AIR CANADA – IAMAW PENSION PLAN MOA

18 June 2012

BACKGROUND

1. Air Canada has had pension solvency funding problems since 2003. These problems caused it to file for CCAA protection in 2003. This resulted in a corporate restructuring and a special 10 year pension solvency funding arrangement from OSFI.
2. In June 2009 (after the worldwide financial meltdown in late 2008 / early 2009) normal collective bargaining was halted and all 5 unions at Air Canada agreed to a second special pension solvency funding arrangement with OSFI to prevent a second CCAA filing and corporate restructuring. This arrangement expires in 2014.
3. When the Federal government and the regulator (OSFI) agreed to the June 2009 Air Canada special pension funding regulations the Minister of Finance warned Air Canada and its unions that they had 5 years to make their pension plans sustainable. No further pension funding relief would be granted after the expiry of the 2009 special arrangement.
4. In August 2010 Air Canada met with all of its unions in YUL. This was in response to a letter from the Minister of Finance asking for an update on the status of Air Canada's pensions and the company's efforts to make them sustainable. At that meeting Air Canada tabled a proposal to the unions that sought reductions to active employee pension benefits that would result in a \$1.89B reduction in their total solvency funding requirement. The total was \$2.24B if a reduction to retiree pensions in payment was also agreed to.

NEGOTIATIONS AND RATIFICATION PROCESS

5. In late September 2010 the IAMAW invited CALDA, CAW and CUPE to participate in a joint committee to deal with the pension issue. A series of meetings were held between October 2010 and February 2011 between the unions and also jointly with Air Canada. In February 2011 the unions decided for their own reasons that each union would deal separately with Air Canada as part of their collective bargaining process.
6. In January 2011 Air Canada provided each union with a cost breakdown of their August 2010 pension reduction proposal by bargaining unit. The solvency funding relief initially sought from the IAMAW was valued at \$653M.
7. In July 2011 Air Canada established the targeted reduction for each individual union at 24.9% of their respective pension solvency funding deficit. This target was established based upon the value of the June 2011 CAW pension agreement with Air Canada.
8. The total solvency funding relief provided to Air Canada by the IAMAW pension MOA totals \$355M or 24.9% of the total pension solvency funding deficit associated with the IAMAW.
9. The IAMAW and Air Canada dealt with our pension negotiations through a sub-committee of the main negotiations committee. This subcommittee comprised representatives of the ex-CAIL pension committee, the Air Canada pension committee, District Lodge 140 as well as our pension lawyer and actuary. Meetings were conducted by the sub-committee from July 2011 to December 2011 to reach the IAMAW Pension MOA.
10. The pension MOA was agreed to by the IAMAW sub-committee but ultimately approved by the IAMAW TMOS negotiations committee prior to being brought forward for ratification by the membership.
11. The pension plan is a negotiated benefit that forms part of the collective agreement. Because it is governed and regulated by federal pension and income tax statutes it is required to have a separate legal registered pension plan text. The plan text defines the rules and benefits of the plan. This document binds all parties to their obligations under the terms of the text. However any and all changes to the IAMAW pension plan are subject to the normal negotiation and ratification process applicable to the collective agreement.

12. **Because the pension plan is a benefit negotiated under the terms of the collective agreement and forms part of the collective agreement any changes to the pension plan are ratified by the same single ratification vote cast by each member for the new collective agreement as an entire package. There is no separate ratification vote for the Pension MOA.**

CHANGES TO THE EXISTING IAMAW DEFINED BENEFIT PENSION PLANS

13. The changes to the IAMAW pension plans agreed to in the Pension MOA will be effective as of **January 1st, 2014**.
    a) All current pension plan rules apply for all retirements or terminations from the IAMAW pension plans up to and including December 1st, 2013.
    b) Note: Retirements and terminations from a pension plan are always effective as of the first day of the month next following your last day of work. Anyone whose last day of work is between December 1st and 31st, 2013 will be deemed to be retired from the pension plan on January 1st, 2104 and will be subject to the new pension plan rules.

14. Currently Air Canada sponsors and administers two separate pension plans for the benefit of its IAMAW employees and retirees. The ex-CAIL IAMAW members are in their own standalone pension plan. The Air Canada IAMAW members are part of the Air Canada Main pension plan. The Main plan also contains the pension benefits and liabilities associated with the Air Canada CALDA, CAW, CUPE, Management and unorganized employees.
    a) Air Canada will establish a single standalone IAMAW pension plan within the Air Canada pension Master Trust Fund. All IAMAW members employed by Air Canada and IAMAW retirees formerly employed by Air Canada and CAIL will become members of this new single IAMAW pension plan.
    b) This standalone IAMAW pension plan will better enable the IAMAW to oversee and monitor the performance of our pension assets and liabilities going forward.
    c) The new IAMAW pension plan will allow for greater autonomy and control with respect to our member's pension benefits going forward.
    d) Because of the different pension benefit agreements reached by each of the unions representing employees at Air Canada during the 2011 round of negotiations, both Air Canada and the IAMAW agree that it is to their mutual benefit to create a standalone IAMAW pension plan for administration purposes.
    e) The new IAMAW pension plan will ensure that any actuarial gains that accrue to the plan as a result of this pension MOA and future pension plan performance will accrue solely to the benefit of IAMAW members and will not be shared with other unions. Actuarial gains that accrue to the benefit of other unions as a result of their respective 2011 pension deals with Air Canada will accrue to the benefit of their members and will not be shared by the IAMAW.
    f) The new standalone IAMAW pension plan will be effective January 1st, 2013 or such date as agreed to by the parties. Note: This change to the new IAMAW pension plan is for administration of the pension plan only and does not affect the benefits in any way.

