

Communication on Behalf of ICTU Group of Unions in Aer Lingus

AER LINGUS PENSION PROPOSALS



OCTOBER 2014

Aer Lingus Pension Proposals

- The proposals for future pension arrangements in Aer Lingus arise following a decision of the Trustee to freeze the IASS so that, after 31st December 2014, contributions to the IASS will cease as will the accrual of any future benefits. It should be noted that the Unions preferred approach was to reform the IASS so that it could continue to operate. However this would have required the employers to invest substantial monies into the scheme. The employers were unwilling to invest any additional monies into the IASS and they have proposed alternative arrangements that are detailed here and in the information that has already been sent to you by the employers.
- As well as freezing the IASS the Trustee has decided that, due to the large deficit in the scheme (€707 million as of the 31 August 2014), they intend to reduce the benefits so that all future IASS benefits will be co-ordinated with the state pension, that for active members benefits will be reduced by 20% and that these benefits will no longer be subject to statutory revaluation. It should be noted that at least one other interest group has suggested that the IASS should be wound up. If this were to happen active members of the IASS would receive 18% of their accrued benefits.
- When the IASS is frozen, Aer Lingus is proposing to establish a new defined contribution pension scheme. When this scheme is established each person will begin to build a personal pension account made up of the contributions made by the employers and each individual. The Aer Lingus contribution is set at 10% with the employee contribution set at lower levels. The investment of these monies will be a matter for each individual to decide but advice on investment options will be given by the Trustee of the new scheme.
- Aer Lingus are also proposing to pay capital lump sums into the pension account of each active member of the IASS. The amount of this lump sum is based on your length of service, your current rate of pay and what is required to meet the targets recommended by the Labour Court. The targets set by the Labour Court are set out in the table below.

Pay Bracket Final Pensionable Pay	Below €30K	Between €30K - €60K	€60K and Above
Target % of Final Pensionable Pay	89% - 84%	80% - 73%	70% - 66%

(NB A more detailed version of this table is contained in the proposal for an agreement which is appended to this document)

- Aer Lingus have supplied each individual with a personal statement setting out the amount of their capital lump sum. It should be noted that the percentage of final pensionable pay refers to your pay on the date of this agreement uprated by 2% annually until the date of your retirement.
- We have had independent actuaries check if the capital lump sums have been calculated correctly and to verify if the proposed arrangements are capable of meeting the targets of final pensionable pay set by the Labour Court. The independent actuaries studied a random sample of approximately 75 individual calculations and they have confirmed that the proposed arrangements are sufficient to meet the targets that have been set by the Labour Court.
- When an employee reaches retirement age (the anniversary of joining the IASS after your 65th birthday) their pension will be drawn from three sources namely, the benefits accruing from the frozen and restructured IASS, the benefits arising from contributions paid into the new DC scheme including the capital lump sum and the state old age pension when it becomes payable. The state pension is currently payable at 66. However, under recent changes this will rise to 67 in 2021 and 68 in 2028.
- As part of these proposals Aer Lingus is proposing to make “pay stabilisation payments” to each individual. These payments amount to €6250 with the last payment of €1800 due for payment in September 2016. These payments will be made to each current employee. In the period up to September 2016 increments will not be paid. It should be noted that the pay stabilisation payments in each year are higher than the average increment. Payments of increments will recommence after that date as will normal pay bargaining.
- As part of these proposals Aer Lingus intends to cease making contributions to the second supplementary scheme. The Trustee has to decide in these circumstances what is in members’ best interest. One possible approach is to give each individual member a transfer value which can be added to that persons defined contribution pension account. If this approach was adopted by the Trustee it is estimated that on average the transfer value will be in the region of €2500 per year of service in the scheme. The Trustee of the second supplementary scheme will advise members separately of their intentions.
- The unions are recommending acceptance of these proposals as the best that can be achieved from negotiations.
- Arrangements have now been made to hold information meetings for members of unions in Shannon, Cork and Dublin in the week commencing on the 21 October 2014 and finishing on the 24 October 2014. Your union will notify you of the time and venues for the meetings in due course.

- Appended to this document is a proposal for an agreement to implement the arrangements described in this communication. Each Union will now conduct a ballot of its members on this proposal. Each union will use a common ballot paper and the individual ballots will be counted together. Ballots of union members will commence on Friday 24 October 2014 and will conclude on the 4 November 2014. The ballot will be counted on the 5th November 2014. Following the count of the ballot ICTU will notify Aer Lingus of the result. You will be notified by your union of the arrangements for balloting
- The Unions understand that if the proposals are accepted Aer Lingus will require each individual to sign a waiver that records individual agreement to the proposals and that they are in full and final settlement of all current matters relating to pension.

