



Canadian Airways Lodge No. 764

INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

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JUNE 2011 – LL764 PENSION COMMITTEE REPORT

To quote the great fictional writer and humorist Mark Twain, there are three types of lies. Lies, damn lies and statistics. On June 9th every Air Canada employee received a document via email from the company and we were also invited to read a similar document posted to the AC Aeronet. The document was titled ***“Our Pension Plans and why this is such an important issue”***. I wholeheartedly agree with that statement.

I have always applauded the company for the type and amount of pension information they make available to our members on the Aeronet. Yet I have grave misgivings about this latest document and I feel compelled to add some missing information and context to their document. This is ironic because that is exactly what the company states at the end of the first paragraph. They are responding to a joint communiqué issued by the IAMAW, CAW and CUPE about our desire to protect our pension plans. Air Canada is not happy about us wanting to maintain our pensions without making further concessions.

While it is true that the liabilities of the plan are about \$13B, they forgot to mention that the plan also has assets of about \$10.9B, hence the \$2.1B solvency deficit. So the real number we have to address is \$2.1B and not \$13B. It is also true that the company pension plans have 26,000 active employees and 29,000 retirees. But it is misleading to suggest that the active employees are *“supporting”* the retirees. Our DB plan is not a pyramid scheme that requires an ever increasing number of new entrants to pay for the retirees like some door to door sales scheme.

Our plans are designed to be self funded retirement savings plans. The contribution and benefit levels were calculated by the actuaries when the plans were designed such that each one of us pays for our own pension. There is no intergenerational transfer of funds within the plan that requires new entrants to pay for retirees. If the markets and the long term interest rates are within their normal trading ranges the company actually has to pay no money at all into the plan. You pay for your entire pension plan through your contributions and the investment returns of the plan assets. That is why Air Canada did not have to make any contributions to the pension plans for decades prior to the early 2000's. For all intents and purposes the pension plan was a free benefit for Air Canada to provide its employees for many years. Now that they are required to make payments to compensate for the solvency funding shortfall created by historically low interest rates they are crying poor and blaming us for our greed. Don't get me started on that topic.

\$1.9B in pension payments over 8 years is also a lot of money. While it may be *“more than the aggregate capital expenditures”* by Air Canada; it is still significantly less than the aggregate amount of money paid out in executive compensation and special shareholder dividends and disbursements over that same period.

We agree that \$2.1B is a large amount of money and we also agree that the solvency deficit must be addressed to make the pension plans sustainable in the long term for the employees, retirees and the continued profitability of Air Canada. Because of this the IAMAW and other unions have been involved in a series of discussions and meetings with Air Canada dating back to August 2010. This whole process was started in direct response to the Minister of Finance's 2009 directive to make our pension plans sustainable before the current pension funding arrangement expires in June 2014.

We know that our pension plans are generous. We bargained for them. We fought for them. We have paid for them with our contributions and our collective agreement concessions over the last 8 years. Many more years of wages and benefits were traded at the bargaining table to maintain and build our pension plans into what they are today. Make no mistake about the true intent of these documents. Air Canada is trying to bargain directly with you around your bargaining committees and your union.

And while Air Transat and Westjet do not have DB pension plans, they have superior wage rates for many categories and benefits that rival ours. The employees of these companies are not Charles Dickens' orphans begging "please Sir, may I have another." That part is currently being played by us.

Air Canada is trying to show you how greedy you are in expecting industry leading pensions. Many of us no longer have industry leading wages so I guess they feel it is only right that we should surrender our pensions as well. It is too bad that they do not feel that same remorse and resolve about their own executive compensation packages and executive DB pension plans. It is not too rich for them. It is OK for them to hold "*Air Canada [executive] positions [that] are the most desirable and highly compensated airline jobs in North America and amongst the best jobs in the country, especially at a time of near double digit unemployment.*" I guess it is just not alright for their employees to expect fair and equitable treatment.

Air Canada states that "*The objective is to introduce changes to the defined benefit plans that will result in material reductions in terms of funding the deficit, while minimizing the impact on employees and retirees.*" I am glad they feel that way. So does the IAMAW. The IAMAW has tabled a pension proposal to Air Canada in April that addresses exactly this issue. It provides a solution to reduce the solvency deficit payments that Air Canada would be required to make on a yearly basis and it protects all of the current pension benefits of our plans. We have engaged the company on the pension solvency funding issue and we have outlined a process and a proposal to deal with the issue separately from the main bargaining table. For them to suggest otherwise is disingenuous. "*These discussions did not lead to a solution*" because they were originally about discussing the scope of the problem and agreeing on a process. Once that was done an IAMAW pension proposal was tabled to which Air Canada has yet to provide a response. Except this document which attempts to bargain directly with our membership.

Time will tell if Air Canada truly does want to maintain their Defined Benefit pension plans for all of us or if they are simply looking for a way to further erode our pension benefits to increase shareholder value and to further increase executive compensation.

The IAMAW has every intention of dealing with the solvency deficit problem for the long term stability of our pension plans. We also have every intention of preserving the current benefits for our members. These are not mutually exclusive solutions. Air Canada should be engaging in pension discussions with the IAMAW and not directly with our members trying to frighten you into giving them further concessions on your pensions.

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

Respectfully Submitted,

Christopher Hiscock
Chairman, LL 764 Pension Committee