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COMMUNICATIONS

TOTAL REWARDS

Pension Update on Air Canada's Canadian Pension Plans

2020



THIS DOCUMENT PROVIDES AN OVERVIEW OF AIR CANADA'S PENSION PROGRAMS FOR EMPLOYEES BASED IN CANADA, BOTH IN TERMS OF DEMOGRAPHIC DATA AND FINANCIAL SITUATION.

AS AT JANUARY 1, 2021...

- **\$24.1 BILLION OF PENSION ASSETS** in defined benefit (DB) and defined contribution (DC) plans of Air Canada
- **31,024 ACTIVE MEMBERS** and **33,092 INACTIVE MEMBERS** in all plans combined
- All DB plans in a **SURPLUS POSITION**, with an average solvency ratio of 113.6% and an average going-concern funded ratio of 131.0%
- Given the level of surplus, **NO CONTRIBUTIONS ARE PERMITTED BY AIR CANADA INTO ANY OF ITS DB PLANS FOR THE YEAR 2021** (minor exception noted in document)
- Approximately 50% of the employees participate in a DB plan and 50% in another type of plan

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Air Canada's retirement programs structure contains numerous pension plans. Amongst these plans, there are different types of arrangements, namely:



DEFINED BENEFIT PLANS

DB plans provide a monthly pension at retirement. The pension amount at retirement will usually be calculated using a predetermined formula – commonly based on a percentage of salary, multiplied by the number of years of participation in the plan.



DEFINED CONTRIBUTION PLANS

DC plans provide pension savings at retirement, similarly to registered retirement savings plans (RRSP). The pay-out will be based, amongst other factors, on contributions made to the plan by the employee and the employer during years of participation, as well as investment returns on those contributions.



COMBINATION PLANS

Some of our plans combine a DB component for some members and a DC component for other members into a single combination plan.



HYBRID PLANS

Hybrid plans are made up of both a DB and a DC component for the same member.



MULTI-EMPLOYER PENSION PLANS

MEPPs combine employees from several employers and provide a pension calculated using a predetermined formula that can be adjusted, up or down, depending on the financial situation of the plan. These are administered by a third party.

If you are not sure of your plan's name and type of arrangement, refer to the appendix.

Air Canada is the administrator of all pension plans for its employees, except for the International Association of Machinists and Aerospace Workers (IAM) MEPP and the Canada-Wide Industrial Pension Plan (CWIPP) which are two MEPPs covering some IAM members and pilots respectively. Air Canada contributes to the IAM MEPP and CWIPP for members who participate in those plans but does not handle their administration.