October 2014

Appendix One

PROPOSAL TO IMPLEMENT PENSION CHANGES FOR NON-PILOT AER LINGUS EMPLOYEES

TO FORM AN APPENDIX TO AN AGREEMENT TO BE ENTERED INTO BY AER LINGUS LIMITED, ICTU, SIPTU, IMPACT, UNITE AND TEEU

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1. Background & Overview

This is a single integrated proposal in respect of employees who are either members of the Irish Airlines (General Employees) Superannuation Scheme (the 'IASS', the 'Scheme') or who are eligible to be members of the existing Aer Lingus Defined Contribution Pension Scheme.

It is noted by the parties that the implementation of this Proposal will result in the freeze and de-risk of the IASS and the introduction of a Defined Contribution Scheme ("DCS") for affected employees. It will be a full and final resolution of the industrial relations and legal issues and disputes relating to the IASS.

This proposal arises from the 16 June 2014 Report of the Expert Panel, established by the Department of Transport, Tourism & Sport and the Department of Jobs, Enterprise & Innovation, together with IBEC and ICTU (the "Expert Panel Report").

The Expert Panel Report built on the Labour Court Recommendations of 2 January 2013 and 24 May 2013. It stated that its Report was put forward on the basis that the Panel:

"Recognise that the Employers regard the IASS as being incapable of being sustained and will not contemplate, in any circumstances, investing any additional funding to address the very significant IASS deficit of liabilities over assets as calculated under the statutory minimum funding standard. This very substantial funding deficit exists such that were the IASS wound up on 31st December 2012, current employees and deferred members could receive as little as 5% of their expected IASS benefits."

It also states that the recommendations of the Expert Panel reflect:

"The Panel's definitive view that these recommendations represent the best possible outcome that can be achieved following extensive engagement with the parties on all the issues raised and taking full account of the impact of the Trustee proposal and the views of the Unions on behalf of their members in recommending the optimum distribution of available funds."

There are a number of key elements to the proposal which are summarised below.

The IASS Trustee has developed a proposal which envisages the freezing and restructuring of benefits under the IASS as part of a Section 50 application by the IASS Trustee to the Pensions Authority. In preparing its proposal, the IASS Trustee is aware of the recommendations by the Labour Court and Expert Panel to Aer Lingus and ICTU. The IASS Trustee proposal is summarised in Part 2 of this document.

The proposals in respect of the DCS, once-off payments and pay stabilisation derive from the Labour Court and Expert Panel recommendations to Aer Lingus and ICTU. These are an integrated set of measures and can only be considered as a total and

combined package. The Labour Court and Expert Panel recommendations should be viewed in the context of the changes to IASS benefits proposed by the IASS Trustee in February 2014.

A summary of the proposal relating to the DCS is set out in Part 3 of this document.

In recognition of the impact of the changes to your benefits under the IASS, current Aer Lingus employees (also known as active IASS members) may receive a once-off payment from Aer Lingus, in the form of a contribution into each employee's new DCS retirement account. The level of once-off payment has been determined by the advisors to both Aer Lingus and the Unions in accordance with the Recommendations of the Labour Court as varied by the Expert Panel. Details relating to the once-off payment are summarised in Part 4 of this document.

An essential part of this Proposal is that affected employees sign a waiver which acknowledges that this Proposal document and the payments envisaged under it are in full and final settlement of any asserted claims relating to the IASS.

2. Changes to the IASS

The IASS Trustee has developed a draft funding proposal that it has submitted to the Pensions Authority.

IASS benefit accrual and contributions will cease (at a fixed date currently expected to be 31 December 2014) and employer and employee pension contributions in respect of future service (from a fixed date currently expected to be 1 January 2015) will be paid to the new DCS (detailed in part 3 of this proposal). This will mean that:

- Benefit accrual for Aer Lingus employees who are currently active members in the IASS will cease in respect of future service;
- Employee and employer contributions to the IASS will cease;
- and The IASS will remain closed to new members.

The IASS Trust Deed and Rules will need to be amended in order to implement these steps and an application to the Irish Pensions Authority and Revenue Commissioners will also be required. Specifically, the IASS Trustee will make an application to the Pensions Authority for a Section 50 Direction to address the deficit in the IASS, through a series of measures:

- The removal of the co-ordination anomaly¹
- Reducing benefits built up in the IASS to 31 December 2014 by 20%
- No revaluation of deferred pensions between now and normal retirement age.

