

DECEMBER 2009 – LL764 PENSION COMMITTEE REPORT

Two steps forward and one step back. As a long retired co-worker of mine used to say, if it isn't one thing it's two things.

The ex-CAIL Pension Committee met with the Company on 18 November in YVR for our semi annual powwow. Several items of interest came out of that meeting and the financial reports presented by the Company.

First, the Company has hired Mr. Jean Michel, formerly of the Mercer Group as the new President of pension investments. He is overseeing a revamping of the pension plan investment strategy and is being supported by a new 3 man investment oversight department. At this time we have only been provided with a broad strokes overview of this realignment with the promise of a detailed explanation at our April 2010 meeting. We are told that in general there will be a larger percentage shift in plan assets from equities to fixed income investments.

This is to help insulate the plan from the volatility of the equities markets going forward and is in line with the Letter of Intent signed by the Company in June as part of the Pension funding restructuring agreement. That letter committed the Company to review and adjust the funding strategies of the Plan going forward to enhance its sustainability over the long term.

Second is the rebound in the asset value of the Plan. As most of you are aware, there has been a fairly healthy rebound in world equity markets since the beginning of 2009. Many of the equity values are approaching or surpassing their values from mid 2008. This has resulted in an increase of about \$1B in the value of the Master Trust assets. This has helped to replace much of the "lost" value that was captured in the 01-01-2009 actuarial valuation of the Plan that saw the solvency funding ratio drop to 82.5%.

The other half of the solvency funding ratio is determining the cost of the liabilities of the plan in the event of a windup. As I have discussed on several previous occasions this is almost entirely dependent upon the discount (interest) rate set by the CIA (No, not the one you are thinking about but the Canadian Institute of Actuaries) that is used to make the solvency calculations. For the 01-01-2009 calculations the CIA stipulated the use of the bond rate plus 1.5% to reflect the interest rate available to purchase annuities at that time. The CIA has since amended the discount rate for use in any valuations done after July 2009 to 0.4% above the bond rate, a reduction of 1.1%, reflecting a decrease in the available annuity rates.

At \$340M for each ¼% change in the discount rate, this means an increase in the assumed liabilities of the plan of about \$1.1B which pretty much offsets the real market gain in asset value. This brings me back to my opening paragraph. What the market giveth, the CIA taketh away. So while the real tangible value of the plan assets has rebounded this year, the "what if" solvency funding calculation that will take place on 01-01-2010 will most likely show little or no change based upon the reduction in the discount rate. The faster we go the behinder we get.

Respectfully Submitted,

Christopher Hiscock
Chairman, LL764 Pension Committee