Revenue Canada Taxation
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Mr. M.A. Leduc
Director, Taxes
Northern Telecom
P.O. Box 6123, Station A
Montreal, Quebec
H3C 3J5

Your file Votre référence
Our file Notre référence
AR E-304
M.E. Bartley
Tel.(613)995-0051

December 28, 1979

Dear Mr. Leduc:

Re: Request for Advance Income Tax Rulings
Northern Telecom Benefit Plans

We reply to your letter of December 16 requesting advance income tax rulings in respect of a proposed Health and Welfare Trust Fund.

Facts

Effective January 1, 1980 or as current contracts with present insurance companies terminate (none of these contracts are to expire before 1980), Northern Telecom Limited, Bell Nothern Research, Bell Northern Software Research, Northern Telecom Canada, hereinafter referred to as the "Company" propose to establish a Health and Welfare Trust Fund through which the following benefit plans for eligible employees, service pensioners and dependents will be provided:

(a) Health care (Medical & Dental)
(b) Sickness and Accident
(c) Long Term Disability
(d) Survivor Income Benefit
(e) Group Life Insurance

The benefits will be paid in accordance with plan descriptions and governed by a Master Trust Agreement. Copies of these documents were enclosed with your letter. The ________________, hereinafter referred to as the "Trustee", will be responsible for receiving the Company's contributions to the plans together with the employees' contributions and in the case of Survivor Income Benefit Plan & Group Life Insurance and arranging for payment of benefits to eligible employees and dependents and payment of premiums to the insurance company hereinafter referred

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to the "Carrier". The Company's contributions will be sufficient to cover actual claims and/or may be actuarially determined dependent on the benefit plan or plans.

The Company also proposes to enter into an arrangement with the Carrier to provide umbrella stop-loss coverage for all the five (5) benefit plans. The trigger point has yet to be determined but it is anticipated that it will be in the range of 110% to 130% of claims.

Following is a brief explanation of the funding arrangement between the Company, the Trust & the Carrier:

(a) Health Care Plan

This plan will be in the nature of an Administrative Service Only (ASO) contract with stop loss insurance with a licensed carrier. More specifically, the Company will make contributions to the trust to satisfy the claims liability. All eligible claims by employees and dependents will be submitted to the Carrier for settlement. The Carrier will issue a draft to the claimant(s) drawn on the trust's account. The Company may from time to time wish to fund expected future claims, however, these contributions will be actuarially determined by the Carrier.

The premium and claims settlement charges will be paid directly by the Company to the Carrier.

(b) Sickness and Accident Plan not in the trust

This plan will be in the nature of a self-insured and self-administered plan. It is anticipated that these benefits will be funded on a pay-as-you-go basis i.e. the Company will reimburse the Trust for all claims. However, the Company may from time to time wish to make contributions to the plan based on an actuarial valuation or some other reasonable basis.

Eligible claims by employees will be submitted to the Company for settlement. The Company will then make the payments on behalf of the Trustee and these checks will be drawn on the trust's account The Company's name may or may not appear on the cheques, this notwithstanding, the Company will be the sole administrator of the Plan.

(c) Long Term Disability Plan

As in the Health Care Plan, this plan will be in the nature of a ~~self-insured~~ arrangement with stop-loss coverage, and the use of a Carrier Administrator or the Company to provide administrative services. Under this plan eligible claims by employees will be

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submitted to the administrator for settlement. The administrator will then issue a draft to the claimant(s) drawn on the trust's account. The Company's contributions to the trust will be sufficient to satisfy all claims. However, the Company may from time to time wish to make additional/ increased contributions based on an actuarial valuation or some other reasonable basis.

(d) Survivor Income Benefit Plan

The funding media is identical to that of Long Term Disability. However, employees will be required to make contributions to this Plan.

(e) Group Life Insurance Plan (Part I-Basic & Part II-Optional)

This plan will be in the nature of an insured arrangement with the Carrier. Under this plan the Carrier will provide the Company with a composite premium rate for both active and retired employees' group life insurance coverage as at present. Based on this, the Company will then make contributions to the Trust sufficient to pay the premiums. Contributions (both the active employees' and the Company's) not immediately applied against claims & expenses of the Carrier will be deposited/transferred to a sub-account of the Trust called the "Pensioners Insurance Fund".

At present the Pensioners' Insurance Fund totalling approximately $11 million is with Mutual Life Assurance of Canada. Mutual has agreed to transfer these monies into the trust fund.