1 The coordination anomaly relates to the non-application of the Irish State pension when calculating IASS pension benefits when a member leaves service prior to normal retiring date.

The IASS Trustee has also restructured the existing assets of the IASS to better match required pension cash outflows, as these fall due.

Contributions to the Second Aer Lingus Supplementary Scheme will also cease with its Trust Deed and Rules altered accordingly. Aer Lingus and ICTU will engage with the Trustee of the Second Supplementary Scheme to seek to find the best way of deploying the assets of this Scheme in the interests of its members, subject to its governing Trust Deed and Rules.

3. New Defined Contribution Scheme

From the date that employee and employer contributions to the IASS cease, all future employee and employer pension contributions will be paid to the new DCS rather than the IASS. The new DCS will be introduced in respect of future service in Aer Lingus with an employer contribution rate of 10% of pensionable salary for all relevant staff. The employee contribution level will be 6.375% of pensionable salary. Employees may make additional contributions in line with Revenue Commissioner guidelines. If the member dies in service, or as a deferred member, benefits will be secured by reference to their own DCS account. This will be in addition to the lump sum death in service benefit which may be payable.

The Expert Panel also noted the following in terms of the future performance of the DCS:

“In relation to the matter of performance of the DC Scheme this is the responsibility of the Trustees and the members and will reflect the Defined Contribution investment decisions made by the members and the investment policy approach of the scheme under the direction of its Trustees and the individual members. In this context, it is also acknowledged that the matter of contributions to the DC schemes is a remuneration issue. Matters of remuneration which are of concern to entire party should be dealt with through the normal arrangements for collective bargaining under existing agreements.”

The following governance arrangements shall apply on an interim basis for the first year of operation of the DCS. There will be 6 Trustees as follows:

- 3 Trustees nominated by Trade Unions representing DC scheme members. These Trustees will themselves be DC Scheme members.
- 2 Trustees nominated by Aer Lingus. These Trustees will themselves be DC Scheme members.
- 1 Chairman of Trustees nominated by Aer Lingus. This chairman will be a Professional Trustee who is engaged in the business of providing Trustee services for payment and who has appropriate financial experience. For the interim period the chairman will not have a casting vote.

After the interim period the following governance arrangements will apply:

- There will be 7 Trustees as follows:
 - 3 Trustees elected by DC scheme members. These Trustees will themselves be DC Scheme members.
 - 3 Trustees nominated by Aer Lingus. At least 1 of these Trustees will be a DC Scheme member.
 - 1 Chairman of Trustees nominated by the other the other 6 Trustees. This chairman will be a Professional Trustee who is engaged in the business of providing Trustee services for payment and who has appropriate financial experience. The Chairman will have a casting vote.

4. Once-Off Employer Contributions to the new DCS

The Expert Panel have recommended that the once-off Aer Lingus contribution, to fund additional payments into individual DCS accounts, should be increased from €110.0 million to €146.7 million for those who are active IASS members and the other IASS members with an active payroll relationship with Aer Lingus (Income Streamers & TUPE staff with Deferred IASS service).

The Expert Panel detailed the elements of the Labour Court assumptions and recommendations that it was maintaining and those it was varying that give rise to the once-off lump sum cash injection of €146.7 million.

There are effectively 3 elements to this €146.7m:

- a) An element of approximately €113.5m in respect of achieving the Labour Court Recommended Outcomes;
- b) An element of approximately €3m related to capitalisation of increases to, and pensionability of, stabilisation payments; and
- c) An element of €30.2m in respect of pensionability of variable pay.

a) An element of €113.5m in respect of achieving the Labour Court Recommended Outcomes

This element of the capital sum will be distributed based on the Labour Court targets and the assumptions in the joint actuarial report to the Labour Court as adjusted by the Expert Panel. The Expert Panel endorsed the targets as set out in Interim Labour Court Recommendation LCR 20440 and which were applied in the joint actuarial report to the Labour Court as follows:

