

Nortel Managerial Plan Windup Quebec Member Meeting



Hamish Dunlop



Business. Needs. People.

Purpose of the Meeting

- To provide information to Quebec 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 Wind Up Date).

The Process so Far

- May 2011 – Superintendent declares that the Pension Benefits Guarantee Fund (PBGF) applies in respect of Ontario service. An interim allocation of \$277 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 service outside Ontario and Nova Scotia.
- 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, almost 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.
- Unusual 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 members.

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 the 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 be provided with an annuity, and permit deferred members to choose between a lump-sum transfer or an annuity.
 - Ontario & Quebec permit retirees to take a lump-sum transfer.
 - Quebec requires deferred members to take a lump-sum, and permits pensioners to transfer their entitlement to the RQ (retirement-eligible members as of the wind up date can transfer their lump-sum to the RQ).

What Law applies to you?

- Unfortunately, like many companies, Nortel did not keep complete 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 jurisdictional pools
- Ontario
- Quebec
- All remaining provinces
- The Quebec assets were then split into separate pools for members in pay and not in pay as of the w/u date.
- If you accrued benefits in more than one province, your pension may be paid for out 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 October 2010 and August 2011.
- 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 indicating 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.
- The amounts on your option forms are estimates, the final funded ratio will only be known at the final settlement date.

Pensioner Options

Option	Ontario	Quebec Pensioner as of W/U date	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				

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, J&S 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.

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 withdrawals that must be made from a LIF.

Locked-In Retirement Account (LIRA)

- A LIRA is similar to a locked-in RSP; like a LIF it is a registered account with a financial institution that must be ultimately used to provide retirement income.
- You are responsible for the investment of funds in your LIRA.
- Money can generally not be withdrawn from a LIRA (with some exceptions), and LIRA monies are usually transferred to a LIF when you are eligible to commence your pension.

LIF/LIRA

- If you elect a LIF or a LIRA, you must have a locking-in agreement filled out by your financial institution and returned to us.
- Once we receive the required documents, and the final funded ratio is known, we will transfer the funds to your financial institution.
- If you elected a LIF, you can start drawing income after the transfer.

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 (this will be indicated on your Option Form), the excess will be paid to you in cash (i.e. not to the LIF) and is taxable, unless you have sufficient RSP room to enable us to transfer it to your RSP (fill out the Excess Amount Option Election Form to do this).
- 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 on the excess amount. 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 you exceeding the ITA limit.

Quebec non-pensioners as of October 1, 2010

- Must take a lump-sum transfer.
- Transfer amount listed in letter is an estimate, and will depend on the final funded ratio which will not be known until settlement.
- Transfers can be made to a LIRA, a LIF (if of retirement age), another pension plan or to an insurance company (chosen by you) to purchase an individual annuity.
- Members who were Retirement-eligible as of Oct 1/2010 may transfer their lump-sum to the RQ to pay them a pension.

Quebec Pensioners

- May elect either a lump-sum transfer, an annuity, or a pension from the Regie (the Quebec regulator).
- Numbers listed in the option form are an estimates.

Quebec Annuity/RQ Transfer

- Quebec retirees who elect either an annuity or an RQ transfer and who are entitled to indexed benefits have the option of electing either an indexed or a non-indexed pension.
- If a non-indexed pension is elected, the initial pension amount will be increased.
- The increase will vary depending upon your age.

Quebec Annuity/RQ Transfer

- The RQ transfer will see your pension paid as an annuity, but the RQ will manage the pension assets for up to five to ten years.
- If investment return is better than expected, you will receive additional benefits.
- If investment returns are poorer than expected, your pension is guaranteed by the RQ and will not be reduced.

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 or an RQ transfer and you are entitled to indexed benefits 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.

