

## **Ontario Paper Pensioners” Awareness Committee**

**Honorable Filomena Tassi, MP**

Minister of Seniors

**Honorable Navdeep Bains, MP**

Minister of Innovation, Science and Economic Development,

Note: copy to ISED in response to their request for public feedback.

It has been some time since we last approached the subject of pension reform, so I am again writing to you on behalf of the Ontario Paper Pensioners and the thousands of pensioners across the country whose pensions are in jeopardy as a result of business mismanagement of pension funding. The situation where some companies have chosen to manage their pension contributions in such a manner that resulted in large deficits in the employee pension funds is not improving. The list of pensioners affected and companies in default continues to grow and until now government seems to take very little interest in initiating corrective actions.

Our intent is to lobby your government to help correct this situation through legislation and not through financial handouts. We are continuing to propose that the federal government change the Companies’ Creditors Arrangement Act (CCAA) to ensure the potential impact of business failure on pensions is reduced. This can be enacted without government guarantees or funding, but through adjustments to the treatment of pension deficits at time of default. We propose that pension liability be given priority of claims in bankruptcy proceeding. The pensioners need an action plan, including target dates to ensure the situation does not continue to get worse.

Pension funds represent deferred wages owed to employees who have served the organization well and earned the rights to maintain a standard of living during their retirement years. It is not funds being used to pay bonuses or stock options.

The impact on the government is minimal – no funding is required, no guarantees. There will be pushback from the financial institutions and corporate lenders, however, when viewed in depth our economic advisors consider the cost impact on them is very minimal at 10 bps or less.

The impact on affected pensioners is enormous – a loss of earning power, a reduced standard of living, less buying power, lower taxes and often an increased demand on social programs.

We have attached an updated situational analysis of the Ontario Paper Pension Plans for your information. The facts are the same as elsewhere; large pension funding deficits with little hope of catching up.

On behalf of the Ontario Paper Pensioners' Awareness Committee and pensioners in similar situations, thanks for your time and consideration. We would welcome an opportunity for some of our executive to meet with you or your senior staff and discuss the proposal and alternatives to bring about an equitable solution to pension funding problem.

For your information a brief situational analysis for Resolute Forest Products follows this note.

Yours truly,

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## Ontario Paper Pensioners” Awareness Committee Situation Analysis Q3 2018

### History

The Ontario Paper Company, started up its first newsprint machine in 1913 in Thorold, operating continuously since. The Thorold mill since 2000 has been part of AbitibiBowater Inc. (now Resolute Forest Products. Our pension fund (Defined Benefit Pension Plan for Thorold Non-Unionized Employees) is one of a group with 15,000 participants in six provinces across Canada. AbitibiBowater Inc. emerged from proceedings under the Companies’ Creditors Arrangement Act (the “CCAA”), and under Chapter 11 of the United States Bankruptcy Code, on December 9, 2010. On 10 March 2017 the Thorold mill was “indefinitely idled” leaving the future of over 100 employees up in the air.

### Company Financial Performance

*“...facing long-term continuing demand destruction as electronic media erode our consumer base.”*  
RFP President Richard Garneau, to Standing committee of Industry, Science and Technology, 2010.

*“We are faced with profound and confounding change’ in the news industry”* Postmedia President Paul Godfrey to his AGM 2016.

Resolute Forest Products Cumulative Cash Flows Since “Fresh Start”, US\$ millions		
Cash provided by:	Operations	\$1,726
	Asset Sales	<u>395</u>
		<u>2,121</u>
Cash used in:	Asset Purchases	1,524
	Debt Repayment	573
	Stock	
	Repurchases	<u>126</u>
		<u>2,223</u>
	<b>Net Cash Decrease</b>	<b><u>\$.102</u></b>

Since reorganization RFP has generated US\$2.1 billion in cash – all paid out: shared between partial replacement of assets, bondholders’ debt and stockholders’ capital redemptions.

### Performance of Pension Fund

There has been no material change to fund assets, neither by supplemental contributions nor by fund returns. So, since the 2010 reorganization, unfunded pension obligations are unchanged at US\$1.5 billion. The deficit is constant about US\$100,000 per participant, fluctuations being attributable to variations in actuarial interest assumptions, not to changes in underlying pension assets and liabilities.

In 2012, RFP sought relief by reducing pension payments by 10% but provincial regulatory authorities (RRQ and FSCO) required maintenance of full payments and increased RFP contribution from \$65 to \$80 million/year as per the 2010 order.

### **Options to Protect Pensions**

1. RFP funds pensions fully – unlikely due to its business outlook and to its choice to prioritize cash payouts to bondholders and stockholders before pensioners.
2. Pension fund assets outperform market. Unlikely based on performance from 2010 to 2016, nor is it monitored by provincial regulators.
3. The Pensioners' Awareness Committee recommends securitization through legislation to amend the Bankruptcy and Insolvency Act and the Companies' Creditors Arrangement Act to ensure that unfunded pension plan liabilities are accorded priority of claims in the event of bankruptcy proceedings, (for which the cost of social licence to creditors may be up to 10 bps).

**This is the preferred option to provide justice to pensioners with no cost to the Federal Government.**

### **Resolute Forest Products**

#### **Pension and other postretirement benefit obligations per SEC 10-Ks**

(US\$ millions, after giving effect to fresh start accounting)

31 December	
2010	1,272
2011	1,524
2012	1,916
2013	1,294
2014	1,616
2015	1,186
2016	1,123
<b>Cumulative Average</b>	<b>1,418</b>

Resolute Forest Products						
<b>31 Q Cash Flows 2011 - 2018</b>						
(after giving affect to fresh start accounting)						
(US \$ millions)						
Period		Cash flows provided by (used for)				
		Operations	Fixed Asset		Change in Debt	Purchase of Stock
			Sales	Invest		
2011	Year	198	315	(97)	(354)	
2012	Year	266	36	(193)	(198)	(67)
2013	Year	206	4	(161)	8	-
2014	Year	186	10	(193)	(2)	
2015	Year	<u>138</u>	-	<u>(344)</u>	<u>(10)</u>	<u>(59)</u>
2016	Year	<u>81</u>	<u>5</u>	<u>(249)</u>	<u>125</u>	-
2017	Q1	(39)	-	(69)	118	-
	Q2	99	-	(47)	(41)	-
	Q3	<u>39</u>	<u>3</u>	(20)	(7)	-
	Q4	<u>59</u>	<u>18</u>	(20)	(51)	
2017	Year	<u>158</u>	<u>21</u>	(164)	<u>19</u>	-
2018	Q1	62	-	(25)	(32)	-
	Q2	158	2	(28)	(83)	-
	Q3	351	2	(94)	(144)	-
	Q4					
2018	Year					
Cumulative		<u>1,726</u>	<u>395</u>	(1,524)	<u>(573)</u>	<u>(126)</u>
			<b>\$2,121</b>			<b>(\$2,223)</b>
<b>Net Cash Flow (Deficit) over Thirty-one Quarters</b>						<b>(\$ 102)</b>

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8 December 2018