

DISABLED EMPLOYEES PROGRESS REPORT

THIS REPORT HAS BEEN PREPARED BY KOSKIE MINSKY LLP IN ITS CAPACITY AS REPRESENTATIVE COUNSEL TO THE NON-CAW DISABLED EMPLOYEES OF NORTEL

November 10, 2010

A French translation of this document is in progress and will be sent when available.

Une traduction de document est en train d'être préparé, et sera transmis dès que possible.

Please Note: Many aspects of the Nortel proceedings are unprecedented, so the information provided below only represents a "best guess" as to how things will proceed.

Superintendent Appoints New Pension Plan Administrator

Under the Court approved Settlement Agreement, Nortel ceased to be the administrator of the Nortel pension plans on September 30, 2010. The Financial Services Commission of Ontario (FSCO), the Ontario pension regulator, has appointed Morneau Sobeco Limited Partnership (Morneau Sobeco) to be the new plan administrator effective October 1, 2010. For those on pension now, until the new administrator advises of changes, your payments will continue unchanged. It is anticipated that the current benefit levels will continue at least to the end of 2010. Reductions will be imposed later. Effective October 1, 2010, inquiries regarding Nortel's defined benefit pension plans should be directed to Morneau Sobeco:

www.pensionwindups.morneausobeco.com

nortelwindup@morneausobeco.com

Negotiated Plan: 1-877-392-2073

Managerial Plan: 1-877-392-2074

Please visit the FSCO website at **<http://www.fSCO.gov.on.ca/english/pensions/Nortel.asp>** if you would like more information about Morneau Sobeco's recent appointment. The FAQ section of the FSCO website also contains other information that you may find useful.

Update About Your Pension

As December 31, 2010 draws near, we have started to receive many questions about the options for retirement for disabled employees. It is important to note that there are many questions that we simply do not have answers to yet. Nortel's Pension Plans' wind-up will be complicated and we will communicate information to you as soon as we are able. This bulletin provides information that we currently have about the changes to the administration of the Pension Plans effective October 1, 2010, and about what you can expect in the future. This Bulletin covers:

1. Morneau Sobeco: Your New Pension Administrator and the Wind-Up Process.
2. October 1 – December 31 accruals.
3. Early Retirement Options.
4. Portability – Transferring Commuted Values.
5. Commencement of Your Pension.

6. Claiming the Shortfall in the Pension Plan.

Please remember that certain details with respect to your pension are specific to you and you will need to contact Morneau Sobeco for further details.

1. **MORNEAU SOBECO - YOUR NEW PENSION ADMINISTRATOR AND THE WIND-UP PROCESS**

Morneau Sobeco is a Canadian-based human resources services company. The Superintendent of Financial Services appointed Morneau Sobeco as the new plan administrator for the purpose of winding up the Nortel Pension Plans effective October 1, 2010. The Superintendent made this appointment under the authority of section 71 of the Ontario *Pension Benefits Act*. Morneau Sobeco was selected for this appointment through a competitive tendering process.

Why a New Plan Administrator Was Appointed

Pension plans that are registered in Ontario must be administered in compliance with the Ontario *Pension Benefits Act*, which sets out minimum standards for the operation, funding and termination of pension plans in Ontario. Because Nortel stopped administering its plans on September 30, 2010, a new plan administrator was necessary to ensure continuity in the administration of the Nortel Pension Plans (including payment of pension benefits) to commence the wind-up of the Nortel Pension Plans and to represent the Pension Plans in Nortel's CCAA proceedings.

In carrying out the wind-up of the Nortel Pension Plans, the administrator will be responsible for determining adjusted entitlements, including the "top up" provided through the Pension Benefits Guarantee Fund ("PBGF") to pensions earned in Ontario. A retiree's entitlement with the PBGF "top up" is determined as of the date the Pension Plans are wound up.

Since Morneau Sobeco's appointment took effect on October 1, 2010, a review of the Nortel Pension Plans has commenced and ultimately, a wind-up report will be prepared as of October 1, 2010. The wind-up report will be prepared by Morneau Sobeco and will include a recommendation to FSCO about the final wind-up ratio of the Nortel Pension Plans. Once approved, Morneau Sobeco will commence the process of winding up the Plans by purchasing annuities for pensions in pay, deferred annuities for those who elect them, and commuted value payouts to those who choose that option. All benefits will be reduced to the wind-up ratio, and then topped up, if applicable, by the PBGF.