15. **The milestones to qualify for the payment of an immediate pension are 25 years of service, 80 points of age plus service or age 65. This is unchanged from the current pension rules.**

16. **An unreduced pension is payable from the date on which a member attains both age 55 and 80 points of age plus service. This is unchanged from the current pension rules.**

17. **The normal retirement age is 65. This is unchanged from the current pension rules.**

18. There is a new provision to the early retirement rules of the IAMAW pension plan that makes them consensual with the agreement of Air Canada.

a) Air Canada agrees to grant consent to these early retirement provisions for the life of the collective agreement. The consent is contained in the collective agreement.
b) This provision is to allow for a change in the way the actuaries can do the solvency funding valuation of the pension plan.
c) Air Canada is bound to give consent to the above early retirement provisions for the life of the collective agreement. Note: Under the *Canada Labour Code* a collective agreement is deemed to be in effect and bind the parties to its terms until it is replaced by a successor agreement. This is the situation we have been in since March 31st, 2011.
d) This consent will be renewed with each successive collective agreement going forward.
e) This same early retirement consent provision is contained in the CAW and CUPE pension agreements.

19. Effective **January 1st, 2014**, Members of the plan who retire prior to attaining both age 55 and 80 point of age plus service will have their pension benefit **actuarially reduced from age 65.**
    a) Under the current rules there are two reductions associated with leaving the pension plan prior to attaining your unreduced pension date of age 55 and 80 points of age plus service. The first reduction is a ratio of your service at the date of leaving divided by the service you would have had at age 55. The second reduction is ¼% for each month prior to the date on which you would have reached 80 points of age plus service (This equals 3% per year). The larger of these two reductions would be applied to your pension.
    b) The new actuarial reduction from age 65 is approximately 6% per year but it is an actuarially computed reduction and not a true linear reduction. This is similar to the new rules for CPP retirement prior to age 65. Note: The CAW and CUPE agreements also changed the milestones for payment of an immediate pension to 30 years and 85 points. Their unreduced early retirement pension date was also changed to age 55 and 85 points. The IAMAW pension MOA continues to provide for an unreduced early retirement pension at age 55 and 80 points.
    c) There are 6 examples of the current rules versus the new actuarial reductions at the end of this document. The first example also compares the IAMAW pension MOA to the CAW / CUPE pension agreement. Identical actuarial reductions will be found in the CAW / CUPE agreement but they are applied to all pensions prior to age 55 and 85 points of age plus service.

20. There is a provision in the MOA that in the event of an involuntary retirement or termination from the pension plan by a member as a result of death while in service, total or permanent disability, terminal illness or termination except for just cause, the consent will be given by Air Canada for an unreduced pension. (This means that the actuarial reduction from age 65 will not be applied to the member's pension under these circumstances)

21. In conjunction with the change in the early retirement reduction prior to attaining the unreduced retirement age, the "Air Canada Pensionable Age" changes from age 60 to age 65.
    a) The *Pension Benefit Standards Act* requires that a commuted value transfer (lump sum payout) be available up to 10 years prior to the pensionable age.
    b) Therefore the change in the Air Canada Pensionable Age to age 65 means that the commuted value transfer option (lump sum payout) will be available until the member attains age 55. This is increased from age 45 in the Air Canada pension plan and age 50 in the ex-CAIL Pension plan.

22. Item 22 – change in the normal form pension - has been deleted by the Picher Award agreement contingent upon Air Canada and the IAM&AW successfully receiving a new pension funding arrangement from OSFI.

23. The Pension MOA and the new single Air Canada IAMAW plan text and all required supporting documentation are subject to the approval of OSFI.

NEW IAMAW DEFINED BENEFIT PENSION PLAN FOR NEW MEMBERS

24. Air Canada and the IAMAW have agreed to the creation of and participation in a new federally regulated Multi Employer Pension Plan (MEPP) for all IAMAW members hired after the date of ratification.
25. The new IAMAW MEPP will be available to all federally regulated companies employing IAMAW members. All pension benefits accrued by the member in the MEPP are portable between all employers who participate in the MEPP. This allows the members of the MEPP to change companies and continue to accrue service and benefits in the MEPP with any company that participates in the MEPP.
26. The MEPP will be a targeted Defined Benefit pension plan.
27. All IAMAW employees hired at Air Canada after the date of ratification shall become members of the MEPP.
28. The contribution rates for the MEPP will be **6% for the employee and 6% for the employer** on all earnings commencing at the date of joining.
29. Air Canada's sole responsibility to the MEPP is to remit their required monthly contributions and those of the applicable IAMAW members. Air Canada bears no liability for the MEPP.
30. The exact pension multiplier (the formula that determines the amount of the monthly pension payable) will be determined by the actuaries of the MEPP upon plan creation.
31. The normal retirement age for the MEPP is age 65. Early retirement pensions prior to age 65 will be actuarially reduced from age 65.
32. The MEPP will be modeled on the existing IAMAW sponsored Ontario registered Labour - Management Multi Employer Pension Plan. The IAMAW also sponsors a Quebec registered MEPP for IAMAW employees in that province.
33. The MEPP allows for pooled risk sharing for the members unlike a DC plan. This removes the volatility of the investment markets from the timing of the member's retirement. The member can retire at a date of their choosing without having to worry about the market value of their pension investment on the date of retirement.
34. The MEPP allows for a comparatively larger pension benefit to be paid to the member than a DC plan per dollar contributed because of the economies of scale. This means that the per unit administration costs are lower and the return on investments higher because of the larger asset values created by the pooled investments of all the member's funds.
35. Members do not have to choose or direct the investment choices for their pension. It is done by professional investors hired by the MEPP to the best advantage of all members.
36. In the United States all IAMAW members working for an airline are members of the IAMAW National Pension Plan. It is also a Multi Employer Pension Plan. The IAMAW is the only union in the United States whose airline members still belong to a Defined Benefit pension plan.
37. No US airline except American Airlines still has a pension plan for any of their employees. American Airlines is currently in Chapter 11 bankruptcy protection and has filed with the US federal regulator to windup its pension plans in 2012.
38. The MEPP will be sponsored by the IAMAW and will be governed by an independent Board of Trustees.
39. Air Canada and the IAMAW will draft and agree upon all of the required plan documents and texts required for the establishment and registration of the MEPP.
40. Benefits under the MEPP will be reduced to the extent that they are underfunded in the event of plan termination and windup.
41. Under the CAW and CUPE Hybrid pension agreement for new hires the employee contribution rates into the existing Air Canada CAW DB pension plan are 0.595% and 1%. Contributions to the DC component of the hybrid plan are 0 – 2% for the first 5 years, up to 2.5% for years 5 to 15 and up to 3% after year 15.
42. Under the CAW and CUPE Hybrid pension agreement for new hires the benefit from the existing Air Canada CAW DB pension plan is in accordance with the rules of the June 2011 CAW pension agreement for their existing DB pension plan (30 years of service, age 55 and 85 points of age plus service or at age 65).

