Induced Bankruptcies Cost Canadian Taxpayers Billions of Dollars
Federal Government Not Stopping the Abuses

PREPARED BY: **Diane A. Urquhart**
Independent Financial Analyst
Tel: (905) 822-7618
Cell: (416) 505-4832
urquhart@rogers.com

DATE: **November 19, 2009**

Contents

Overview

The credit default swap (CDS) invention of 1997 and the trend of private equity funds making leveraged acquisitions of large public corporations over the past decade are causing a proliferation of bankruptcies today in both the U.S. and Canada. The damages to the Canadian taxpayers and the economy from these induced corporate bankruptcies will be in the billions of dollars.

Canadian Federal bankruptcy laws are allowing corporations to walk away from their employee benefit obligations and to download onto Canadian taxpayers the additional costs for public social security programs and lost income taxes from the former employees whose employee benefits are being severely cut. For example, I estimate that the Nortel liquidation will cost Federal and Provincial Governments at least $355 million in additional social security program expenditures and reduced income tax revenues, even though Nortel will have an estimated $6 billion plus of cash in its global bankruptcy estate. The Canadian economy will experience the multiplier impact of an estimated $1,593 million of after-tax income and health care benefits lost by Nortel's close to 25,000 affected Canadian pensioners, survivor pensioners, active and deferred beneficiaries of the pension plans, long term disabled and terminated employees.

The recommended Bankruptcy and Insolvency Act (BIA) Amendment is to give preferred status for employee benefit claims over unsecured creditors. This is the best short-term and long-term solution to prevent corporations from walking away from their pension and long term disability plan deficits and unpaid severance, when there is money in the bankruptcy estate. This BIA Amendment ensures that Canadian taxpayers' interests are protected from the increased social security program costs and lost tax base that induced bankruptcies cause.

The Incentives for Bankruptcy from Credit Default Swaps and Private Equity Practices

Prior to the invention of credit default swaps, there was no vehicle for bond owners to transfer the risk of a credit default or other credit events to third parties. In a CDS, the bond owner "sells" his credit default risk to a counterparty who "buys" this risk. The "buyer" of the CDS pays fees in the form of upfront and regular annual payments to the "seller" of the CDS, similar to how you pay premiums for car insurance. In return, the seller agrees to pay the buyer of the CDS cash to cover the credit default damages (and to cover marked to market losses on the CDS in the interim). The "seller" of the CDS is effectively acting as an insurance company, just like your car insurance company reimburses you for your car accident damages. But the sellers of CDSs are usually conduits representing public investors and not large insurance companies. This phenomenon of securitization of credit default insurance has created a raft of abuses because the people who pay for the credit default damages hardly knew they were involved in insurance and so they have not asked for proper pricing of the risk, do not constrain bankruptcies from occurring, and do not have rigorous damage assessment procedures.

In fact, many sophisticated investment players can now make a profit from bankruptcies due to CDSs: (1) sophisticated players can buy CDS contracts without owning a comparable amount of bonds being insured (these can be private equity owners driving corporations into bankruptcy or pure CDS speculators); and, (2) even the bond owner using CDSs for pure hedging purposes can make a profit because his CDSs are settled within 30 days of the bankruptcy protection announcement, when the bond price is usually at its lowest point. The original bond owner gets to keep his bond. His CDS cash settlement is often greater than the actual bond loss he bears when the liquidation occurs at a higher recovery amount at a later date in the bankruptcy process.

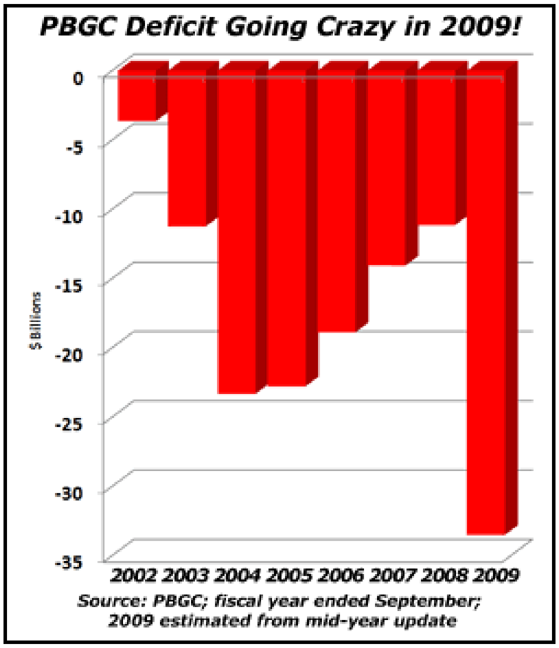
On November 17, 2009, the Office of the Special Inspector General of the Troubled Asset Relief Program released it audit on the U.S. Government's bailout of the large U.S. insurance company, AIG. The report is critical of Goldman Sach's conduct during the crisis of AIG because it was indifferent to AIG's bankruptcy prospects due to the full hedging of its AIG bonds using CDSs. The consequence of this Goldman Sachs' hedged exposure to AIG was that the U.S. Government bought AIG's credit default swap counter-parties' collateralized debt obligations at their full face amount, without achieving any concessions from Goldman Sachs, other U.S. banks and international banks holding these CDS contracts. The U.S. Government has spent $115 billion to bailout AIG, due to the impacts of the unregulated and undisclosed CDS positions of the AIG bond holders and AIG CDS counter-parties.

The private equity funds have put little equity into their investments, relying upon leveraged loans to complete their massive purchases. These private equity funds have generally made money from cash distributions extracted from the acquired companies before they filed for bankruptcy. CDSs have been available to hedge the banks offering the leverage loans used by the private equity funds. This would partly explain why such risky loans were made because the lenders were off-loading the risk onto the CDS sellers.

On November 5, 2009, Moody`s released a new report concluding that about 19.4 percent of corporations bought by the 14 largest private equity firms from January 2008 to September 2009 have defaulted, slightly more than the 18.6 percent default rate for similarly rated companies not bought by private equity firms. Moody’s concludes “The default rates may be similar now, but in the future they may be higher.” The 10 largest companies bought by private equity firms are performing worse than similar stand-alone companies or smaller private equity deals, according to the new Moody`s report. Four of the 10 companies have defaulted on their debts, one is about to, and at least three have done special deals — called distressed exchanges — to reduce the debt loads placed on them by private equity transactions, the report says.

