

# Nortel pensioners to see average 18% cut in benefits

## Assets still in flux, retirees group says

BY BERT HILL, OTTAWA CITIZEN JULY 14, 2011

Thousands of Nortel Networks pensioners in the Ottawa region are facing cuts to benefits averaging 18 per cent in the first big step to winding up the insolvent company's underfunded pension plan.

The tough action starts with the monthly cheques issued Aug. 25. It's not related to the recent \$4.5-billion auction sale of 6,000 Nortel patents, although that cash should eventually restore some of the pension losses.

The Nortel Retirees Protect Canada organization protested Wednesday that provincial regulators and the pension plan administrator rejected its appeal to not act quickly or pursue conservative actuarial rules with the state of Nortel assets still in flux. The 18,500 pensioners, who now receive an average \$22,537 annually, will get individual letters shortly detailing their specific positions under a complex wind-up formula.

NRPC said the pension cuts will be "very painful for many and severe for some" who live in provinces which, unlike Ontario, have no pension insurance plans. Pensioners in those provinces face cuts averaging 31 per cent.

Morneau Shepell, the actuarial company running the plan, told pensioners the cuts are necessary "in light of the plan's underfunding." It said that while the pension plan will likely receive benefits from the division of Nortel assets, "the timing and amount that we will receive are still uncertain."

With an average age of 74 for pensioners and 80 for their survivors, the loss of income will be immediate while the prospect for relief is distant. About 350 pensioners were older than 85 and a couple were past the century mark at the last count in 2006.

"We have over 1,200 widows and widowers whose pensions average \$9,800 per year, so these will be reduced significantly outside Ontario," said Anne ClarkStewart, a pensioner representative. "For those with pensionable service within Ontario, they will be kept whole if their pension is \$12,000 per annum or less."

The cuts will start with a basic 30-per-cent reduction in Ontario, which has no pension indexation protection, and 41 per cent in other provinces with pension indexation. Morneau said the indexation right effectively reduces the value of pension plans.

The pain doesn't stop there. Morneau will cut pension payments by up to seven per cent more because the pensioners have been receiving full benefits since last October when Nortel officially cut the battered, \$5-billion plan loose. The amount will vary according to the life expectancy and overpayment of each Nortel pensioner. The Ontario pension insurance plan, which tops up the first \$1,000 of monthly income, will soften the blow for work service in the province. The Ontario government

estimates the average Nortel non-union employee who worked exclusively in Ontario will experience an 18-per-cent reduction in benefits. Unionized employees at Nortel plants in Belleville, Brampton, London, Kingston and Brockville will get a cut of just six per cent because their benefits are much lower.

People who worked all or part of their careers outside Ontario in big Nortel operations in Calgary, Montreal and elsewhere will get hit harder.

The Ontario government estimates they face average cuts of 31 per cent for non-union and 25 per cent for unionized employees.

The many Ontario employees who had lengthy work stints in those provinces will face additional cuts. The lucky few whose careers included work in the U.S. and Britain could do better because those countries have richer pension insurance schemes covering up to \$60,000 of annual pension income.

The Canadian Nortel pensioners will likely regain a significant part of their lost benefits once \$7.6 billion in asset sale proceeds plus some Nortel cash are split among creditors. But the claims could rise as high as \$24 billion and there is no consensus in the global fight for a piece of the Nortel pie. The latest mediator, Warren Winkler, the chief justice of Ontario, has a huge challenge.

Ontario finance minister Dwight Duncan said the Nortel pensioners will get the opportunity to invest their re-duced pension proceeds in new investment vehicles following a long campaign by their leaders. "Nortel pensioners asked for greater flexibility with their retirement funds, and the McGuinty government has delivered," he said.

But that plan is still in negotiation and the official windup of the Nortel plan is not expected until late next year at the earliest. "One point that seems to be lost in all of the discussions on the estate payouts is that the (Ontario Pension Benefit Guarantee Fund) will be paid back from the Canadian (Nortel assets) before any money goes in to top up the pension funds for the remaining shortfall," ClarkStewart said.

A Nortel creditor lawyer said Monday that the huge patent sale was "truly a 'wow' transaction" as Ontario and Delaware courts quickly approved the sale to an Apple-led consortium of technology giants. It was the biggest patent deal in history and could shift the technology power balance against Google, the rising search giant. The future of the Nortel patents will likely be primarily an Apple story. A Nortel account of the climactic auction of 6,000 patents for \$4.5 bil-lion - more than five times the original starting bid by Google - show that the winning Apple-led Rockstar Bidco group put up a \$54-million good-faith deposit to seal the deal. Apple contributed half and other members, including Research In Motion, EMC, Ericsson, Sony and Microsoft, put up the rest. That is likely the closest we will get to finding out whether the Nortel patent trove will be divided proportionately or held in a trust. Many observers think the patents will be used as a defence against patent suits - or a blunt instrument in future legal wars with Google.

The bidding went through 19 rounds after five groups started the race. Apple bailed in the fifth round before coming back to bankroll the winning Rockstar group. Intel dropped out in the sixth round and

then supported the Google-led Ranger group. For 10 rounds the Apple and Google groups slugged it out in \$100-million increments before Google bowed out. The reason was that in the battle of the balance sheets, Google's \$37 billion in cash reserves could never match the \$99 billion at the disposal of the winners. Google will get \$29 million as a break fee and to cover expenses for negotiating the starting bid.

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