



I'm pleased to report that we have reached an agreement with Great-West Life through which active Nortel employees in Canada will have long-term disability coverage with insured benefits on a go-forward basis effective August 1, 2010.

### **The new competitive benchmarks**

In light of Nortel's circumstances, we explored the market for long-term disability coverage to determine what was available for a group of Nortel's size going forward. We were looking for coverage at affordable group rates, featuring benefits that would survive Nortel. In doing so, certain market realities became clear. One is that our current plan was designed in a much earlier time for a very different company. When we looked at what Canadian companies of a similar size are offering now, we found that the norm is employee-paid plans at rates lower than an individual would have to pay on the open market, with automatic enrollment for active employees without reference to medical history.

Participation in group plans like this is mandatory, since from the insurer's point of view, the risk profile is too high if you allow people to opt out. In order to make this group coverage available to those who may need it, we must have everyone participating, not just those who might anticipate needing coverage in the near term.

### **The Great-West Life solution**

The second reality is that it was not easy to find an insurance company willing to come to the table with a long-term disability plan for a company that is in insolvency proceedings and not able to commit to a long-term relationship. Our benefits philosophy continues to be that it is important to provide employees with insurance against unpredictable catastrophic events like the need to go on long-term disability. Great-West Life was willing to offer Nortel employees a plan with comprehensive coverage that is in line with benchmarks and offered at a competitive cost.

### **How it will work**

- While you remain in Nortel's employ, you will be covered for 50% of your salary (up to a maximum benefit of \$8,000 per month) in the unfortunate case that you become disabled for longer than the period covered by the Short Term Disability program (STD).
- You will continue to receive LTD benefits until you reach age 65 or are no longer disabled.  
To be eligible for coverage you must be under age 65 and you must have

been actively at work (not on STD or LTD) on May 1, 2010. If you meet these requirements, you will automatically be enrolled.

- The full cost of the plan will be deducted from your bi-weekly pay. We expect the deductions to begin with the August 13 pay. The amount deducted will be based on your salary (with a cap at \$192,000, reflecting the benefit maximum), and will be approximately 1% of each pay period total.
- Unlike the current plan, there is no option to “top up to 66.66 %” the percentage of salary you would receive should you go on LTD. If you selected this option in last year’s benefits enrollment, you will see on your August 13 pay that the premium is no longer being deducted.
- We are also eliminating the top-up option for STD, as the employer-paid portion of this is more expensive than we can justify. If you selected this option in last year’s benefits enrollment, those deductions will also cease.
- Flex credits cannot be applied to the LTD premium. Any leftover flex credits will be directed to your Healthcare Reimbursement Account (HCRA) or paycheck based on your current election.
- Because you will now pay the full cost of the LTD plan, any benefits you receive will not be taxable (the LTD payments under the current plan are subject to income tax).

### **Summing it up**

There are clearly some trade-offs in this new arrangement, but I’m confident that it is in keeping with our benefits philosophy and provides employees with the appropriate protection. Our research tells us that individuals seeking disability insurance on the open market would pay higher rates than the cost of this coverage – assuming they have no pre-existing medical conditions and can meet the eligibility requirements. Two key aspects of this plan are:

- Great-West Life is insuring the plan, so for those who become eligible to receive these benefits, payment of the benefits will continue even after Nortel ceases to carry on business. Our current LTD plan is self-funded and relies on Nortel.
- Because the new plan is fully paid for by employees, any benefits paid out under the plan are not subject to income tax.

At the same time, I recognize that the employee-pay arrangement is a change from the past. We are a much smaller company than we once were and what we are offering is competitive with our new Canadian benchmarks.

You will be provided with an employee policy booklet as we get closer to the August 1, 2010, effective date.

Elena King  
Senior Vice President, Human Resources

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## **FREQUENTLY ASKED QUESTIONS**

### **What's the bottom line for me?**

For as long as you remain employed by Nortel, you have the comfort of knowing that should you become disabled, you have long-term disability coverage that doesn't depend on the continuing existence of the company to pay benefits. It will cost you about 1% of your salary, deducted automatically each pay period. Because you are paying the full cost of the plan, any benefits you receive would not be taxable. Benefits would continue until you turn 65 or are no longer disabled.

### **Can I choose to opt out?**

No. No insurance company was willing to provide group rates unless all employees in the group participate, because they can't afford to have only those people who anticipate needing LTD in the short-term signing up. To provide this coverage to those who may need it, everyone must participate. Such employee-paid, mandatory plans are standard among companies of our size in today's market.

### **Why are the STD and LTD top-ups being eliminated?**

The coverage available to us did not include an LTD top-up option. The employer-paid portion of the STD top-up is no longer viable for us. If you selected either of these options in last year's benefits enrollment, you will see on your August 13 pay that these premiums are no longer being deducted.

### **Does this plan have any impact on people already on LTD under the current Nortel plan?**

No. This is a new and separate plan and has no affect on benefits payable under that plan.

### **Why is this plan a good deal for employees in Canada?**

Unlike in some other jurisdictions, LTD insurance options in Canada for groups and individuals are few and they are expensive. Our research tells us that individuals seeking coverage on the open market would pay higher rates than the group rates Great-West Life is offering. Qualifying for an individual plan on the open market is not automatic, and anyone with a pre-existing medical condition could have difficulty securing coverage at all. Nortel's new LTD plan for active employees provides automatic coverage to all and is similar to what's offered by other companies our size in Canada.

**If I am on STD on August 1, 2010, will I be eligible for the new LTD plan?**

If you were actively at work on May 1 and have not received STD benefits for 13 weeks or more during the period January 1 - July 31, 2010, you will be eligible for the new LTD plan once you have returned to full time active work. Otherwise, you will continue STD and LTD benefits under the current plan through year-end.