The U.S. Pension Benefit Guaranty Corporation (PBGC) on November 13, 2009 reported as shown in Figure 1 that its potential exposure to future pension losses from taking over the defined benefit pension plans of corporations that have filed for bankruptcy had increased to about $168 billion in fiscal 2009 from $47 billion a year earlier. The U.S. PBGC guarantees US$52,000 annually of American pensions, equivalent to CDN$57,000 on November 17, 2009. (The U.K. Pension Protection Fund guarantees GBP 28,743 annually of U.K. pensions and long term disability income, equivalent to CDN $51,000 on November 17, 2009).

Figure 1



Canada is facing the same trend for bankrupt companies to walk away from underfunded pension plans as in the U.S. But in Canada, it's the pensioners taking the hit, whereas it's the U.S. Pension Benefit Guarantee Corporation absorbing the cost in the U.S. Canada has no national public pension or disability guaranty insurance. Ontario refuses to honour its commitments under the Ontario Pension Benefit Guaranty Fund Program, which was suppose to protect the first $1000 per month of pension income.

The Bankruptcy and Insolvency Act Amendment Requested

The recommended Bankruptcy and Insolvency Act Amendment is to give preferred status for employee benefits over unsecured creditors. This is the best short-term and long-term solution to prevent corporations from walking away from their pension and long term disability plan deficits and unpaid severance, when there is money in the bankruptcy estate. This BIA Amendment is recommended, whether or not Canada decides to introduce a public pension and disability benefit guaranty program similar to that of the U.S. or U.K. The BIA Amendment prevents the downloading of unpaid employee benefits onto Canadian pensioners, long term disabled and terminated employees and onto the taxpayers who must pay for the additional use of Canada's social security programs and the lost income taxes from abandoned former employees of bankrupt companies.

The Federal Government`s assessment of how preferred status for employee benefit claims would affect the cost of credit for ongoing concerns should be based on studies and the views of successful mature businessmen and businesswomen running corporations, which are discussed later in this report. Public policymakers should not err by accepting the fear-mongering and rhetorical claims of investment bankers, money managers and junk bond owners who have no studies to back up their claims.

Induced bankruptcies caused by unregulated and undisclosed credit default swap market and private equity firm practices are harming the Canadian economy and its citizens. The BIA Amendment is a good way to have corporations pay for the employee benefits they promised and that the Provinces legislated they paid. Also, the BIA Amendment will offset the bias that now exists to liquidate corporations rather than make efforts to restructure as a going concern, since it will be better for the bond holders to seek compromise from the employee groups than bear the full cost of their preferred creditor status in liquidation.

The CCAA judge can force the Nortel liquidation to be done under the Bankruptcy and Insolvency Act (BIA) after the Companies Creditors Arrangement Act (CCAA) proceeding. If he chooses not to do so, then the Canadian creditors can insist they have the right to vote under the CCAA. Nortel will abide by the new BIA law, and its junk bond holders are unlikely to formally oppose the change. No law could ever be changed if retroactivity was considered illegal by the courts.

Nortel Liquidation Causing Nortel Income and Health Care Benefit Cuts of -35% to -85%

The percentage declines in income and health benefits expected for each of the groups affected by the Nortel liquidation is shown in Figure 2. Figure 2 shows the percentage decline in income and health benefits caused by the Nortel liquidation on the promised Nortel employee benefits and also on total income and health benefits, taking into account the Canada Pension Plan, Old Age Security and Guaranteed Income Supplement Pension and Survivor Pension, Canada Pension Plan Disability, and Employment Insurance. Figure 1 impacts are on a pre-tax basis. TABLES 1 to 4 showing the full details of the income and health benefits before and after the Nortel liquidation are in the Appendix of this report.

Figure 2

Impact of Nortel Liquidation on Income and Health Benefits (Pre-Tax)

	Nortel Provided		Nortel & Government (1)	
	Worst	Best	Worst	Best
Nortel Liquidation Cash Settlement Ratio	15%	45%	15%	45%
TABLE 1: Nortel Pension Benefit	-40%	-35%	-25%	-20%
TABLE 2: Nortel Long Term Disabled Benefit	85%	55%	60%	40%
TABLE 3: Nortel Survivor Pension Benefit	-45%	-40%	-20%	-20%
TABLE 4: Nortel Severance Benefit	-85%	-55%	-60%	-55%

(1) Key Government Programs Providing Income
Canada Pension Plan Pension
Old Age Security
Guaranteed Income Supplement
Canada Pension Plan Disability
Canada Pension Plan Survivor Pension
Canada Employment Insurance

The degree of Nortel income and health benefits cuts for the Nortel group is expected to be in the range of -35% to -85%. The consequence of these Nortel cuts is that the total income and health care benefits of the affected 24,674 persons will be cut by in the range of -20% to -60%, after taking into account the Canada Pension Plan, Old Age Security and Guaranteed Income Supplement Pension and Survivor Pension, Canada Pension Plan Disability, and Employment Insurance (13,715 pensioners and survivor pensioners, 9,049 deferred and active pension plan beneficiaries, 410 long term disabled employees and 1,500 severed employees.)

Nortel's long term disabled employees have the severest damages amongst the four employee groups because: their future disability income has been deeply underfunded in a self-insured plan, Nortel has stopped making new cash contributions into the Health & Welfare Trust (H & WT) to pay for the current LTD income and so the capital in the H & WT is being depleted by current long term disability income being paid during the restructuring period; the long term disabled employees have heavy health care costs estimated at $12,000 annually whose reimbursement will be cut off at the time of Nortel's liquidation; the long term disabled are being threatened to lose their health benefits sooner if they attempted to shut down the H & WT to get their capital out now before it is depleted during the remainder of the restructuring period; the CPP Disability Income is a low $13,272 annually and the long term disabled cannot go back to work.

