

# **NORTEL LTD WEBCAST**

## **Settlement Agreement Outcome and CCAA Update**

**APRIL 28, 2010**

**KOSKIE  
MINSKY<sub>LLP</sub>**  
BARRISTERS & SOLICITORS

# INTRODUCTIONS: ADVISORS

## SUSAN PHILPOTT, ANDREA MCKINNON, Koskie Minsky LLP

- Court-appointed Representative Counsel
- Nicolas Roux – French translation

## RON OLSEN, TOM LEVY

- The Segal Company
- Actuarial advisors

# INTRODUCTIONS: CNETLD

## SUSAN KENNEDY

- Court-Appointed Representative for Disabled Employees, CNETLD Steering Committee

## MICHAEL CAMPBELL

- Court-Appointed Representative, NPRC Board, Legal Committee, Terminated Employee of Nortel

# HOUSEKEEPING

- Slides on KM Website  
[www.kmlaw.ca/case-central](http://www.kmlaw.ca/case-central)
  - Click on Nortel Networks Corporation
- Participants connected through both the internet and the audio-dial in option
- Questions in English or French
- This presentation has been developed for the LTD constituency

# CNELTD ORGANIZATION

## CNELTD Membership

- Currently estimated at 140 members of total possible ~250
- Nortel employees receiving, or entitled to receive, disability income
- Approximately 150 CAW-Canada members are not covered by the Representation Order, but are part of the LTD group and welcome to participate in webcast
  - CAW-members are affected by the Settlement Agreement

## CNELTD Legal Steering Committee

- Participate in weekly meetings with KM and Segal
- Susan Kennedy
  - Court-appointed Representative, Chair of the Steering Committee
- Johanne Bérubé
  - Communications
- Kevin LeBlanc
- Anne Clark-Stewart
  - Former disabled employee
  - CNELTD liaison with Political Action Committee of NRPC

# CNELTD STRATEGIC GOALS

- **Represent interests of LTD non-CAW constituency (approximately 250 individuals)**
  - Balance the needs and interests of a diverse group of disabled employees
- **Maximize Canadian Estate Constituency Payout for LTD constituency**
- **Federal:** Gain government awareness and support for disabled employees
- **Provincial:** Get specific support for disabled employees and work with NRPC on Pension Plan issues, including Plan Continuation and PBGF top-ups for Ontario service
- **Explore options for continuation of health care coverage**
  - Will seek input and take into account varying interests of the group
  - Will carefully weigh benefits / costs to the LTD group
- **Coordinate with pensioner / terminated group when possible and beneficial to LTD and other groups**

***Seek best possible outcome for the LTD constituency***

# OUTLINE OF PRESENTATION

- A. Overview and Update of CCAA Proceedings
- B. Settlement Agreement Outcome
- C. Asset Sales and Allocation Issues
- D. Update on Health and Welfare Trust
- E. Status of Pension Plans
- F. Update on Compensation Claims Process
- G. Next Steps in CCAA
- H. Questions

# A. OVERVIEW AND UPDATE OF CCAA PROCEEDINGS

## Since our last webcast:

- Court Approval on March 31 of Revised Settlement Agreement
- Steering Committee and other CNELTD members continue to lobby federal and provincial governments
- CNELTD continues to examine possibility of alternative and innovative solutions
  - Basic medical replacement coverage
- CNELTD maintains dialogue with NRPC concerning pension orphanage concept
- Government has announced it will honour its PBGF obligations for Nortel plan members' Ontario service



# OVERVIEW AND UPDATE OF CCAA PROCEEDINGS

## Since our last webcast:

- Nortel letter confirming termination of employment December 31, 2010
- KM sends update letter dated April 21, 2010
  - Letter sent by mail on April 21-22, 2010
    - English version sent to entire constituency
    - French version sent to Quebec constituency and various other French-speaking individuals
  - Please contact KM if you did not receive the letter
- News Bulletin released April 5, 2010
  - Periodic bulletins released on KM website and through Steering Committee

