



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*

ALL IAMAW MEMBERS

AIR CANADA LIFE INSURANCE COMPANY

On Friday, August 10, 2018 Air Canada announced to their employees that they would be creating a new wholly owned subsidiary, Air Canada Life Insurance Company (ACLI). ACLI will be a fully registered and regulated insurance company under the terms and conditions of all existing Canadian financial and insurance regulations and will fall under the auspices of OSFI.

The Air Canada Pension Master Trust Fund (MTF) intends to purchase group annuities from various established Canadian insurance companies. The sheer size of the MTF (\$19.5 Billion as at 1/1/2018) dwarfs the ability of the Canadian annuity market to absorb such a large investment and the associated risk.

It is common practice for insurance companies to indemnify themselves against risk when taking on large policies or investments. This is typically done through reinsuring portions of the investment with other insurance companies. This is the role that Air Canada has indicated ACLI will fulfil. By offering the participating insurance companies partial reinsurance on the group annuity purchases, ACLI will help to mitigate the risk of the annuities for the primary insurers and make the purchases possible.

ACLI must be fully capitalized in accordance with all laws and regulations governing insurance companies in Canada. Right now, we do not know what will be required to reach full capitalization, but Air Canada has stated that it will provide the necessary capitalization for ACLI to meet its mandate.

The purchase of annuities to provide identical replicating pension benefits for our members, if properly done, is permissible under all pension, financial and insurance laws and regulations. The purchase of annuities is also permissible in accordance with the Air Canada pension investment policy. Air Canada also has the independent right to create a life insurance company, subject to its meeting all legal and regulatory requirements. Therefore, Air Canada has the right to unilaterally make the decision to both create ACLI and purchase the annuities as soon as they obtain the necessary regulatory approvals from OSFI and the federal Minister of Finance.

At this point in time Air Canada has given the required notice that it intends to apply to the Minister of Finance to incorporate a life insurance company and is waiting for the expiry of the period for objections and for a decision to be made. Air Canada is presently anticipating receiving all such approvals and being in a position to make the first group annuity purchase in the fourth quarter of 2019.

Air Canada has stated that the purchase of group annuities will be an ongoing process into the foreseeable future. It is their intention to annuitize most or all of the MTF over an extended time period, possibly fifteen (15) years or longer. As with all monetary investment decisions, the exact timing and amount of the group annuity purchases will be determined by prevailing market conditions over time.

So what does all of this mean and why does Air Canada say they are doing it? Simply put, Air Canada says that it is doing it to both lessen the risk profile (investment and interest rate volatility, solvency risk and longevity risk) of their pension plans and lock in an amount of the surplus gains that the MTF has realized in the last four (4) years. In terms of a personal RRSP investment account, this is the equivalent of monetizing your personal RRSP money market investments into a guaranteed monthly revenue stream by purchasing an annuity from an insurance provider when you retire. At this time, we are unable to independently verify whether these goals are achievable under the proposed structure, and are continuing in our inquiries.

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Is Air Canada trying to lessen or avoid any of their fiduciary duties and responsibilities with respect to their Defined Benefit (DB) pension plans? Legally Air Canada, as the plan sponsor and administrator, retains their fiduciary obligations and cannot lessen or avoid them through this structure. Air Canada remains solely 100% responsible for all actions and decisions that are made on their behalf by any subcontracted parties.

That will be true of ACLI and the group annuity purchases. The MTF will continue to include and be financially responsible for all liabilities associated with the payment of earned and owed pension benefits for all DB pension plan members. Air Canada has stated that this will be reflected in all legal financial statements, reports and annual audited valuation reports that must be filed with OSFI and CRA. That means that Air Canada will continue to retain the legal fiduciary obligation to ensure that 100% of all DB pension plan members' owed pension benefits are paid and provided. This includes all pension benefits that are owed and provided through any group annuities that they purchase.

In addition, as a registered Canadian insurance company, ACLI will be afforded additional guaranteed coverage protection through Assuris* which is a Canadian federal government backed insurer of last resort, similar to the CDIC. This means an additional measure of government protection for all Air Canada pension benefits that are annuitized through this initiative. Assuris* has limits on the amounts it will insure for any one individual, however, and so this may not be a total backstop for all members.

What does this mean for our members? At this point in time, it simply means an additional asset investment class being utilized by the Air Canada Pension Investment Department (ACPI) to lock in some of the gains they have realized on the MTF asset investments. More importantly for our members it could mean a lowering of the inherent risk profile of the Air Canada pension plans.

Air Canada has stated that this will be a seamless process for our DB pension plan members, both active and retired, who will **ALL** continue to remain members of the Air Canada IAMAW DB pension plan under the **EXACT SAME** terms and conditions as they currently enjoy. All retirees and survivors will continue to receive 100% of their monthly Air Canada pension benefit paid to them by Air Canada exactly as they do now.

Because **ALL current members** of the Air Canada IAMAW DB pension plan **will remain as members** of the plan, they will continue to be entitled to receive any future pension benefit improvements or enhancements as may be negotiated between the IAMAW and Air Canada in the future.

At this point in time there are still a large number of details that are unknown. In particular, we do not have enough information to evaluate whether the proposed structure actually lessens the risk for our members, as stated by Air Canada. More details, such as the group annuity purchase policy, timing and dollar values of the group annuity purchases, ACLI Board of Directors and corporate structure and participating insurance companies etc. still remain to be disclosed. Your Air Canada IAMAW Pension Committee and District Lodge 140 will continue to monitor this initiative very carefully as it moves forward through the regulatory approval and implementation processes.

I strongly urge all affected members to read the three (3) documents provided by Air Canada through the Aeronet on August 10, 2018 (Communication, Glossary and FAQs) for a greater understanding of this issue and the associated terminology. I would also encourage members who continue to have questions or concerns about ACLI or the group annuity purchase initiative to contact Air Canada via email at pension_questions@aircanada.ca with your questions or comments.

In Solidarity,



Christopher Hiscock
Chairman,
Air Canada IAMAW Pension Committee

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