There will be different wind-up ratios and different benefits by province. The assets of the Nortel Pension Plans will first be allocated to each province, and then the wind-up rules of each province will be applied with respect to the benefits accrued for work in that province. The details are not yet clear, but the major differences are:

- i Ontario benefits are eligible for a PBGF top-up. It appears likely, however, that all future indexing will be eliminated for Ontario benefits. Without that indexing, the plan will appear to be better funded. Thus, the Ontario benefits will have the smallest initial reduction, but they will be "frozen" and receive no future increases regardless of future inflation levels.
- i Québec benefits retain indexing, so they will have a lower wind-up ratio. There are also options available to those whose final Nortel employment was in Québec that are not offered in other provinces, and these may result in a further reduction to the Québec wind-up ratio.
- i Benefits for those elsewhere in Canada retain indexing. However, depending on the formula used to allocate the assets to each province, there may be provincial differences in the wind-up ratios.

How will the PBGF benefit me?

Nortel's defined benefit Pension Plans are underfunded, and there will not be sufficient assets to pay the promised benefits in full. If you worked in Ontario, PBGF will top up the first \$1,000 of monthly pension for service that accrued while employed in Ontario.

For example, assume you are entitled to a monthly pension of \$2,000 but that at the date of wind-up, the Pension Plan is funded at 70%. The first \$1,000 of your pension will be topped up by the PBGF such that it will be paid in full (\$700 through the funds in the pension fund and \$300 by the PBGF). The remaining \$1,000 of your pension will be paid at the 70% value. Therefore, your total pension payment would be \$1,700 as opposed to the \$1,400 level you would receive if there were no PBGF, or the \$2,000 level you would receive if there were no funding deficiency on plan wind-up. If you did not work in Ontario for your entire career, only the portion of your pension which was accrued in Ontario will be subject to the PBGF. **This portion will be determined according to the contributions made while working in Ontario, which is based on the age and service requirements in the Plan.**

How long will the Pension Plans' wind-up take?

Pension plan wind-ups can take years, even when they are straightforward. Nortel's Pension Plans' wind-up will be lengthy and complicated. Please note that the wind-up administrator (Morneau Sobeco) will permit eligible plan members to commence their pension during the course of the wind-up, subject to receiving the approval of the Superintendent to do so. Morneau Sobeco has already applied for approval under section 70(3) of the Ontario *Pension Benefits Act*. Note that pensions started during the wind-up will be paid at a reduced rate to approximate the deficient funded ratio of the Plans; similarly, pensions currently in pay will soon be reduced to the same rate. We will continue to provide progress reports with updated information and estimated timelines as the wind-up progresses.

What if I am a member of the defined contribution pension plan?

In a defined contribution pension plan, contributions are fixed, and the amount of eventual retirement income is not guaranteed, like it is in a defined benefit pension plan. Members of the defined contribution plan will not be subject to the same reduction of anticipated benefits.

In order to determine when you are eligible to retire from the defined contribution pension plan, you should contact Morneau Sobeco.

2. OCTOBER 1 – DECEMBER 31, 2010 PENSION CREDITS

All disabled employees received a letter from Nortel in mid-September to notify them of the transition of administration from Nortel to the new FSCO-appointed administrator, Morneau Sobeco, and the change in pension credits for the period from October 1 to December 31, 2010. All accruals in the plans stopped on September 30, 2010. Nortel put in place a new Retirement Savings Program" (RSP) for continuing employees, including disabled employees, to replace the old defined benefit and defined contribution plans. Under the RSP, Nortel will contribute 2% or 4% (depending on level of entitlement) of eligible earnings for each disabled employee into an RRSP account in his or her name. Employees who were in the defined benefit plan will receive into their [after tax savings] accounts a one-time "top-up" deposit to compensate for the portion of the value of the DB benefit that would have

accrued under the defined benefit plan for the period of October 1 to December 31, 2010, which is over and above the value of Nortel's contributions for that period. Outlined below is a hypothetical example which illustrates how these calculations have been made.

1. The present value of your defined benefit pension is \$300,000 as of December 31, 2010.
2. You will have 30 years of service as of December 31, 2010 and will not yet be age 65. Therefore, your pension is worth \$10,000 per year of service.
3. Your value for three months is $\$10,000/4 = \$2,500$.
4. Your defined contribution accrual is \$500.
5. Your defined benefit cash payment is $\$2,500 - \$500 = \$2,000$.

