



December, 2001

Your Questions Answered....

A few months ago, we sent out copies of the 2000 Annual Report to all members of the MTS Pension Plan. Inside the annual report was a survey card which 123 members took the time to fill in and send back to us. We appreciated receiving your comments. Many of you who filled out the survey card asked a question about some aspect of the Pension Plan that you did not fully understand. As we did last year, we have created this newsletter to respond to your questions. But first, here are some highlights from the survey cards.

What you thought about the report

Questions:	Percentage of Responses Satisfactory or Better
Is easy to read	89%
Is interesting	77%
Helps me understand my pension	81%
Keeps me up-to-date on pension plan matters	79%

Your Questions and the Answers

Q. Why don't we de-index the MTS Pension Plan from the Canada Pension Plan (CPP)?

The primary reason that de-indexing the Pension Plan has not been considered to date is that it is very expensive. Both employees and the company would be faced with a significant increase in the cost of providing the increased pension benefit.

De-indexing the Pension Plan from the Canada Pension Plan means that the pension benefit formula as well as employee contributions would not be tied to CPP earnings. As a result, the benefit formula could increase to 2% of all earnings, but the employee contribution rate would also have to increase to a minimum of 7% on all earnings.

Q. Why is MTS taking a contribution holiday? Why is MTS allowed to take a contribution holiday? Why does MTS not match employee contributions dollar for dollar?

MTS is currently taking a contribution holiday. This means that the company is not currently making any contributions to the MTS Pension Plan. The Pension Benefits Standards Act, 1985 (Canada), which governs the operations of the MTS Pension Plan, the Income Tax Act (Canada), and the MTS Pension Plan document all allow MTS to reduce its funding to zero when the Pension Plan is in a surplus position as determined by an actuarial valuation. This is allowed because MTS has an obligation to provide the promised retirement pension benefits; MTS is not however, obliged, to guarantee a constant level of funding. It is not when MTS funds the Pension Plan that is most important, but, rather, that MTS ensures that you, as a member, receive your promised pension benefit from the Pension Plan when you retire. That is MTS's goal and responsibility – to ensure that every dollar that is needed to pay all of your pension benefits is in the Pension Plan the day you retire.

MTS does not match employee contributions dollar for dollar for the same reasons given above. MTS's responsibility is to provide the end benefit, and not to guarantee a constant level of funding. If the MTS Pension Plan were a defined contribution pension plan, then the company would be required to fund a constant amount into the pension fund. However, in a

defined contribution pension plan, the plan member then becomes responsible for the end benefit. The plan member takes all the investment risk. This might not have seemed like such a bad idea in the late 90s when the stock markets generated high returns, however, since the fall of 2000, the stock markets have lost a lot of money. During this time, the MTS Pension Plan, like every other pension plan, has seen its surplus dwindle. However, the Company is responsible for ensuring that there is enough money to pay pension benefits and that the Plan member is not at risk.

If the Pension Plan were to become less than 100% funded, then MTS is required, by law, to increase its contribution to once again bring the Pension Plan back to a fully funded position. At that point, the Company's contributions to the Pension Plan would exceed the employees' contributions.

The MTS Pension Plan is often still compared to The Civil Service Superannuation Fund ("CSSF"). It is important to understand that the two pension plans are different. One of the ways that the plans are different is with respect to funding. The Government of Manitoba does not fund the CSSF, despite the large unfunded liability in the plan. Instead, the Government continues its permanent contribution holiday, and only pays for its portion of the monthly pension payments once the payments have been made to CSSF members. The MTS Pension Plan is fully funded, and MTS funds the Pension Plan in accordance with federal legislation.

Q. Why is MTS taking the surplus out of the Pension Plan?

MTS is not taking the surplus out of the Pension Plan. MTS is currently not putting any employer money into the Plan. This is not the same as taking money out of the Plan. There are strict rules with respect to removing surplus funds out of a pension plan, and MTS is not doing this. Yes, if the company had been making contributions into the Plan, the surplus would be higher. But the level of surplus in the Plan is affected primarily by the Plan's investment returns. When the markets are up and the Plan is earning a larger return than expected, then the Plan's surplus grows. However, over the past year, stock markets have suffered extensive losses. This has reduced the amount of surplus in the Plan. It is also very possible that the Plan could go into a deficit position. If this occurs, the company is required to not only start making its regular employer contributions into Plan, but also to fund the Plan to eliminate the deficit.