Group Life Insurance (Part II) is paid totally by the employees and is optional. The employees' contributions will form part of the trust fund but will be kept in a separate sub-account.

Under this plan (both Part I and Part II) the Carrier will receive and settle all claims and receive settlement of its premium at that time from the Trust. As a matter of record keeping, claims together with the Carrier's claim expense charges, will be charged to the respective sub-accounts. It is anticipated that four (4) such sub-accounts will be created, each holding (1) active employees' premium contributions (Part I) - Basic, (2) the Company's premium contributions (Part I) - Basic, (3) Unapplied Premium - Forming the Pensioners Insurance Fund and (4) active employees' premium contributions (Part II)-Optional.

Rulings Requested and Given

Provided our understanding of the facts set out above is correct and the trust and the plans are set up in the manner described in the documents submitted by you, our rulings are that

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(a) (i) The Health Care Plan qualifies as a "private health services plan" within the meaning of paragraph 110(8)(a) of the Income Tax Act, so that by virtue of subsection 110(7), benefits received by employees will reduce medical expenses otherwise deductible under paragraph 110(1)(c).

(ii) Benefits received under the plan will not be taxable to the employees under section 6 of the Act.

(iii) The Company's contributions will not result in a taxable benefit to the employees by virtue of paragraph 6(1)(a) of the Act.

(iv) The Company's contributions will be deductible as ordinary business expenses in the year in which they are incurred to the extent that those contributions are required by the terms of the plan.

(b) (i) The Sickness and Accident benefits received by the employees under the plan will be taxable when received by virtue of paragraph 6(1)(f) of the Act and reported on Form T4A.

(ii) The Company's contributions will not result in a taxable benefit to the employees by virtue of paragraph 6(1)(a) of the Act.

(iii) The Company's contributions will be deductible as ordinary business expenses in the year in which they are incurred to the extent that those contributions are required by the terms of the plan.

(c) (i) The Long Term Disability benefits received by the employees under the plan will be taxable when received by virtue of paragraph 6(1)(f) of the Act and will be reported on Form T4A.

(ii) The Company's contributions will not result in a taxable benefit to the employees by virtue of paragraph 6(1)(a) of the Act.

(iii) The Company's contributions will be deductible as ordinary business expenses in the year in which they are incurred to the extent that those contributions are required by the terms of the plan.

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(d) (i) The Survivor Income Benefit payments received by the beneficiaries qualify as a "death benefit" as defined by subsection 248(1) of the Act the amount of which is reduced proportionately to reflect the amounts contributed by the employee. These amounts will be reported on Form T4A by the Trustee.

(ii) The employee's contributions will not be deductible in computing his income subject to tax.

(iii) The contributions made by the Company will not result in a taxable benefit to the employees.

(iv) The Company's contributions will be deductible as ordinary business expenses in the year in which they are incurred to the extent that those contributions are required by the terms of the plan.

(e) (i) The Group Life Insurance proceeds received under the plan (Part I & II) by beneficiaries as a consequence of the death of an employee will be exempt from tax.

(ii) The premium paid by the Trust (Part I only) will result in a taxable benefit to the employees which will be computed in accordance with subsection 6(4) of the Act and reported on Form T4 by the Company where applicable.

(iii) The contributions made by the Company (Part I only) will be deductible as ordinary business expenses in the year in which they are incurred.

(iv) The employee's contributions will not be deductible in computing his income subject to tax.

(v) The Pensioners Insurance Fund with Mutual totalling approximately $11 million will be included in computing the Company's income subject to tax in the year in which it is transferred from Mutual to the Company.

(vi) The amount of the Pensioners' Insurance Fund totalling approximately $11 million will be deductible in computing the Company's income as ordinary business expenses in the year in which it is transferred to the trust fund.

(f) The trust's income for each year will be determined in accordance with Section 104 of the Act. In computing the income of the trust, contributions and premiums paid to the Trust by the Company and employees and the lump-sum transfer of the Pensioners' Insurance Fund to the trust will not be considered as income. Benefits paid

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in the year to employees and premiums paid to the Carrier will be deductible with the exception of amounts paid under the Health Care Plan; none of these may create a loss which is deductible by the trust in computing its taxable income in any taxation year.

(g) Stop-loss premiums paid to the Carrier by the Company will be deductible as ordinary business expenses in the year in which they are incurred.

These rulings are given subject to the general limitations and qualifications set forth in Information Circular 70-6R dated December 18, 1978, issued by the Department of National Revenue, Taxation.

Yours truly,

M. E. Bartley

for Director General
Non-Corporate Rulings &
Publications Directorate