You will no longer receive any form of pension accruals and/or contributions as of December 31, 2010. You will have a claim against the Nortel estate for the accruals you would have received if Nortel had not become insolvent. We will provide more information about this during the Compensation Claims process, which we expect to commence in early 2011.

3. EARLY RETIREMENT OPTIONS

The normal retirement date under the Nortel pension plans is age 65. However, the Nortel pension plans also permit eligible plan members to retire early, often with a reduced pension. You will need to contact Morneau Sobeco directly to determine if and when you are eligible to retire early and what reduction you can expect as a result.

Many people have asked whether they can retire after October 1, 2010, and the answer is yes. There may be delays in processing applications for pension commencement however, because until a wind-up report is approved by the Superintendent, any payments out of the Plans must be approved. Accordingly, those who wish to start their pensions are likely to experience delays in doing so. We have raised with Morneau Sobeco the serious concerns of some that delays in processing payments will cause financial hardship. Morneau Sobeco is already in the process of seeking approval from the Regulator to commence new pensions.

Important: Please be aware that any change in your status as a disabled employee before December 31, 2010, will result in the loss of any distribution from the Health and Welfare Trust and the loss of a claim for lost future LTD wage replacement, medical benefits, and other claims.

4. PORTABILITY – TRANSFERRING COMMUTED VALUES OUT OF THE PLAN

Disabled employees have been notified that their employment will be terminated by Nortel as at December 31, 2010. Termination normally triggers a range of options for a terminated employee, including the right to elect an immediate transfer of his or her pension entitlement into a locked-in retirement vehicle. However, the Nortel Pension Plans are in the midst of being wound up so the normal timing and process will not be applicable.

Pursuant to section 73(2) of the Ontario *Pension Benefits Act*, on plan wind-up, all persons entitled to a pension benefit, except pensioners who are already receiving a pension, have a right to transfer their commuted value out of the plan. That is, anyone who is not a pensioner will be offered the portability option. **Option statements will be provided to everyone with a plan benefit after**

Morneau Sobeco has prepared and filed a “wind-up report” for each of the Plans, and the Superintendent has approved them.

All disabled employees will be provided with the option to transfer the entire commuted value of their pension into an authorized locked-in retirement vehicle, or to receive an immediate annuity (if they are retirement eligible) or to retain the right to a deferred annuity for monthly pension payments in the future. Typically in a pension plan wind-up, this process of providing option statements and allowing lump sum transfers from the plan would not occur until a wind-up report has been prepared and approved. However, we have raised with Morneau Sobeco the serious concern that delays in processing commuted value transfers for disabled employees will cause significant financial hardship. We are discussing with Morneau Sobeco a protocol to permit the calculation and transfer of partial commuted values into an authorized locked-in retirement vehicle for disabled employees who want them. You may not, however, receive the commuted value of your pension in cash.

Those who elect to take their commuted value will only receive the approved reduced transfer ratio of their pensions. To inquire about when you are eligible for retirement, please contact Morneau Sobeco directly.

Locking in

Lump sum transfers from the Plans are required to be “locked in.” The reason why your pension may be transferred to a locked-in vehicle but not given to you in cash is because, as a general rule, vested pension benefits are not intended to be accessed until you reach retirement age or a qualifying early retirement age under the pension plan. Typically, the assets supporting an employee’s “deferred” pension entitlement either remain in the pension plan until retirement age or are transferred out, on a locked-in basis, to another pension plan or retirement vehicle, or used to purchase a deferred life annuity from an insurance company. The public policy behind locking-in is to ensure that pension plan assets are available exclusively to benefit the employee during his or her retirement years. Accordingly, the Ontario *Pension Benefits Act* prohibits the cash value of a pension benefit from being (1) commuted or surrendered, (2) subject to execution, seizure or attachment, or (3) assigned, charged or given as security.

Exceptions to Locking-In

There are some disabled employees who have expressed concern about their pensions and the locking-in requirement in the legislation. In exceptional circumstances of financial hardship,” members may be able to access “locked-in funds”. Financial hardship is a defined term under provincial pension legislation or regulations, and in most provinces there is a special procedure to follow in order to apply for access to the locked-in funds. If you choose to transfer the commuted value of your pension into a locked-in vehicle, the provincial laws of the province where you live will apply in order to unlock those funds. Any members wishing to access pension funds are only permitted to do so according to the applicable pension legislation.

