

December 2004

Cost of Living Adjustment

The Audit Committee of the Board of Directors of MTS approved a 1.34% increase to pension benefit payments effective July 1, 2004. This represents the guaranteed annual cost of living adjustment of two-thirds of the increase in the Consumer Price Index ("CPI") for Canada during 2003. The combined effect of past cost of living adjustments accounts for approximately 18% of the total benefits paid to retirees in 2003.

The administrators of some Manitoba-based pension plans recently have announced that they were significantly reducing, or not granting, cost of living adjustments in 2004. MTS retirees need not be concerned, however, as the MTS Pension Plan, unlike many other plans, provides a **guaranteed** cost of living adjustment equal to two-thirds of the increase in CPI up to a maximum increase of 4%. This guaranteed cost of living adjustment provides a valuable benefit to retirees.

Allstream Acquisition

As a result of the recent acquisition by MTS of Allstream Inc., MTS is now the third largest telecommunications provider in the country. This acquisition provides MTS with a national focus and positions the company for sustainable long-term growth. This important milestone in MTS's history will not affect the MTS Pension Plan. The existing Allstream pension plans will continue to provide pension benefits to Allstream employees and retirees.

Plan Communications

From time to time, Plan members will receive correspondence from the retiree and employee representatives on the Plan's Pension Committee. **The views and opinions expressed by the retiree and employee representatives in their correspondence are not necessarily the views and opinions of Manitoba Telecom Services Inc. or of the persons responsible for the administration and governance of your Pension Plan.** In addition, since some of the information and numbers provided in that correspondence is not based on official membership records for the Plan or a detailed actuarial valuation prepared by the Plan's actuary, they should not be relied upon. Since the lawsuit that was filed by the unions and certain employee and retiree representatives in 1999 is still ongoing, MTS believes that it would be inappropriate to comment on the specific opinions and information provided by retiree and employee representatives in their communications.

Pension Plan Funding

MTS recently received the results of the latest funding actuarial valuation of the MTS Pension Plan. This valuation indicates that as at January 1, 2004, the Plan was in an unfunded position of \$17.4 million on a going concern basis, and \$120.8 million on a solvency basis. Although the Plan's assets performed well in 2003 and have held their own so far in 2004, the Plan's liabilities have increased significantly from the last valuation, reflecting lower interest rates which impact on the actuarial discount rate.

Federal pension legislation provides that a solvency deficiency must be funded by the employer over a five-year period. MTS already has funded the Plan in 2004 in an amount of \$42.3 million. This includes funding of just over \$28 million for the annual special payment

that is required by the 2004 funding actuarial valuation. MTS will continue to make special payments into the Plan each year until the Plan is once again fully funded. It is important to note that most pension plans in Canada were in an unfunded position on a solvency basis in 2004. It is not uncommon for pension plans to move from a fully funded position to an unfunded position when interest rates go down significantly. MTS is committed to bringing the Pension Plan back into a fully funded position, and has the financial strength and strong cash flows to fulfill that commitment.

2003 Survey Results

A few months ago, we sent out copies of the 2003 Pension Plan Annual Report along with a survey card. A total of 79 pension plan members took the time to fill in the card and return it to MTS. We always appreciate receiving your comments.

What you thought about the Annual Report:

Survey Question	Percentage of Responses Stating Agree or Strongly Agree
Is easy to read	84%
Is interesting	80%
Helps me understand my pension	78%
Keeps me up-to-date on pension plan matters	95%

Your Questions and the Answers

There were a number of questions asked by members in their survey cards. We've listed these questions below with the answers. Where similar questions were asked, these questions have been combined.

Q. If MTS contributed to the Plan on a regular basis, could we receive a better COLA?

The amount and timing of employer funding does not in any way affect the amount of COLA granted each year. Your Pension Plan is superior to most Plans, because it provides for a guaranteed annual COLA equal to two-thirds of the increase in CPI up to a maximum increase of 4%. Few pension plans provide for a guaranteed annual COLA.

Q. Is the Annual Report paid for by the Pension Plan?

Yes, the cost of producing the Pension Plan Annual Report is paid from Pension Plan funds. This is done because the Annual Report is a necessary communication tool. Since the work to produce this report is mostly performed in-house, the cost is kept to a minimum. Competitive quotes also are obtained for the printing of the Annual Report.

Q. Why has MTS not contributed to the Plan since we have privatized?

MTS's contributions to the Plan are based on the recommendations in the funding actuarial valuation prepared by the Plan's actuarial consultants. When the Plan is more than fully funded MTS can, and has, reduced its contributions to zero in past years. Conversely, when the Plan is not fully funded, MTS is solely responsible for making special payments into the Plan to bring it back to a fully funded position over time, as required by pension legislation.