"You're No Worse than Everyone Else" Argument Wrong for 5 Reasons

Federal Industry Minister Tony Clement and some academic pundits say that the expected Nortel pension income cuts of about 30% are no worse than what Canadians without defined benefit pension plans have experienced and hence no federal government action is required on the Nortel liquidation. Those making the "you're no worse than everyone else" argument are wrong in five respects:

(1) Employee benefits adversely impacted by Federal bankruptcy laws are unlike personal retirement savings and defined contribution retirement plans because they are promised deferred wages that are part of the employees' total financial compensation and their employment contract.

(2) Provincial laws already provide for employers being forced to pay for defined benefit pension plan deficits and severance, and it is federal bankruptcy laws that oust these protections when corporations file for Federal bankruptcy protection.

(3) When Federal bankruptcy laws allow corporations with cash available to nonetheless walk away from their employee benefit obligations, they are requiring that the taxpayers without employ benefits pay more taxes for the social security programs that will be used by the pensioners, survivor pensioners, long term disabled and terminated employees of corporations who file for Federal bankruptcy. **The Canadians without employment benefits have to pay more taxes and get no improvements in their own social security benefits because the Canadians who had employee benefits are pushed onto these social security programs**.

On the other hand, the junk bond holders of the liquidating corporations have had access to the credit default swap market to insure their credit default losses. The junk bond holders owning credit default swaps have a compelling new reason to push corporations into bankruptcy in order to trigger credit events so as to collect on their insurance. These hedged junk bond owners often double dip on their insurance and make profits from the bankruptcy. Their profits are at the expense of Canadian taxpayers supporting Canada's social security programs and lost tax revenues from the employees losing their employee benefits when their employers file for bankruptcy. I explained how bond holders make profits on bankruptcies in the following research report:

Bond Owners Use Credit Default Swaps to Gain, While Pensioners, Disabled and Terminated Employees Told to Share the Pain
http://ismymoneysafe.org/pdf/NortelCreditDefaultSwapsandBIAPreferredStatus08042009.pdf

(4) The degree of Nortel pension and health benefit cuts are in the range of -35% to -55% in even the best case scenario where the Nortel Canada Estate gets a cash settlement of $0.45 per dollar of creditor claim at the same level as the U.S. and U.K. Estates . The cuts are -40% to -85% in the realistic scenario, where the Canada Estate gets a cash settlement ratio that is substantially less at $0.15 per dollar of claim.

- Without an Ontario Pension Benefit Guaranty Fund payment, the Nortel pensioners are expected to take a cut of -35% to -40% of their combined pension income and health benefits from Nortel. (TABLE 1).

  Pensioners with pension income cuts had their RRSP contribution room reduced by the Registered Pension Plan contributions and so when the pension plans are wound up upon employer bankruptcies, the pensioners have a permanent loss in income. Whereas the other Canadians saving for their own retirements through RRSPs have prospects for recovery of their retirement assets as the capital markets recover over time.

- The Nortel long term disabled employees are expected to take a cut of -55% to -85% of their combined LTD income and health benefits from Nortel (TABLE 2). In the worse case, the Nortel long term disabled employees will have their total income taken down to close to the $13,272 provided by CPP long term disability as first payer. This is well-below the poverty line. These long term disabled employees will also lose most of their health care benefits that are estimated to be $12,000 per year, so there will be little money left over for their food and shelter.

  The Nortel LTD employees were mislead before 2005 about their long term disability benefit being insured and after 2005 were still mislead that while the LTD plan was self-insured and that Nortel took all the risk as if it were an insurer. Nortel also potentially breached the Quebec and Canada Charter of Rights and Freedoms by exploiting its LTD employees and not providing them with security for their LTD benefits, a large portion of which they paid for with their own contributions.

- Without an Ontario Pension Benefit Guaranty Fund payment, the Nortel survivor pensioners are expected to take a cut of -40% to -45% of their combined pension income and health benefits from Nortel. (TABLE 3).

  These survivors whose spouses were gainfully employed at Nortel are being brought down to under $21,000 per year, which is close to the poverty level. Nortel top executives are being paid Annual Incentive Plan bonuses, Key Executive Incentive Bonuses or Key Employee Retention Bonuses for cost cutting that includes putting survivors close to the poverty line.

- The Nortel terminated employees are expected to take a cut of -55% to -85% on their unpaid severance and health benefits, where the example assumes a person making $50,000 per year, working 20 years and has severance pay of 3 weeks per year of service. (TABLE 4)

(5) The Federal and Provincial Governments' civil servants and many elected representatives of our Governments are the beneficiaries of public defined benefit pension plans and health benefit plans, where their employers are not likely ever to file for bankruptcy. These public employees are not suffering cuts in their pension income and health benefits and yet Nortel pension income cuts are said to be no worse than what other Canadians are experiencing.

Explanation for the Worst Case and Best Case Range of Nortel Liquidation Damages

The best case scenario is where the Nortel Canada Estate gets cash settlement of $0.45 per dollar of creditor claim at the same level as the U.S. and U.K. Estates . The worst case and realistic scenario is where the Canada Estate gets a cash settlement ratio that is substantially less at $0.15 per dollar of claim.

The powerful U.S. Pension Benefit Guaranty Corporation, U.S. junk bond owners and U.K. Pension Protection Fund have been depleting the Canada Estate by hoarding operating cash outside of Canada, placing cash proceeds from business sales in U.S. bank accounts, placing liens on business sale proceeds or taking advance cuts from business sale proceeds rather than having all of the sale proceeds become part of the Nortel Global Estate to be shared by all creditors, imposing non-arm's length debtor in possession financing and other inter-country loans against the Canada Estate.

According to the Fierce Wireless article on November 16, 200, it was announced that “Airvana will receive $39.6M in payments related to outstanding invoices it had with Nortel Networks, following the close of Ericsson’s $1.13B deal to acquire Nortel’s CDMA and LTE assets. The invoices are for products and services that Airvana sold to Nortel before it filed for bankruptcy in January. Airvana said that as part of Ericsson’s acquisition of the Nortel assets, which closed on Friday, the contract it had with Nortel has now been assigned to Ericsson.”