# OVERVIEW AND UPDATE OF CCAA PROCEEDINGS

## Since our last webcast:

- Stay of proceedings extended to July 22, 2010
- Employee Hardship Program extended to July 22, 2010
  - **NOTE:** Disabled employees and pensioners **are not eligible** for the Employee Hardship Program
    - CNETLD examining possibility of a separate Hardship Program for LTD group for post-December 31, 2010 period
- Company's asset sales continue
- UK Pension Regulator's leave to appeal to Court of Appeal
  - Motion to expedite appeal in Canada – April 23, 2010
  - Order stays UK process vs. Canadian Nortel companies
- Continued investigation of IP assets and ways to maximize benefit to Canadian estate

# OVERVIEW AND UPDATE OF CCAA PROCEEDINGS

- **Focus of work for next while:**
  - Allocation and distribution of assets in the Health and Welfare Trust;
  - Finalization of the Compensation Claims Procedure;
  - Resolution of issues related to Nortel's pension plans;
  - Investigating options for continuing health care coverage post-December 31, 2010; and
  - Assisting the LTD group with the transition into the post-December 31, 2010 period.

## B. THE SETTLEMENT AGREEMENT

- **Settlement Agreement**
  - Original Settlement Agreement reached on February 8, 2010
- **Court Hearing: March 3-5, 2010**
- **Court Decision: March 26, 2010**
  - Settlement Agreement rejected because Clause H.2 held not to be fair and reasonable to all creditors
- **What to do?**
  - If no Settlement Agreement is reached:
    - Health and dental benefits terminating March 31, 2010
    - Uncertainty as to if and how LTD income benefits will be paid
    - Pension plan wind-up could be immediate
      - Negative effect for pension plan, loss of pension accruals for LTD group
    - Decreased bargaining power
  - Decision reached to seek resurrection of Settlement Agreement without Clause H.2

# THE SETTLEMENT AGREEMENT

- **Revised Settlement Agreement**
  - Reached March 30, 2010
    - Removal of Clause H.2
    - Best and only deal available
  - Approved by Court March 31, 2010, reasons issued April 8
- **Difficult decision – sought member input and weighed:**
  - Importance of Clause H.2 to our constituency
  - VERSUS***
  - Importance of the continuation of LTD income benefits and LTD health benefits
    - KEY: Obligated to consider needs of all constituents
    - Anxiety about the possible cessation of medical and income benefits was the overwhelming concern of the majority

# THE SETTLEMENT AGREEMENT

- **Without the Revised Settlement Agreement:**
  - Loss of \$45M of priority cash for LTDs and Former Employees
    - Over \$15M of total benefits attributable to the LTD group
  - Immediate cessation of health and medical benefits on March 31, 2010
  - Risk of immediate wind-up of pension plans, and no more accruals
  - Deterioration of Health and Welfare Trust corpus
    - Lower ultimate recoveries for disabled employees
  - Additional loss, hardship and uncertainty
- **Final Decision?**
  - The Revised Settlement Agreement was the best outcome available
  - The Revised Settlement Agreement was determined to be in the overall best interests of the constituency
    - The Judge agreed and approved the revised Settlement Agreement

# THE SETTLEMENT AGREEMENT

## Benefits Achieved under the Settlement Agreement

- Medical, dental and life insurance benefits continue to December 31, 2010
- Disability income benefits from January 1 through December 31, 2010 to be paid by Nortel, not from HWT
- Preservation of assets in Nortel's Health and Welfare Trust, resulting in higher level of trust assets to be distributed to beneficiaries
- Agreement among parties to the Settlement Agreement to work towards the allocation and distribution of the Health and Welfare Trust assets by December 31, 2010
- LTD continued employment with Nortel until December 31, 2010

