MORNEAU SHEPELL

Nortel Managerial Plan Windup

Hamish Dunlop

Purpose of the meeting

- To provide information to members of the Nortel Managerial and Non-Negotiated Pension Plan regarding their options on the settlement of the Nortel Plans.
- To update Nortel Managerial Plan members on the wind up process.

The Process so Far

- January, 2009 - Nortel obtained creditor protection under the Companies' Creditors Arrangement Act (CCAA).
- October 1, 2010 - The Superintendent of Financial Services appoints Morneau as replacement Administrator with a mandate to administer and wind up the Plan
- March, 2011 - Superintendent orders the Plan wound up with an effective date of October 1, 2010.

The Process so Far

- May 2011 – Superintendent declares that the Pension Benefits Guarantee Fund (PBGF) applies to the Plan. An interim allocation of $287 million is allocated from the PBGF into the Plan.
- August 2011 – Pensions are cut back to an estimated funded ratio of 70% non-indexed for Ontario service, and 59% indexed for other provinces (later adjusted to 66% non-indexed for Nova Scotia service).
- February 2012 – Wind up report for the defined contribution (DC) portion of the Plan is approved, and DC assets are transferred to members.

The Process so Far

- August 2012 – Indexation increase of 3.3% implemented for non-Ontario, non-Nova Scotia service.
- November 2015 – Wind Up Report filed with the Financial Services Commission of Canada (FSCO).
- June 2016 – Wind Up report approved.
- August 2016 – Option forms mailed out to members.

The Plan

- As of the wind up date, the Plan had 13,809 members, over 6,500 of whom were receiving a pension.
- The plan had members in every Canadian province, and was registered in Ontario with the provincial regulator.
- Unusually for a private sector plan, it had extensive indexing features.

The Plan

- As of the wind up date (i.e. before any PBGF allocation) the Plan had assets of about $1.77 billion but liabilities of about $3.11 billion.
- The total deficit in the Plan was about $1.34 billion. A claim has been filed against the estate of Nortel for the deficit, but unclear when this will be settled.
- $287 million received from PBGF in respect of guaranteed benefits for Ontario service.

What Law applies to you?

- The Plan is registered in Ontario, so Ontario pension legislation applies to the administrative requirements for the wind up.
- However, benefits earned are governed by the legislation in the province where there member was employed – if you were employed in more than one province, this means different legislation applies to different portions of your benefit. To keep this presentation at a manageable length, the comments apply to single-province members unless specifically noted.
- The law of the province in which you terminated employment determined the options you have on wind up.

What Law applies to you?

- Different provinces have very different pension rules on wind up, for example:
  - Ontario has a guarantee fund
  - Ontario and Nova Scotia eliminate indexation
  - Most provinces require retirees to take an annuity, and permit deferred members to choose between a lump-sum payment or an annuity.
  - Ontario & Quebec permit retirees to take a lump-sum.
  - Quebec requires deferred members to take a lump-sum, and permits pensioners to transfer their entitlement to the RQ (retirement eligible deferred members as of the w/u date can transfer their lump-sum to the RQ).

What Law applies to you?

- Unfortunately, like many companies, Nortel did not keep adequate records of members' province of employment. Recreating this data has been a major task for us.
- Finally, the Income Tax Act (ITA) also has rules related to the settlement of pension entitlements.

Asset Split

- Assets were split pro-rata to liabilities into three pools
- Ontario
- Quebec
- All remaining provinces
- If you accrued benefits in more than one province, your pension will be paid for out of more than one of these different asset pools.

Cutbacks

- Pensioners are entitled to receive their interim pensions calculated at the appropriate reduced rate as of the wind up date of October 1, 2010.
- We were only able to implement cutbacks effective in August, 2011, in the meantime pensioners had received 100% of their pensions.
- Most pensioners were therefore overpaid between Oct/10 and Aug/11.
- These overpayments were recovered by actuarially reducing remaining pensions.