Salary	Target	Salary	Target
Below €25K	89.00%	€48,000	74.00%
€25,000	89.00%	€49,000	74.00%
€26,000	88.00%	€50,000	73.00%
€27,000	86.50%	€51,000	73.00%
€28,000	85.00%	€52,000	73.00%
€29,000	83.50%	€53,000	73.00%
€30,000	82.00%	€54,000	73.00%
€31,000	81.00%	€55,000	72.00%
€32,000	80.00%	€56,000	72.00%
€33,000	80.00%	€57,000	72.00%
€34,000	79.00%	€58,000	72.00%
€35,000	79.00%	€59,000	72.00%
€36,000	78.00%	€60,000	71.00%
€37,000	78.00%	€61,000	71.00%
€38,000	77.00%	€62,000	70.00%
€39,000	77.00%	€63,000	70.00%
€40,000	76.00%	€64,000	69.00%
€41,000	76.00%	€65,000	69.00%
€42,000	76.00%	€66,000	68.00%
€42,500	75.00%	€67,000	68.00%
€43,000	75.00%	€68,000	67.00%
€44,000	75.00%	€69,000	67.00%
€45,000	74.00%	€70,000	66.00%
€46,000	74.00%	Above €70,000	66.00%
€47,000	74.00%		

The above targets are based upon full pensionable service (40 years) and normal retirement age (anniversary of joining the IASS after age 65). The targets are indicative and should not be construed as definitive or guaranteed. They are predicated on assumptions used by the Technical Group and Expert Panel in respect of all of the components of the solution, including employees contributing to the DC Scheme as per the table shown on page 11. Where lesser amounts are contributed the benefits will reduce pro rata. These are target, not guaranteed, outcomes.

A significant actuarial exercise was completed by the joint actuarial group in order to consider how the benefits that could arise from the DCS, Irish State pension and frozen IASS compare against the targets set out in the Interim Labour Court Recommendation. Using an agreed set of assumptions, the actuarial advisors to both Aer Lingus and the Unions calculated the likely lump sum required to bring benefits up to the target levels expressed as a percentage of Final Pensionable Pay ('FPP').

The vast majority of these assumptions were endorsed by the Expert Panel Report. The Expert Panel also updated calculations in respect of several changes since the date of publication of the interim and final Labour Court Recommendations and listed the following variations to the previously issued Labour Court assumptions and recommendations as the basis for the increased cost:

- A more conservative assumption with regard to the projected rate of increase in the Irish State pension with this rate of increase down from 2.0% to 1.5%
- A change in the assumed rate of employee contribution to the DCS required to meet Labour Court targets. The actuarial advisors to both Aer Lingus and the Unions previously assumed an employee contribution of 8.0% in all cases as the basis for the expected achievement of the Labour Court recommended targets. The Expert Panel adjusted this as follows:

Staff category	Employee contribution
Staff whose annual pensionable pay is €37,999 or below	6.375%
Staff whose Annual Pensionable pay is between €38,000 and €49,999	6.375% for the first €37,500 and 8.000% on balance
Staff whose Annual Pensionable pay is €50,000	8.000% subject to step up arrangements to avoid anomalies

Both of these changes required an increase in the lump sum that Aer Lingus needed to contribute.

The Expert Panel confirmed the minimum payment of €1,000 per service year to apply in calculating the lump sum required for each individual.

The Expert Panel also endorsed the very conservative assumptions for the deployment of funding from the once-off employer contribution to apply to those current employees who will become entitled to an immediate pension between the date of acceptance of the Labour Court Recommendations and 1 July 2018 on retirement from Aer Lingus at their normal retiring dates under the IASS (the '2018 Retirees'). In combination with the implementation of the IASS Trustee's funding proposal, these assumptions provide additional protection in respect of the receipt by the 2018 Retirees of the appropriate target percentage benefit applicable to their salary level specified in Labour Court Recommendations LCR 20440.

b) An element of approximately €3m related to capitalisation of increases to, and pensionability of, stabilisation payments.

There are 2 components within this amount:-

- i. An amount of €400 (i.e. 2x €200) per eligible individual in lieu of increases to future stabilisation payments. This component to be discharged as a cash payment (subject to normal income taxes, social security and any other relevant charges); and
- ii. A further amount of €400 (i.e. 10% of 2 x €2,000) per eligible individual in respect of the additional benefit which would have arisen for eligible individuals if the stabilisation payments were to form part of pensionable salary. This component to be discharged as a payment into individual DC accounts

Staff who are currently either members or eligible to be members of the Aer Lingus Ireland DC Scheme and active IASS members who are Aer Lingus Limited employees, are eligible to receive these components of the once-off employer contribution .

c) An element of €30.2m in respect of pensionability of variable pay.

The Expert Panel recommended that the €30.2m be distributed in proportion to each individual's variable pay earnings for the previous three years.

Each of these once-off payments into individual DCS accounts will be subject to an employee signing a Waiver as described in Part 7 below.

