



The Pension Plan For Non-Salaried or Union Employees of Bowater Mersey Paper Company Limited (“Plan”)

Paul Chang and Paula Boyd

December 2012

Agenda

- Introduction
- General
 - Province’s Purchase of Bowater Mersey
 - Pension Oversight
- Wind-Up of the Plan
 - Process
 - Considerations
- Next Steps

This presentation is not complete without accompanying commentary

Introduction

- On Dec. 10, 2012, the Province purchased Bowater Mersey from Resolute/Washington Post
 - Orderly sale of Bowater Mersey assets
 - **Monthly pension payments will continue to be paid**
 - **Pensions plans will be wound-up in near future**
 - **Based on Nov 30 2012 Balance Sheet, Pension Plans will be fully funded on wind-up**
 - Bowater Mersey (as owned by the Province) appoints Morneau Shepell the third party administrator and consultant to the Bowater Mersey pension plans

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- Morneau Shepell is a Canadian-based firm providing human resource consulting and outsourcing services
- We have the largest pension consulting practice in Atlantic Canada with over 70 staff located between Halifax and Fredericton
- Work for Bowater Mersey to be handled by Halifax office
 - Significant local experience with pulp and paper industry pension plans

General – Purchase of Bowater Mersey

- Effective December 10, 2012, Province owns Bowater Mersey
- All assets and liabilities of Bowater Mersey remain with Bowater Mersey*
 - Physical Sawmill asset is not part of the transaction
 - Liabilities of former Sawmill employees remain part of Bowater Mersey
- Value of Bowater Mersey assets anticipated to be greater than liabilities

* Renamed Renova Scotia Bioenergy Inc.

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General – Purchase of Bowater Mersey

Assets (in Millions)		Liabilities, Other Costs (in Millions)	
Lands	\$117.7	Pension	\$100.0
Brooklyn Power	25.0	Other liabilities, employee costs	18.4
Mill Site	5.0	Portion of debt	18.0
Fiber Inventory	1.5		
Cash	1.0		
Tax credits	.2		
Total Assets	\$150.4	Total Liabilities	\$136.4

Source: Province NS press release

Difference of
\$14 M

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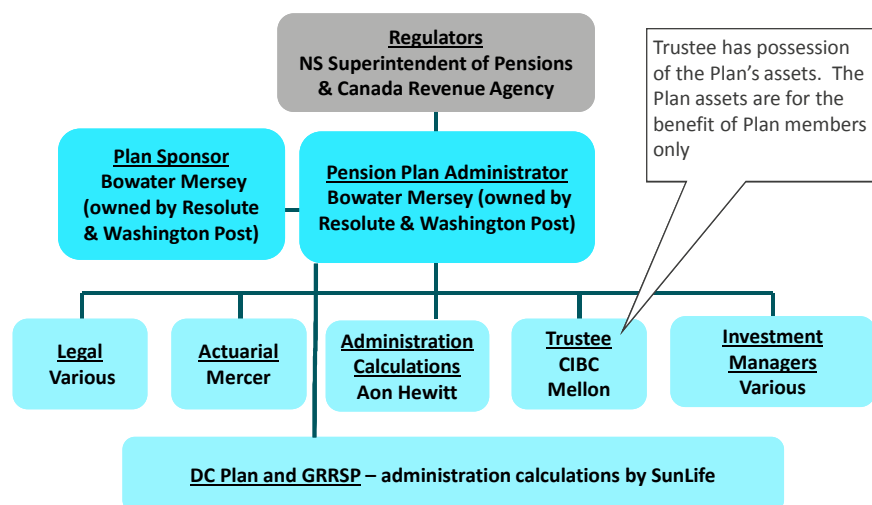
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 - Selling lands assets to the Department of Natural Resources for \$117.7 million
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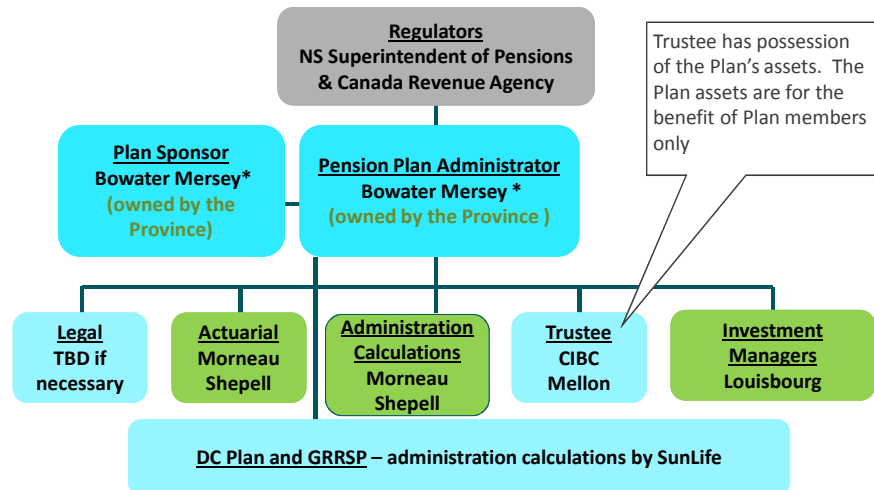