43. Under the CAW and CUPE Hybrid pension agreement for new hires the Air Canada contributions into the existing Air Canada DB pension plan are as required by the solvency funding deficit of the plan and OSFI funding regulations until the plan is 100% funded and zero thereafter. Air Canada's contributions to the DC component of the hybrid plan are 100% of the employee's contributions for the first 3 years, 135% for years 4 to 6 and 175% of the employee's contribution rate after year 7. (Note: 175% of 3% equals 5.25%)
44. Under the CAW and CUPE Hybrid pension agreement for new hires rates the benefit from the new DC pension plan is entirely dependent upon the contribution rate chosen by the employee as well as the investment performance of their DC plan assets up to the date of their retirement.

IMPACT OF THE NEW IAMAW DEFINED BENEFIT PENSION PLAN ON THE EXISTING AIR CANADA DEFINED BENEFIT PENSION PLANS

45. Defined Benefit pension plans are not pyramid schemes. They do not need new entrants to pay for the pensions of older members. The plans are designed by the actuaries such that each member's contributions and the investment income generated by those contributions during their time in the pension plan fund each member's own pension.
46. The only exception to this is the shared life expectancy risk amongst members of the pension plan. Almost none of us will die at exactly 84.2 years of age but on average we all will. These types of demographic averages are how actuaries choose the numbers for their valuations of the pension plan. Some members will die before the average life expectancy age and some will live longer. This is part of the shared risk of the plan design but there is no intergenerational transfer of funds that requires younger workers to pay for retirees like Old Age Security.
47. Air Canada currently sponsors 11 pension plans for its employees. Five of those plans are for ex-CAIL employees. All 5 of those plans have been closed to new members since Air Canada purchased CAIL in 1999. None of these plans have accepted a single new member in the last 13 years. All Air Canada employees hired since 1999 have been placed into their respective union's Air Canada pension plan.
48. As at January 1, 2011 (the most current figures) the Air Canada Main Pension Plan (for all AC employees except ACPA and Executives) had a solvency funding ratio of 82.8%. The ex-CAIL pension plans have solvency funding ratios ranging between 81.1% and 83.0%. The ex-CAIL IAMAW pension plan has a solvency funding ratio of 82.9%.
49. The existing Air Canada IAMAW pension plan (like all of the other Air Canada bargaining unit pension plans that have just been closed to new members as a result of their new pension agreements) will not be detrimentally affected by its closure to new members.
50. The new MEPP has been designed with employee contribution rates (6%) and expected future pension benefit payments that will closely replicate the existing Defined Benefit pension plan employee contribution rates (5.25%/ 6%) and pension benefit payments.
51. The major benefit difference and cost reduction for the new MEPP is the elimination of the enhanced early retirement provisions. All early retirements are actuarially reduced from age 65.
52. The major benefit that cannot currently be replicated by the MEPP is the age 55 and 80 point unreduced early retirement provisions of the existing Air Canada Defined Benefit pension plan because of the high associated cost. The MEPP is being designed to provide a financially sound platform from which it will be possible to add enhancements in future rounds of bargaining.
53. The MEPP is being designed such that going forward any two IAMAW employees working side by side, one in the existing DB pension plan and one in the new MEPP who have similar incomes and similar periods of service should receive similar pension outcomes. Their contribution rates will be similar (as above) and they should expect to receive similar monthly pensions from both plans based upon similar incomes and periods of service in the plans at the normal retirement date.
54. This similarity in design is based upon two major considerations. First is to provide a good living wage pension similar to the existing DB plan to the extent possible. Second is that by doing so it will lessen the possibility of future workplace conflicts between members in the existing DB plan

and members who will be in the new plan. The intent is to have two groups of “haves” and not one group of “haves” and one group of “have nots”.

Impact of Changes to Pension Benefits - 55/80 Scenario
Illustration for Air Canada IAMAW Members

Age	55
Service	25
Points	80
Best average earnings	$72,000
Best average YMPE	$47,267

	Current Provisions			With 55/80 IAMAW Scenario			With 55/85 CAW Scenario		
	Immediate Retirement or Termination	First Retirement Age (25 or 80)	Unreduced Retirement Age (Age 55 and (25 or 80))	Immediate Retirement or Termination	Same First Retirement Age as Current Provisions	Unreduced Retirement Age (55 & 80)	Immediate Retirement or Termination	Same First Retirement Age as Current Provisions	Unreduced Retirement Age (55 & 85)
Age	55	55	55	55	55	55	55	55	57.5
Service	25	25	25	25	25	25	25	25	27.5
Points	80	80	80	80	80	80	80	80	85
Eligible for retirement	Yes			Yes	Yes		Only act. eq.	Only act. eq.	
Pension									
Unreduced	$33,046	$33,046	$33,046	$33,046	$33,046	$33,046	$33,046	$33,046	$36,350
- early retirement reduction factor	100%	100%	100%	100%	100%	100%	54%	54%	100%
- reduced	$33,046	$33,046	$33,046	$33,046	$33,046	$33,046	$17,787	$17,787	$36,350
Unreduced pension deferred until age	N/A			N/A			65		
Commuted Value									
Available?	No			No			No		
Amount	$553,100			$553,100			$297,700		