Q. Why haven't I been asked how the surplus should be used to enhance benefits?

Employees and retirees have the ability to voice their concerns and opinions with respect to the Pension Plan through their representatives on the Pension Committee. Employees are represented on the Pension Committee by their respective unions, while retirees are represented by a fellow retiree. These individuals bring the ideas and concerns of their membership to the Pension Committee meetings. The Pension Committee has the authority to review and make recommendations on benefit improvements. Over the past several months, the Committee has been addressing this issue, however, the level of surplus in the Pension Plan is not sufficient to support a widespread benefit improvement at this time.

Please feel free to contact your representative on the Pension Committee, they are as follows:

Iris Taylor – CEP Representative
Larry Trach – TEAM Representative
Carl Martz – IBEW Representative
Harry Restall – Retiree Representative

Q. If our pension plan is equal to our previous Civil Service Superannuation plan, why did we not get the recent increase they did?

The Manitoba Telephone System Reorganization and Consequential Amendments Act, the legislation that privatized MTS, required MTS to establish a pension plan that was equivalent in value to the pension benefits to which current and former employees had or may have become entitled under the CSSF, the predecessor pension plan administered under The Civil Service Superannuation Act ("CSSA"), as at the January 7, 1997 implementation date of this new plan. This was accomplished, and even exceeded in certain areas such as guaranteed cost of living (COLA) increases and a fully funded pension plan. However, there is no requirement that the MTS Pension Plan mirror the CSSA going forward. This is primarily due to the fact that it is not possible to do so. The MTS Pension Plan is federally regulated and, as such, MTS must follow certain rules to which the provincial government plan is not subject. This includes rules concerning the granting of benefit increases that could put a pension plan into a deficit position.

The MTS Pension Plan Pension Committee has taken on the task of looking at benefit improvement ideas. However, the level of surplus enjoyed by the Pension Plan was not excessive, and has deteriorated as a result of the current economic downturn. The result is that there is insufficient surplus to consider improving benefits at this time. When things improve in the future, the Pension Committee will once again be able to consider changes to pension benefits.

In the current economic environment, most, if not all, pension plans in Canada have seen dramatic drops in their level of surplus. As a result, many of the larger pension plans have now put all benefit improvement discussions on hold. The reasoning behind this is sound – the first priority is to protect the level of benefits currently promised by the pension plan.

Q. Why is the current litigation concerning the pension surplus not identified in the report? What is the possible liability to the Pension Plan as a result of this litigation?

MTS is currently named in a lawsuit filed by the unions and retirees. This lawsuit pertains to the utilization of pension surplus, as well as various pension governance issues. The lawsuit is not discussed in the Annual Report because the Pension Plan itself is not being sued, nor is the Plan in any financial risk from this lawsuit. MTS is defending this lawsuit in the courts. Because this claim is still pending before the courts, the company is limited in the comments that it can make about this matter.

Q. Why isn't the Cost of Living Adjustment (COLA) Account separate from the basic benefits? How is this account funded and why is the balance in the account lower in 2000?

The Cost of Living Adjustment (COLA) Account is for accounting purposes only, and is used solely for the purpose of determining the amount of the cost of living increase that can be granted in each calendar year. Since this account is for accounting purposes only, there is no need to have Pension Plan assets held separately. As required by the Pension Benefits Standards Act, 1985 (Canada), all Pension Plan assets are held in one trust fund for the purpose of paying all pension benefits, regardless of their origin (whether it is for the basic benefit or a COLA benefit). To give you a good analogy that shows why the COLA Account is set up this way, think of your own bank account. You can keep all of your money in one bank account, but still keep track of how much money you will use to buy groceries or pay your bills. This is similar to how the COLA Account works. We use the account to figure out how much of a cost of living increase can be granted, but we keep the money in the same trust fund as the rest of the Pension Plan's assets.

As with many parts of the Pension Plan document, this particular method of determining cost of living increases was based on the Government's pension plan. However, MTS improved the benefit over the Government's pension plan by providing a guaranteed cost of living increase that ensures that, each year, retiree pension benefits will be increased by at least 2/3 of the increase in CPI up to a maximum CPI increase of 4%.

The dollar amount in the COLA Account fluctuates each month because of the funds going in and out of the account. Each month, 10.2% of employees' contributions plus a matching amount is allocated to the COLA Account. Interest on the outstanding balance also increases the amount in the COLA Account. Conversely, amounts paid to retirees for previous COLA increases are deducted from the COLA Account each month. Also, when a former employee has his/her pension benefit transferred out of the Pension Plan, the amount of the transfer that relates to COLA increases is deducted from the COLA Account. The balance in the COLA Account at the end of 2000 was lower than in 1999. This is because of the large amount of funds transferred out of the Pension Plan in 2000 by former employees. As well, previously granted COLA increases cost the Pension Plan over \$5.8 million in 2000. 10.2% of employee contributions plus the matching amount only resulted in approximately \$1.8 million of new funding to the COLA Account. The interest earned on the COLA Account added to the \$1.8 million is normally sufficient to cover the cost of the previously granted COLA increases paid to retirees, however, it is not sufficient to cover the COLA portion of pension benefits transferred out of the Pension Plan.