On October 13, 2009, Bert Hill of the Ottawa Citizen reports "But two U.S. government bodies are not wasting any time. They have moved aggressively to lock down some assets of Nortel Networks to protect U.S. pensioners and taxpayers. The Internal Revenue Service and the Pension Benefit Guaranty Corp. have effectively tied up the assets of two choice U.S. subsidiaries -- Nortel Government Services and Diamondware -- in the $915-million sale of enterprise assets to Avaya. By applying strategic legal pressure, they forced Nortel to make the concessions in a U.S. bankruptcy court in Delaware or face big expenses and threats to the deal."

I wrote about the problem of the Nortel Canadian estate being depleted by Nortel`s foreign creditors in the following research report:

A Cross-Border Equalization Model for the Nortel Bankruptcy Courts
http://www.ismymoneysafe.org/video/Cross-BorderEqualizationModelfortheNortelBankruptcyCourts.pdf

Federal Bankruptcy Laws Permit Induced Bankruptcy Downloading onto the Taxpayers

Nortel not paying its employee benefit obligations when there is expected to be over $6 billion of cash in the Nortel Global Estate is an example of how the Federal Government is allowing induced bankruptcies to download employee benefit obligations onto the public social security programs. For example Figure 3 below (repeating TABLE 6 of the Appendix) shows that Nortel's liquidation could be costing $114 million of additional Guaranty Income Supplement, Employment Insurance, and Provincial drug purchase assistance. In addition, Nortel not paying for its employee benefit obligations is causing an aggregate present value of lost pre-tax income of $1,543 million for close to 25,000 affected Canadians. There will be lost income taxes due to this lost income. I estimate that there will be an aggregate present value of lost income taxes of at least $241 million. So, my estimate of the Nortel liquidation's downloading onto Federal and Provincial Governments is $355 million. These are aggregate present value estimates based on per person annual income and health benefits lost for each of the noted four Nortel former employee groups.

The parties who are benefiting from the employee benefit cuts borne by the affected Canadian employees and taxpayers are the executives making bonuses due to employee benefit cost cutting, the restructuring professionals making large fees and the junk bond owners making profit on the bankruptcies due to credit default swaps or due to buying the bonds at low prices after the corporations became known to be in financial distress.

In the Appendix to this report, there is TABLE 5: Impact of Nortel Bankruptcy on Governments and Employees on a Per Person Basis, and TABLE 6: Impact of Nortel Bankruptcy on Governments and Employees in Aggregate. These TABLES assume that the Nortel affected persons do not have material income sources above their Nortel income benefits and the public social security programs. Under this assumption, the income tax loss estimate is apt to be understated due to the income tax rates being low as set out in TABLE 8 for persons receiving their Nortel income benefit sources and public social security programs only, without other income sources.

- The expected up to -40% cut in Nortel pensioners' combined pension income and health benefits from Nortel (TABLE 1) causes $102 million in lost income taxes, including incremental tax credits being paid for additional Age Allowance and Medical Expenses. The actives and deferred beneficiaries of the Nortel pension plans have present value of future lost income taxes of $84 million.

- The expected up to -45% cut in Nortel survivor pensions (TABLE 3) is going to cause the Nortel survivor pensioners, without other sources of income, to get an additional $39 million of Federal Guaranteed Income Supplement. The estimate for Nortel survivors' lost income taxes is $18 million, including incremental tax credits for Medical Expenses.

- The expected cut of up to -85% for Nortel long term disabled employees (TABLE 2) is going to cost $61 million of incremental drug assistance program spending and $10 million of lost income taxes. Provincial means tested drug assistance, such as that provided by Trillium in Ontario, is certainly going to be required. The Nortel long term disabled employees are going to have to rely on family and charity for their basic living, which Canadian society has pledged they would never have to do.

- The expected up to -85% cut for Nortel unpaid severance (TABLE 4), will have a permanent cost of $14 million on the Federal Employment Insurance system and lost income taxes of $27 million, including incremental tax credits for Medical Expenses.

  Assuming the average Nortel severed employee was paid $75,000, the estimated impact on Federal Employment Insurance is $34 million in the year of unemployment based on $22,350 of annual maximum EI available at $447 per week for 50 weeks. Table 7 in the Appendix shows that there is an estimated claw-back of the EI paid of $12,981 per person in the worst case scenario for the Nortel liquidation cash settlement of $0.15 per dollar of claim. So, the net Employment Insurance permanent cost per person is $9,369.

The U.S. and U.K. governments and U.S. junk bond owners are getting the benefit of Nortel Canadian severed workers being forced onto Canadian Employment Insurance and of Canada's lost income taxes, because Canadian bankruptcy laws have ousted the Provincial severance protection laws that require employers to pay severance.

Figure 3

TABLE 6: Impact of Nortel Bankruptcy on Governments and Employees in Aggregate Worst Case @ 15% Nortel Canada Estate Cash Settlement Ratic	Pension	Survivor Pension Assumed @ 20%	Active & Deferred	Long Term Disabled	Severance	Total
Number of Persons	9,810	3,905	9,049	410	1,500	24,674
$ Millions in Aggregate	Aggregate Present Value	Aggregate Present Value	Aggregate Present Value	Aggregate Present Value	Aggregate Present Value	Aggregate Present Value
Present Value Factor	10.70	10.70	6.76	14.72	1.00	
Government Program Incremental Costs	$0	-$39	$0	-$61	-$14	-$114
Government Taxes Lost	-$102	-$18	-$84	-$10	-$27	-$241
Government Impact Programs and Taxes Lost	-$102	-$57	-$84	-$71	-$41	-$355
Employee Lost After Tax Income	-$626	-$117	-$412	-$77	-$69	-$1,302
Employee Lost After Tax Health Benefits (Non Taxable Grossed-Up)	-$204	-$85	$0	$0	-$1	-$291
Combined Government & Employee Loss	-$933	-$259	-$496	-$148	-$112	-$1,947

Source: Diane A. Urquhart

Seniors, Disabled and Severed Employees Wrongly Asked to Bail-out Corporations

Seniors, long term disabled and severed employees of liquidating private sector employers, are being asked to be the source of "bailout money" for corporations that are said not to be able to raise credit financing. This is odd since liquidating companies are not raising new credit financing and the impact of liquidating corporations paying for their employee benefit obligations from the cash in their estates will not materially raise the cost of credit for corporations that are not liquidating.