Commuted value assumptions:
- Discount rate of 4.5%
- Mortality U94P2020 (2/3 male, 1/3 female)
- Member with spouse 1 year younger

Impact of Changes to Pension Benefits - 55/80 Scenario
Illustration for Air Canada IAMAW Members

Age	54
Service	25
Points	79
Best average earnings	$72,000
Best average YMPE	$47,267

	Current Provisions			With 55/80 IAMAW Scenario		
	Immediate Retirement or Termination	First Retirement Age (25 or 80)	Unreduced Retirement Age (Age 55 and (25 or 80))	Immediate Retirement or Termination	Same First Retirement Age as Current Provisions	Unreduced Retirement Age (55 & 80)
Age	54	54	55	54	54	55
Service	25	25	26	25	25	26
Points	79	79	81	79	79	81
Eligible for retirement	Yes			Only act. eq.	Only act. eq.	
Pension						
Unreduced	$33,046	$33,046	$34,368	$33,046	$33,046	$34,368
- early retirement reduction factor	96%	96%	100%	51%	51%	100%
- reduced	$31,775	$31,775	$34,368	$16,783	$16,783	$34,368
Unreduced pension deferred until age	N/A			65		
Commuted Value						
Available?	No			Yes		
Amount	$539,300			$284,900		

Commuted value assumptions:
- Discount rate of 4.5%
- Mortality U94P2020 (2/3 male, 1/3 female)
- Member with spouse 1 year younger

Impact of Changes to Pension Benefits - 55/80 Scenario
Illustration for Air Canada IAMAW Members

Age	54
Service	30
Points	84
Best average earnings	$72,000
Best average YMPE	$47,267

	Current Provisions			With 55/80 IAMAW Scenario		
	Immediate Retirement or Termination	First Retirement Age (25 or 80)	Unreduced Retirement Age (Age 55 and (25 or 80))	Immediate Retirement or Termination	Same First Retirement Age as Current Provisions	Unreduced Retirement Age (55 & 80)
Age	54	54	55	54	54	55
Service	30	30	31	30	30	31
Points	84	84	86	84	84	86
Eligible for retirement	Yes			Only act. eq.	Only act. eq.	
Pension						
Unreduced	$39,655	$39,655	$40,977	$39,655	$39,655	$40,977
- early retirement reduction factor	97%	97%	100%	51%	51%	100%
- reduced	$38,376	$38,376	$40,977	$20,140	$20,140	$40,977
Unreduced pension deferred until age	N/A			65		
Commuted Value						
Available?	No			Yes		
Amount	$651,400			$341,800		

Commuted value assumptions:
- Discount rate of 4.5%
- Mortality U94P2020 (2/3 male, 1/3 female)
- Member with spouse 1 year younger

Impact of Changes to Pension Benefits - 55/80 Scenario
Illustration for Air Canada IAMAW Members

Age	55
Service	24
Points	79
Best average earnings	$72,000
Best average YMPE	$47,267

	Current Provisions			With 55/80 IAMAW Scenario		
	Immediate Retirement or Termination	First Retirement Age (25 or 80)	Unreduced Retirement Age (Age 55 and (25 or 80))	Immediate Retirement or Termination	Same First Retirement Age as Current Provisions	Unreduced Retirement Age (55 & 80)
Age	55	55.5	55.5	55	55.5	55.5
Service	24	24.5	24.5	24	24.5	24.5
Points	79	80	80	79	80	80
Eligible for retirement	Only act. eq.			Only act. eq.	Yes	
Pension						
Unreduced	$31,724	$32,385	$32,385	$31,724	$32,385	$32,385
- early retirement reduction factor	94%	100%	100%	54%	100%	100%
- reduced	$29,914	$32,385	$32,385	$17,075	$32,385	$32,385
Unreduced pension deferred until age	56			65		
Commuted Value						
Available?	No			No		
Amount	$500,700			$285,800		

Commuted value assumptions:
- Discount rate of 4.5%
- Mortality U94P2020 (2/3 male, 1/3 female)
- Member with spouse 1 year younger

Impact of Changes to Pension Benefits - 55/80 Scenario
Illustration for Air Canada IAMAW Members

Age	59
Service	20
Points	79
Best average earnings	$72,000
Best average YMPE	$47,267

	Current Provisions			With 55/80 IAMAW Scenario		
	Immediate Retirement or Termination	First Retirement Age (25 or 80)	Unreduced Retirement Age (Age 55 and (25 or 80))	Immediate Retirement or Termination	Same First Retirement Age as Current Provisions	Unreduced Retirement Age (55 & 80)
Age	59	59.5	59.5	59	59.5	59.5
Service	20	20.5	20.5	20	20.5	20.5
Points	79	80	80	79	80	80
Eligible for retirement	Only act. eq.			Only act. eq.	Yes	
Pension						
Unreduced	$26,437	$27,098	$27,098	$26,437	$27,098	$27,098
- early retirement reduction factor	94%	100%	100%	68%	100%	100%
- reduced	$24,860	$27,098	$27,098	$18,071	$27,098	$27,098
Unreduced pension deferred until age	60			65		
Commuted Value						
Available?	No			No		
Amount	$390,700			$284,000		

Commuted value assumptions:
- Discount rate of 4.5%
- Mortality U94P2020 (2/3 male, 1/3 female)
- Member with spouse 1 year younger

Impact of Changes to Pension Benefits - 55/80 Scenario
Illustration for Air Canada IAMAW Members

Age	50
Service	25
Points	75
Best average earnings	$72,000
Best average YMPE	$47,267

