

Overview of Compensation Claims Process

November 17, 2011

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Agenda

1. Introduction and Overview of Compensation Claims Process
2. Background - How did we get to the Compensation Claims Process
3. Types of Claims Covered by the Claims Process and the Methodology (including claims not covered)
 - Patent Award Claims
 - Retiree Benefits
 - Non-Registered Pension Plan
 - Pension Accrual Claims



Agenda

4. Valuing Claims (by The Segal Company)
5. How Does the Claims Process Work and Details of the Process
6. Key Dates and Next Steps
7. Our Role
8. Questions
9. Contact Info and Closing Comments



Introduction and Overview of Proposed Compensation Claims Process

Introductions: Advisors

Court Appointed Representative Counsel:

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Steve Levitt, Nelligan O'Brien Payne LLP

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Actuarial Advisors:

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Questions can be posed at end of Presentation



Introduction and Overview of Proposed Compensation Claims Process

Session is for:

- Non-Unionized Canadian Employees who are still working for Nortel in Canada (Active Employees)
- Non-Unionized Employees who have been transferred to a purchaser of Nortel Assets in Canada including Transferred Employees who have been terminated by a purchaser after their transfer

Note: previous webcast presentation is posted on www.nelligan.ca along with the slides



Introduction and Overview of Proposed Compensation Claims Process

Nortel Canadian employee legal representation in Canada can be summarized as follows:

- Non-unionized Employees who continue working for Nortel in Canada and/or have been transferred to employment with new companies as the result of asset sales are represented by Nelligan O'Brien Payne and Shibley Righton
- Employees who have already been terminated by Nortel, pensioners and those who were on LTD benefits continue to be represented by Koskie Minsky, as will employees who are terminated by Nortel in the future



Overview of Compensation Claims Process

- The Compensation Process Consists of:
 - 1) Compensation Claims Methodology
 - 2) Compensation Claims Process
- Methodology includes the calculation of employment-related claims and a streamlined procedure to deal with them
- The Claims Methodology is based on different categories of Employees to reflect commonality within the group
- Methodology is based on identified and agreed-upon benefits and agreed categories of claims, including post-retirement benefits



Overview of Proposed Compensation Claims Process

- Methodology uses agreed-upon actuarial assumptions and calculations, including those for post-retirement benefits and non-registered pension plan benefits
- Also includes agreed-upon adjustments relating to administrative costs and income tax, as applicable, that increase or “gross up” claim amounts
- Notice of termination/severance period of 3.3 weeks per year of service



Overview of Proposed Compensation Claims Process

- Minimum of 8 weeks and a maximum of 78 weeks
- Includes claim for employee benefits, pension accruals and entitlements to post-retirement benefits and non-registered pension plans to which the Employee became entitled or “grew into” during the applicable notice period
- No claim for lost salary or benefits if transferred to new employer
- Majority of employment claims will proceed by way of individual Information Statements



Overview of Proposed Compensation Claims Process

- The Information Statements reflect the claims amount calculated in accordance with the Methodology
- Individual Employees have an opportunity to correct data they believe is inaccurate
- A parallel proof of claim process which allows an individual to file a separate claim for determination in addition to claims in the Information Statement



Background: How did we get to the Compensation Claims Process

- The Compensation Claims Process was reached after extensive discussions and negotiations
- These consultations and negotiations led to the development of principles that as a whole were applied consistently to each individual, representing different categories of Employees
- Process establishes a fair, reasonable, efficient and orderly process for the calculation and determination of employment-related claims



Types of Claims Covered by the Claims Process and the Methodology

(Including claims not covered)

- Generally speaking Claims for employees fall under the following categories:
 1. **Patent Award Claims – Filing, Issuance, Cumulative awards**
 2. **Retiree Benefits**
 3. **Non-Registered Pension Plan (ie TRA, SERP, Excess, IPP)**
 4. **Pension Accrual Claims**

- In each category, the claims are the same, and are calculated using the same methodology, for which the same information is required



Types of Claims Covered by the Claims Process and the Methodology

- The Mercer reports outline in detail the methodology and assumptions
- **The methodology for the calculation of the Compensation Claims cannot be challenged**



Types of Claims Covered by the Claims Process and the Methodology

Transferred Employees Claims

- Transferred Employees had their employment with Nortel come to an end on the date that they commenced working for the purchasing company
- Transferred Employees are entitled to notice of their dismissal
- Each of the purchasing companies offered salary and benefits that were substantially similar to Nortel plans