Option Forms

- Nortel members will have received either option forms (if they have an option) or a letter from Morneau regarding their entitlements (if you have not received anything you should contact us).
- The options differ depending on your status and the province in which you terminated employment in Nortel.

Pensioner Options

Option	Ontario	Quebec	Nova Scotia	Other Provinces
Indexed Annuity		X		X
Non-Indexed Annuity	X	X	X	X
LIF/LIRA Transfer	X	X		
Regie Transfer – Indexed		X		
Regie Transfer– non-Indexed		X		

Non - Pensioner Options

Option	Ontario	Quebec	Nova Scotia	Other Provinces
Indexed Annuity				X
Non-Indexed Annuity	X		X	X
LIF/LIRA Transfer	X	X	X	X
Regie Transfer - Indexed				
Regie Transfer– non-Indexed				

Ontario

- Ontario eliminates indexation on wind up, which results in an increase in the Plan funded ratio. This largely explains why the Ontario funded ratio (77.12%) is higher than in other jurisdictions.
- Ontario also has the PBGF, which guarantees basic pension benefits.
- Ontario also ‘fixes’ the funded ratio as of the wind up date, so the 77.12% funded ratio listed in the wind up report is the amount that will be paid out.

Ontario – the PBGF

- The Pension Benefits Guarantee Fund (PBGF) applies to all pensioners as of the wind up date and all deferred members who combined age plus years of service equal 60 or more.
- The PBGF partially applies for all deferred pensions where the member's age plus years of services is 50 or more but less than 60.
- In general, the PBGF guarantees that the first $1,000 per month in pension is paid in full – any pension in excess of $1,000 is paid at the plan funded ratio, or 77.12%

Ontario – Retiree Options

- Ontario retirees have received option forms indicating that they can elect to either have a pension purchased for them (an annuity) or elect a lump-sum transfer from the Plan.
- For Ontario service only, the amounts listed on your option form are not estimates, they are the actual amounts that you will receive (however, timing of retiree lump-sums can affect amounts).
- In addition, pensioners who elect a pension will receive a retroactive payment in cash since they are entitled to the higher final funded ratio back to the later of the wind up date or the date they commenced their pension.
- Ontario pensioners who choose to continue to receive a pension will have an annuity purchased for them.

Annuities

- An annuity is a contract with an insurance company to provide you with a pension in the same form you were receiving from the Plan (e.g. Life-only, Joint and Survivor 60%).
- Annuities are guaranteed under the Assuris program – the first $2,000 per month of pension is guaranteed.
- If your pension exceeds $2,000 per month, we will purchase 2 or more annuities to ensure that you have full Assuris coverage.

Annuities

- Ontario annuities will likely not be purchased until after all CCAA money is paid into the plans.
- The deferral of the annuity purchase, however, does not affect you, as the purchase will not change your pension amount, just who deposits the pension into your account.

Retiree Life Income Funds

- Ontario amended its pension legislation to permit Nortel pensioners who terminated employment in Ontario to transfer a lump sum to a Life Income Fund.
- The lump sum value payable is the commuted value of your pension on the wind up date, less any pension payments made to you since that date, plus interest.
- Because the commuted value is calculated based on standard life expectancy at the wind up date, and interest rates effective as of the wind up date, especially for older members this value can be very small or even zero.

Retiree Life Income Funds

- A LIF is a registered account with a financial institution that must be used to provide retirement income.
- You are responsible for the investment of funds in your LIF.
- There are annual maximum and minimum payments that must be made out of a LIF.
- This pensioner lump-sum option is not available to Ontario survivor/spouses of pensioners who died after October 1, 2010.

Retiree Life Income Funds

- If you elect a LIF, you must have a locking-in agreement filled out by your financial institution and returned to us.
- Once we receive the required documents, we will transfer the funds to your financial institution, and you can start drawing income from the LIF.