	Current Provisions			With 55/80 IAMAW Scenario		
	Immediate Retirement or Termination	First Retirement Age (25 or 80)	Unreduced Retirement Age (Age 55 and (25 or 80))	Immediate Retirement or Termination	Same First Retirement Age as Current Provisions	Unreduced Retirement Age (55 & 80)
Age	50	50	55	50	50	55
Service	25	25	30	25	25	30
Points	75	75	85	75	75	85
Eligible for retirement	Yes			Only act. eq.	Only act. eq.	
Pension						
Unreduced	$33,046	$33,046	$39,655	$33,046	$33,046	$39,655
- early retirement reduction factor	83%	83%	100%	41%	41%	100%
- reduced	$27,538	$27,538	$39,655	$13,387	$13,387	$39,655
Unreduced pension deferred until age	N/A			65		
Commuted Value						
Available?	No			Yes		
Amount	$491,400			$238,900		

Commuted value assumptions:
- Discount rate of 4.5%
- Mortality U94P2020 (2/3 male, 1/3 female)
- Member with spouse 1 year younger

COMPARISON OF THE 2012 IAMAW PENSION MOA AND THE 2011 CAW / CUPE PENSION AGREEMENT

1) **Effective date:**
   a. **IAMAW** – January 1st, 2014
   b. **CAW** – January 1st, 2013

2) **Milestones for an immediate pension:**
   a. **IAMAW** – 25 years of service or 80 points of age + service or age 65
   b. **CAW** – 30 years of service or 85 points of age + service or age 65

3) **Milestones for an unreduced pension:**
   a. **IAMAW** – age 55 and 80 points of age + service or age 65
   b. **CAW** – age 55 and 85 points of age + service or age 65

4) **Pensionable age:**
   a. **IAMAW** – age 65
   b. **CAW** – age 65

5) **Consensual Early Retirement provision:**
   a. **IAMAW** – The 55 and 80 early retirement milestone is subject to consent of Air Canada. The consent is granted in the collective agreement for the term of the collective agreement and will be renewed with each successive CBA.
   b. **CAW** - The 55 and 85 early retirement milestone is subject to consent of Air Canada. The consent is granted in the collective agreement for the term of the collective agreement and will be renewed with each successive CBA.

6) **Reduction factor for leaving prior to attaining the unreduced pension milestone:**
   a. **IAMAW** – an actuarial reduction from age 65 to the age at leaving
   b. **CAW** - an actuarial reduction from age 65 to the age at leaving

7) **Normal Form Pension and survivor option:**
   a. **IAMAW** – The normal form pension is changed to a guaranteed 10 year pension (G10). There is a provision for an actuarially equivalent Guaranteed 5 year (G5) option for single members and a J&S50% or a J&S60% survivor option for married members. The G10 is an equivalent dollar value to the current J&S50% normal form pension. The new J&S50% and J&S60% are reduced by 3% from their current dollar values. The spouse at the date of retirement is the only spouse recognized by the company for a survivor pension.
   b. **CAW** – The normal form pension remains the current J&S50% for both single and married members with a J&S60% option for married members. The spouse at the time of retirement or the subsequent spouse of a post retirement marriage are eligible for a survivor pension.

8) **Pension plan for new hires:**
   a. **IAMAW** – All IAMAW new hires after the date of ratification will become members of a new IAMAW Multi Employer targeted defined benefit pension plan. No current IAMAW member of the Air Canada pension plan will be moved to the new MEPP. The contribution rates are 6% employee and 6% Air Canada for all service in the plan starting at the date of hire. There is a portability provision in

the MEPP that allows for continuation of pension service to members moving between any of the companies participating in the plan. Normal retirement age is age 65. Early retirements before age 65 are actuarially reduced from age 65.

b. **CAW** – All CAW new hires after June 2011 are placed in a new Hybrid DB/DC pension plan. No current CAW member of the Air Canada pension plan will be moved to the new Hybrid plan. Employee contributions to the DB portion will be 2% for years 1 – 5, 2.5% for years 6 – 11 and 3% for years 12+. Air Canada contributions are as required by the OSFI solvency funding regulations. Employee contributions to the DC plan are optional between 1.5% and a maximum % for all years worked. The range of employee contributions for years 1 - 2 are 1.5% – 2%. Air Canada matches at 100% of the employee contribution (max 2%). Years 3 – 5 employee contributions are 1.5% – 2%. Air Canada matches at 137.5% of the employee contribution (max 2.75%). Years 6 – 15 employee contributions are 1.5% – 2.5%. Air Canada matches at 175% of the employee contribution (max 4.38%). Years 15+ employee contributions are 1.5% – 3%. Air Canada matches at 175% of the employee contribution (max 5.25%). Normal retirement from the DB plan is age 65 with early retirement available at age 55 with 85 points of age + service. Retirement from the DC plan is at the date of choosing of the employee.

IAMAW PENSION MOA REASONS AND RATIONALE Q&A

03 March 2012

1) Q: I am trying to find specific wording to our pension text and what is in the current collective agreement.

A: The collective agreement is online at our website www.iam764.ca and the text is available from AC if you ask them for a copy.

2) Q: According to the Pension clause in our current agreement (page 199) our pension plan cannot be modified to negatively impact the members and is not up for bargaining under our present contract. Is this not correct?

A: No. It is only correct while the contract is in effect. It expired on March 31st, 2011. The terms – including the pension – remain in effect until the CBA is replaced by a successor CBA but anything and everything in a CBA is subject to bargaining and modification during the collective bargaining process. You need to read the last half of the paragraph (lines 10 – 17). What that says is that the pension plan cannot be changed by either party except as the result of negotiations during collective bargaining for any new collective agreement. That is what we have been doing since April 1, 2011.

That is the process used to make any desired changes to the CBA by either party. This is what I explained in items 11 and 12 of the pension MOA ratification document that was printed and distributed in the workplace prior to the vote. .

3) Q: Was it not because of that pension plan text that we did not negotiate a new pension MOA in the previous two collective agreements?