# THE SETTLEMENT AGREEMENT

## Benefits Achieved under the Settlement Agreement

- Pension plans continue, and Nortel continues to fund current service costs in the DB plans until end of September 2010
- Continued DB accruals to September 30, 2010
- Continued DC accruals until at least September 30, 2010
  - It is anticipated that the DC Plan will be replaced as of September 30, 2010 so that active employee DC pension accruals can continue post-September 30
    - Uncertain on form of replacement plan
  - If so, DC accruals will continue until December 31, 2010
- Certainty
  - No need to engage in uncertain litigation that could hold up recoveries for years and may result in no cash gains
  - **Real benefits now**



# THE SETTLEMENT AGREEMENT

- **Appeal of Judge's March 31 approval order?**
  - Certain disabled employees actively opposed court approval of the Original and Revised Settlement Agreements
  - The group has filed materials seeking leave to appeal to the Court of Appeal, which is opposed by other stakeholders
    - No automatic right to appeal to the Court of Appeal
    - Appeal only possible if "leave" (i.e. permission) is granted by the Court of Appeal
  - In the event leave is granted, we will oppose the appeal
- **What will happen to benefits given leave to appeal has been sought?**
  - The Monitor has advised that LTD income and health benefits will continue pending the determination of the leave to appeal
  - Court directions may be sought concerning the appropriate treatment of 2010 income and benefit payments in the event an appeal of the Settlement Agreement is successful
- **FOR NOW: Benefits continue in accordance with the Settlement Agreement as approved by the court**

# C. ASSET SALES AND ALLOCATIONS

## Brief Update

- Many major transactions have been completed
- Transactions will continue in the future
- Allocation of proceeds has not been determined
- Determination of intellectual property issues and valuation of patents is underway
  - Lengthy process
- **KM and financial advisors, Richter, continue to represent the LTD constituency on these issues**
- **The Monitor is aware of our interests and is negotiating, in consultation with our groups, to protect and promote the interests of all Canadian stakeholders**
  - You will be advised of developments

## D. UPDATE ON HEALTH AND WELFARE TRUST

- Nortel's HWT is the vehicle for benefit funding
- HWT benefits were the focus of the Settlement Agreement:
  - Health and Medical Benefits
    - Cost to continue benefit plans paid by Nortel on a "flow through" or "pay-as-you-go" basis through the HWT, for pensioners, LTDs and actives
  - LTD and Survivor Income/Transition Benefits
    - Income benefits in recent history have been paid out of the HWT assets, but will be paid by Nortel, and not from HWT assets, for 2010
  - Life Insurance
    - Retiree life premiums paid from HWT assets
    - Life insurance premiums for actives and LTDs paid by Nortel on flow-through basis through the HWT, much like health and medical benefits

# UPDATE ON HEALTH AND WELFARE TRUST

- Representatives and Representative Counsel working closely with the Monitor and its counsel to:
  - Obtain full public disclosure of HWT documents
  - Determine proper allocation of assets in HWT
    - How will assets be allocated?
    - Analysis thus far...
  - Obtain court approval of allocation and procedure for distribution of trust assets
  - Meet target for a distribution by the end of 2010

# UPDATE ON HEALTH AND WELFARE TRUST

- Timeline?
  - Court Approval of Allocation and Procedure for Notice and Distribution
    - Summer 2010
  - Distribution of Trust Assets
    - Before December 31, 2010
- Taxation of distributed assets?
  - Representative Counsel, Monitor and company seeking CRA Advance Tax Ruling regarding taxation of the HWT Distributions
  - Affects distributions of LTD income benefits, survivor distributions and retiree life

# UPDATE ON HEALTH AND WELFARE TRUST

## What happens to your health and dental benefits after December 31, 2010?

- The benefits you receive from Nortel will end on December 31, 2010
- The CNELTD and Representative Counsel are working with representatives of the pensioners, the actuaries and consultants at Segal to examine options for replacement health benefit coverage after December 31, 2010
  - Working in conjunction with NRPC to maximize economies of scale
    - Does not assume that both groups have the same interests or needs
  - CNELTD will seek input and will ensure that the interests of the LTD group are represented in the discussions
  - One possible source of funding is an advance against future recoveries in the claims process for health benefit claims
    - Nortel estate? Other Options?

