

## SEPTEMBER 2009 – LL764 PENSION COMMITTEE REPORT

There are essentially 2 ways to receive your pension benefit when you leave the company through retirement or termination. Everyone is aware of the standard monthly pension payment payable from the first month of retirement or commencing on a future deferred date if you terminate prior to attaining a pension milestone.

The second option is to receive a commuted value equivalent to your accumulated pension benefit. This is most commonly referred to as a "lump sum" payout into a locked-in RRSP or equivalent financial vehicle. This is designed primarily for people who leave the company well ahead of retirement and wish to take their money with them to invest on their own rather than leave it encumbered within the Air Canada pension plan. (The April 2009 report explains the commuted value option in a little more detail.)

There are specific rules governing when a commuted value may or may not be taken. Generally speaking it is available until 10 years prior to your Air Canada pensionable age. In the CAIL plan that means up until the month of your 50<sup>th</sup> birthday regardless of pensionable service. In the AC plan it is available up to age 45 if you have 25 or more years of service and age 55 if you have less than 25 years of service.

Because of the extreme underfunding situation of our pension plans as at 31 December 2008, OSFI has sent 3 separate letters to Air Canada in 2009 with respect to increased regulation of the commuted value payouts. The first letter was sent on 6 April 2009 and limited commuted value payments to 75% made between that date and the release of the final actuarial results in June 2009 even though the official funding level was still considered to be 90%. This decision was based on the preliminary figures at that time and 75% was their best guess on the final 2008 solvency funding ratio. It is 82.5%

The 2<sup>nd</sup> letter was sent on 6 July 2009 and ordered an immediate halt of all commuted value payments until further authorized by OSFI except in the event of death. The freeze does not affect monthly pension payments. They are acting to prevent a run on the pension plan that could adversely affect the plan because of the low solvency funding level. The effect of letter was clarified by a 3<sup>rd</sup> letter sent on 24 August 2009 that clarified the parameters of the commuted value freeze.

The freeze would only be effective for anyone who left the plan after 6 July 2009. Anyone who had left prior to 6 July 2009 and was still waiting to have their commuted value transferred to them would continue to receive their monies under the terms of the 6 April 2009 letter or under the rules of the Plan Text(s) if they had left prior to 6 April 2009.

At this time OSFI has not indicated how long this freeze will remain in effect but it would be a good bet to assume that it will remain in place until early 2010 when the increase or decrease of the solvency funding ration becomes known. They may even wait until June 2010 when the final actuarial report is published.

Email is the most effective way to reach me. I may be contacted at [pres764@telus.net](mailto:pres764@telus.net) with any questions or concerns that you may have.

Respectfully Submitted,

Christopher Hiscock  
Chairman, LL764 Pension Committee