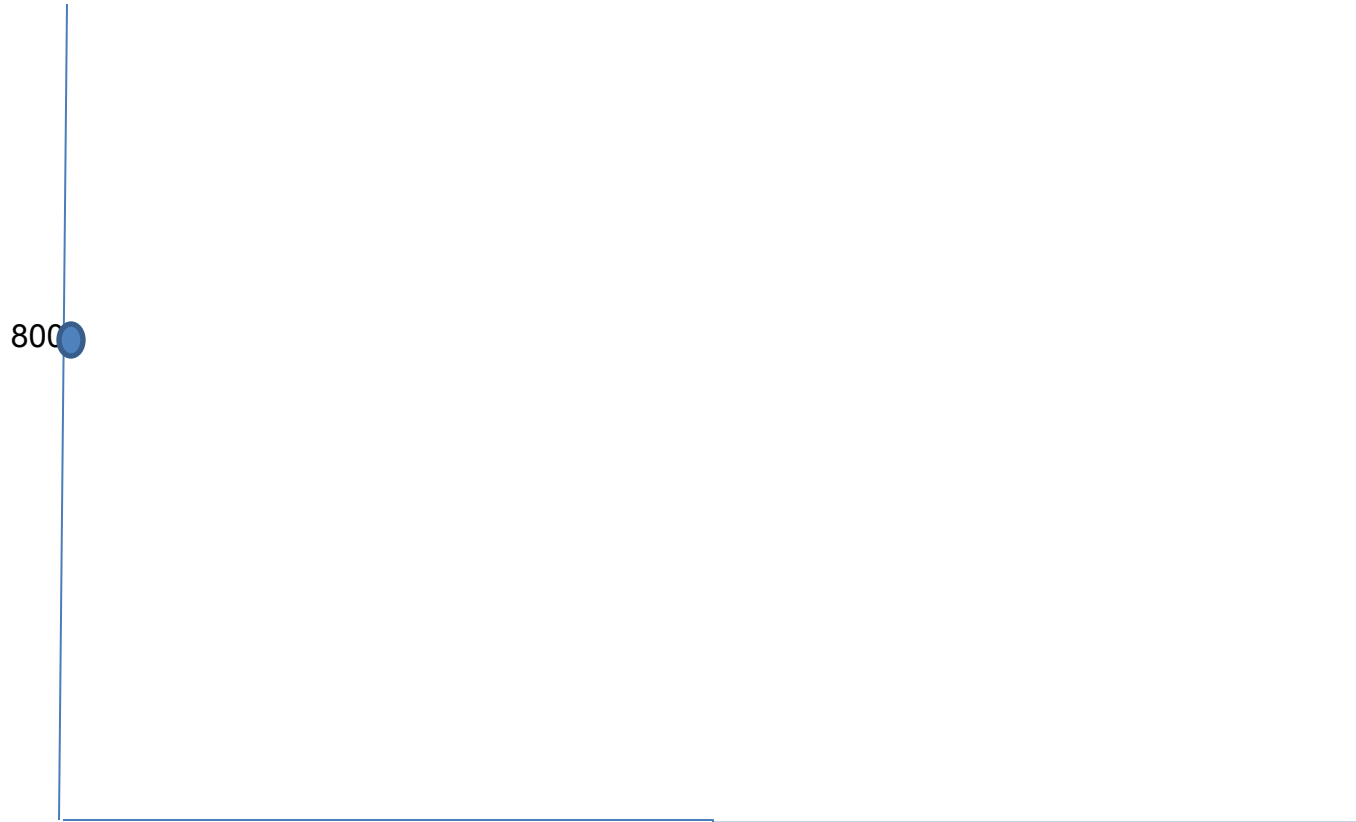
Indexation

- 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.