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- Role of Morneau Shepell as third-party pension plan administrator and consultant:
 - Take direction from Bowater Mersey (as owned by the Province)
 - Independent of Regulators, Investment Managers, Custodian and Prior Service Providers
 - Must administer Plans according to Plan text, NS *Pension Benefits Act*, and *Income Tax Act*
 - Conduct independent review of historical administration, funding and interpretation of Plan to ensure appropriate administration of benefits

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General – Pension Plan Oversight (today)

- Morneau Shepell will:
 - Process retirement requests and authorize new retirements
 - Keep members informed and answer member questions
 - Submit information to regulators
 - Manage the wind-up process
- January 1, 2013 Union Plan pensioner indexing
 - 0.6% on eligible pension amounts
 - NOTE: Hourly paid non-union are in the Salaried Pension Plan
- Due to pending wind-up: processing of terminations and authorization of lump sum payouts are suspended

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General – Pension Plan Oversight (today)

- Morneau Shepell does not:
 - Hold Plan assets
 - Make decisions on when contributions are made to the Plan
 - Market any services directly to Plan members
 - Make investment decisions or decide the wind-up date (we may offer advice to Bowater on these matters)
- Morneau Shepell is paid from Plan assets
 - To ensure independence, we do not receive commission or income from any other source for our services to the Plan
 - Actual cost of services will depend on time spent

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General – Pension Plan Oversight (today)

Union Defined Benefit Pension Plan

Estimated Wind-Up Position at November 30, 2012 (millions)	
Assets	\$136
Liabilities	<u>206</u>
Surplus / (Shortfall)	\$(70)

- Estimate only – actual results may vary
- Proceeds from the sale of Bowater Mersey assets will be used to pay for Bowater Mersey liabilities including the shortfall in the pension plans

More on when assets will be remitted to the Plan later

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General – Pension Plan Oversight (today)

- Investments:
 - Equities sold and will be re-invested in fixed income
 - Reduces likelihood of changes in the wind-up shortfall
 - Provides more certainty on amount that must be contributed by Bowater Mersey to fully fund the pension plan
 - New investment manager (Louisbourg) hired with a focus on fixed income investments

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Wind-Up of the Plan

- Plan to be wound-up in the near future:
 - Orderly payout of Plan assets and settlement of obligations
 - No further service accruals or benefits earned in pension plan
 - Grow-in benefits available (in the case of a fully funded plan)
 - Members who previously terminated and already received part of their transfer payout will receive remaining amount
 - When assets are transferred and all obligations are settled the plan ceases to exist
 - **Monthly pensions continue to be paid throughout and after wind-up process**

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- Pensioners/Survivors
 - Plan assets for pensioners/survivors are transferred to an insurance company who takes over responsibility for payment of monthly pensions
 - › Pensions paid from Insurance companies guaranteed by ASSURIS
 - Pensioners/survivors continue to be paid on the exact same terms (guarantee period, survivor benefits, bridge and monthly pension amounts)

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Wind-Up of the Plan

- Non-Retired Members
 - Transfer of commuted values are suspended until wind-up report is approved
 - Grow-in benefits (for a fully funded plan)
 - › Members with 55 points (age plus continuous service) deemed to continue in employment for eligibility for unreduced retirement
 - › Members with 55 points (age plus continuous service) and 10 years service deemed to continue in employment for eligibility for bridge benefits

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Wind-Up of the Plan

- Non-Retired Members (continued)
 - Option to receive pension entitlement as:
 - › Retain monthly pension to be paid by insurance company (“Annuity Purchase”) starting after age 55; or
 - › Commuted Value Transfer to a locked-in financial vehicle
 - NOTE: Part of commuted value may have to be paid in cash due to Income Tax Act limits. Any portion paid in cash would not be locked-in
 - PAR calculated and reported at time of final payout

Locked-in vehicles include LIRA (Locked-In Retirement Account, LIF (Life Income Fund) if over age 55, another registered pension plan (if plan accepts the transfer) or an individual annuity purchase. Monies in locked-in vehicle are intended to provide for retirement income starting after age 55.