Types of Claims Covered by the Claims Process and the Methodology

- Claims for lost salary and health and welfare benefits were mitigated
- However, a number of employment benefits provided to employees at Nortel were not available with the purchasing companies

Those benefits were as follows:

1) Patent Awards

- Transferred Employees who have earned Patent Awards under Nortel's patent award program, but those awards have not been paid out



Types of Claims Covered by the Claims Process and the Methodology

2) *Lost retiree benefits*

- Transferred Employees who were already eligible to retire and receive retiree benefits, or who would have become eligible during their notice period, would have a claim for lost retiree benefits

3) *Non-Registered Retirement Plans*

- Transferred Employees who were eligible for non-registered retirement plans on the date of transfer, or who would have become eligible during their notice periods, have a claim for the loss of non-registered retirement plans
- Examples: TRA, SERP, Excess Plan etc.



Types of Claims Covered by the Claims Process and the Methodology

- 4. a) *Pension growth: under a defined benefit pension plan (if grandfathered)*

- 4. b) *Pension growth: Lost defined contribution pension benefits*



Types of Claims Covered by the Claims Process and the Methodology

Step 1: Determine Notice Period

- If employee has a contract – notice period in contract applies
- If no contract, severance formula is 3.3 weeks per year service up to maximum of 78 weeks; minimum 8 weeks
- Employees who refused offer of transfer will only receive ESA minimums: 1 week per year up to 8 weeks max notice and 1 week per year up to max 26 weeks severance (if had at least 5 years' service)

Note: *Notice period is calculated using either continuous service date, rehire date if break in service greater than three months or date specified in contract*



Types of Claims Covered by the Claims Process and the Methodology

Step 2: Determine Eligibility for Claims

Patent Award Claim:

- If an individual is eligible for a Filing Award and/or Issuance Award, a claim amount relating to the Patent Award will be set out in Information Statement
- Transferred Employee is eligible for a Patent Filing Award regardless of when the patent was filed; only eligible for a Patent Issuance Award if the patent was issued before the employee transferred



Types of Claims Covered by the Claims Process and the Methodology

Retiree benefits:

- If the Transferred Employee becomes eligible for Pensioner M&D and/or Pensioner Life at time of transfer or by the end of the notice period – has a claim for these benefits

Non-Registered Pension Plan (ie TRA, Excess, Serp, IPP):

- If the Transferred Employee becomes eligible under a Non-Registered Pension Plan at time of transfer or by the end of the notice period – has a claim for these benefits

Continued...



Types of Claims Covered by the Claims Process and the Methodology

- Transferred Employee who was pension eligible at the date of transfer and opted to take a commuted value under Part 1 is NOT entitled to TRA
- However a Transferred Employee who is under Part 1 but is not pension eligible at date of transfer or during notice period is entitled to a Partial TRA claim if he or she has 20 or more years of service at date of transfer or during notice period



Types of Claims Covered by the Claims Process and the Methodology

Pension accrual during notice period as follows:

- lost pension growth during the applicable notice period for “grandfathered employees” if a buyer did not offer a defined benefit pension plan
- lost pension contributions during the applicable notice period for employees if the defined contribution plan offered by the buyer has an employer contribution less than Nortel’s or, if no defined contribution plan was offered by the buyer



Types of Claims Covered by the Claims Process and the Methodology

Other Issues:

Salary and Health and Welfare Benefits

- Full mitigation is assumed on salary and all benefits



Types of Claims Covered by the Claims Process and the Methodology

Employees who Rejected Transfer :

If the Transferred Employee was offered employment but rejected that offer, the claim is limited to:

- Base weekly salary for the ESA Minimum Notice/Severance Period
- Employee benefits (excluding pension accrual and vacation pay) calculated as 5.14% of base weekly salary for the ESA Minimum Notice Period
- Vacation pay on the ESA Minimum Notice Period based on vacation accrual pursuant to the Nortel Vacation Policy and base weekly salary



Types of Claims Covered by the Claims Process and the Methodology

Transferred Employees who have been terminated by a Buyer after Transfer

- Some Transferred Employees were dismissed from their employment with their purchasing companies and received minimal compensation after their dismissal
- These employees would have a claim for lost salary and benefits from Nortel if they were dismissed during their Nortel notice period less any payments received from the Buyer during notice period
- **If you are in this category, you will have to file a Proof of Claim form. We can assist you with assessing your potential claim**