# E. STATUS OF PENSION PLANS

## Now until September 30, 2010

- Current service contributions (for actives and LTDs accruals) will be paid until September 30, 2010
- Special payments have been paid until March 31, 2010
  - Payments into the plan related to the funding deficit
- Continued payment benefits all plan members
- Actives and LTDs will receive their Annual Pension Statement in June, in accordance with current practice and Pension Benefit Act (PBA) requirements
  - Will provide you with current value of pension entitlements (i.e. the estimated value of your accrued pension)

# STATUS OF PENSION PLANS

## After September 30, 2010

- Nortel will transfer administration of its pension plans to FSCO on September 30, 2010
  - FSCO will appoint a wind-up administrator
- **Defined Benefit**
  - Pension Plan wind-up or alternative – Pension Orphanage?
    - NRPC is pursuing this option to maximize assets
  - DB pension accruals will end on September 30, 2010
    - Lost future accruals will form part of your claim against Nortel
- **Defined Contribution**
  - Nortel will cease to administer its existing DC Plan as of September 30, 2010
  - A replacement plan will be established to allow for continuation of active employees' accruals during the post-September 30 period
  - We expect LTD DC accruals to continue in some form until the termination of your employment on December 31, 2010
    - Lost future accruals will form a part of your claim against the estate



# STATUS OF PENSION PLANS

## Current Objectives:

- Continue to work with key Regulators (Ontario and Quebec) to preserve pension value, minimize hardship and maximize benefits for all plan members, including individuals who worked in multiple provinces
- Resolve all outstanding tax and pension related issues, including:
  - Pension Adjustment Reversal (PAR) Issue

## The Future:

- Regulatory wind up process



# STATUS OF PENSION PLANS

## What happens when the pension plans are wound-up?

- An administrator will be appointed by FSCO on September 30
- The new administrator will become responsible for the administration of the Plans (no longer Nortel or Mercer)
- Administrator will determine the wind-up date, but the timing of the wind-up will depend on whether there is legislative change to accommodate NRPC requests for the “pension orphanage”
- Monthly pension payments may be reduced when the new administrator takes over to reflect the fact that Nortel’s plans are underfunded, but may be topped up for service that is subject to the PBGF

# STATUS OF PENSION PLANS

## What happens when the pension plans are wound-up? (cont'd)

- Pension plan assets and liabilities will be determined as at the wind-up date
- A final “wind-up ratio” will be calculated once assets and liabilities are set
- Concurrently, individual pension entitlements will be calculated

### ***KEY for PBGF: PROVINCE IN WHICH YOU ACCRUED SERVICE***

- Quebec liabilities may be transferred to the Quebec Government to allow Law 1 to apply
- Ontario’s PBGF will top up the first \$1000 of monthly pension for service that accrued while employed in Ontario
- Option statements for all LTDs who are not entitled to an immediate pension (can choose between locked-in CV transfer or deferred pension)

# STATUS OF PENSION PLANS

What happens when the pension plans are wound-up? (cont'd)

- **Pensioners (and survivors): The wind-up administrator will ultimately purchase an annuity for all pensions**
  - Will continue to receive a monthly income stream
  - Monthly payments will be reduced from their current level, because Nortel's pension plans are in deficit
    - Ultimately, PBGF will top-up Ontario service portion of pensions
    - Timing?
  - Pensioners will not have the option to take their money out of the pension plan, subject to the recent changes in Quebec
    - NOTE: Applicable pension laws vary by province
    - NOTE: There will be a lengthy process before this stage is reached, possibly a year or more