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Wind-Up of the Plan - Process

- Decision on effective wind-up date
- Letter to members confirming data and entitlements
- Submit wind-up report to regulators (+6 months from wind-up date)
- Approval of regulators (+8)
- Election forms sent to non-retired members (+10)
 - Choice of commuted value transfer or annuity purchase
 - All retirees on wind-up date receive annuity purchase

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Wind-Up of the Plan - Process

- Member Meetings (+10/+11)
 - Group meeting for non-retired members to help with:
 - › Decision #1: Commuted Value Transfer or Annuity Purchase?
 - **May be one of the largest financial decisions of you life**
 - **A one time irrevocable decision**
 - › Decision #2: If commuted value transfer, how/where to invest?
 - Option of personal meetings with Morneau Shepell to help with decision #1
 - › No cost to you
 - › No personal financial interest in the decision you make
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Wind-Up of the Plan - Process

- Member Meetings (+10/+11) (continued)
 - Group meeting for retired members to provide update and answer questions
- Receive funds from Bowater Mersey to fund the Plan
 - Pension legislation allows up to 5 years to fund shortfall
 - **Wind-up process could take 1 to 5 years depending on when contributions are remitted by Bowater**

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- Before Plan is fully funded:
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- After Plan is fully funded:
 - Members electing a transfer (or still owed an entitlement from prior transfer) will be paid their remaining entitlement
 - Annuities will be purchased from insurance company and insurance company will start making monthly pension payments

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Wind-Up of the Plan - Considerations

- Ongoing discussions to declare an earlier effective wind-up date (e.g., December 28, 2012)
 - Earlier completion of wind-up funding
 - Enables members who are eligible for a commuted value payout to receive their entitlement sooner
- Want to ensure that members are kept whole relative to if Plan had continued to end of collective agreement
 - Layoff period (Pension calculation (Base Year), grow-in rights)
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Next Steps

- Determine Wind-Up date and communicate to members
- Receive and setup member data from prior service provider
- Start ongoing administration (e.g., retirement requests)
- Letter to members confirming data and entitlements
- Prepare Wind-Up report
- We will provide an update during Q1 of 2013 and ongoing updates as necessary

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Contact us starting Monday January 7th:

1-855-346-9067 (toll free)
bowater@morneaushepell.com

General information is available at:
www.pensionwindups.morneaushepell.com

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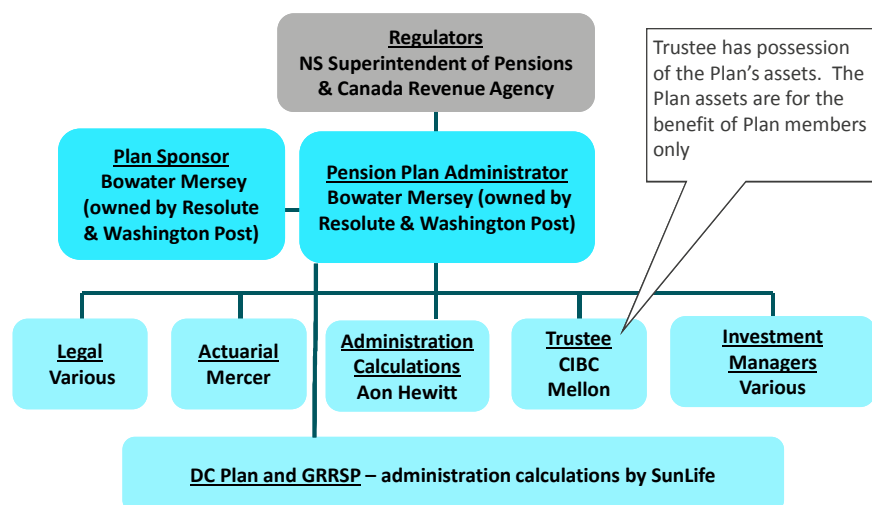
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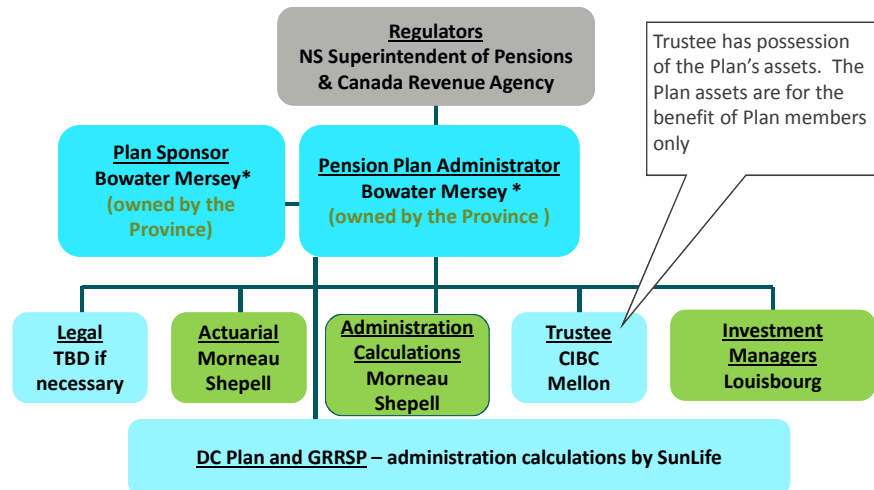


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