A: No. The pension plan text is simply a legal registered document that is required by both the PBSA and the ITA for all pension plans. At their essence pension plans are tax sheltered investment vehicles. Therefore they are subject to very specific and highly restrictive regulations. What we were able to do in 2003 and 2009 was get OSFI to agree to provide a "let" to Air Canada from the normal PBSA solvency funding regulations. Those regulations state that any unfunded liability in a pension plan must be amortized and paid back within a 5 year period.

In 2003, AC was granted a 10 year payback period and a special reduced schedule of payments during the 10 year period. Because we agreed to accept the added risk of reduced funding during this period, no changes to the pension plans were necessary.

In 2009, AC was still subject to the 10 year clock that started in 2004 so they only had 4 years left (2014). If you remember back to the fall of 2008 there was a freefall of the equity markets and interest rates as a result of the collapse of the US subprime mortgage assets. When AC did their solvency funding valuation as at 1/1/2009 it showed them with nearly a $4B deficit as at that date. That meant that they would be required to pay almost $1B a year into the pension plans for the remaining 4 years of the 2004 special regulations.

That is what triggered the pension "crisis" in May / June 2009 when AC got that information from their actuaries. That is why all of the unions had to agree to go back to OSFI with AC and ask for a 2nd "let" and another set of special funding regulations and another reduced payment schedule to keep AC from having to file for CCAA again and to keep the pension plans solvent.

Those special regulations expire in 2014. At that time (2009), both OSFI and the minister of Finance told AC and all of the unions that we had 5 years to make our pension plans sustainable. There would be no more special regulations. If the AC pension plans were still in solvency deficit in 2014 then too bad, so sad. Pay the money owed in accordance with the normal PBSA solvency funding rules or file for CCAA and windup the plans a la Nortel.

The minister of Finance contacted AC in June 2010 and asked what they were doing to make the plans sustainable. Items 1 to 10 of the attached pension MOA document give a Cole's Notes version of what has happened since that time.

4) Q: Is it not for that specific wording in our plan that we agreed to give an extension to Air Canada till 2014 to the refund the pension plan?

A: No. The reason for the 2009 agreement is above.

5) Q: Also, under actuarial reviews, is it true that even though we are under funded by $1.7Billion within a 1 year time frame, we are considered fully funded when projections are calculated 20 to 25 years in the future given our current pension rules?

A: No. I do not fully understand your statement. That is not how solvency funding works. The solvency funding valuations of all pension plans are based upon a one day "snapshot" that is done on January 1st of each calendar year. I have attached a copy of my February 2011 pension report that explains how the solvency funding ratio (%) is calculated.

So the first part of your statement is more or less correct. The snapshot funding value is deemed to be in effect for a one year period until it is superseded by the next year's valuation. Because it takes 6 months to finalize the solvency valuations they are announced in June of each year and are effective from July 1st to July 1st of successive years.

It is impossible to tell what the solvency funding of any pension plan will be more than one year at a time (based on that January 1st snapshot). That is why I do not follow your comment about the plan funding in 20 to 25 years.

It is also important to understand that pension plans are subject to 2 types of funding tests – solvency and going concern. Solvency is a "what if?" windup scenario test. That is the one that is causing so much grief for pension plans worldwide.

Going concern is a measure of the actual experience of the plan on a day to day basis. If the company is in business and the current service contributions continue to be made, is there enough money to pay for the pension obligations of the plan going forward. The AC pension plans have always been fully funded on a going concern basis or very close to

fully funded every year since 2003. That is not our problem. As long as AC stays in business and we make our contribution to the plan everything moves along at 100% pension payments exactly as has happened since the plans were created.

6) Q: Why is the IAM negots team agreeing to have the pension text and rules changed to negatively impact its members such as myself and future retirees?

A: As explained above, OSFI and the Minister of Finance has made it clear to AC and all of the unions that we are now on our own to make our pension plans sustainable. It is "fix it or lose it" time as far as they are concerned. AC made it perfectly clear to all 5 unions in August 2010 that reform (and by that I mean benefit reductions – and they were looking for many) of the pension plans would be part of their agenda items when bargaining started in April 2011.

CAW, CALDA and CUPE ultimately decided, for reasons of their own, not to join with the IAM in a joint position on the pension plan like we did in 2003 and 2009. Both CAW and CUPE went into their negotiations with the position of not wanting to deal with the pension plan until 2014 and not making any changes at all. We have seen how that has worked out for them.

We had a plan (not this one that we were forced to negotiate after CAW agreed to their pension deal in June 2011) that would have protected the pension plans from the changes that you so strongly object to. That became impossible for the IAM without the solidarity of the other unions. AC had to agree to our plan (it is bargaining after all and both parties must agree to all items) and they simply refused after they got the pension deal from the CAW in June 2011.

The only thing left for us to decide after that was what our pension deal would look like. This pension MOA is what we felt was the best solution that we could get that met the criteria AC set for any pension agreement (24.9% reduction in our solvency deficit amount) and provided the least impact to the greatest number of our members.

7) Q: If the IAM accepts to change the pension text to negatively impact its members, how will that impact the next collective agreement?

A: Who knows? I cannot forecast what will be bargained by either the company or the union in 2015. More importantly I have no idea what the solvency funding ratio will be in 2015 so I don't know how big or small an issue it may be. There are no guarantees in life or collective bargaining. We could only negotiate this agreement based upon the facts and the reality of today and simply make educated guesses about tomorrow. It is our hope that we have done enough with this MOA and the movement of new hires into the MEPP.

8) Q: The IAM has always said to AC management that our pensions are not up for bargaining. And since I was hired in May of 1988, I was never given any other options than to be in a defined benefit plan.

A: Well, I think that is a bit of a mischaracterization. As explained, the pension plans are always subject to negotiations at each CBA renewal and this is the first CBA that we have negotiated since 2002 when the pension plans were still fully funded (except the

two "gun to our head" rounds in 2003 and 2009). I explained why we were able to escape pension plan changes then. I understand the gist of your remark that the IAM has stated that our pensions are very important to us and we will not give them up and will protect them to the best of our ability.