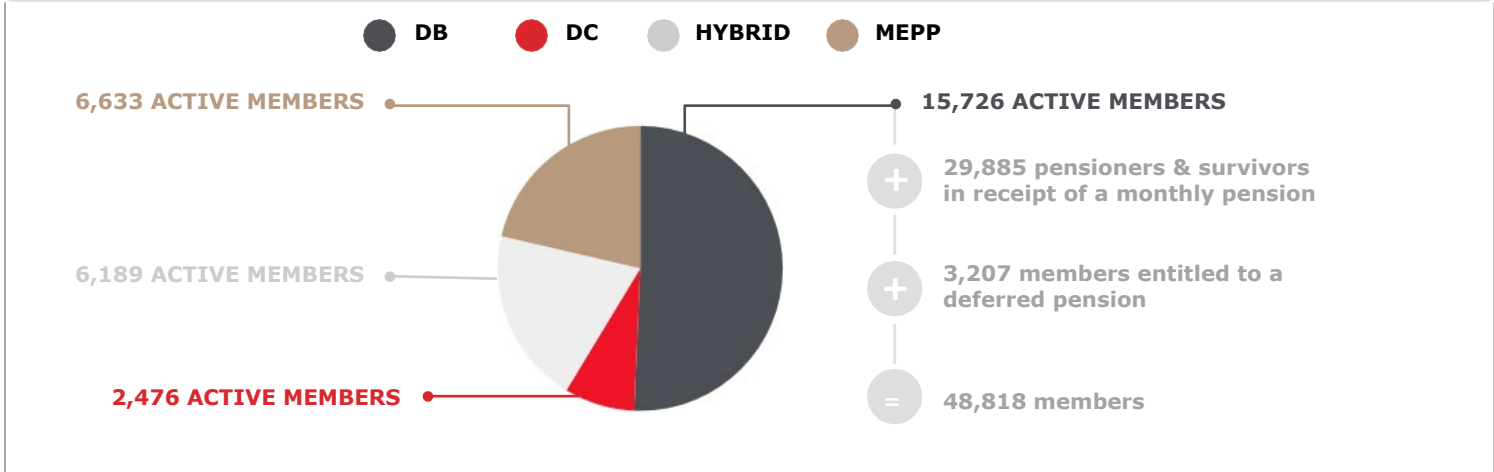


RETIREMENT PROGRAMS MEMBERSHIP AT A GLANCE

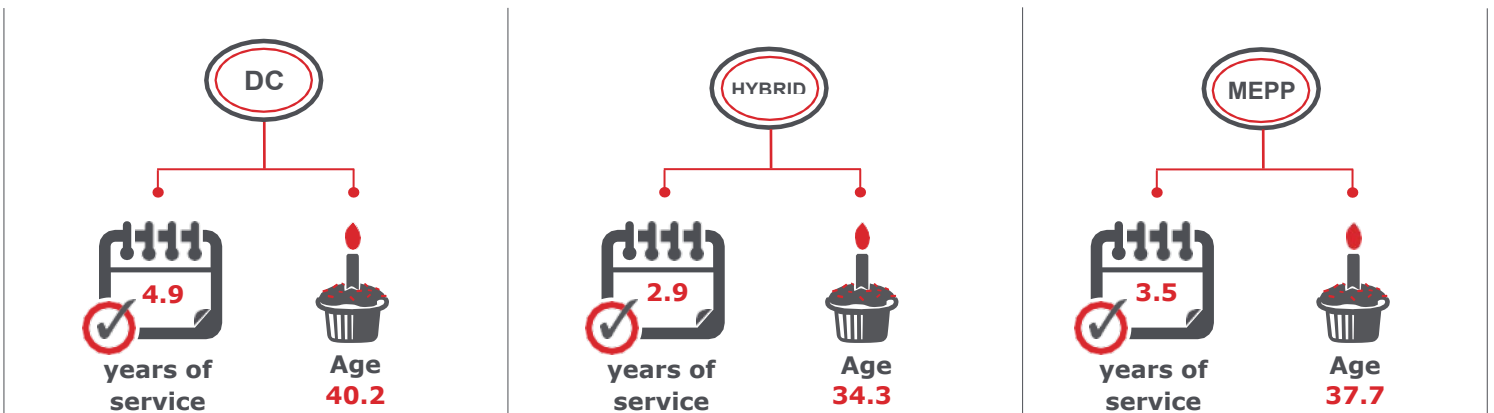
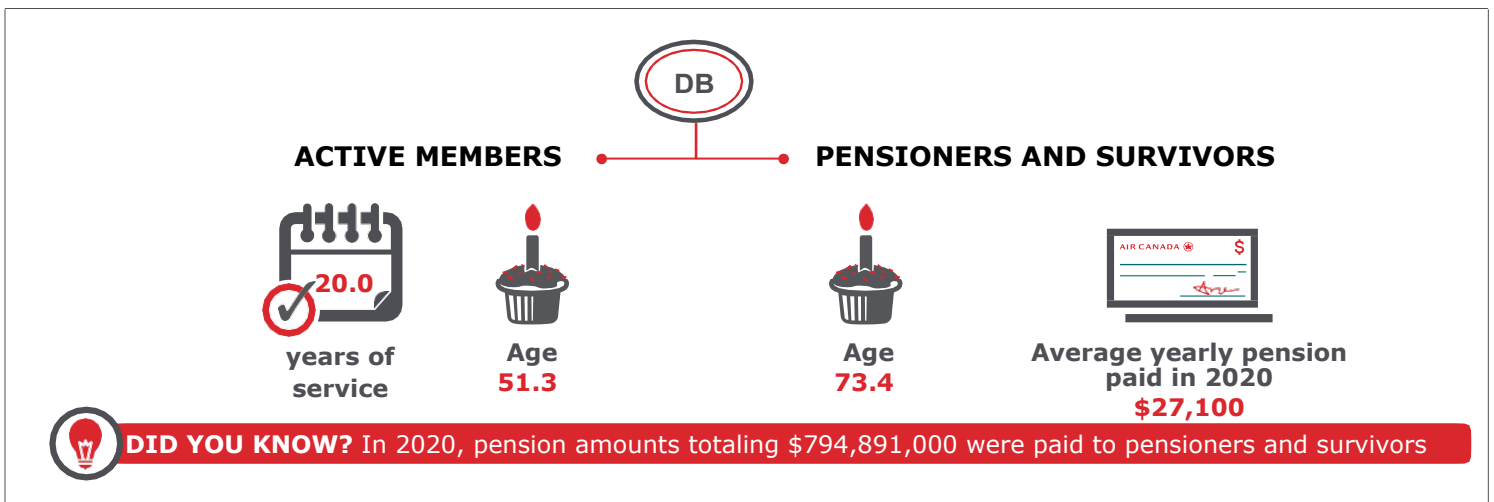