There is a nominal impact on the overall cost of credit in the economy estimated at 0.05% to 0.26% per annum. The impact on the cost of credit is much lower after taking into account bondholders' insurance for credit default damages.

The change in the "default risk premium" for bonds when pension fund deficits and severance get preferred status is a function of the following factors:
(1) Expected Default Rate %
(2) Increase in Expected Loss %
(3) Proportion of Bonds Where Corporate Issuers Have Defined Benefit Pension Plans
(4) Likelihood that Defined Benefit Pension Plans are in Deficit at the Time of Bankruptcy
(5) A Time Factor to Produce the Annualized Cost for the Credit Default Damage

I examined the impact on the cost of credit in the following research report:

Impact of BIA Amendment on the Cost of Credit
http://ismymoneysafe.org/pdf/InterventionstoProtectNortel'sCanadaEstateforCanadiansJuly6,2009.pdf

For the corporations in financial distress or already in court administered bankruptcy protection proceedings, the employee benefit obligations may still be compromised by negotiation between the debtor corporations and its creditors. Preferred status for employee benefit obligations under the Bankruptcy and Insolvency Act is the quid pro quo for compromises from the employee groups and governments to facilitate restructurings as ongoing concerns, when all the business survival efforts ultimately fail.

COMPAS Poll Finds Business Community Supports the Requested BIA Amendment

The Canadian business community is not opposed to the Bankruptcy and Insolvency Act amendment to give preferred status to employee benefit claims over the unsecured creditors. It seems those who say that this BIA amendment would have severe ramifications for the debt markets have not done any quantitative studies to back up their claim. My many years of education and research on capital markets indicate to me that it will not be possible to produce studies to back up such a fear-mongering and rhetorical claim.

Jim Gray, former chair, Canadian Hunter Exploration; Bill Dimma, chairman emeritus, Home Capital; and Jim Gillies, professor emeritus, Schulich School of Business

have spoken out publicly in support of bankruptcy law amendment for preferred status of employee benefit claims in BNN interviews at the following webpage.
http://watch.bnn.ca/headline/october-2009/headline-october-20-2009/#clip225668

Also, you need to look at the Business Panel Embraces Harper/Flaherty Pension Reforms; Recommend Priorizing Pensions in the Event of Bankruptcy, BDO Dunwoody Weekly CEO/Business Leader Poll by COMPAS in Canadian Business for Publication November 2, 2009, found at the following link.

http://ismymoneysafe.org/pdf/CompassBusinessPanelRecommendPriorizingPensionRightsBankruptcy11022009.pdf

Table 2b: (Q2) To what extent do you agree with the following proposals from some Opposition members RANDOMIZE

	Mean	7	6	5	4	3	2	1	DNK
Give priority of pensions in the event of corporate bankruptcy	5.1	24	24	24	11	5	6	6	1
Expand the CPP	4.8	19	23	16	18	11	6	7	0
Provide companies with tax incentives to build pension surpluses	4.8	17	21	28	13	7	3	11	0

This CEO Poll is giving high marks to reforms proposed by the Federal opposition parties. Most popular was a plan to make pensions a priority in the event that a company goes bankrupt. While the CEOs endorsed the proposed reforms, they also expressed considerable anger with the current system. “The companies and the management that have screwed with pension plans, removed funds or underfunded plans piss me off to no end,” commented one CEO. “I can’t believe anyone would be so callous.”

Stand Up For Change We Can All Believe In! See the Video

http://ismymoneysafe.org/video/PensionersDisabledandSeveredEmployees.wmv

Appendix - TABLES 1 -8

TABLE 1: Nortel Pension Benefit

	Worst Without OPBGF	Best Without OPBGF	Worst With OPBGF	Best With OPBGF
Pension Income All Sources and Health Benefits Before	$38,204	$38,204	$38,204	$38,204
Health Benefits Nortel Before	$2,000	$2,000	$2,000	$2,000
Pension Income All Sources Before	$36,204	$36,204	$36,204	$36,204
Old Age Security Income	$6,204	$6,204	$6,204	$6,204
Guaranteed Income Supplement	$0	$0	$0	$0
CPP Pension First Payer	$10,905	$10,905	$10,905	$10,905
Pension Income Nortel Before	$19,095	$19,095	$19,095	$19,095
Working Income	$50,000	$50,000	$50,000	$50,000
% Working Pension Income	60%	60%	60%	60%
Working Pension Income	$30,000	$30,000	$30,000	$30,000
Pension Fund Funding Before Cash Settlement	69%	69%	69%	69%
Cash Settlement Ratio	15%	45%	15%	45%
Pension Fund Funding After Cash Settlement	74%	83%	74%	83%
Ontario Pension Benefit Guarantee Fund Pays			$3,162	$2,046
% Unfunded Nortel Pension Fund After Cash Settlement	-26%	-17%	-10%	-6%
% Pension Income Nortel Reduction After Annuities Purchase	-36%	-27%	-20%	-16%
% Health Benefits Nortel Reduction	-100%	-100%	-100%	-100%
% Pension Income and Health Benefits Nortel Reduction (Rounded to 5%)	-40%	-35%	-25%	-25%
Pension Income All Sources and Health Benefits After	$29,262	$31,038	$32,424	$33,084
Health Benefits Nortel After	$0	$0	$0	$0
Pension Income All Sources After	$29,262	$31,038	$32,424	$33,084
Old Age Security	$6,204	$6,204	$6,204	$6,204
Guaranteed Income Supplement	$0	$0	$0	$0
CPP First Payer	$10,905	$10,905	$10,905	$10,905
Pension Income Nortel After	$12,154	$13,930	$15,316	$15,976
% Reduction Pension Income All Sources and Health Benefits After (Rounded to 5%)	-25%	-20%	-15%	-15%

