

FEBRUARY 2009 – LL764 PENSION COMMITTEE REPORT

In the November report I explained how your pension is calculated based on your years of service, average annual earnings and the applicable formulas. For members who choose to retire early there can be penalties applied to these calculations that result in your final pension being reduced.

There are 2 such penalties in the Plan text. The first, which most people are aware of, applies to retirements before age 55. The second is less well known and applies for retirements before reaching the earliest of either age 60 or 80 points (of age + pensionable service) or 30 years of pensionable service. Your pension would be reduced by whichever of these penalties applied or by the larger of the 2 penalties if both were applicable.

For retirement before age 55, the penalty is a ratio of your months of pensionable service (in the month you retire) divided by (your months of pensionable service plus the number of months you retire before your 55th birthday). For example, John retires 22 months before his 55th birthday and has 27 years (324 months) of pensionable service. His pension is multiplied by $324/346$. This means he would receive 93.64% of his normal full pension. He has more than 80 points (27 + 53 years, 2 months) so the second penalty would not apply. If John had 35 years (420 months) of service when he retired, his ratio would be $420/442$. He would receive 95.02% of his full pension. He has more than 30 years of pensionable service and more than 80 points so the second penalty does not apply in this case either.

The 2nd penalty, retiring before obtaining either age 60 or 80 points or 30 years of pensionable service is $\frac{1}{4}\%$ for each month prior to reaching the earliest of these 3 milestones. Mike retires when he is 56 but has only 23 years of pensionable service. He is 7 years short of 30 years pensionable service, 4 years short of age 60 but only 1 year short of 80 points. His penalty will be 1 year (12 months) x $\frac{1}{4}\%$ per month = 3%. He will receive 97% of his full pension entitlement.

In the 3rd example, Gord can no longer handle the glamour and glory of the airline industry and wants to go to another job where his employer will not treat him with the great respect and appreciation he gets as an Air Canada employee. It is the month of his 53rd birthday and he has 23 years of pensionable service. He would be subject to both penalties clauses but his pension would be reduced by the larger one only, not both. His first penalty for retiring 24 months prior to age 55 would be $23 \text{ years } (276 \text{ months}) / 300 (276 + 24)$. This would entitle Gord to 92% of his fully calculated pension.

Gord's 2nd penalty would be for retiring 4 years (53 +23) prior to reaching 80 points. It would be $4 \text{ years } (48 \text{ months}) \times \frac{1}{4}\%$ per month = 12% reduction. Gord would be entitled to receive 88% of his fully calculated pension. Because this is the larger of the 2 penalties, this is the one that would apply and Gord would receive only 88% of the full pension entitlement that had been calculated before the penalty was applied.

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