IPEBLA Conference

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Bargaining Trends in Pension and Benefit Provision

Trends in Canada

- Large plan sponsors in Canada started the transition to DC pension plans about 10 years ago - mostly for non-unionized employees and for emerging industries
- Difficult transition for established companies with unionized employees – high pressure from the unions to keep DB plans
- Current low interest rate environment puts high pressure on plan sponsors given rigid funding rules

Canadian Funding Regulations for Federal Employers

- Solvency deficit must be amortized over 5 years
- Solvency basis assumes the pension plan is terminated on the date of the valuation – very conservative approach
- Long-term government bond yields at year-end

1991	9.8%
2001	5.8%
2011	2.4%

  - Cost of the same lifetime pension increased over 70% in the last 20 years

About Air Canada

- Canada's largest full-service airline in the Canadian market, Canada-U.S. transborder market and in the international market to and from Canada
- Serves over 32 million customers annually to over 170 destinations on five continents
- Created in 1937 as a crown corporation, privatized in 1988

About Air Canada

- 25,000 active employees, 30,000 retirees
- Employees represented by 5 unions
- 2011 operating revenues: $11.6B
- 2011 operating income: $179M
- Estimated enterprise value: $4.9 billion
- Estimated as of the end of 2010, on a solvency basis:
  - **Pension liabilities: $13.0B (2.5x the size of the company)**
  - **Pension deficit: $2.2B. Expected payments of $440M per year for the deficit.**
  - **Poor 2011 experience will increase these figures substantially**

About Air Canada

- Filed for CCAA (Company Creditors Arrangement Act) in April 2003 essentially due to unsustainable required pension contributions. Emerged from CCAA in September 2004 with:
  - no changes to the pension benefits – overseen by the court - the unions would refuse to discuss any restructuring otherwise
  - pension funding relief obtained with the agreement of the unions, retirees and federal government – amortization of the solvency deficit over 10 years instead of 5 years

Air Canada's Pension Plans

- In 2009, following the 2008 financial crisis, pension funding payments were still unsustainable
- Obtained other pension funding relief with the agreement of the unions, retirees and federal government – no deficit payments for 21 months, fixed payments for next 3 years

Air Canada's Pension Plans

- The 2011/2012 negotiations resulted with permanent and retroactive reductions to early retirement provisions for 3 unions representing 10,700 employees.
  - Early retirement eligibility changed from 80/25 to 55/85/consent
  - Reduction of approx. 3% before age 55 increased to approx. 6% before age 65, unless consent is obtained
  - Without the consent provision, pensions would have to be reduced before 55/85 instead of 65
  - Changes are still subject to the regulator's approval

Air Canada's Pension Plans

- Consent benefits is a concept that already existed in the legislation but with the Air Canada situation, the pension regulator published a formal administrative advisory:
  - The plan administrator must retain the discretion to grant or deny the consent – genuine consent – which must be clearly communicated to plan members
  - All documents, agreements and the administrator's practices must be taken into account to determine how the consent will be funded – benefits genuinely subject to consent can be excluded from the actuarial valuation

Air Canada's Pension Plans

- DB plans for all employees until 2005.
- Changes for new hires:
  - 2005: DC plan for Management employees
  - 2011/2012: hybrid plan for 2 unions (imposed by arbitration)
  - 2012: DC plan for one union
  - Negotiations on-going with 2 other unions

Air Canada's Pension Plans

- Hybrid plan for new hires determined by arbitration
  - Union: proposed reduced DB plan
  - Company: proposed DC plan
  - Final outcome
    - Half of the reduced DB plus
    - Half of a DC
    - Within the same plan

Air Canada’s Pension Plans

- With the plans for new hires, Air Canada expects to improve its situation in the long-term - no impact in the short-term
  - Fixed contributions
  - Competitive benefits
- With the changes to the DB plans for current employees, Air Canada expects to improve its short-term situation
  - Lower deficit and payments

Questions

Is there a win-win solution?

- What are employees/unions looking for?
  - Secure employment?
  - Lower but more secure benefits?
  - Higher but less secure benefits?
  - Ready to accept reductions to save their job?
  - How do unions balance the interests of employees?
  - What about retirees?

Questions

- What are employers looking for?
  - Long-term solution or short-term fix?
  - Reduced volatility?
  - Risk sharing?
  - Relaxed funding rules?
  - Competitive benefits?
  - Shareholders’ interests?
  - Still possible to sponsor DB plans?

Questions

- What are regulators trying to achieve?
  - Protect beneficiaries benefits?
  - What about job security?
  - Future of DB plans given strict rules?
  - Can find an acceptable balance for employees and plan sponsors?
  - Affordable retirement solutions?
  - How does legislation help or hurt the ability to find good solutions in bargaining?