Although MTS funded the Plan in 1997, it did not fund the Plan from 1998 to 2002, as it was not required to do so based on funding actuarial valuations of the Plan. MTS voluntarily started funding the Plan in 2003, contributing just over \$9.5 million. In 2004, MTS's year to date contribution is \$42.3 million. Further details regarding the 2004 funding can be found on the second page of this newsletter.

Q. MTS, under the previous Superannuation Plan, which the Plan “mirrors”, matched our contributions, and now they contribute enough to meet obligations. On who’s authority is this done?

MTS never matched employee contributions while it was subject to *The Civil Service Superannuation Act* (Manitoba) (“CSSA”). As with most employers with members covered under the CSSA, MTS funded its pension obligations on a “pay-as-you-go” basis, and did not match employee contributions. The majority of employers participating in The Civil Service Superannuation Fund are non-matching, which means that they do not pay their share of a member’s pension benefits until these benefits are actually paid to the member. As a result, the non-matching employer’s portion of the pension liability is completely unfunded. This is the arrangement that existed for MTS before the MTS Pension Plan was established. Now, because the MTS Pension Plan is a federally regulated plan, MTS must fund the Pension Plan in accordance with the *Pension Benefits Standards Act, 1985* (Canada). MTS has contributed \$42.3 million to the Plan in 2004. Employee contributions for 2004 are estimated to be just under \$10 million.

Q. What is YMPE?

YMPE refers to the Year’s Maximum Pensionable Earnings. This is the limit established each year by the federal government under the *Canada Pension Plan Act* to determine the maximum amount of Canada Pension Plan contributions and benefits. The YMPE is commonly used in defined benefit plan benefit formulas. For 2004, the maximum YMPE is set at \$40,500.

Q. Why are the pension funds invested in mutual funds?

The Pension Plan’s Investment Committee oversees and directs the investment of the Plan’s funds by establishing investment principles and guidelines. The Plan’s funds are invested in a diversified portfolio of different types of assets, because diversification is a fundamental principle of investing. A portion of the Plan’s funds are actually invested in pooled funds rather than mutual funds. (Pooled funds are a group of related financial instruments, such as mortgages or stock, that are combined and sold in units.) Although similar in structure to mutual funds, pooled funds are primarily for institutional investors like pension funds, while mutual funds are primarily intended for retail, or individual, investors. We used the more familiar term “mutual funds” in the Annual Report for ease of understanding. Pooled funds have considerably lower commission rates than mutual funds, and make sense as an investment vehicle for the Plan when a similar level of diversification could not be achieved outside of the pooled fund.

Q. Why is the Superannuation Board (CSSB) still involved in the administration of the Plan?

At the time that MTS privatized in 1997, MTS considered various administrative options in relation to the new Pension Plan that was established at that time. After reviewing these options, MTS felt that the most cost effective method for the performance of some of the services that are required to administer a pension plan was to outsource these services. The services that MTS looked at outsourcing were the provision of annual pension statements; pension calculations relating to terminations, retirements, marriage breakups, reciprocal transfers and deaths; pensioner payroll functions; and retirement consultations. The CSSB was selected as the provider of these administrative services based on low fees, excellent experience, existing systems and technology, as well as its proven ability to successfully perform these services. MTS also determined that keeping these administrative services with the CSSB would be the least disruptive for Plan members.

Q. Can you provide more information on credited service buybacks?

Members of the MTS Pension Plan can purchase credited service buybacks for certain periods of regular service, maternity leave and parental leave.

Regular full-time employees who were in a probationary period after being hired, during which they were not allowed to contribute to the Pension Plan, are eligible to purchase this service prior to retirement or termination of employment. The cost to purchase this type of credited service is 6% of the employee's current salary at the time of the buyback application.

Members of the Plan who are on maternity and/or parental leave can prepay their pension contributions while they are on leave. The cost to purchase this service is based on the employee's rate of pay prior to the commencement of the leave. The pension contributions are paid by installments at a rate of 5.1% up to the YMPE, and 7% thereafter. Members who do not elect to contribute to the Plan while on leave may apply to buyback their maternity and/or parental leave service up to six months immediately following their return to work. The cost to purchase this service is exactly the same as the cost while on maternity and parental leave, however, current interest charges are added to the cost of the buyback. The amount of interest added to the buyback is based on the selected payment option.

The MTS Pension Plan also allows buybacks for credited service as it relates to various types of leaves of absence that may occur from time to time based on unique situations.

Q. How does the percentage of active members compare to deferred and retired members in the past?

Member statistics for the MTS Pension Plan since it was established in 1997 are as follows:

	1997	1998	1999	2000	2001	2002	2003
Active Members	64%	61%	60%	56%	57%	58%	56%
Deferred Members	7%	8%	8%	10%	10%	9%	10%
Retirees and Beneficiaries	29%	31%	32%	34%	33%	33%	34%

Additional Questions

If you have any questions about the information in this newsletter, please feel free to contact us at mtspensionplan@mts.ca or at 941-7347 or 1-800-635-4973.