# STATUS OF PENSION PLANS

## What happens when the pension plans are wound-up? (cont'd)

- LTD Group:
  - Those who are not entitled to an immediate pension will receive an option statement and will have the opportunity to elect between:
    - Lump sum commuted value (to be transferred into a locked-in retirement vehicle)
      - Amounts in excess of Income Tax Act limits must be taken in cash and will be subject to income tax
      - You will be provided with further information at the time of an election
    - Annuitized pension / annuitized deferred pension
  - Individuals who do not receive an option statement will have no election to make – they will receive an annuity
    - Will you receive an option statement?
  - The administrator will secure group annuity contracts through an RFP process
  - Pension-eligible members may start their pensions during wind-up with Regulator and administrator approval

# STATUS OF PENSION PLANS

Important for LTD Group:

- If retirement eligible, can retire and begin to collect pension
- Termination of employment triggers pension choices if wind-up not yet commenced:
  - Commuted value transfer (69%)
  - Pension or deferred pension (leave benefits in the plan)
- Eligibility for retirement must be determined on individual basis
- If choose to retire before wind-up commences, will be no option to take out locked-in commuted value
- Unlocking Pension available only under limited circumstances:
  - Financial Hardship
  - Terminal Illness
  - Please visit FSCO website for more information
    - <http://www.fSCO.gov.on.ca/english/pensions/unlocking/Default.asp>

# STATUS OF PENSION PLANS

## Timeline?

- Pension plan wind-ups can take years, even when straightforward
- Nortel's pension plan wind-up, when it occurs, will be complicated
  - Individuals worked across Canada and now reside across Canada and internationally. Various provincial pension laws will apply.
  - Many individuals accrued service in multiple provinces / jurisdictions
    - Will impact the application of Québec's Law 1 and Ontario's PBGF
- What can you do in preparation?
  - If you worked in multiple provinces or jurisdictions, check your records to confirm how long you worked in each province
  - Do not forward this information to KM, simply keep it for your records for now, and we will ask for it if we need it

# STATUS OF PENSION PLANS

- **Last reported funded status**
  - Wind-Up Ratio: 69% as at December 31, 2008
  - Now?
- **New Actuarial Valuation Report**
  - Currently being prepared, due as at December 31, 2009
  - Will provide updated status on funding levels of pension plans
  - Must be filed by September 30, 2010
  - Results may be released and/or filed earlier
- **Will be reported as soon as available**



# F. COMPENSATION CLAIMS PROCESS

1. Devise a system that works and is understandable
  - Includes claims of all disabled employees, pensioners and terminated employees who have a valid claim against the Canadian estate
2. Prepare court materials and obtain Court approval of the process
  - Notice will be widely publicized once the process is Court approved
  - Notice of Court approval hearing will be posted in Monitor's website
3. Collect and analyze data and prepare claims
  - Timeline uncertain
  - Current focus is on collection and analysis of data
4. Assessment of claims by the Monitor and the Court
5. Distribution of the Canadian estate
  - Could be a year, or years, down the road

# COMPENSATION CLAIMS PROCESS

## Inventory of Possible Claims for Disabled Employees:

- Loss of LTD income benefits
- Severance pay per grid
  - Grid to be determined
- Value of lost health benefits to age 65 and post-retirement if part of employment promise
  - Calculation based on actuarial models and assumptions
- Value of lost pension accruals
- Loss of any residual unpaid commuted value of pension, if applicable
- Any unpaid short-term disability
- Any unpaid patent awards
- Value of lost life insurance, if applicable
- Value of other lost benefits, as applicable

# COMPENSATION CLAIMS PROCESS

## Long-Term Disability Income Claims

- Claim = actuarial calculation of the present value of your future stream of income
- Value of your claim will depend upon individual variables such as:
  - Age
  - Duration of disability
  - Annual income level
  - Others?
- Claim amount will be offset by any recovery from the HWT

# COMPENSATION CLAIMS PROCESS

## Sample Long-Term Disability Income Claims

### Example 1A: Male, Age 42

- ***Annual payment of \$30,000***
- 10 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$386,600
  - Non-indexed: \$348,000
- ***Annual payment of \$60,000***
- 10 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$773,100
  - Non-indexed: \$695,900