As at January 1, 2021, there were **31,024 active members** in all Air Canada's pension plans. The chart below provides a breakdown of members per type of arrangement.

MEMBERSHIP PER TYPE OF ARRANGEMENT



MEMBERS AVERAGE PROFILE per type of pension arrangement





MARKET VALUE OF ASSETS PER TYPE OF PLANS AS AT DECEMBER 31, 2020

DB PLANS (including DB components of Combination Plans or Hybrid Plans)	\$24.0 BILLION
DC PLANS (including DC components of Combination Plans or Hybrid Plans)	\$149 MILLION

OVERVIEW OF PLANS FINANCIAL HEALTH as at January 1, 2021



PLANS (including DB components of Combination or Hybrid Plans)

ACTUARIAL VALUATION

All pension plans are in a surplus position on January 1, 2021, both on a solvency and going-concern basis.

The following table compares the financial position, on a **solvency basis**, of each plan as at January 1, 2021 with its financial position as at January 1, 2020. Between the two valuation dates, the overall surplus, for all plans combined, grew slightly, while the average solvency ratio remained relatively stable. All plans are funded at 107% or more with a combined solvency surplus of \$2.9 billion.

DB PLANS	AT JANUARY 1, 2021		AT JANUARY 1, 2020	
	Solvency Ratio	Solvency Surplus (in \$ million)	Solvency Ratio	Solvency Surplus (in \$ million)
Crew Schedulers and CSS Agents ¹	110%	271	111%	264
TMOS, Clerical and Finance	118%	1,055	117%	888
CUPE Represented Employees	109%	342	110%	307
Dispatchers	107%	7	107%	6
Management & ATS	117%	395	115%	311
Executives	117%	12	115%	10
Pilots	113%	785	113%	716
TOTAL	113.6%	2,867	113.4%	2,502

¹ Further to the merger as of January 1, 2020, the Pension Plan for Crew Schedulers and CSS Agents also includes former members of the Pension Plan for Aeroplan Unionized Employees.



Actuarial valuation

Every year, actuaries determine if there are sufficient assets in the plan in order to pay promised pensions (actuarial valuation basis include "going-concern basis" and "solvency basis"). Based on the actuarial valuation results, a DB plan will be in a surplus or a deficit position.

Solvency basis

Valuation method which shows if the plan would have sufficient assets to pay promised pensions, assuming the plan would be terminated on the valuation date.

Solvency ratio

A ratio of 100% or more means that plan assets would be sufficient to cover the full value of the pensions promised to plan members on a solvency basis.

RETIREMENT PROGRAMS FINANCIAL SITUATION (continued)



The following table compares the financial position, on a **going-concern basis**, of each plan as at January 1, 2021 with its financial position as at January 1, 2020. Despite a slight decrease in the surplus of all plans between the two valuation dates, all plans are funded at 122% or more with a combined going-concern surplus of \$5.1 billion.