In order to grant additional COLA increases in excess of the 2/3 of CPI, the COLA Account must have sufficient assets to fund all COLA increases at 100% of CPI for the next 20 years. MTS was required to replicate this confusing requirement from the CSSA when the Pension Plan was created in 1997, and it is exactly the method used by The Civil Service Superannuation Board ("CSSB") to determine COLA increases in relation to the CSSF each year.

It is important to understand that the employer contribution holiday does not affect the balance in the COLA Account. An amount equal to the amount contributed by employees is always allocated to the COLA Account to ensure that the level of employer funding does not affect the determination of the COLA increase each year.

Q. Why is the COLA increase guaranteed by the Pension Plan based on a maximum CPI increase of only 4%?

The Pension Plan guarantees an annual COLA increase of 2/3 of the increase in CPI to a maximum increase in CPI of 4%. What this means is that if inflation exceeds 4% for the year, say it is 5%, the Plan can only guarantee that the COLA increase will be 2/3 of 4%. If the Plan can afford it, a COLA increase of 2/3 of 5% can still be granted, but it is not guaranteed. A percentage of 4% was chosen as the upper limit because it results in a dollar increase that is affordable for the Plan. It would not be prudent to guarantee a COLA increase that could jeopardize the financial health of the entire Plan. It also was chosen because the number was high enough that it would be unlikely that the Plan would be in a position of having to grant less than 2/3 of CPI. The Government of Canada currently manages inflation to less than 4%.

Q. Why can't the pension cheques be sent out bi-weekly instead of monthly?

Retiree pension cheques have historically been sent out monthly. One reason is that this is how most other pension-related benefits such as OAS and CPP are paid. This is also the more economical way of paying pensions. However, MTS did look at the feasibility of sending out pension cheques on a bi-weekly basis. Unfortunately, the CSSB, which provides these types of administration services for the MTS Pension Plan, has informed us that they are not set up to process pension payments more frequently.

Q. What is the cost of sending out the Annual Report? Is it necessary? The numbers are nice but how does all this affect me?

The cost of producing the 2000 Annual Report to members was approximately \$10,000. It is our opinion that the Annual Report is a necessary communication tool. It is a means for the company to provide Plan members with some important information on how the Plan is managed and how well the Plan is doing. This is information that Plan members need to have on a yearly basis. We hope that by producing the Annual Report, we are able to communicate this information in an easy to understand manner.

The financial information in the Annual Report provides Plan members with the details on what funds are coming into the Plan and how funds in the Plan are used. The report includes information on Plan membership, how much money was paid to retirees during the year, how much money left the Plan because of termination transfers as well as how much money was earned through investments. The report also provides the member with information on how the assets are managed. Ultimately, all this information provides you, as a Plan member, with a feel for how secure your pension benefits are inside the Plan.

Q. What portion of the global equities are in U.S. equities? It does not seem prudent to increase the Plan's investments in global equities in light of the recent global equity performance.

Of the global equities reported in the 2000 Annual Report, approximately 65% were U.S. equities. By November 2001, this number was closer to 68%. This percentage fluctuates with the results of the U.S. equity market relative to the other equity markets in which the Plan's global equities manager has invested. It also fluctuates when the investment manager determines that there are better investment opportunities in other countries.

The percentage of the Plan's assets invested in the global equity markets, as well as in the Canadian equity market, is determined through an asset/liability study. This is a very detailed review of the Plan's liabilities (which are the pension benefits owed from the Plan to all members), as well as many other factors, including inflation, and stock and bond market performance. Through this study, the most optimal well-diversified asset mix for the Plan is determined. Asset/liability studies are typically conducted every four to six years for large pension plans across Canada by actuarial consultants who are specially trained in this area. The Plan's most recent asset/liability study, which was conducted by William M. Mercer Actuarial Consultants, was completed in September 2000. The results of this study recommended that 30% of the Plan's assets be invested in equities outside of Canada. By doing so, the Plan is increasing its potential investment return while reducing the portfolio's risk level. The asset/liability study recommends a long-term asset mix, and the Plan's investments are viewed as long-term. We do not try to time the market, but invest with the view that over the long-term (approximately 10 years), the investments will produce good returns.

If you need to contact us

The MTS Pension Plan now has new web site. When you have a chance, look it up at www.mtspensionplan.com.

If you have any other questions about the MTS Pension Plan, please contact us at:

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If you would like more information on your personal retirement benefits please contact the MTS Pension Plan' administrative services provider:

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