For example, section 67 of the Ontario *Pension Benefits Act* permits a member with financial hardship to apply to unlock the funds. The applicant can apply based on six qualifying circumstances, which include low income, risk of eviction from home or rented home, money for rental deposit, medical treatment or residential renovations related to a disability or illness. For free assistance filling out the required forms in Ontario, contact the Financial Services Commission of Ontario at 416-250-7250 or toll free at 1-800-668-0128.

You should be aware before applying to unlock funds due to financial hardship that this money is no longer protected from creditors, and may be seized and/or affect your eligibility for certain government

benefits. **Please contact your provincial pension regulator for questions and assistance with unlocking funds in a locked-in retirement vehicle.**

5. COMMENCEMENT OF YOUR PENSION

If you are eligible for a pension – that is, you have reached your “normal retirement date” or a qualifying age for an early pension under the Plan – and wish to commence your pension during the wind-up, you must contact Morneau Sobeco. You will be provided with a series of forms to be completed. Normally, pension plan administrators request 90 days’ notice in order to properly process the paperwork.

What happens if I am not yet pension eligible?

If you have not elected to commence your pension, or you are not entitled to, you will choose between:

- Lump sum commuted value transfer (to be transferred into a locked-in retirement vehicle with amounts in excess of *Income Tax Act* (Canada) limits taken in cash and subject to income tax); or
- Annuitized deferred pension (based on your age and eligibility for retirement).

You will be provided with an option statement setting out these choices, with the amounts specified, following your termination from Nortel. This process cannot take place until the wind-up report has been completed and approved by the Superintendent.

Will I receive my pension option form right after I am terminated?

Disabled employees have been notified that they will be terminated on December 31, 2010. Under normal circumstances, an option form would be sent to you setting out what you may do with your pension benefit following the termination of your employment. However, because the Pension Plans are being wound up, the process will be different. Typically in a wind-up, option statements are not distributed until a wind-up report has been prepared and approved. This can take 1 to 2 years. We have asked Morneau Sobeco to consider putting into place a special process for disabled employees who are losing their LTD income and are unable to withstand the normal delays.

Retirement: When Should the Process Be Initiated?

In accordance with the Settlement Agreement, long-term disability income benefits will continue to be paid by Nortel until December 31, 2010. Provided you are still entitled to long-term disability income benefits at the time of the valuation of your claim against Nortel, you will have a claim for the value of your future income benefits up until age 65 (among other claims). **To ensure that you receive any distribution from the Health and Welfare Trust and from Nortel's estate for the future amounts to which you are entitled as a disabled employee, your status must remain unchanged. If you are retired at the time of valuation (i.e. before January 1, 2011), you will not be entitled to a claim as a disabled person.** If you reach age 65 before January 1, 2011, you will not be eligible to claim as a disabled person and you may have no choice but to take your pension because your disability payments are not payable after age 65. Others who are entitled to an early pension may wish to seek independent financial advice as to the optimum time to retire. We do not yet have information about the details concerning how to initiate the retirement process after December 31, 2010. You will be advised as more details become available.

If you have questions about your individual pension and/or retirement please contact the following:

Defined Benefit Plan Members

Negotiated Plan: 1-877-392-2073

Managerial Plan: 1-877-392-2074

6. CLAIMING THE SHORTFALL IN THE PENSION PLAN

Nortel's pension plans are underfunded and a "placeholder" claim has already been filed in the regular claims process by the pension plan administrator. Nortel, as the plan sponsor, is obligated under the applicable pension legislation to fully fund its pension plans if they are terminated, which is the basis for the claim. The claim will not be made by individuals because the deficit affects everyone in the plans, and individual losses depend entirely on the level of the deficit. Recoveries on this claim will be paid in to the pension plans.

The plans will be wound-up effective September 30, 2010, and once a wind-up report is finalized, we will know the funded ratios and the value of the pension deficit claim. The deficit and funded ratio reflect the difference between the value of the liabilities (or total accrued benefit obligations) and the value of the assets at a given point in time.