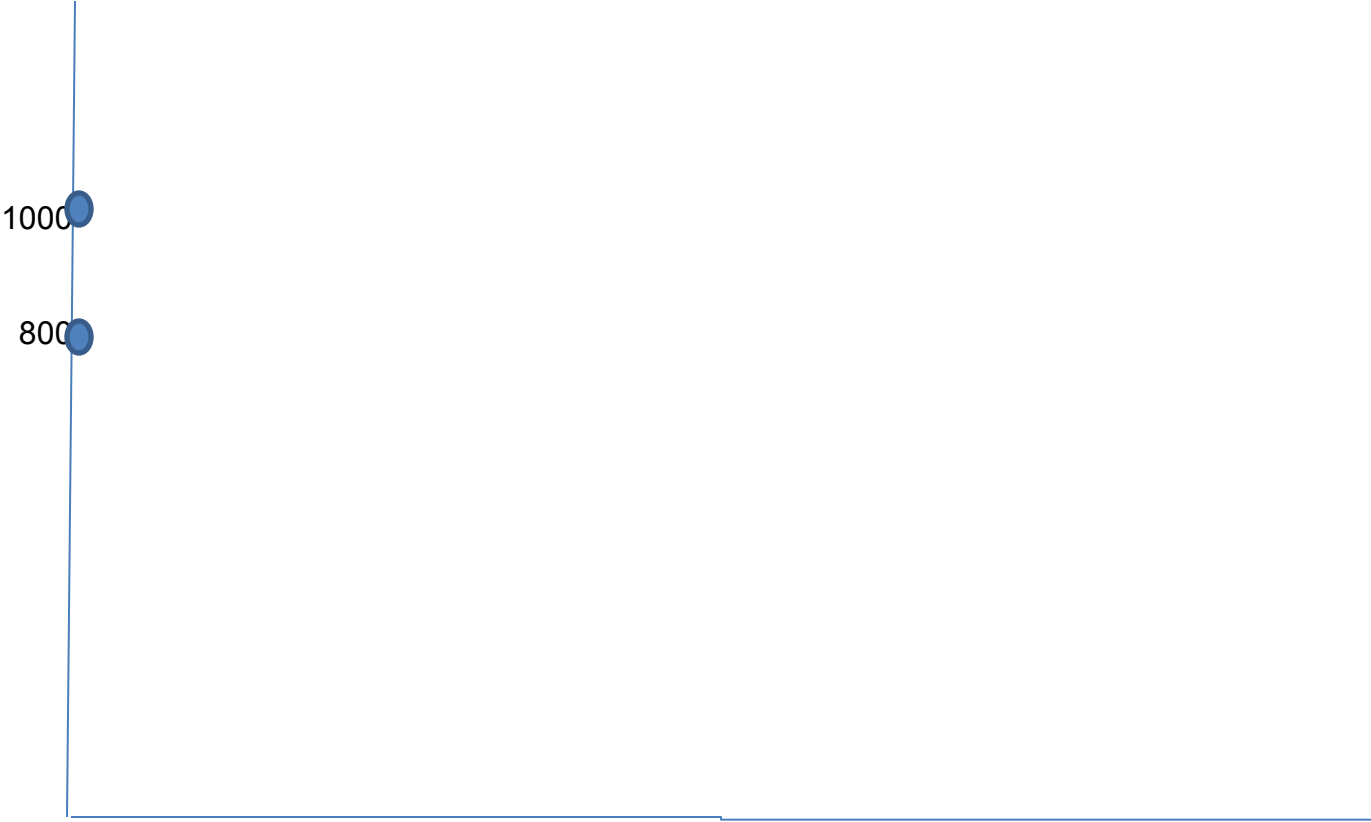
Indexation

- 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.