\* **You will not receive the full value of these claims amounts –**  
a percentage will be paid to you and all other unsecured creditors

\*\* Present value amounts have not been adjusted for marginal taxes

\*\*\* Sample calculations assume a valuation date of December 31, 2010

# COMPENSATION CLAIMS PROCESS

## Sample Long-Term Disability Income Claims (cont'd)

### Example 1B: Male, Age 42

- ***Annual payment of \$30,000***
- 2 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$242,900
  - Non-indexed: \$222,000
  
- ***Annual payment of \$60,000***
- 2 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$485,900
  - Non-indexed: \$444,100

# COMPENSATION CLAIMS PROCESS

## Sample Long-Term Disability Income Claims (cont'd)

### Example 2A: Male, Age 53

- ***Annual payment of \$30,000***
- 10 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$262,300
  - Non-indexed: \$247,600
  
- ***Annual payment of \$60,000***
- 10 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$524,700
  - Non-indexed: \$495,200

# COMPENSATION CLAIMS PROCESS

## Sample Long-Term Disability Income Claims (cont'd)

### Example 2B: Male, Age 53

- ***Annual payment of \$30,000***
- 2 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$199,800
  - Non-indexed: \$190,800
  
- ***Annual payment of \$60,000***
- 2 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$399,700
  - Non-indexed: \$381,600

# COMPENSATION CLAIMS PROCESS

## Sample Long-Term Disability Income Claims (cont'd)

### Example 3A: Male, Age 64

- ***Annual payment of \$30,000***
- 10 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$29,200
  - Non-indexed: \$28,900
  
- ***Annual payment of \$60,000***
- 10 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$58,300
  - Non-indexed: \$57,800



# COMPENSATION CLAIMS PROCESS

## Sample Long-Term Disability Income Claims (cont'd)

### Example 3B: Male, Age 64

- ***Annual payment of \$30,000***
- 2 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$27,900
  - Non-indexed: \$27,900
  
- ***Annual payment of \$60,000***
- 2 year duration of disability
- Estimated Present Value of LTD income
  - Indexed: \$55,900
  - Non-indexed: \$55,900

# COMPENSATION CLAIMS PROCESS

## Clarification Of Pension Plan Related Claims

- The value of your lost pension accruals (both DB and DC) will form part of your individual claim against the estate
  - Actuaries will prepare a calculation to determine the present day lump sum value of your future accruals
  - This value will be submitted as a claim against the Nortel estate
  - You will receive a percentage of this claim, in accordance with the rate of distribution to other unsecured creditors of Nortel
- The deficit in the pension plans will be claimed separately, by the plan administrator, in the regular claims process, once it is determined. A placeholder claim has already been filed.

## G. NEXT STEPS IN CCAA

1. Company's asset sales will continue
2. Representative and Rep Counsel will work with the Monitor and company to finalize the process regarding the allocation and distribution of assets of the Health and Welfare Trust before December 31, 2010
3. Representatives and Rep Counsel will work with the Monitor and company to finalize and obtain Court Approval of the Compensation Claims Process
4. Quantification and Assessment of Claims
5. Allocation of assets
  - Canada, UK, US and other estates
  - Canada only assets
6. Distribution of Nortel's Canadian estate

# RESOURCES

- **CNELTD**

- [SteeringCommittee@cneltd.info](mailto:SteeringCommittee@cneltd.info)
- For pension-related issues, please contact Representative Counsel or your pension plan administrator

- **Representative Counsel**

- [www.kmlaw.ca/case-central](http://www.kmlaw.ca/case-central)
- [nortel@kmlaw.ca](mailto:nortel@kmlaw.ca)
- 1.866.777.6344

- **The Monitor**

- [www.ey.com/ca/nortel](http://www.ey.com/ca/nortel)

# QUESTIONS?

**English or en Français**