Source: Diane A. Urquhart

TABLE 2: Nortel Long Term Disabled Benefit	Employer Paid to 50%		Employee Optional Added to 70%	
	Worst	Best	Worst	Best
LTD Income All Sources and Health Benefits Before	$37,000	$37,000	$47,000	$47,000
Health Benefits Nortel Before	$12,000	$12,000	$12,000	$12,000
LTD Income All Sources Before	$25,000	$25,000	$35,000	$35,000
CPP Disability First payer	$13,272	$13,272	$13,272	$13,272
LTD Income Nortel	$11,728	$11,728	$21,728	$21,728
Working Income	$50,000	$50,000	$50,000	$50,000
% LTD benefit	50%	50%	70%	70%
LTD Income All Sources	$25,000	$25,000	$35,000	$35,000
Health & Welfare Funding Before Cash Settlement	10%	20%	10%	20%
Cash Settlement Ratio	15%	45%	15%	45%
Health & Welfare Funding After Cash Settlement	24%	56%	24%	56%
% Unfunded Nortel LTD Plan After Cash Settlement	-77%	-44%	-77%	-44%
% LTD Income Nortel Reduction After Annuities Purchase	-87%	-54%	-87%	-54%
% Health Benefits Nortel Reduction	-85%	-55%	-85%	-55%
% LTD Income and Health Benefits Nortel Reduction (Rounded to 5%)	-85%	-55%	-85%	-55%
LTD Income All Sources and Health Benefits After	$16,655	$24,067	$18,005	$28,667
Health Benefits Nortel After	$1,800	$5,400	$1,800	$5,400
LTD Income All Sources	$14,855	$18,667	$16,205	$23,267
CPP Disability First Payer	$13,272	$13,272	$13,272	$13,272
LTD Income Nortel	$1,583	$5,395	$2,933	$9,995
% Reduction LTD Income All Sources and Health Benefits After (Rounded to 5%)	-55%	-35%	-60%	-40%

Source: Diane A. Urquhart

TABLE 3: Nortel Survivor Pension Benefit

	Worst Without OPBGF	Best Without OPBGF	Worst With OPBGF	Best With OPBGF
Survivor Pension Income All Sources and Health Benefits Before	$26,204	$26,204	$26,204	$26,204
Health Benefits Nortel Before	$2,000	$2,000	$2,000	$2,000
Survivor Pension Income All Sources Before	$24,204	$24,204	$24,204	$24,204
Old Age Security Income	$6,204	$6,204	$6,204	$6,204
Guaranteed Income Supplement	$0	$0	$0	$0
CPP Pension First payer (60% of Working Spouse for Survivor 65 or Over)	$6,543	$6,543	$6,543	$6,543
Survivor Pension Income Nortel Before	$11,457	$11,457	$11,457	$11,457
Working Income	$50,000	$50,000	$50,000	$50,000
% Working Pension Income (60% of Working Spouse)	36%	36%	36%	36%
Survivor Working Pension Income	$18,000	$18,000	$18,000	$18,000
Pension Fund Funding Before Cash Settlement	69%	69%	69%	69%
Cash Settlement Ratio	15%	45%	15%	45%
Pension Fund Funding After Cash Settlement	74%	83%	74%	83%
Ontario Pension Benefit Guarantee Fund Pays			$3,019	$1,953
% Unfunded Nortel Pension Fund After Cash Settlement	-26%	-17%	0%	0%
% Pension Income Nortel Reduction After Annuities Purchase	-36%	-27%	-10%	-10%
% Health Benefits Nortel Reduction	-100%	-100%	-100%	-100%
% Pension Income and Health Benefits Nortel Reduction (Rounded to 5%)	-45%	-40%	-25%	-25%
Survivor Pension Income All Sources and Health Benefits After	$20,963	$21,496	$23,058	$23,058
Health Benefits Nortel After	$0	$0	$0	$0
Survivor Pension Income All Sources After	$20,963	$21,496	$23,058	$23,058
Old Age Security Income	$6,204	$6,204	$6,204	$6,204
Guaranteed Income Supplement	$924	$392	$0	$0
CPP First payer	$6,543	$6,543	$6,543	$6,543
Survivor Pension Income Nortel After	$7,292	$8,358	$10,311	$10,311
% Reduction Pension Income All Sources and Health Benefits After (Rounded to 5%)	-20%	-20%	-10%	-10%

Source: Diane A. Urquhart

TABLE 4: Nortel Severance Benefit

	Worst	Best
Severance Income All Sources and Health Benefits Before	$58,692	$58,692
Health Benefits Nortel Before	$1,000	$1,000
Income All Sources Before	$57,692	$57,692
Employment Insurance	$0	$0
Severance Income Nortel	$57,692	$57,692
Working Income	$50,000	$50,000
Severance Benefit @ 3 Weeks per Year X 20 Years	115%	115%
Severance Income	$57,692	$57,692
Cash Settlement Ratio	15%	45%
% Unfunded Nortel LTD Plan After Cash Settlement	-85%	-55%
% Health Benefits Nortel Reduction	-100%	-85%
% Severance Income and Health Benefits Nortel Reduction	-85%	-56%
% LTD Income and Health Benefits Nortel Reduction (Rounded to 5%)	-85%	-55%
Severance Income All Sources and Health Benefits After	$22,350	$25,962
Health Benefits Nortel After	$0	$0
Severance Income All Sources	$22,350	$25,962
Employment Insurance	$13,696	$0
Income Nortel	$8,654	$25,962
% Reduction Severance Income All Sources and Health Benefits After (Rounded to 5%)	-60%	-55%

Source: Diane A. Urquhart

TABLE 5: Impact of Nortel Bankruptcy on Governments and Employees on a Per Person Basis