DB PLANS	AT JANUARY 1, 2021		AT JANUARY 1, 2020	
	Funded Ratio	Going-concern Surplus (in \$ million)	Funded Ratio	Going-concern Surplus (in \$ million)
Crew Schedulers and CSS Agents ²	130%	608	139%	704
TMOS, Clerical and Finance	134%	1,638	144%	1,822
CUPE Represented Employees	128%	803	138%	939
Dispatchers	122%	18	130%	22
Management & ATS	133%	598	137%	621
Executives	138%	20	143%	21
Pilots	130%	1,430	138%	1,597
TOTAL	131%	5,115	139%	5,726

² Further to the merger as of January 1, 2020, the Pension Plan for Crew Schedulers and CSS Agents also includes former members of the Pension Plan for Aeroplan Unionized Employees.



Going-concern basis

Valuation method which shows if the plan would have sufficient assets to pay promised pensions, assuming Air Canada continues to operate and the plan would be maintained indefinitely.

Funded ratio

A ratio of 100% or more means that plan assets would be sufficient to cover the full value of the pensions promised to plan members on a going-concern basis.

The deterioration in the going-concern financial position of the DB plans in 2020 is mainly due to the decrease in the discount rate to calculate the actuarial liabilities.



PLANS (including DC components of Combination or Hybrid Plans)

Employees who participate in a DC plan (or DC component of a Combination Plan or Hybrid Plan) have an individual DC account in which the employee's and the employer's contributions are deposited. The amount of an employee's DC account depends on the rate of contributions selected by the employee and the return on invested contributions. The investment return depends on the funds selected by the employee. Thus, the return (or loss) for each individual account is different.

CONTRIBUTIONS TO MATCH

Member contributions generate an employer matching contribution, up to a certain level. The employer match percentage and maximum contribution vary by plan. In 2020, for all DC plans and DC components combined, 35% of members contributed enough to maximize the employer match.



PLANS

Here is how to obtain information on the financial situation of those plans:

- IAM MEPP: Contact the administrator at 1-888-354-5444
- CWIPP for pilots : Visit the website www.cwipp.ca, enter your login information and click on the « Annual results » section



EMPLOYER CONTRIBUTIONS

DB

PLANS (including DB components of Combination or Hybrid Plans)

Air Canada's required contributions depend on the results of the actuarial valuation and are determined in accordance with the requirements of the applicable legislation.

- When a plan is in a surplus position on both solvency and going-concern bases, **past service contributions** are neither required, nor permitted.
- **Current service contributions** are not required for plans funded at 105% or more on a solvency basis and 100% or more on a going-concern basis. In addition, current service contributions are not permitted for plans funded at 105% or more on a solvency basis and funded at 125% or more on a going-concern basis.
- Combination and Hybrid Plans include both a DB and a DC component. As permitted by legislation and applicable plan rules, the surplus in the DB component of such plan can be used to cover the employer contributions to the DC component of the plan.

During 2020, Air Canada used \$163M of the surplus in the DB plans to fund its current service cost in DB components (\$150M) and to contribute to the DC component (\$13M) of certain plans.



Past service contributions

Employer contributions that are required to repay any deficit in the plan.

Current service contributions

Employer contributions that cover the cost of granting one additional year of service in the plan.

Note that, despite the fact that Air Canada did not contribute to any plans for 2020 (other than the Dispatchers' plan and for the Pension Plan for Aeroplan Unionized Employees to which \$0.1M and \$1.6M were contributed respectively), all plans remain in a surplus position as at January 1, 2021. Indeed, all plans are funded at 107% or more on a solvency basis and at 122% or more on a going-concern basis. Based on these results, Air Canada is not permitted to make contributions to any DB plan (or DB component of a Combination Plan or Hybrid Plan) for 2021, except for the Dispatchers' plan for which contributions are not required but permitted. This represents an amount of approximately \$207M for the year 2021.

DC

PLANS (including DC components of Combination or Hybrid Plans)

Air Canada's required contributions are determined based on a fixed percentage of each member's contributions, which varies by plan.

In 2020, Air Canada contributed \$12.9M to these plans, of which \$0.1M was paid from general revenues and \$12.8M was paid using the surplus available in the DB components of applicable plans.

The contributions required from Air Canada in 2021 are estimated at \$10.9M, coming entirely from the surplus available in the DB components of applicable plans.