Types of Claims Covered by the Claims Process and the Methodology

Methodology for Active Employees

- Active Employees remain at work with Nortel and therefore do not have any claims at the current time
- Claims Process Court Order defines Active employee as: "Active Employee" means an employee who was employed by the Applicant as of Year end 2010
- Packages will be sent within twenty-one (21) business days of December 31, 2011 for those Active Employees who ceased to be Active Employees on or before December 31, 2011;
- The Compensation Claims of Active Employees will depend on the status of the Active Employee when he or she ceases employment with Nortel



Types of Claims Covered by the Claims Process and the Methodology

The Claims are as follows:

1. If the Active Employee continues his/her employment with a buyer, claims as a Post-Filing Transferred Employee
2. If the Active Employee is terminated, claims as a Post-Filing Terminated Employee or Pensioner Eligible Terminated Employee

Continued...



Types of Claims Covered by the Claims Process and the Methodology

3. If the Active Employee retires from Nortel, claims as a Pensioner
4. If the Active Employee voluntarily leaves the employ of an Applicant, no claim other than a Patent Award Claim



Types of Claims Covered by the Claims Process and the Methodology

- Claims may include retiree benefits and non-registered pension plan benefits
- May also include lost salary and a 5.14% amount for lost health and welfare benefits during notice period

Claims Not Covered

- Pension deficit claim is not a loss that will be claimed by individuals
- Plan Administrator Morneau Shepell has submitted an omnibus claim for the estimated deficits in the pension plan



Types of claims covered by the Claims Process and the Methodology

- Once more accurate calculations of the unfunded liabilities as at the wind-up date are determined, an amended omnibus claim will be submitted
- No claims for mental distress

Methodology for Claims and Valuation Can be found in:

- Detailed Methodology can be found at Appendix D-1 of 75th Monitor's Report
- Mercer 2011 Reports found at Appendix B and C of 75th Monitor's Report
- Documents are available on our website and the Monitor's website



Actuarial Present Values

- You do *not* have a claim for the maximum amount you might collect.
- Instead, your claim is for the actuarial present value of what you are losing.
- Mercer is the actuarial firm used by Nortel. They will calculate the amount of your claim.
- The Segal Company is the actuarial firm selected by your representatives to assure you that Mercer does the calculations fairly and correctly.



Three Important Points

- You will *not* receive a cheque for the amount of your claim – only for the fraction of it that can be paid from the Canadian Nortel estate.
- You cannot do the math yourself. The calculations are complex and involve specialized actuarial computer models.
- Only you can verify the accuracy of your personal data.



Medical Benefit Claims

- Claims calculations for medical benefits are highly complex because actuaries have to estimate what each type of claim (e.g., prescription drugs) will cost on average for each calendar year at each age before and after payments by provincial plans.
- Average costs are used for everyone who is a particular age in a particular year. Whether you've had high or low claims in the past makes no difference.

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Other Claims

- The claim is an actuarial present value.
- Indexing is included in the expected payment each year if it applies.
- Probabilities of death apply, except for a benefit that is payable whether you live or die.
- Survivor benefits are included where they are provided.



Actuarial Assumptions

- assumptions were agreed to by the actuaries.
- Certain claims also include a “gross-up” factor of 10% for income tax effects. This is a rough estimate of the average extra income tax one pays getting a lump sum today compared to monthly payments over a period of time.
- Tax gross-up does not apply to medical benefits, as they are generally non-taxable, but there is a similar adjustment for administrative expenses.



Three Important Points (again)

- You will *not* receive a cheque for the amount of your claim – only for the fraction of it that can be paid from the Canadian Nortel estate.
- You cannot do the math yourself. The calculations are complex and involve specialized actuarial computer models.
- Only you can verify the accuracy of your personal data.