Worst Case @ 15% Nortel Canada Estate Cash Settlement Ratic	**Pension**	**Survivor Pension Assumed @ 20%**	**Active & Deferred**	**Long Term Disabled**	**Severance**	**Total**
$ Per Person	**Per Person Per Year**	**Per Person Per Year**	**Per Person Per Year**	**Per Person Per Year**	**Per Person One Year $75T @3 Wks X 20 Yrs**	**Per Person Average**
Type of Government Programs Affected	Age Allowance Medical Expenses	GIS Medical Expenses		Drug Assistance Medical Expenses	Employment Insurance Medical Expenses	
Government Program Incremental Costs		-$924		-$10,106	-$9,369	-$884
Government Taxes Lost	-$973	-$434	-$1,376	-$1,672	-$17,900	-$2,076
Government Impact Programs and Taxes Lost	-$973	-$1,358	-$1,376	-$11,778	-$27,269	-$2,960
Employee Lost After Tax Income	-$5,968	-$2,807	-$6,729	-$12,798	-$46,289	-$8,312
Employee Lost After Tax Health Benefits (Non Taxable Grossed-Up)	-$1,948	-$2,032	$0	$0	-$917	-$1,152
Combined Government & Employee Loss	-$8,889	-$6,196	-$8,105	-$24,576	-$74,475	-$12,423
$ Per Person	**Per Person Present Value**	**Per Person Present Value**	**Per Person Present Value**	**Per Person Present Value**	**Per Person Present Value**	**Per Person**
Present Value Factor	10.70	10.70	6.76	14.72	1.00	
Government Program Incremental Costs	$0	-$9,887	$0	-$148,779	-$9,369	-$4,607
Government Taxes Lost	-$10,404	-$4,636	-$9,304	-$24,617	-$17,900	-$9,780
Government Impact Programs and Taxes Lost	-$10,404	-$14,523	-$9,304	-$173,396	-$27,269	-$14,386
Employee Lost After Tax Income	-$63,831	-$30,018	-$45,507	-$188,402	-$46,289	-$52,763
Employee Lost After Tax Health Benefits (Grossed-Up)	-$20,830	-$21,731	$0	$0	-$917	-$11,777
Combined Government & Employee Loss	-$95,066	-$66,272	-$54,811	-$361,797	-$74,475	-$78,926
Per Person Income Before and After-Tax						
Income Before Pre-Tax	$36,204	$24,204	$39,405	$30,000	$86,538	
Income After Pre-Tax	$29,262	$20,963	$31,300	$15,530	$22,350	
Tax Rate Before	11.22%	11.05%	12.27%	11.28%	24.66%	
Tax Rate After	10.55%	10.70%	11.05%	11.03%	15.01%	
Taxes Before	$4,061	$2,676	$4,836	$3,385	$21,340	
Taxes After	$3,088	$2,242	$3,460	$1,713	$3,440	
Income Before After-Tax	$32,143	$21,528	$34,569	$26,615	$65,199	
Income After After-Tax	$26,174	$18,721	$27,840	$13,817	$18,910	

Source: Diane A. Urquhart

TABLE 6: Impact of Nortel Bankruptcy on Governments and Employees in Aggregate

Worst Case @ 15% Nortel Canada Estate Cash Settlement Ratic	**Pension**	**Survivor Pension Assumed @ 20%**	**Active & Deferred**	**Long Term Disabled**	**Severance**	**Total**
Number of Persons	9,810	3,905	9,049	410	1,500	24,674
$ Millions in Aggregate	**Aggregate Per Year**	**Aggregate Per Year**	**Aggregate Per Year**	**Aggregate Per Year**	**Aggregate One Year**	**Aggregate Per Year**
Type of Government Programs Affected	Age Allowance Medical Expenses	GIS Medical Expenses		Drug Assistance Medical Expenses	Employment Insurance Medical Expenses	
Government Program Incremental Costs	$0	-$4	$0	-$4	-$14	-$22
Government Taxes Lost	-$10	-$2	-$12	-$1	-$27	-$51
Government Impact Programs and Taxes Lost	-$10	-$5	-$12	-$5	-$41	-$73
Employee Lost After Tax Income	-$59	-$11	-$61	-$5	-$69	-$205
Employee Lost After Tax Health Benefits (Non Taxable Grossed-Up)	-$19	-$8	$0	$0	-$1	-$28
Combined Government & Employee Loss	-$87	-$24	-$73	-$10	-$112	-$307
$ Millions in Aggregate	**Aggregate Present Value**	**Aggregate Present Value**	**Aggregate Present Value**	**Aggregate Present Value**	**Aggregate Present Value**	**Aggregate Present Value**
Present Value Factor	10.70	10.70	6.76	14.72	1.00	
Government Program Incremental Costs	$0	-$39	$0	-$61	-$14	-$114
Government Taxes Lost	-$102	-$18	-$84	-$10	-$27	-$241
Government Impact Programs and Taxes Lost	-$102	-$57	-$84	-$71	-$41	-$355
Employee Lost After Tax Income	-$626	-$117	-$412	-$77	-$69	-$1,302
Employee Lost After Tax Health Benefits (Non Taxable Grossed-Up)	-$204	-$85	$0	$0	-$1	-$291
Combined Government & Employee Loss	-$933	-$259	-$496	-$148	-$112	-$1,947

Source: Diane A. Urquhart

TABLE 7: Impact on Employment Insurance of Not Paying Terminated Employees' Severance

	#	$ Millions	Per Person	Per Person	Ratio	# Weeks Per Year	# Years	Annual Pay
Terminated Employees with Severance Claims	1,500	$130	$86,538	$86,538	1.15	3	20	$75,000

	Worse Case @ 15% Cash Settle		Best Case @ 45% Cash Settle	
	$ Millions	**Per Person**	**$ Millions**	**Per Person**
Simple Sum Basis				
Employment Insurance First & Second Year	-$14	-$9,369	$0	$0
Foregone Taxes First & Second Year	-$27	-$17,900	-$18	-$11,992
Government Impact	-$41	-$27,269	-$18	-$11,992
Employee After Tax Impact	-$69	-$46,289	-$53	-$35,604
Government & Employee Impact	-$110	-$73,558	-$71	-$47,596
Time Value of Money Basis				
Employment Insurance First & Second Year	-$16	-$10,431	-$2	-$1,062
Foregone Taxes First & Second Year	-$28	-$18,750	-$19	-$12,842
Government Impact	-$44	-$29,181	-$21	-$13,904
Employee After Tax Impact	-$73	-$48,487	-$57	-$37,803
Government & Employee Impact	-$117	-$77,668	-$78	-$51,707
	Year 1	**Year 2**	**Year 1**	**Year 2**
Income - Severance Paid	$86,538	$75,000	$86,538	$75,000
Tax Rate	24.7%	23.1%	24.7%	23.1%
Taxes	$21,340	$17,310	$21,340	$17,310
Income After Tax	$65,199	$57,690	$65,199	$57,690
Income - Severance Not Paid	$0	$75,000	$0	$75,000
Nortel Cash Settlement Ratio	15%	15%	45%	45%
Nortel Cash Settlement	$0	$12,981	$0	$38,942
EI Paid or Clawed Back	$22,350	-$12,981	$22,350	-$22,350
Income Total	$22,350	$75,000	$22,350	$91,593
Tax Rate	15.4%	23.1%	15.4%	25.3%
Taxes	$3,440	$17,310	$3,440	$23,218
Income After Tax	$18,910	$57,690	$18,911	$68,375
Difference				
Employment Income Pre-Tax	-$86,538	$12,981	-$86,538	$38,942
EI Pre-Tax	$22,350	-$12,981	$22,350	-$22,350
Taxes	-$17,900	$0	-$17,900	$5,908
Income Total After-Tax	-$46,288	$0	-$46,289	$10,685
End of Second Year	Simple Sum	Future Value	Simple Sum	Future Value
EI Loss	-$9,369	-$10,431	$0	-$1,062
Tax Loss	-$17,900	-$18,750	-$11,992	-$12,842
Employee After Tax Loss	-$46,289	-$48,487	-$35,604	-$37,803
Combined	-$73,558	-$77,668	-$47,596	-$51,707