MEPP

Air Canada's required contributions are determined based on a fixed percentage of each member's salary.

In 2020, Air Canada contributed \$17.4M to the IAM MEPP and CWIPP for pilots. In 2021, Air Canada will contribute an estimated amount of \$14.6M to the IAM MEPP and CWIPP for pilots combined.



EMPLOYEE CONTRIBUTIONS

ALL TYPES OF ARRANGEMENT

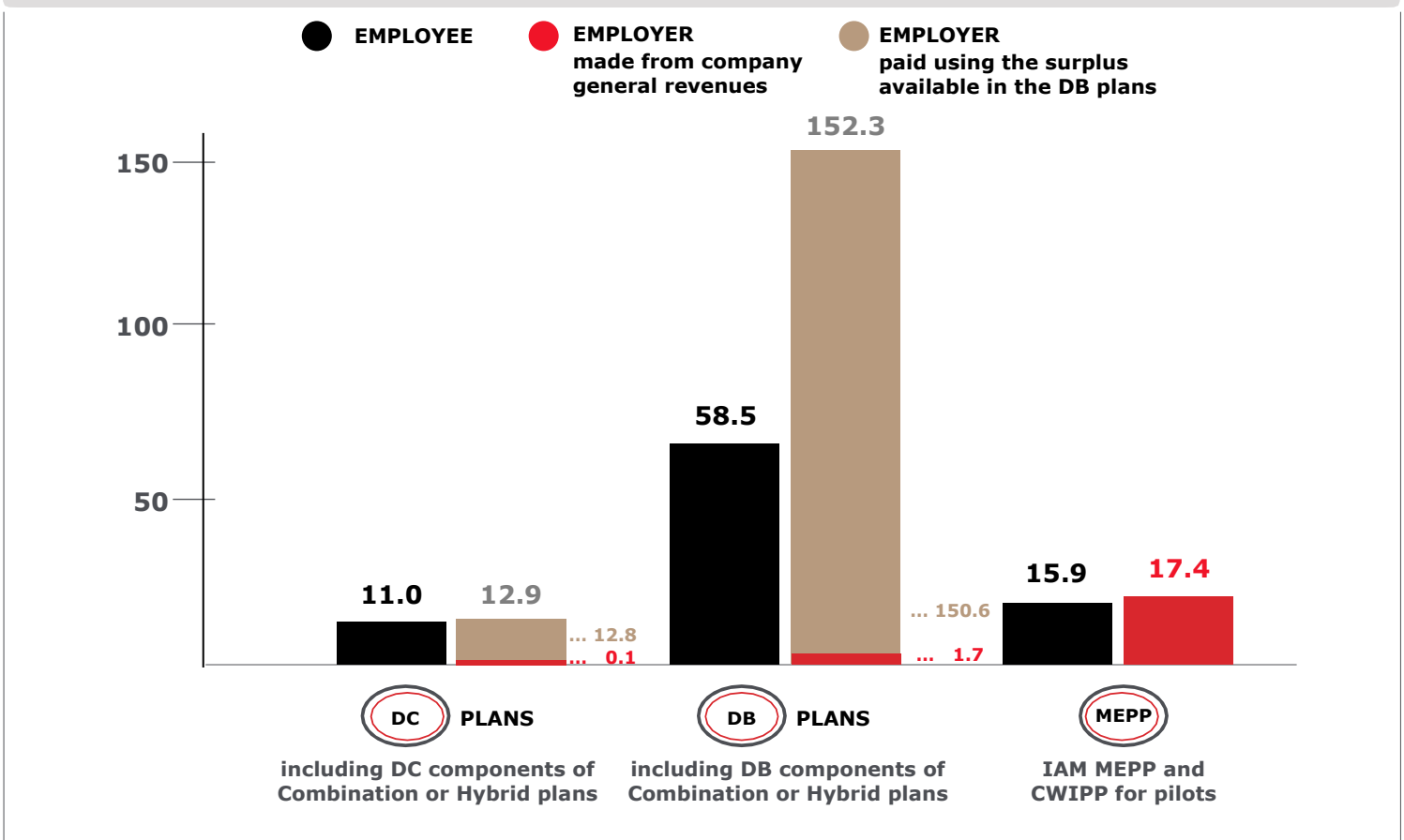


- Employee required contributions are determined based on a fixed percentage of each member's salary, which varies by plan.
- In 2020, employees contributed a total of \$85M to all plans combined.