Income Tax Act (ITA) Limits

- The ITA limits the amount of money that can be transferred in a lump-sum from a pension plan on a tax-free basis.
- If the lump-sum exceeds the ITA limits, it is taxable and will be paid to you in cash (i.e. not to the LIF), unless you have sufficient RSP room to enable us to transfer it to your RSP.
- The Option form will specify if the lump-sum amount exceeds the ITA limit.
- If the excess is paid in cash, withholding tax will be deducted. If you have sufficient RSP room and direct us to transfer the excess amount to your RSP, then there would be no tax withholding.
- Note that future CCAA lump-sum payments may result in your total payment exceeding the ITA limit.

Ontario non-pensioners

- Deferred members have a choice of either a non-indexed annuity, a lump-sum transfer or a transfer of the lump-sum amount to another pension plan if the terms of that plan permit it.
- If an annuity is purchased, it is a deferred annuity unless the member is eligible to commence a pension immediately.
- The lump-sum transfer amount is prescribed by the legislation, but is essentially the value of your future pension as of the wind up date.

Ontario non-pensioners

- The transfer will be made to either a Locked-In Retirement Account (LIRA), which is essentially a locked-in RSP, or to a LIF (a locked-in RIF).
- Again there may be excess-ITA amounts that are payable in cash and subject to tax withholding unless you have sufficient RSP room.

Non-Ontario Wind up

- Unlike Ontario, where the PBGF absorbs any gains or losses after the wind up date, the funded ratio for non-Ontario benefits depends on a number of factors, including post wind up mortality and the cost of annuities.
- The amounts listed on your option forms or letters in respect of benefits earned *outside* Ontario are therefore estimates, and the actual pension or lump-sum may be different.
- The Report estimated a funded ratio of 56.64% for service outside of Quebec, Ontario, and Nova Scotia. This funded ratio is less than the 59% level to which the pensions reduced.

Non-Ontario Wind up

- We decided we will not reduce your pension for the time being. Although the Plan's existing assets cannot support a payout ratio of 59% indefinitely, it is nearly certain that once the Plan receives money from the CCAA claim, the final funded ratio will exceed 59%.
- The estimated indexed and non-indexed pension amounts on your option form are based on a funded ratio of 59%. If you are a retiree who elect the non-indexed pension option, your monthly benefit would be increased to the amount shown.
- However, if you are a non-retired member who elect a lump sum option, we will transfer funds only at the level the existing assets can afford. We calculated the lump sum amounts on your form using the estimated funded ratio of 56.64%.

Indexation

- Nortel had extensive indexation provisions, members in Ontario and Nova Scotia no longer have an indexation option (which is why the funded ratio for service in those provinces is higher than elsewhere).
- There are different indexation provisions in the plan, but most pensioners receive an indexation increase of 60% of CPI for pensions under age 65, and up to 80% of CPI thereafter. The maximum annual increase cannot exceed 6% per year.

Indexation

- If you elect an annuity and you are entitled to indexed benefits (i.e. for most members with non-Ontario or Nova Scotia Service) you have the option of electing either an indexed or a non-indexed pension.
- If you elect to convert your indexed pension to a non-indexed pension, you will receive a pension of the same value, but with a higher initial monthly payment.
- The Option form you receive will indicate the estimated immediate pensions you will receive on both an indexed and a non-indexed basis.

Indexation

- Since indexation comes at a price, the monthly pension payable now for a non-indexed pension will be higher than if the member elected an indexed pension. Insurance companies charge for the uncertainty associated with indexed pensions, so the cost of indexation is typically high.

- The extent to which a non-indexed pension is larger than an indexed pension depends on the pensioner's age (younger members will see a higher bump-up than older members, since the value of indexation is higher for younger members) and the extent to which a member's pension is indexed.

Indexation

- Especially if you are younger, it will take many years before the indexed pension will equal the non-indexed pension, much less make back the money you have given up by taking an indexed pension.

