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Canada



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NOT CPP-APPROVED**

**NOTICE
LONG TERM DISABILITY (LTD) – DEDUCTION CHANGES**

Canada Pension Plan (CPP)/ Quebec Pension Plan (QPP) Changes:

This is intended to advise you that, retroactive to January 1, 1999, CPP/QPP contributions will not be applied during the LTD period. CPP/QPP contributions will no longer be deducted from your monthly LTD benefit payment. Consequently, your LTD benefit payments, commencing March 1, 1999, will increase by the amount normally deducted for CPP/QPP contributions.

Why the Change?

The change stems from our consultants' review of tax issues related to the LTD program. That review determined that, since the LTD plan is a "wage loss replacement plan" funded under the Northern Telecom Health and Welfare Trust (HWT), CPP/QPP contributions should not apply to LTD benefit payments. The other required change is that LTD benefits will be reported on a T4A tax slip rather than a T4 tax slip.

Does This Change Affect Me?

- ✓ You will receive an increase in your monthly LTD benefit by the amount of CPP/QPP that is no longer applicable.
- ✓ Your accrual of CPP/QPP benefits will cease during your LTD period. This may result in a reduced CPP/QPP benefit when you become eligible for such payments.

For your information, CPP/QPP considers many different factors when calculating a retirement benefit. For instance, if you have 120 or more months of "eligible service" for purposes of CPP/QPP, any potential impact of this change may depend on the length of time you have received LTD benefits but have not contributed to CPP/QPP. Since CPP/QPP does not consider up to 15 percent of your lowest period of employment income, your receipt of LTD benefits for a time may/may not affect your CPP/QPP retirement benefit.

If you want to know how this change may affect your future CPP/QPP retirement benefits, you may wish to contact your local CPP/QPP government office to discuss your personal situation.

- ✓ Your LTD benefits will continue to qualify as "earned income" for RRSP contribution purposes. You may choose to invest the increased amount of your monthly LTD benefit payments to safeguard against any potential affect on your future CPP/QPP retirement benefits.
- ✓ LTD benefits received during 1999 and subsequent years will be reported on a T4A (Box 28) tax slip, rather than on a T4 (Box 14) tax slip. Similarly, for Quebec employees, LTD benefits will be reported

in Box 0 rather than Box A on the Releve 1 tax slip. You will receive more information regarding this in *February 2000* when you receive your *1999 tax slip*.

- ✓ CPP/QPP contributions paid in January and February 1999 will be repaid to you in the following manner. Your year-to-date CPP/QPP contributions will be added to the "income tax deducted" box on the T4A/Releve 1 slips. Your 1999 over contributions to CPP/QPP may be refunded to you at the time you file your personal income tax return, depending on your personal tax situation.

What are the Other Changes?

Dependent Life – Effective March 1, 1999, the Company will waive the premium payment for Dependent Life coverage of employees receiving benefits under the Nortel LTD plan. The premium waiver provision will not impact current Dependent Life rates. As a result of this change, commencing with your March benefit payment, there will no longer be a deduction for Dependent Life coverage.

Investment Plan – Commencing April 1, 1999, your contributions will no longer be deducted from your LTD benefit payments. Since disability income under a "wage loss replacement" plan is reported on a T4A tax slip, payroll-type deductions will no longer apply to disability payments.

To continue your contributions to the Investment Plan, you can pay Sun Life directly. Your lump sum contributions will be deposited on the day Sun Life receives them. Currently, funds deducted from LTD benefits are not deposited to your plan until the end of the following month from when the funds were deducted.

Lump sum payments are made with after-tax dollars. If you wish to contribute to an RRSP, you can wait and receive tax relief at the time you file your tax return. Alternatively, you can obtain from your local Revenue Canada office a "*Waiver Form – Request for Reduction of Tax at Source*" to request approval for lower tax deductions directly from your LTD benefit. The approved notification from Revenue Canada must be forwarded to the InfoCenter, 8200 Dixie Road, Brampton, ON, L6T 5P6, attention: Ineke Booth. Contact your local Revenue Canada office should you require more information about this form.

Who do I call if I have questions?

If you have questions about any potential affect on your CPP/QPP retirement benefit, you should call the Federal Government Human Resources Department. The phone numbers are:

CPP: 1-800-277-9914
QPP: 1-800-667-9625

Call Sun Life at 1-800-771-7940 for any questions relating to how you can make lump sum payments to your Investment plan.

Should you have other questions, call the InfoCenter at 1-800-684-4636 for assistance.