TOTAL CONTRIBUTIONS

Refer to the graphic below for the breakdown between employee and employer contributions by type of pension arrangement.

2020 CONTRIBUTIONS (in M\$) PER TYPE OF ARRANGEMENT





PLANS (including DB components of Combination or Hybrid Plans)

Based on the investment strategy and policies approved by the Human Resources and Compensation Committee of the Board of Air Canada, Trans-Canada Capital Inc. (TCC), a subsidiary of Air Canada, selects the investments for the DB plans. TCC also chooses some external portfolio managers and experts to help them fulfil their mandate. In addition to other responsibilities, TCC also ensures that the assets are invested in accordance with applicable legislation.

In 2020, the return on DB plan assets was 17.2%, net of fees.

INVESTMENT POLICY

Air Canada started to reduce its pension risk in 2009 by improving the alignment between assets and liabilities. In 2020, Air Canada reduced its allocation to fixed income (from 87.5% to 75%), while increasing its allocation to alternative investments (from 20% to 25%) and portable alpha (from 10% to 15%).

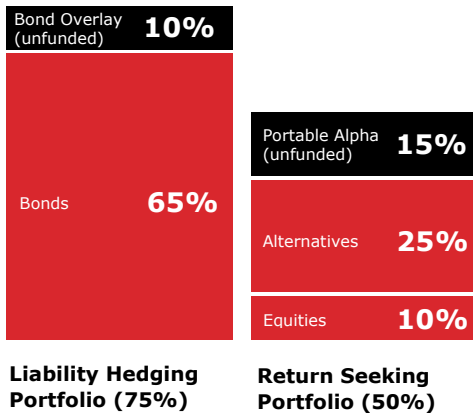
The current investment strategy can be split in two components as illustrated below:

- the “Liability Hedging Portfolio”, which is made up of bonds
 - | **objective** is to mimic the behaviour of the pension liabilities which are sensitive to movements in long-term Canadian interest rates, and therefore generate a return that is tied to liabilities
- the “Return Seeking Portfolio”, which is made up of equities and alternative investments (such as Real Estate, Private Debt and Infrastructure)
 - | **objective** is to generate extra return to keep pension costs at an acceptable level.



Liabilities

Represent the value of pension benefits promised to plan members.



The asset mix adds up to more than 100%, since it includes the following unfunded strategies:

- Bond overlay program (strategy that increases the exposure to bonds)
- Portable alpha program (strategy that invests in areas that have little to no correlation with the market)

The unfunded nature of these strategies mean that the exposure is obtained with derivative instruments, and that the return obtained is added to (or subtracted from) the return of the funded assets.



PLANS (including DC components of Combination or Hybrid Plans)

In the DC plans, investment decisions are made by plan members from the funds selected by Air Canada. Members have the choice to invest in **target-date funds (TDF)**, or to build their own portfolio. In the absence of a Member's investment choice, contributions are allocated by default to the moderate TDF. Since 2019, Air Canada delegates various administrative and monitoring tasks to external experts, such as the regular review of the investment lineup.

Air Canada offers three sets of target date funds, according to the investor's style: **CONSERVATIVE, MODERATE OR DYNAMIC.**

AS AT JANUARY 1, 2021:

- **75%** of DC assets were invested in target date funds (TDFs).
Note: 43% of assets are invested by default in Moderate TDFs (no choice made by members).
- **25%** of DC assets were invested in specialty funds, meaning members elected the "Build your own portfolio" approach.



Target-date fund (TDF)

It is a fund made up of some funds offered in the "Build your own portfolio" option and based on the expected participant's date of retirement. As the participant gets closer to retirement, the asset mix of his TDF becomes more conservative, without any action required from the participant.