UPDATES ON NORTEL'S CCAA PROCEEDINGS

In addition to issues that relate to Nortel's Pension Plans, there are several other important issues you should be aware of:

1. **ALLOCATION MEDIATION**

As has been outlined in the past through our communications to you and in a number of the Monitor's Reports to the Court, the task of allocating the proceeds of sales of Nortel's assets among the various jurisdictions is complex and will be a lengthy process. Because of the multi-jurisdictional nature of Nortel's operations, the proceeds of sale of a number of the company's business units are being held in escrow (often referred to as the "lockbox") until such time as the various estates, in particular Canada, the US and the UK, have agreed to a method of allocation. It recently became clear that agreement among parties would not be possible and it was decided that the assistance of an outside neutral party may be helpful in this process. A mediation has been scheduled for mid-November. Layne Phillips, a well-regarded academic and former judge, will oversee the mediation. Mediation is fundamentally different from litigation before a judge in that the mediator does not have the power to decide the dispute. Only if all of the parties agree can there be a result to which all three jurisdictions are bound.

The Canadian estate and the Monitor are participating in the mediation. The major Canadian-only creditors (pensioners, former employees, LTDs, CAW and PBGF and Morneau Sobeco) have joined forces, submitted a joint brief, and will each have a seat at the mediation table.

2. **COMPENSATION CLAIMS PROCEDURE**

Now that we are awaiting the Court's decision on the Health and Welfare Trust allocation motion and the dates for the allocation mediation have been set, we expect that the Compensation Claims Procedure will move forward. As outlined in our last update to you, the legal, actuarial and procedural details remain the current focus of these discussions. Although we originally anticipated being before the Court earlier, we now anticipate being before the Court in either December 2010 or early 2011 for Court approval of the process. Once the process has been approved, we will move into the individual claim calculation and review stage. You will receive a communication and further instructions at that time. Although we anticipate that you will review your claim in 2011, there will be a number of issues to resolve before the distribution stage is reached. A distribution from the Nortel estate will be impacted by the allocation mediation and you should not expect a distribution from the estate before mid-2011 at the earliest.

3. **BENEFITS**

As a reminder, all health, medical and dental benefits cease on December 31, 2010. All claims under your existing Sun Life coverage must be incurred before **December 31, 2010**, and all claims must be submitted to Sun Life by February 28, 2011. No forms will be accepted for processing after that date.

4. **ALTERNATIVE HEALTH INSURANCE**

Together with the NRPC, the CNELTD Steering Committee has reviewed proposals for health and life insurance coverage through several insurance providers. Manulife has prepared a customized plan for Nortel former employees (including the disabled employees, who will be former employees after December 31, 2010). Manulife will be communicating the plan details and enrolment information to you by mail at the end of November. Manulife also will be establishing a 1.800 number, which will take effect on December 13, 2010, and that you can call with questions about the health coverage they will be offering.

Please note that you should review all options available to you. If you have very high health and/or drug expenses, you may qualify for a provincial program. You can also examine options which may be available through other insurance companies. For example, Sun Life provides a "My Choice Health" plan. We cannot advise you as to what plan will suit your needs best, so please read all plan information carefully to determine whether the plans require evidence of insurability. You may not qualify for some plans because of your pre-existing health conditions. You will have to pay the premiums for any health insurance plan that you choose.

5. COMPENSATION CLAIMS PROCESS

While parties have been focussed on important issues such as the HWT allocation motion and issues pertaining to the allocation of assets over the last several months, discussions involving the compensation claims process are again moving forward. We expect to be in Court for approval of a compensation claims process in the early 2011. Once a process has been approved, you will receive a package that will allow you to confirm data that is relevant to the calculation of your claim against the Nortel estate. Please note that distributions from the Canadian Nortel estate are dependent on the allocation of proceeds among estates and therefore it may take months or even years before a distribution occurs.

Contact Information

If you have an inquiry, or wish to speak to your Representative Counsel, please contact KM by email at nortel@kmlaw.ca or by calling our toll free hotline at 1.866.777.6344. For more information, please visit our website at <http://www.koskieminsky.com/Case-Central>. Disabled Employees who have questions or wish to join the CNELTD group should send an email to SteeringCommittee@cneltd.info.

Effective October 1, 2010, pension-related questions should be directed to the new plan administrator at www.morneausobeco.com.

For access to a variety of information pertaining to Nortel's CCAA proceedings, including public Court documents and all Monitor's Reports, please visit the Monitor's website at www.ey.com/ca/nortel.

This Update has been sent to all Nortel LTD recipients, including those represented by the CAW-Canada, which has reviewed this Update. If you are an active employee receiving LTD and are a CAW member, or you are a retiree who signed a retainer with the CAW in 2009, you should direct any questions regarding this Update to the legal representative for the CAW – Barry Wadsworth, Associate Counsel, at (416) 495-3776 or by e-mail to michelle.bondy@caw.ca.

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