In fact in the 1999 round of CBA bargaining the IAM was able to get 2 very significant benefit increases in the pension plan because it was in surplus at that time. We got an increase in the benefit formula from 1.4% to 1.7% retroactive on all service (with no requirement for retroactive contributions) and we increased the max cap for pensionable earnings from $70,000 to $82,000.

At this time and in these circumstances (as explained above), the MOA that we proposed and agreed to is the best of our ability. The rules of the pension plans (negotiated by the IAM and all other unions with AC) require all employees to be a member of their respective pension plans.

I view this as a very positive thing. If you don't believe me then ask any of the ex-CAIL members who weren't in the pension plan from their date of hire if they wish they had been forced into the plan. Ask the 25 and 30 year members who have 10 or 20 years in the pension plan what they think now about their decision not to join the plan sooner.

The number one question I get from members? – "Can I buy back service in the pension plan?"

9) Q: So why give new hires a differently worded plan than the current employees?

A: That was not our choice. AC made it clear to all 5 unions that they would not accept any new members into any of their pension plans after the ratification of the new CBAs in this round of bargaining. They were simply going to take this issue to an arbitrator in a process rigged by the Minister of Labour to favour Air Canada that is called a final offer selection arbitration.

That means the arbitrator must pick one proposal or the other - either the union's or the company's and impose it. There can be no compromise proposal. The "rigging" was in the instruction provided to the arbitrator in the legislation as to which proposal they must favour. Here is a cut and paste of the actual language that guides the arbitrator's decision:

(*2) In making the selection of a final offer, the arbitrator is to be guided by the need for terms and conditions of employment that are consistent with those in comparable airlines and that will provide the necessary degree of flexibility to ensure the short- and long-term economic viability and competitiveness of Air Canada and the sustainability of its pension plan.*

That makes the decision of the arbitrator quite clear when they must select the proposal that most closely matches the pension plans of other airlines. None of the "comparable airlines" (Westjet. Air Transat or any other North American airlines) have DB pension plans. Guess whose proposal will be selected? That is why CAW agreed to the pension deal that they did after they saw this legislation. They restricted the pension debate such that the only thing to be subject to this legislated final offer selection arbitration would be the "new hire" issue.

Again, once that arbitration was decided and the CAW new hires were put into their Hybrid DC pension plan our ability to keep our new hires in the existing plan disappeared. We developed an alternate proposal of a targeted defined benefit plan outside of AC's control. It provides a better pension for our new hires than the CAW hybrid plan – almost double the value over a 30 year contribution period as costed by our actuaries.

It also separates the pension issue for these employees away from the company's economic health going forward. The airline industry is always in crisis. Only the severity changes. It was felt that divorcing the pension plans from the specific airlines was better for our members in the long term. If your airline goes out of business you have less chance of losing your pension as well.

10) Q: Why did our union not give its members enough time for discussion before the vote to fully understand the negative impact this pension deal will have on all future retirees after Jan 1, 2014?

A: Our original intent was to do a cross country pension roadshow ahead of the ratification meetings. We understood that this was a very complex and emotional issue for our members that needed to be explained properly. In detail and in person with an opportunity to ask questions.

We had the pension MOA agreed to on December 8th, 2011 – except the January 1st, 2014 date and the final MEPP contribution rates. The company was insisting on January 1st, 2013 to line up with the CAW / CUPE pension agreements. We told them in no uncertain terms that the 2014 date was a deal breaker and if they wanted 2013 they would have to get the Federal government to force it up our ass - to be very blunt about it.

The company did not agree to the 2014 date and the MEPP contribution rate until the very last days of the conciliation process as part of the final tentative agreement (February 10th) so we did not have time to do the roadshow to go out and explain the deal and answer everyone's questions across the country. I was asked to draft up a document to explain the deal on February 10th, the day the TA was agreed to. The Pension MOA Ratification document was my attempt to do that. I obviously did a very poor job.

The problem of course is that pensions are complex and very few people understand them in the first place. Most people do not even think about their pensions until they are starting to consider retirement and then all of a sudden it becomes a very important issue for them.

Our members by and large do not understand how the current pension rules work. That makes explaining changes to those rules very challenging. I have to explain what the current rules are and what the changes are. That is hard to do without writing a 20 or 30 page document that no one will read and fewer still will understand. I have clearly not been able to effectively explain what the pension MOA did or why we had to do it.

The reason for the very quick (Feb 21st) ratification was a result of the conciliation timelines. That 11 day window coupled with the time lag to get documents out (nothing can be released until it has been translated to French first) and then the logistics of printing and distribution to our members meant that most people simply did not have

enough time to read, understand and ask questions about the deal as a whole, let alone the pension MOA.

This "hurry up offense" to negotiate and ratify is all the result of the company's decision to file for conciliation. It was deliberate to force a speedy conclusion to a process they didn't want to be in anyway. Once it was placed into the federal government's hands we lost all semblance of control of the timeline.

11) Q: Why did the wording on the proposed pension MOA not reflect Jan 1, 2014 as the last day to leave but Nov 30, 2013? That closer date again negatively impacts us.

A: The dates are driven by the way pensions work. The regulations mandate these dates. They were not arbitrarily chosen. Because the existing 2009 special funding regulations expire in 2014, the new deal has to be in place for the 2014 "snapshot" valuation that will be used to determine AC's pension contributions for 2014. That is done on January 1st, 2014 (as I have explained above and in my February 2011 pension report). That means that the new rules have to be effective for all retirements commencing on or after January 1st, 2014.

Everything to do with pensions is done in whole months. One day's service in a month will credit you with the entire month as pensionable service. Retirements are always effective as the first day the month next following your last day of work. So if you work at least one day in December 2013 (including the 1st) your next eligible retirement date is January 1st, 2014, the date the new rules become effective under the MOA.