INVESTMENT RETURNS PER FUND AS AT DECEMBER 31, 2020

Fund	1-year return	5-year return	Fees ⁴
SAMPLE OF TARGET DATE FUNDS			
30 years to retirement - Conservative Portfolio ³	6.4%	8.7%	0.447%
30 years to retirement - Moderate Portfolio ³	6.4%	8.7%	0.447%
30 years to retirement - Dynamic Portfolio ³	6.0%	8.8%	0.462%
FUNDS OFFERED IN THE "BUILD YOUR OWN PORTFOLIO" OPTION			
Manulife 5 Year Guaranteed Interest Account	1.0%	n/a	0.000%
Manulife Canadian Money Market Fund	1.2%	1.4%	0.090%
Manulife Asset Management Canadian Bond Index Fund	8.7%	4.2%	0.090%
Manulife BlackRock Long Bond Index Fund	11.7%	6.7%	0.190%
Manulife Beutel Goodman Fundamental Canadian Equity Fund	2.6%	8.1%	0.380%
Manulife BlackRock U.S. Equity Index Fund	16.3%	13.2%	0.190%
Manulife BlackRock International Equity Index Fund	6.0%	5.8%	0.260%
Manulife CIBC American Century Global Equity Growth Fund	22.1%	13.6%	0.675%
Manulife TD Low Volatility All World Equity Fund	-11.3%	4.5%	0.345%
Manulife JP Morgan Emerging Markets Fund	27.3%	16.3%	1.130%

³ Represents the return and fees for 2020 of a TDF for a 35-year-old participant who is expecting to retire at age 65.

⁴ Fees applicable as of December 31, 2020.

APPENDIX - RETIREMENT PROGRAMS STRUCTURE



WHICH PLAN ARE YOU IN?

The plan you are in is determined by your employee group and date of hire.

Use the below table if you are not sure of your plan's name and type of arrangement.

PILOTS	
Hired before August 1, 2012	Hired since August 1, 2012
DB • Air Canada Pension Plan – Pilots	MEPP • Air Canada Defined Contribution Pension Plan for Pilots until December 31, 2017 and the Canadian Wide Industrial Pension Plan (CWIPP), a MEPP, from January 1, 2018
DISPATCHERS	
Hired before February 21, 2012	Hired since February 21, 2012
DB • Air Canada Pension Plan – Dispatchers	DC • Air Canada Pension Plan – Dispatchers
FLIGHT ATTENDANTS	
Hired before November 7, 2011	Hired since November 7, 2011
DB • Air Canada CUPE Represented Employees Pension Plan	HYBRID • Air Canada CUPE Represented Employees Pension Plan
CREW SCHEDULERS & CUSTOMER SERVICE AGENTS	
Customer Service Agents hired before June 27, 2011	Customer Service Agents hired since June 27, 2011
Crew Schedulers (Flight Operations) hired before February 17, 2012	Crew Schedulers (Flight Operations) hired since February 17, 2012
Crew Schedulers (In Flight) hired before February 15, 2012	Crew Schedulers (In Flight) hired since February 15, 2012
Aeroplan Customer Service Agents hired before December 5, 2019*	Aeroplan Customer Service Agents hired since December 5, 2019
DB • Air Canada Pension Plan – Crew Schedulers and CSS Agents (*Pension Plan for Aeroplan Unionized Employees before January 1, 2020)	HYBRID • Air Canada Pension Plan – Crew Schedulers and CSS Agents
TMOS, FINANCE AND CLERICAL EMPLOYEES	
TMOS hired before June 17, 2012	TMOS hired since June 17, 2012
Finance employees hired before October 11, 2012	Finance employees hired since October 11, 2012
Clerical employees hired before October 19, 2012	Clerical employees hired since October 19, 2012
DB • Air Canada Pension Plan – TMOS, Clerical and Finance Employees	MEPP • IAM Multi-Employer Pension Plan
MANAGEMENT & ATS	
Hired before January 1, 2005	Hired since January 1, 2005
DB • Air Canada Pension Plan – Management & ATS employees	DC • Air Canada Pension Plan – Management & ATS employees
EXECUTIVES	
Hired before October 1, 2012	Hired since October 1, 2012
DB • Air Canada Executive Pension Plan	DC • Air Canada Executive Pension Plan

Employees covered by a DB, DC and/or hybrid arrangement may participate in the same pension plan. This is why the name of the plan for some employee groups is the same for different types of arrangement (i.e. the plan has two components).