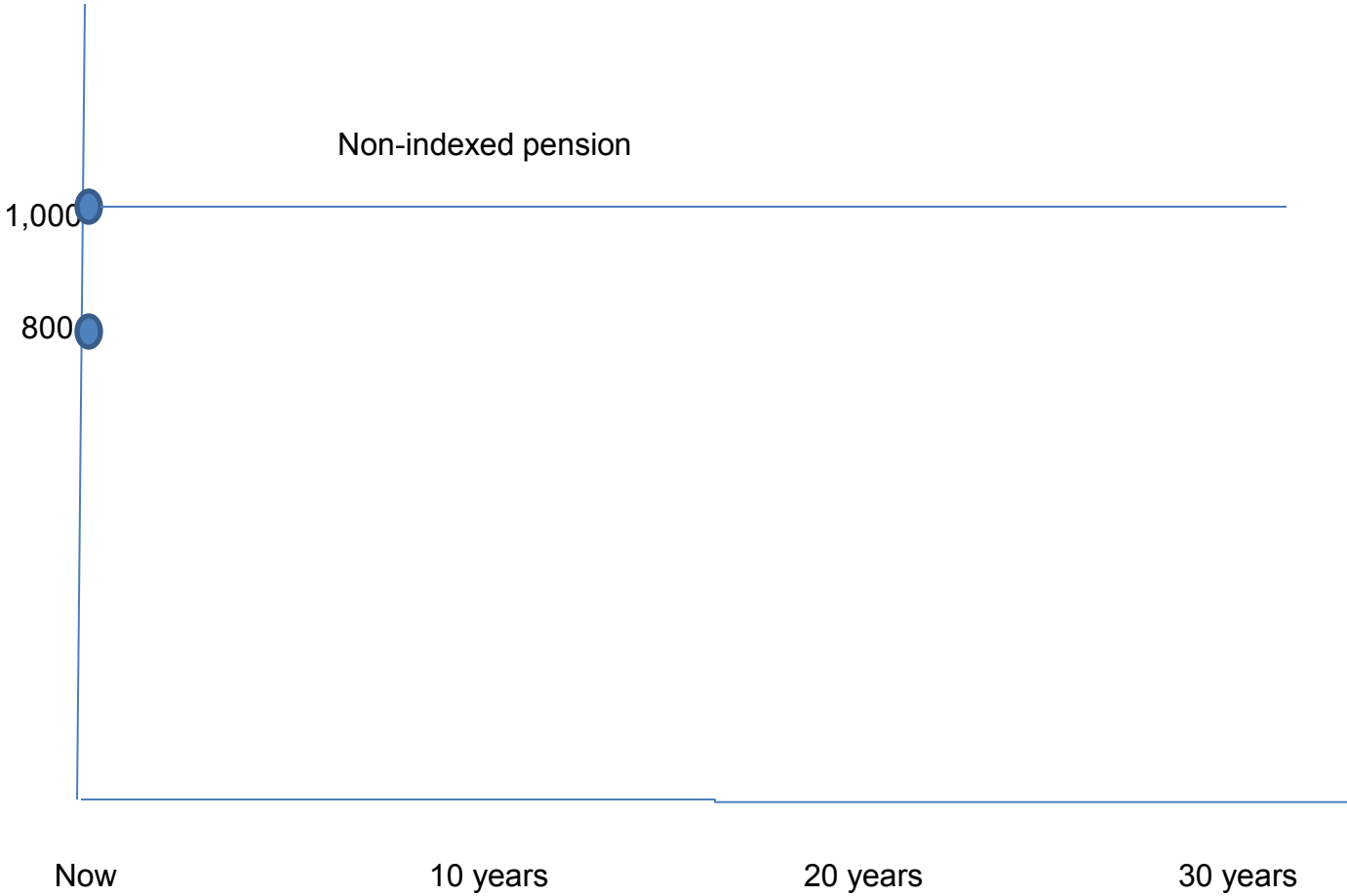
Indexation



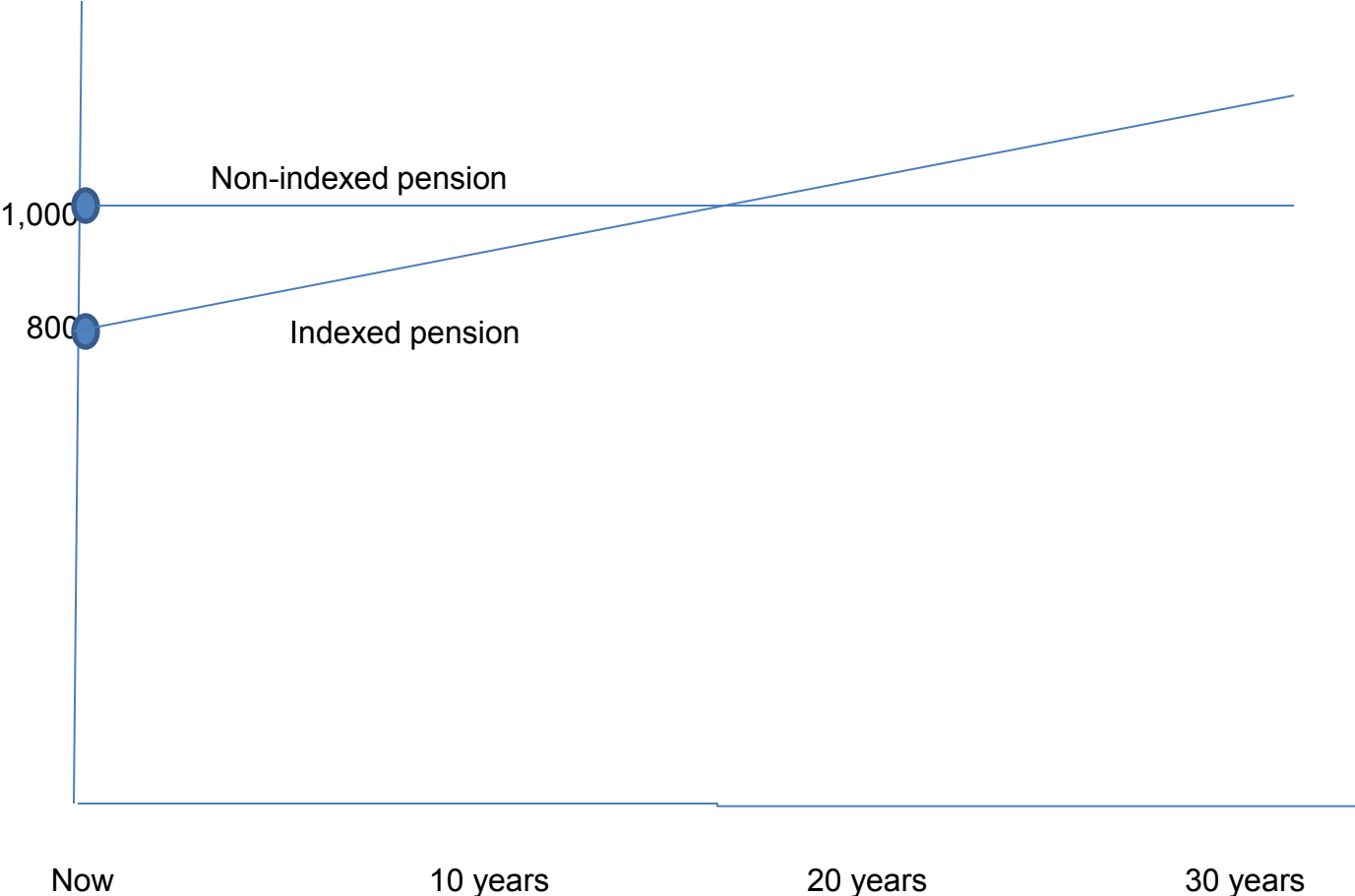
Indexation



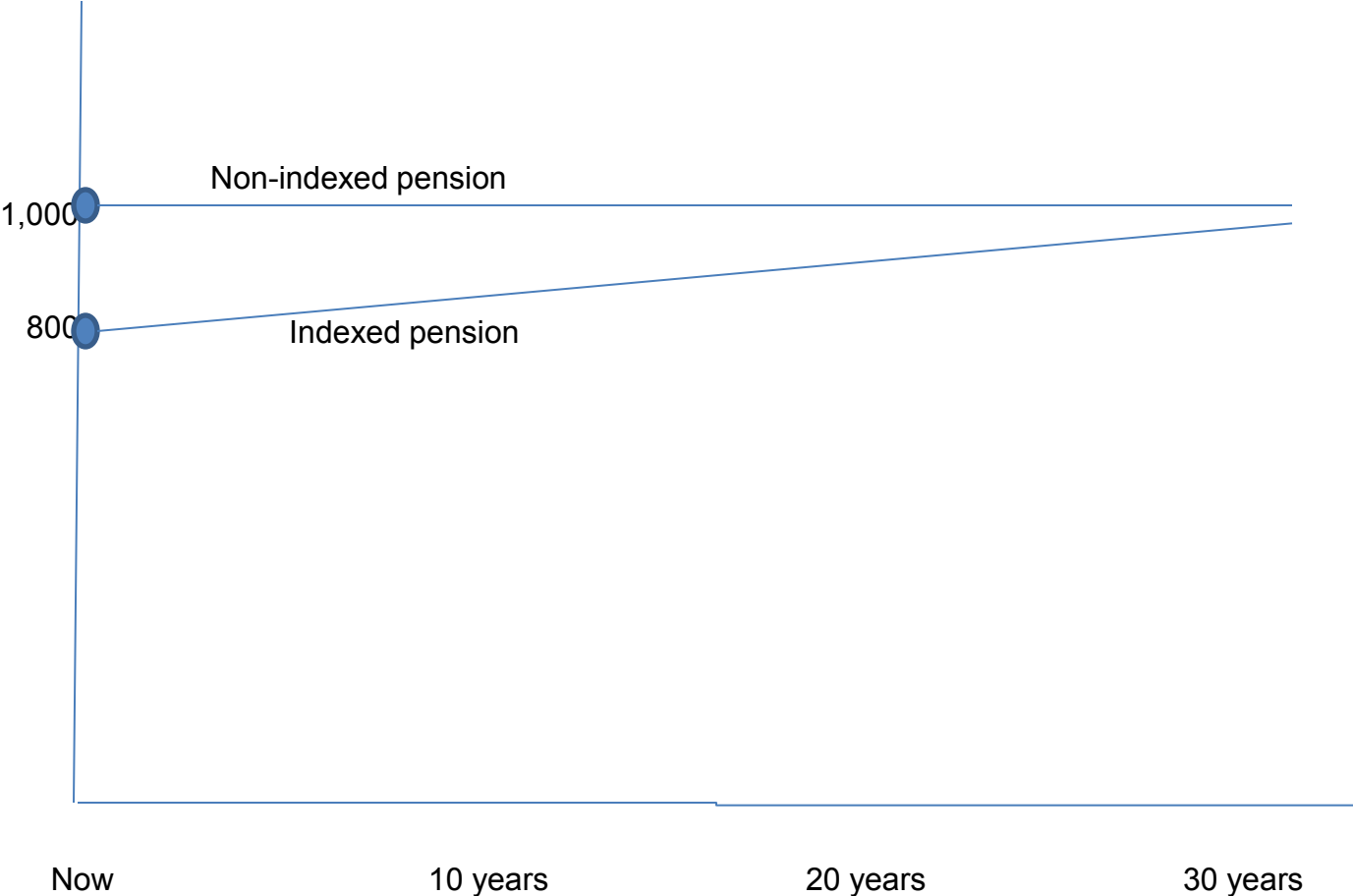
Indexation



Indexation



Indexation



Indexation



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, later at 69% up to our appointment)

Partially Paid Members

- Partially paid members with service in Quebec are not entitled to any supplemental payment, since the final funded ratio is lower than what they were already paid.
- They have a residual claim against the estate of Nortel, and when CCAA money is received, they will receive a pro-rata share of those proceeds.

The CCAA Claim

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

The CCAA Claim

- It is very important that you and/or your survivors remain in touch with Morneau Shepell 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

- 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 final funded ratio is lower than the estimated ratio that we have been paying, then you have been overpaid since the wind up date and your pension will be adjusted to recover this payment.
- Additional adjustments will be made for indexation, etc.

Timing

- Your option forms were mailed out late August/September, 2016.
- Options forms must be returned to us by December 31, 2016.
- If you fail to return the option form, we will settle your benefit under the default option noted in your letter.
- We intend to settle benefits for non-Ontario members (not including any CCAA proceeds) by June, 2017.

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 1-877-392-2073



Business. Needs. People.

Thank You.