Therefore, the last retirement date available to retire under the current pension rules is December 1st, 2013. That means that the last day on which you can work and still retire under the current pension rules on December 1st, 2013 would be November 30th, 2013. That is how the dates occur. November 30th, 2013 becomes an extrapolation back from the January 1st, 2014 date as determined by the PBSA rules governing the payment of pensions.

12) Q: From what I can understand from some of your answers, the company also delayed as far as they can the repayment by law to our pension plans. Time has run out and they play reckless with their employee's future just to satisfy a few greedy sob. Meanwhile, we are all enablers.

A: As I have explained in my previous emails, the solvency funding issue that has persisted since 2003 is a problem not of Air Canada's making. It is resultant from the historical low long term interest rates. These rates had never been as low as they were in 2003 since the time when all of the DB pension plans were designed in the 1950s and 1960s. Everyone – and I mean everyone – simply expected them to rebound back into their normal range of 5% to 6.5% within a couple of years.

Both the company and the unions expected the interest rates to recover long before the 2004 special funding arrangement expired in 2014. That is why the payment schedule allowed for no payments for the first 2 years and then a steadily increasing schedule as the 10 year period went on. They fully expected to have to pay little or nothing extra into the pension plans as the interest rates recovered over that period of time.

It actually was trending in that direction up to the end of 2007. The 1/1/2008 solvency valuation put the solvency funding ratio at 95% on a deficit of just over $500M. During the first half of 2008 the investment managers were telling us that they were on track to eliminate the solvency funding deficit by 2009 with the expected continuation in the rise of the interest rate through 2008. Then the subprime mortgage meltdown happened in the fall of 2008 and everything went for shit.

That led to the 2009 funding deal that I explained previously. Air Canada does not have a hope in hell of ever paying down the solvency funding deficit at these current low interest rate levels. The deficit will remain constant as a function of any particular rate because the benefit owed (that must be costed as a liability using the interest rate) remains more or less constant with the same number of members and shifting demographics.

By that I mean, as long as the interest rate is say 3% the deficit would be $2,5B (This figure is not exact – just an example). For every ¼% change +/- in this rate the deficit of our pension plans fluctuates up or down by $340M. During 2011 it ranged between $2.5B and $4B as the interest rate fluctuated up and down.

It is this volatility in their liability associated with DB pension plans that has companies worldwide moving to windup their DB plans. They have absolutely no control over this liability and no way to accurately forecast whether it will rise or fall. This is the reason they were adamant about closing the pension plans to new entrants. The only way for them to eliminate the solvency funding deficit is prevent any additional liability from coming into the plan and to pay down an ever decreasing liability as we all have the good graces to die.

The 2 previous special funding arrangements were designed to simply keep the required payments low enough that AC could afford to pay them and still stay in business. This new round of pension deals by all of the unions are designed to replace them in 2014 and do the same thing. These deals will never allow AC to pay off the solvency deficit by themselves. They are only providing a reduction in the total amount owed. They are meant to keep the payments low enough that AC can afford them until such time as the interest rate rises to a point where the plans becomes fully funded and the requirement for any pension payment disappears.

As I have stated before, the whole idea is to keep AC in business and the pension plans as going concerns. As long as that happens we all have jobs and some of our members get to retire every single month with 100% of the pension benefit owed to them. That is what we have been doing since 2003.

So in that respect, yes, we are enablers. We are enabling AC to stay in business and pay us our wages, benefits and pensions. That also enables a select few of them to be greedy sons of bitches and extort millions of dollars from the shareholders of AC by pretending they know what the hell they are doing running an airline.

The problem always remains, if the company goes out of business, everyone of those bastards will still walk away rich. But us, we just get to walk away and hope that we get any scraps that may fall off the table when the creditors are done gouging on the carcass of the company's assets. As always we are at the back of ther bus in bankruptcy just like we are as employees. That is why I chose to help enable them. The alternative is not much of a choice at all.

13) Q: Why is our negots team going back to the table on Monday, when they have not even asked what issues need to be resolved form its members?

A: I believe that the negots committee has a very good idea of what the issues are about the TA and why it was rejected. They have all heard in a very clear manner from our members at every base what they did and didn't like about the TA. I was in YYZ on Wednesday for the meeting with the negots committee and the LL Presidents to collate this information. As you would expect it was the same issues at each base with a couple of different local concerns from the different bases thrown in for good measure.

Again, as with the ratification meeting timeline this entire negotiations process has been subjected to a timeline imposed by the conciliation process. That is why the company filed for conciliation on December 9th, 2011 – to bring and end to the negots process one way or another. Just as they did with all of the other unions. It is amazing what you are able to do when you have the government in your pocket supporting your agenda.

There simply was not enough time to do any kind of a detailed individual survey or in person feedback after the ratification meetings on February 21st. Believe me, everyone involved certainly got lots of feedback – good and bad – on every part of the TA. I certainly know the issues surrounding the pension MOA. I also heard a lot of feedback on the pension MOA from the members at the other bases through emails and from the negots committee members.

14) Q: Any idea as to why Dave Ritchie has been asked to sit in the negotiations with AC?

A: That is a standard company request with a failed TA. The parties agreed to a deal and then the union membership rejected it. They want to bring Dave in and tell him and Chuck off for not being able to deliver on the deal as the negots committee had agreed. Dave will tell them off and that they are not listening to our members and not giving us enough. That is why the IAM requested Kevin Howlett to attend.

There will be lots of finger pointing and raised voices on both sides of the table and then they may or may not actually try and negotiate some changes to the TA. Or the company may simply say they are done talking and send it to final arbitration seeking reductions in what was agreed to or they may ask to have the deal imposed.

This is the equivalent of telling the girl in customer service that you want to talk to her manager because you are not happy with the way she is unable to help you get what you want.

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