How Does the Claims Process Work and Details of the Process

Overview

- The vast majority of claims will proceed by way of the Information Statement process
- Claimants have an opportunity to correct their Personal Information and to file a proof of claim for Other Compensation Claims
- The Monitor may accept or disallow the changes to information and a proof of claim
- There is a resolution process for disputed information and claims

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How does the Claims Process Work and Details of the Process

INFORMATION STATEMENT PACKAGE

The Information Statement Package consists of:

- A letter summarizing the Compensation Claims Process and includes the amount of the claim based on the methodology and company records
- Form A – Your compensation Claim amount
- Form B - Your Personal Information Change Form
- Guide to Using Form B
- Form C - Proof of Claim
- Guide to Completing Form C



How Does the Claims Process Work and Details of the Process

- Information statement packages were sent out within 21 business days of the Order (Nov 4, 2011)
- Information statement Package will be sent to each Active Employee within twenty-one (21) business days of December 31, 2011 for those Active Employees ceased to be an Active Employee on or before December 31, 2011;
- If employment ceases after Jan 1, 2012, packages will be sent 21 business days after employment ceases; Actives were sent a letter explaining this
- There are a small number of transferred employees who will get statements later due to Cross Border Protocol review
- If it is determined you do not have a Claim under methodology, you will be sent a letter so advising you along with a blank proof of claim form
- Letters/packages are being sent to last address on Record. **If you have moved, make sure Nortel and the Monitor have your correct address. Change of Address Form is on our website**



How Does the Claims Process Work and Details of the Process

Corrections to Information Statement

- Review Data on Form; **If you have no corrections – you don't need to do anything**
- An Employee who has any corrections to Form B must mark those changes or corrections in the corrections column
- Attach supporting documentation/evidence, complete and sign the Confirming Changes Section
- Return Form B as completed and signed to the Monitor



How Does the Claims Process Work and Details of the Process

- For transferred employees who have received the package now deadline is 4:00 p.m. (Eastern Time) on January 6, 2012
- For active or transferred employees who receive the statement later – you have 50 calendar days after day statement **was sent** to file Form B
- We can assist you with corrections/questions
- Monitor will review requested corrections – if accepted and the change results in new amount an explanatory letter will be sent
- If rejects request, Monitor will send a Notice of Disallowance



How Does the Claims Process Work and Details of the Process

- Employee can submit Notice of Dispute within 28 calendar days
- If dispute can't be settled, it is sent to a claims officer



How Does the Claims Process Work and Details of the Process

Other Compensation Claims – Proof of Claim Process

- Proof Claim form (form C) for claims employee believes he or she has that are not covered in the Information Statement
- Example – if Terminated by Purchaser during Nortel Notice Period



How Does the Claims Process Work and Details of the Process

- For transferred employees who have received the package now deadline is before 4:00 p.m. (Eastern Time) on January 6, 2012
- For active or transferred employees who receive the statement later – you have 50 calendar days after day statement **was sent** to file Form C
- We can assist with filing claims that in our judgment are valid



How Does the Claims Process Work and Details of the Process Overview

- Note: check the boxes for all the Nortel entities on Proof Claims forms
- Monitor will review claim
- If rejected, Monitor will send a Notice of Disallowance
- Employee can submit Notice of Dispute within 28 calendar days
- If dispute can't be settled, it is sent to a claims officer



How does the Claims Process Work and Details of the Process Overview

- Once sent to a claims officer, all costs of adjudicating the dispute are at the discretion of the claims officer



Key Dates and Next Steps

January 6, 2012 at 4:00pm Eastern Standard Time:

- Last date to file Requests for Corrections to Personal Information (except for currently Active Employees and transferred employees who were transferred in 2011)
- Last date to file Proof of Claim (except for currently Active Employees and transferred employees who were transferred in 2011)



Key Dates and Next Steps

- There are rolling dates applicable for Active Employees who are subsequently terminated, or if the Monitor determines there are errors in the personal information on its own, etc.
- For active and transferred employees who receive the statement later– you have **50 days after day statement was sent** to file Proof of Claim/Information Correction
- Don't wait until the last minute to get in touch with us regarding questions/concerns.



Our Role

Representative Counsel will:

- assist and facilitate Continuing Employees in (a) reviewing the Information Statements sent by the Monitor, (b) filing proofs of claim for any other Compensation Claims, and (c) responding to your questions
- We may also act for a Continuing Employee who disputes the data provided by the Monitor in the Personal Information Statement



Our Role

- May assist with a claim that does not arise from the Personal Information Statement – and we may do so at Nortel's expense, in the first instance
- But if the claim goes to adjudication the Claims Officer or the court may make any order it sees fit concerning costs, including an order requiring the claimant to pay costs



Questions



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