Discount Rate 4.75%

Source: Diane A. Urquhart

TABLE 8: Income Tax Rates 2009

Pensioners

	Federal	Ontario	Combined	Tax Pre Credit	Before Personal Deduction Credit	Before Net Tax	Before Net Tax %	After Personal Deduction Credit	After Net Tax	After Net Tax %
$36,848	15.00%	6.05%	21.05%	$7,757	$3,683	$4,073	11.05%	$3,868	$3,889	10.55%
$40,726	15.00%	9.15%	24.15%	$8,693	$3,683	$5,010	12.30%	$3,683	$5,010	12.30%
$73,698	22.00%	9.15%	31.15%	$18,964	$3,683	$15,281	20.73%	$3,683	$15,281	20.73%
$81,452	22.00%	11.16%	33.16%	$21,535	$3,683	$17,852	21.92%	$3,683	$17,852	21.92%
$126,264	26.00%	11.16%	37.16%	$38,187	$3,683	$34,504	27.33%	$3,683	$34,504	27.33%
Above	29.00%	11.16%	40.16%							

LTD Employees

	Federal	Ontario	Marginal Combined	Tax Pre Credit	Before Personal Deduction Credit	Before Net Tax	Before Net Tax %	After Personal Deduction Credit	After Net Tax	After Net Tax %
$36,848	15.00%	6.05%	21.05%	$7,757	$3,599	$4,158	11.28%	$3,693	$4,064	11.03%
$40,726	15.00%	9.15%	24.15%	$8,693	$3,599	$5,094	12.51%	$3,599	$5,094	12.51%
$73,698	22.00%	9.15%	31.15%	$18,964	$3,599	$15,365	20.85%	$3,599	$15,365	20.85%
$81,452	22.00%	11.16%	33.16%	$21,535	$3,599	$17,936	22.02%	$3,599	$17,936	22.02%
$126,264	26.00%	11.16%	37.16%	$38,187	$3,599	$34,588	27.39%	$3,599	$34,588	27.39%
Above	29.00%	11.16%	40.16%							

Spouses

	Federal	Ontario	Combined	Tax Pre Credit	Before Personal Deduction Credit	Before Net Tax	Before Net Tax %	After Personal Deduction Credit	After Net Tax	After Net Tax %
$36,848	15.00%	6.05%	21.05%	$7,757	$3,683	$4,073	11.05%	$3,816	$3,941	10.70%
$40,726	15.00%	9.15%	24.15%	$8,693	$3,683	$5,010	12.30%	$3,683	$5,010	12.30%
$73,698	22.00%	9.15%	31.15%	$18,964	$3,683	$15,281	20.73%	$3,683	$15,281	20.73%
$81,452	22.00%	11.16%	33.16%	$21,535	$3,683	$17,852	21.92%	$3,683	$17,852	21.92%
$126,264	26.00%	11.16%	37.16%	$38,187	$3,683	$34,504	27.33%	$3,683	$34,504	27.33%
Above	29.00%	11.16%	40.16%							

Severed Employees

	Federal	Ontario	Marginal Combined	Tax Pre Credit	Before Personal Deduction Credit	Before Net Tax	Before Net Tax %	After Personal Deduction Credit	After Net Tax	After Net Tax %
$36,848	15.00%	6.05%	21.05%	$7,757	$2,085	$5,671	15.39%	$2,226	$5,530	15.01%
$40,726	15.00%	9.15%	24.15%	$8,693	$2,085	$6,608	16.22%	$2,085	$6,608	16.22%
$73,698	22.00%	9.15%	31.15%	$18,964	$2,085	$16,879	22.90%	$2,085	$16,879	22.90%
$81,452	22.00%	11.16%	33.16%	$21,535	$2,085	$19,450	23.88%	$2,085	$19,450	23.88%
$126,264	26.00%	11.16%	37.16%	$38,187	$2,085	$36,102	28.59%	$2,085	$36,102	28.59%
Above	29.00%	11.16%	40.16%							

Tax Credits 2009

	Federal Pre-Tax	Federal Marginal Tax Rate	Federal Credit	Ontario Pre-Tax	Ontario Marginal Tax Rate	Ontario Credit	Combined Credit
Personal	$10,320	15.00%	$1,548	$8,881	6.05%	$537	$2,085
Age 65+	$6,408	15.00%	$961	$4,336	6.05%	$262	$1,224
Age 65+ Claw-back		15.00%	$32,312		15.00%	$32,280	
Pension Amount	$2,000	15.00%	$300	$1,228	6.05%	$74	$374
Disability Amount	$7,197	15.00%	$1,080	$7,175	6.05%	$434	$1,514
Medical Expenses							
Pensioners	$878	15.00%	$132	$878	6.05%	$53	$185
Long Term Disabled	$446	15.00%	$67	$446	6.05%	$27	$94
Spouses	$629	15.00%	$94	$629	6.05%	$38	$132
Severed Employees	$671	15.00%	$101	$671	6.05%	$41	$141

Source: Diane A. Urquhart