INFORMATION UPDATE
August 31, 2012

Aveos Pension - Update no. 5

During the last few days, our former Aveos members have been receiving a document from Air Canada with respect to their pension benefit owed to them by Air Canada. There are three parts to this document. First, there is a two-page cover letter that briefly explains what is going to happen in terms of the payment of your Air Canada pension for service earned to July 14, 2011. Next there is a two-page FAQ and, finally, a four-page document on lump-sum commuted-value payouts from the Air Canada pension plans. This information reiterates what I previously explained in Pension Updates nos. 2, 3 and 4.

In a nutshell, this document says that your pension benefit owed by Air Canada will be based upon the amount of pensionable service that you had earned to July 14, 2011. It also states that for the purposes of determining which pension options are available to you and whether or not you have reached a pension milestone, your total combined pensionable service with both Air Canada and Aveos will be used in combination with your age as at the date of termination of the Aveos pension plan. That date should be as at March 31, 2012, the last day of the month in which contributions were made to the Aveos pension plan. All of this is described in more detail in my previous pension updates.

The major point that is stated in this letter which was not known with certainty when I wrote my previous pension updates is how your Air Canada pension benefit will be treated within the Air Canada Pension Master Trust Fund (MTF). The Air Canada document confirms two things. First, your pension benefit will be paid from the existing IAM&AW pension plans within the MTF and will not be separated out into an "Aveos" pension plan within the MTF. It also states that as such, you will be subject to the solvency funding ratio of the Air Canada Pension Plans on a go-forward basis.

That means that your pension benefits will not be fully funded as at July 14, 2011 (for Airframe employees) as had been agreed in the 2007 Pension and Benefits Agreement (PBA) as it relates to the transition. For CMC and EMC employees, Air Canada was only responsible for solvency funding of your pension benefits up to October 2007. This is because OSFI has ruled that Air Canada will not be allowed to continue to transfer the funds to the Aveos pension plan in accordance with the 2007 PBA.

If that had been allowed, your entire pension benefit would have been paid out from that terminated Aveos pension plan in accordance with the final solvency funding ratio of the Aveos plan. Your accrued Aveos pension benefit for service after July 14, 2011 will still be paid out from the Aveos pension plan and subject to an as yet unknown solvency deficit. Your Air Canada pension benefit will not.

Your pension benefit owed by Air Canada for service to July 14, 2011 will be paid out at 100% of the value of the benefit owed for as long as the Air Canada pension plan remains a going concern. This is exactly what has been happening for every single Air Canada employee who has retired since April 2003 when Air Canada first filed for CCAA because of its pension solvency deficit. As is currently the case for all Air Canada employees, your pension benefit would only be impacted by the solvency deficit in the event of a termination and windup of the Air Canada pension plans.

The last FAQ states that all Aveos members will not be "treated any differently for pension purposes than a person terminating employment with Air Canada". The key part of this sentence is **"for pension purposes"**. I have already received a number of emails and calls asking if this means that Aveos members will be entitled to post-retirement health, insurance and travel benefits as well. It does not.

This Air Canada document deals strictly with the payment of your accrued monetary pension benefit from Air Canada. It does not include any other post-retirement benefits. Those benefits arise as a result of the Air Canada company policy for retirement and are predicated upon company service and not pensionable service. All non-pension post-retirement benefits are dealt with separately under the Air Canada company retirement policy for current employees.

Finally, for members who wish to receive their pension benefit as a lump-sum commuted-value transfer out of the plan, they will need to pay particular attention to the last four pages of this document. It is a copy of a document that was posted on the Aeronet on July 18 to all Air Canada employees. It explains the restrictions that have been placed upon commuted- value transfers by OSFI.

These restrictions are as a result of the current solvency funding ratio of the Air Canada pension plans (as at January 1, 2012) and the details are explained in the four pages. OSFI has issued similar restrictions in the past and they will remain in effect until otherwise directed. The restrictions can be modified or rescinded at any time. In 2009, OSFI issued and revised similar restrictions three times in a 10-month period.

The key point of the OSFI directive is that all members who elect to receive their Air Canada Pension benefit as a lump-sum commuted-value transfer will only receive 63.9% of the total value owed immediately. There will be a five-year hold-back on the remaining 36.1% plus interest. This withheld amount can be paid to you sooner than five years, but that will only happen in the event that the pension plan becomes fully funded within that time period.

Respectfully,

Christopher Hiscock, President
Canadian Airways Lodge 764

CH/mcb