BULLETIN
TRANSPORTATION DISTRICT 140
DISTRICT DES TRANSPORTS 140
International Association of Machinists and Aerospace Workers
Association internationale des machinistes et des travailleurs et travailleuses de l'aérospatiale

TO ALL IAMAW MEMBERS

EMPLOYED AT AIR CANADA

SPECIAL PENSION FUNDING REGULATIONS OPT OUT

Dear Brothers and Sisters,

This is a follow up to Bulletin No. 026 issued May 27, 2015 regarding Air Canada's decision to opt out of the *Air Canada Pension Plan Funding Regulations, 2014*. Our Members should view this decision by Air Canada to opt out of the special funding regulations as good news for several reasons.

To understand why this decision is good news for all of us you need to look back at the last twelve years of the history of both Air Canada and our Pension Plans. In April 2003 Air Canada filed for CCAA protection in large part because of the solvency deficit of their Pension Plans at that time requiring annual payments of about $1 Billion under the normal five year repayment terms of the *PBSA Solvency Funding Relief Regulations*. Air Canada's inability to make those payments was a major consideration in their CCAA protection filing.

As part of the CCAA restructuring process all of Air Canada's Unionized employee groups agreed to support the 2004 *Air Canada Pension Plan Solvency Funding Deficiency Regulations* in order to preserve and protect our defined benefit Pension Plans. Those regulations allowed Air Canada financial relief from the more onerous five year repayment terms of the *PBSA Solvency Funding Relief Regulations*. Specifically they allowed Air Canada to make their solvency funding deficit repayments over a ten year period that would end on December 31, 2013. The original 2004 special funding regulations had a graduated schedule of repayment amounts. That schedule allowed Air Canada to make the bulk of their payments in the last five years of the agreement.

When the IAMAW and the other Unions were in Collective Bargaining in 2009 the Pension Plan solvency deficit once again became an issue that threatened the survival of both Air Canada and our Pension Plans. The problem in 2009 was that the original 2004 *Air Canada Pension Plan Solvency Funding Deficiency Regulations* were now entering the last five years of their ten year term when the bulk of the solvency deficit repayments were scheduled to be paid. The U.S. sub-prime mortgage market crisis in the fall of 2008 caused a severe drop in the long term interest rates. That resulted in an even larger solvency funding deficit for the Air Canada Pension Plans further increasing the amount of money that Air Canada would have to pay into their Pension Plans.

For the second time in five years, all of Air Canada's Unionized employees had to help rescue and stabilize our employer and our Pension Plans. That was done by agreeing to support the *Air Canada Pension Plan Funding Regulations, 2009*. Those regulations revised the original *2004 Regulations'* repayment schedule and limited the amount of money that Air Canada would have repay into the Pension Plans between 2009 and the expiration of the original *2004 Regulations* period on December 31, 2013.

Because of the $4.2 Billion solvency funding deficit that existed during the 2011-2012 round of Collective Bargaining at Air Canada all of the Unionized groups once again had to step up and support a third special Pension Plan solvency funding regulations. Those regulations would go into effect on January 1, 2014 after the expiration of the 2009 special funding regulations. The *Air Canada Pension Plan Funding Regulations, 2014* was a seven year agreement that allowed Air Canada to repay a minimum of $150 Million per year into the Pension Plans, but they had to repay an aggregate average of $200 Million per year over the life of the agreement. Simply put, for every year, like 2014, when they only paid the $150 Million minimum they would have to contribute an additional $50 Million in a subsequent year. Air Canada's total solvency funding repayment obligation was $1.4 Billion over the seven year term of the 2014 agreement.

Their decision to opt out of the 2014 Regulations means that they will have paid $241 Million to the end of 2015 and will not have to repay the remaining $1.16 Billion that would have been required if they had not opted out. It is

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important to understand that Defined Benefit Pension Plan sponsors, like Air Canada, are only required to pay into their Pension Plans when the Plans are in deficit. When the Pension Plans are fully funded there is no requirement for Plan sponsors to make any payments into their Pension Plans.

Defined Benefit Pension Plans are designed such that the Plan Members' contributions and the investment return on those contributions will pay for the Members' pensions without the Plan sponsors having to make payments into the Plan. This is the situation that Air Canada now finds itself in. As at the end of May 2015 the Air Canada Pension Plan Master Trust Fund is $1.2 Billion in surplus.

Air Canada's decision to opt out was a sound business decision that will allow them to redirect the $1.16 Billion into aircraft purchases, share buybacks, shareholder dividend payments and of course the usual Executive bonuses that make us all feel so warm and tingly inside.

This Pension Plan surplus has been achieved through three separate mechanisms. First, Air Canada has paid just less than $1 Billion into the Pension Plans since 2009. Second, Air Canada completely revamped their pension asset investment strategy in 2009 to de-risk the Pension Plans from the volatility of the long term (30 year) interest rate. This was achieved by moving from a 70% equities / 30% fixed assets investment portfolio to a 30% equities / 70% fixed assets investment portfolio. This heavy weighting in fixed assets means that the value of the assets will track proportional to the interest rate, thereby insulating the Pension Plans from the negative impact of that volatility. It has taken five years to gradually implement this de-risking strategy and it is just now being completed.

Third and often overlooked in this success story are the changes that all of Air Canada's Unionized groups agreed to make to their Defined Benefit Pension Plans in 2011-2012. Those changes have reduced Air Canada's solvency funding deficit by $1 Billion, an amount roughly equal to that paid into the Pension Plans by Air Canada. Unfortunately this is being treated as a mere footnote by Air Canada. I have not seen any acknowledgement either public or through internal communications, of the sacrifices made by any of their Unionized employees to help achieve this Pension Plan surplus. That lack of graciousness in victory speaks much louder about how they view their employees than any meaningless platitudes they continually spout about employee engagement and empowerment.

Finally to the reasons that Air Canada's opt out from the *Air Canada Pension Plan Funding Regulations, 2014* is good news for our Members. First, since 2004 the Pension Plans and the survival of Air Canada have dominated the last three rounds of Collective Bargaining and have loomed over our heads both at work and at home for all of those years. As explained above, the only reason that any of the Unions supported Air Canada through twelve years and three separate special solvency funding regulations was to whistle past the graveyard to get to this day when our Pension Plans would return to being fully funded and in surplus. For most of the past twelve years this seemed like an unattainable goal.

Second, the Pension Plans will no longer dominate Collective Bargaining and Air Canada will no longer be able to use them as an excuse to deny us increased wages, benefits or better working conditions at the bargaining table. Third, now that the Pension Plans are fully funded we are able for the first time in twelve years to freely bargain for improvements in the Pension Plan, which we were legally prohibited from doing while the plans were in deficit. I would ask our Members to keep that in mind when the Bargaining Surveys come out later this year.

In Solidarity,

Christopher Hiscock, Chairman
IAMAW - Air Canada Pension Committee

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