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SEPTEMBER 2014 – AIR CANADA PENSION COMMITTEE REPORT

Air Canada placed a very important pension document on the **ACaéronet** in July. All members of the DB pension plan should make an effort to read this document. The document that I am referring to is the annual update on the financial performance and funding of the Air Canada pension plans as at 01 January 2014. This summary document is provided to all employees via the **ACaérone**t every year after the pension plan solvency funding reports have been made public with the company's 2nd quarter operating results.

As everyone has probably heard by now the Air Canada's 10 pension plans are in surplus, or very close to surplus depending on the specific pension plan. It turns out that 2013 was a spectacular year for the Air Canada pension plans. Our pension plans began the year with an aggregate deficit of $3.7B on 01 January 2013 and ended the year with a solvency surplus of $89M on 01 January 2014.

How did a turnaround of this magnitude happen in just 12 months? It was a combination of 3 separate items combining perfectly. First, the liabilities decreased by $1,7B based upon an increase in the long-term interest rate that is used to calculate the liabilities. Such is the magnitude of the impact of fluctuations in the long term (discount) interest rate on the cost of the plan's liabilities that this $1.7B change was caused by an increase of just 0.9% from 3% to 3.9%

Second, the assets increased by $1.3B from $12.5B to $13.8B on a year over year basis from 01 January 2013. In the four years since 01 January 2010, the assets of the Air Canada Pension Master Trust Fund have increased by 36.63% from $10.1B to $13.8B making Air Canada the top returning pension plan in Canada with assets over $1B during the last two years.

Third, Air Canada contributed $392M to the plan and the changes to the pension plans that were negotiated in 2012 came into effect on 01 January 2014. The implementation of these changes resulted in a reduction of $940M in the liabilities. Combined with the $1.7B reduction from the increase in the interest rate this meant a total decrease in the plan's liabilities of $2.5 from $16.2B to $13.7B

The 2nd funding valuation done on our pension plans each year is the going concern valuation, which assumes that both the company and the pension plan continue to operate and indefinitely. There was an elimination of the $245M deficit position of the plan as it moved to a surplus of $197M on a going concern basis.

All of this information is explained in greater detail in the pension update document on the Acaéronet and I recommend that all members of the DB pension plan should take the time to read it.

One of the changes that became effective on 01 January 2014 was the creation of a new single stand-alone IAMAW pension plan that now contains the pension assets and liabilities of all IAMAW DB pension plan members. The valuation of the assets and liabilities of the ex-CAIL members and the original Air Canada members was calculated to facilitate the transfer of assets into the new IAMAW stand-alone pension plan.

The ex-CAIL plan had a solvency ratio of 100.6% and the OAC plan members (transferred from the Main Plan) had a solvency ratio of 99.4%. This means that the new IAMAW pension plan has a combined solvency funding ratio of 99.7% as at 011 January 2014.

I may be contacted at president@iam764.ca with any questions or concerns that you may have.

Respectfully Submitted,

Christopher Hiscock
Chairman, LL764 Pension Committee