Nova Scotia

- Pensioners are entitled to a non-indexed annuity only. Pensioners with only Nova Scotia service will therefore not have received an option form since they do not have an option. They will have received a letter indicating the estimated pension we will purchase for them.
- Our initial estimates indicate that the existing Plan assets are likely sufficient to support the 66% level to which the pensions of the Nova Scotian retirees were reduced. We decided to continue their pensions at the current level until the Plan receives funds from the CCAA claim.
- Non-pensioners may elect either a non-indexed annuity, or a lump-sum transfer. All of the figures were calculated using an estimated funded ratio of 66%. Lump sum transfers will be made at the same time as other non-Ontario/Quebec members who elect lump sum transfers.

All Other Provinces

- Pensioners who are entitled to indexed pensions only have the option of either an indexed or a non-indexed annuity.
- Pensioners who are entitled to non-indexed pensions do not have options. They received letters describing their entitlements.
- Non-pensioners may elect either an indexed or a non-indexed annuity, or a lump-sum transfer.

Partially Paid Members

- There were a number of members who elected, after Nortel entered CCAA protection but prior to our appointment, to cash out their pension entitlement by a lump-sum transfer.
- Since the Plan was underfunded, these transfers were only partially paid (at 85% early on, and at 69% up to our appointment)
- These payout percentages are almost always based on indexed pensions, and therefore not directly comparable to Ontario and Nova Scotia non-indexed funded ratios.

Partially Paid Members

- Partially Paid members will only receive a supplemental payment under the Wind Up if the lump-sum they are entitled to under the wind up is greater than the amount they have already received.
- For members outside Ontario, since the estimated wind up funded ratio is less than 69%, no further payments will be made to members at this time.
- PBGF coverage for Ontario members means that some partially paid members will receive an additional payment.

Partially Paid Members

- We don’t yet know how much money the Plan will receive from the CCAA claim. Once the CCAA money is paid we will recalculate the funded ratio and some partially paid people (probably all those paid at 69%, possibly not those who were paid at the 85% level) will become entitled to a supplementary payment.

The CCAA Claim

- As Administrator of the Plan, we have a claim under CCAA against the estate for the deficit in the pension fund.
- The options you receive, and the payouts that will now be made, do not include any money that may be received from the estate of Nortel.
- The claim has not been settled, but if any recovery is made on the claim, most Nortel members will be entitled to an additional payment.

The CCAA Claim

- It is very important that you and/or your survivors remain in touch with Morneau so this supplementary settlement can be made.
- The details have yet to be worked out, but the CCAA settlement will likely be in the same form as your election (i.e. additional lump-sum payment or increase to annuity).

Adjustments for Pensioners who elect an Annuity

- If the final funded ratio is higher than the estimated ratio that we have been paying, then you have been underpaid since the wind up date and will receive a cash payment to reflect this.
- If the funded ratio is lower than the estimated ratio that we have been paying, then you have been overpaid since the wind up date. For provinces other than Nova Scotia and Ontario, we expect the funded ratio to be less than the 59% level to which the benefits reduced. As mentioned earlier, we will not reduce your pension for the time being.
- Additional adjustments will be made for indexation, etc.

Timing

- Your option forms were mailed out late August, 2016.
- Options forms must be returned to us within 120 days, or by the end of December, 2016.
- If you fail to return the option form, we will settle you by the default option noted in your letter.
- We intend to settle non-Ontario lump sum transfers and benefits by summer, 2017
- Lump-sums for Ontario service will start being paid out by February, 2017, as the forms are returned.

The Future

- Most of you will be entitled to additional monies when the CCAA claim is settled.
- Still unclear when and how much this recovery will be.
- CCAA monies likely settled in the same way as you elect.
- Very important that you or your estate keep in touch with us so we can pay you what you are owed.

Questions

- If you have questions regarding your option forms, or if you have not received one, please contact our call centre at 1-877-392-2074

Thank You.

MENTAL HEALTH PARTNER