Notes on calculations

- The calculations will be based on service at 31 December 2014, and on salary data 'locked-down' as at 30 June 2014. This "lock-down" will allow the full capital sum to be fairly distributed.
- This means that the once-off lump sum contained in the personal illustration that is intended to be sent to each active IASS member will set out the figure that is to be paid into their DCS account if this proposal is accepted by all relevant parties
- Where it is known that someone will retire by 31 December 2014, they will not be included in these once-off lump sum payments.
- Otherwise the 'lock-down' means that status (e.g. active members) at the date of the agreement between Aer Lingus and the Unions will be the basis on which calculations are made regardless of other changes before 31 December 2014 (e.g. if a person leaves on 31 October 2014, the IASS

calculation will be amended to reflect 2 months less service than assumed, however the calculation of once-off payment into the individual's DCS account continues to be based on an active member with service to 31 December 2014.

5. Pay Movement between 2013 and 2017

Increments

The following will apply with respect to increments:

- The 2013 annual increment payment and long service increment ("LSI") was paid with effect from 1 September 2013.
- Accumulated but non-paid LSI payments accrued to date relating to periods during which the Greenfield pay freeze period was in effect were paid with effect from 1 September 2013.
- An amount equivalent to the annual increment was paid to all staff at specialist levels in respect of 2013, averaging 2.5% of salary with effect from 1 September 2013.
- The annual increments that would have applied on 1 April 2014, 1 April 2015, and 1 April 2016 respectively will not be paid and are foregone.
- An increment will become payable with effect from 1 April 2017.
- LSI accumulated but not paid during the above pay freeze period will also be paid with effect from 1 April 2017.

Pay Inflation

- There will be no inflationary salary increases in the period between the date of the Final Labour Court Recommendation and April 2017.

Stabilisation Payments

The following stabilisation payments apply during the period from September 2013 to September 2016:

- Each full time current employee will receive a total individual stabilisation payment of €5,850 in the period up to 31 December 2016. This amount will be paid in addition to the level of annual increments and / or LSI payable in respect of 2013.

The amount, timing and funding of these payments are as set out in the table below:

Year	Individual Employee Amounts
September 2013	Once-off stabilisation payment of €250 per full-time employee
September 2014	Once-off stabilisation payment of €2,000 per full-time employee
September 2015	Once-off stabilisation payment of €1,800 per full-time employee*
September 2016	Once-off stabilisation payment of €1,800 per full-time employee*

*As noted above a once-off sum, equivalent to the value of increasing these payments by €200 each and making them pensionable has been included in the capital payment to be made to individual DCS amounts for Aer Lingus employees who are active members of the IASS.

- The individual payments set out above will be adjusted pro-rata for part time staff and to take account of service in the previous 12 months. These stabilisation payments are intended to provide a disproportionately positive impact for those employees earning salary levels which are below the median within Aer Lingus.
- The above payments are gross amounts and are therefore liable to normal revenue deductions applicable to employees.
- The 2014 Greenfield gainshare payment was also paid to these staff groups.

6. Approval Process

A number of fundamental conditions must be fulfilled before agreement to the implementation of the Proposal can take place. The principal conditions are:

- Employee agreement being achieved by ICTU, SIPTU, Impact, Unite and TEEU.
- Approval by the Unions following balloting of their respective relevant members to accept in full the terms of the Proposal.
- IASS Trustee agreeing to an application to the Pensions Authority for a Section 50 Direction to address the deficit in the IASS (including the removal of the co-ordination anomaly and further benefits adjustments) and the Pensions Authority making that Direction.

- Approval by the shareholders of Aer Lingus Group plc of the adoption of, and agreement to, the terms of the Proposal and implementation of same.
- Approval by the Pensions Authority of the funding proposal to implement the benefit reductions proposed by the IASS Trustee.

7. Waivers

In the event that the Union ballot is passed, and subject to each of the above approvals being received, each person eligible to receive the once-off payment referred to in Part 4 above, will then be required to confirm their acceptance of the proposed arrangements by signing a Waiver, before any once-off payment can be made to them. The Waiver confirms that the Proposal and payments are in full and final settlement of all asserted rights or claims such employee may have relating to the IASS or their related pension expectations. The cash injection will be paid initially by Aer Lingus Limited into an escrow structure administered by an escrow administrator. When an Aer Lingus employee who is an active member of the IASS signs the Waiver after overall agreement has been reached, his/her individual proportion of the once-off employer contribution will be transferred from the escrow structure to the DCS Trustee for credit to his/her individual DCS accounts. Future employee and employer pension contributions will be paid to the DCS during their future employment with Aer Lingus.

