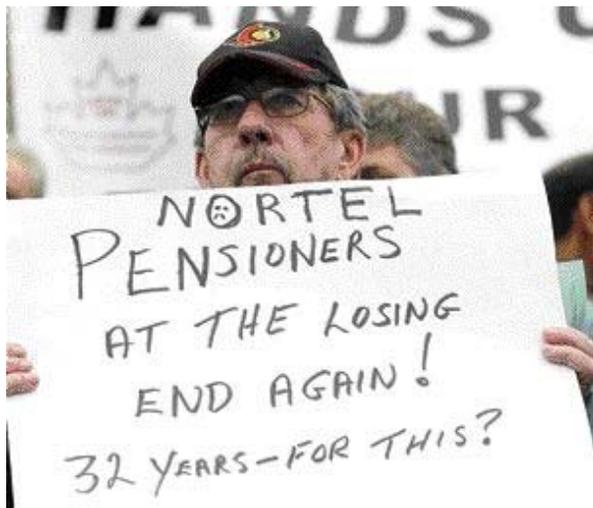


Nortel leaves \$37M health-fund gap

BY BERT HILL, THE OTTAWA CITIZEN FEBRUARY 23, 2010



Former Nortel employees joined workers from paper mills and steelworkers as more than 5,000 people attended a demonstration on Parliament Hill to protest the lack of pension protection.

Photograph by: Pat McGrath, The Ottawa Citizen, The Ottawa Citizen

OTTAWA — Nortel Networks has left a \$37-million shortfall in a trust account that supports pensioners' medical, dental and life insurance as well as income support for some groups, says Ernst & Young.

The court-appointed monitor of the bankruptcy proceedings has disclosed net assets of the fund available for benefit payments as of Dec. 31, 2008 were about \$123 million, of which \$37 million was "due from (the) sponsoring company." The company filed for insolvency Jan. 14, 2009.

The failure to fund the plans "put us in a very difficult position," said Don Sproule, a spokesman for Nortel pensioners.

"It means the most we can get in terms of replacement coverage will be a very basic health-care plan. It will be nothing like the coverage we received under the Nortel plan."

The final status of the health and welfare trust (HWT) will be determined in coming months. The Nortel groups will then have to use the remaining assets to try to buy new coverage. Getting new supplementary health coverage at acceptable prices, even without the significant reduction in assets, would likely be difficult for 11,900 Canadian pensioners with an average age of 72.

Ernst & Young said there appears no recourse under rules of a plan set up in 1980.

"The monitor has been advised by its legal counsel that Nortel was under no statutory or other legal

obligations to establish or to fund a health and welfare trust and there is no regulation applicable to the HWT.

"Based on the monitor's review to date, the HWT has never had sufficient assets in the trust to pay the present value of all the benefits of the plans that are designated under it nor was it legally required to do so."

The average Nortel pensioner received \$1,168 in annual health-care benefits in 2007 from a plan that provides semi-private hospital care, dental, eye care and other benefits. The plan covers 80 per cent of drug costs, which generated more than 80 per cent of the average claim.

Sproule said the funding shortfall revelation added pressure to recently negotiate a \$57-million sunset agreement that extends full medical, dental and life insurance coverage for 12,000 people through the rest of this year.

"It appears that we have no recourse against Nortel or the plan trustee because it was governed under the different rules of 1980."

Ernst & Young estimated the market value of the assets in the trust at the end of December 2009 at \$78 million.

The monitor said Nortel used the trust as a tax-efficient vehicle, supported by a Revenue Canada ruling, for providing health and welfare benefits. It paid benefits partly from the fund and partly from general revenues.

Ernst & Young disclosed that Nortel paid \$41 million in employee and pension benefits in 2009, with \$19.1 million coming from the trust and the balance from general revenues.

This year, Nortel expects to pay \$35 million to \$40 million with \$7.9 million coming from the trust.

Mercer, a human resource actuarial firm, said that the health and welfare fund had an unfunded liability of \$158.8 million in December 2008 -- up \$11.9 million from a year earlier.

Almost 85 per cent of the liability is driven by income support and life, medical and dental benefits for 409 long-term disability recipients.

The \$57-million sunset deal prevents former employee groups from suing Nortel or its executives, except for fraud, over the management of pension and other benefit plans.

They are also barred from seeking higher priority for claims over other creditor groups when the courts hear arguments over the division of Nortel assets.

The monitor is recommending acceptance of the sunset deal, calling it "a fair balancing of the interests"

of Nortel stakeholders based on negotiations with all the groups.

The trust also provides incomes to some key groups, including surviving spouses and long-term disability recipients.

There are several hundred surviving spouses with an average age of 76.

Most are receiving small pensions based on 60 per cent of their spouse's pension. For example, the 308 spouses of unionized former Nortel employees received pensions averaging \$9,000 last year.

Another group of 82 survivors of non-union Nortel spouses are getting pensions that average about \$17,000.

Nortel paid \$2.5 million in medical, dental and life insurance benefits to those on long-term disability last year, as well as an average of about \$30,000 in income support.

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