<u>OCTOBER 2010 – LL764 PENSION COMMITTEE REPORT</u>

Pensions and the legal documents that define them, regulate them and describe them seem to have a language all of their own. When lawyers and financial people become involved in drafting documents it seems that nothing is too simple to complicate. It is very difficult to understand your pension plan and the rules that govern it without knowing the meaning of some specific words and terms. Over a series of reports I will try and explain some of the more important things you should know to help you better understand the pension plan.

"Actuary" – An actuary told me that his job is to "put a price tag on future uncertain events". The assumptions made by an actuary are the very underpinning of any pension plan or insurance policy. Essentially they use mountains of historical and emperical data to try and predict the future. In order for the financial aspects of a pension plan to work they must be based on solid data. It is the actuary who uses this data to figure out how much money has to be contributed to and invested by the plan to pay the promised benefits. To do that they must consider things like life expectancies, how many people will use early retirement options, interest rates, rates of return on investments etc. Just from this short list you can see the amount of uncertainty that must be assessed and assigned a specific dollar value. Even a small mistake in any one of the myriad of assumptions used by the actuaries can have an exponential and devastating effect on a pension plan's financial health. The actuary is arguably the single most important person associated with any pension plan. The actuaries used by the Air Canada plans must be Fellows of the Canadian Institute of Actuaries (the other CIA that I have referred to in past reports). That is the professional association that accredits and certifies actuaries in Canada.

"Actuarial Equivalent" - Means a dollar value sum that is computed using a set of assumptions. It is designed to fairly reflect the amount of money associated with a particular debit or credit of the plans funds. As you might guess it is determined from the work of an Actuary using that historical and emperical data. It is used to determine the fair value of a sum of money that is owed to the plan (such as a buyback of service) or owed by the plan as monetary payment of a benefit (such as the commuted value).

"Allowable Service" – Is the same as *"Pensionable Service"* and *"Qualifying Service"*. They all mean the amount of time that you have been contributing to the plan. It is expressed in years and months. Everything with respect to pension plans is calculated in full months. A single day of service in a month counts as a full month of service. The amount of time you have been a member of the pension plan may be different from the amount of your allowable service. This can be caused by periods of time on layoff, strike or LOA for example. Since January of 1986 all time on WCB or GDIP is considered to be allowable service with no contributions required to be paid. The employer pays for 100% of this credited time. For periods of WCB or GDIP prior to 1986 the employee was required to buy back such periods of service upon their return to work. Failure to do so resulted in a loss of allowable service for the number of full calendar months off of work. Allowable service can also be transferred between Air Canada pension plans and combined. This would be the case for people who had accepted management positions prior to the establishment of the DC plan for managers in 2006. Periods of prior military service can also be added as allowable service upon joining Air Canada.

Like Sesame Street, this episode of the monthly pension report has been brought to you by the letter "A". The next time "A" will learn to share with "B". 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,
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