabilities of the plan and assumes that the company stays in business and members and the employer continue to make their regular on going contributions. On this basis, our plan was actually in an overfunded position of \$681 million in January.

The second test is a "what if?" test. It assumes that the company ceases to exist and the pension plan had to be wound up and the money invested in private equities to try and deliver an equivalent pension benefit as the plan. This is the solvency test. Very simply put, the actuaries look at how much money is in the plan and multiply it by the 30 years government bond rate (which has been at historic lows since 2001 and is what caused our funding problems in 2003). The lower the interest rate, the more money you need to invest to achieve the same return.

This has now been compounded by a meltdown of global financial assets of every type that has not been seen since the 1930s. The deficit payments that companies have to pay each year into their pension plans are based on this calculated shortfall. This unique situation could become a self fulfilling prophecy if OSFI enforced the current deficit repayment rules in 2009 based on the paper asset losses suffered by pension plans in the last 3 months. Air Canada could see their deficit payments climb from \$400 million in 2008 to over \$1 billion in 2009 to fund this "what if?" scenario.

All of the rumours that swirled in the workplace in November about the Company wanting to change the rules of the pension plan are false. Even if they cut our benefit in half it would not fix the solvency deficit calculation. What did happen was that a group of federally regulated companies from many industries, including Air Canada, approached the government and asked for temporary relief from these funding provisions. They also asked the Unions to support them in their appeal to the government on this issue. That is why there were meetings between the company and the unions; not to negotiate changes to the pension benefits themselves.

So far, the government has granted a change in the repayment amortization period to 10 years from the currently required 5. (This is what they allowed Air Canada to do in 2003 as well). The companies are also looking to make a few other changes in the funding rules including using a different interest rate for the solvency calculations. They wish to use the AAA corporate bond rate instead of the government bond rate. There is currently a 3% difference in these 2 interest rates. With each $\frac{1}{4}$ % change in the interest rate making a difference of \$340 million to the MTF solvency, just this one change would add \$4 billion to the solvency funding of our plan and completely eliminate the deficit and then some. 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