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Dear Retiree:

**Re: Changes to your Pension Plan
Our File: 2015001**

On November 9, 2015, we were appointed to represent the interests of each retired member and former member (or the surviving spouse of any such member) (as amended by the subsequent Court order, the “**Retirees**”) of the following pension plans:

- (1) the Essar Steel Algoma Inc. Pension Plan for Hourly Employees, registration number 1079904 (the “**Hourly Plan**”);
- (2) the Essar Steel Algoma Inc. Pension Plan for Salaried Employees, registration number 1079896 (the “**Salaried Plan**”); and
- (3) the Essar Steel Algoma Inc. Wrap Pension Plan, registration number 1079888 (the “**Wrap Plan**”).

(Collectively referred to as the “**Pension Plans**”).

On December 5, 2017, the Court issued an Order amending the scope of our representation to exclude retired and former members of the Hourly Plan who were represented by USW Local 2251 immediately prior to the date on which they retired or their employment otherwise terminated (or the surviving spouse of any such member), other than those who opted out of being represented by USW Local 2251.

Since November 2015, we have actively participated in the Court proceedings under the *Companies’ Creditors Arrangements Act* (“**CCAA**”) with respect to Essar Steel Algoma Inc. (“**Algoma**”), and have been consulting with a court-approved committee of retirees with respect to preserving the Retirees’ interests in Algoma’s ongoing insolvency.

We are at an important point in the CCAA Proceedings. Algoma is being purchased by a new corporation, 1076318 B.C. Ltd. (now known as Algoma Steel Inc., “**New Algoma**”). On September 21, 2018, the Court approved a going concern transaction that will see Algoma’s business continued by New Algoma (the “**Transaction**”). This Transaction is expected to close in November 2018 (with the date of closing being the “**Closing Date**”).

As part of the Transaction, New Algoma has agreed, among other things, to assume the Pension Plans. In order for that to happen, the USW and its Locals 2251 and 2724, and we, as representative counsel, have entered into various agreements relating to the Pension Plans.

We are providing this information package about the various agreements and changes concerning the Pension Plans as part of our consultation with each of you with respect to the arrangements generally and the consultation process required before the exemptions to section 57 of the PBA discussed below may be implemented. It is anticipated that the Superintendent will be consulting with plan beneficiaries with respect to those proposed exemptions and that that consultation will be through us as Representative Counsel.

We will be holding in-person consultation meetings in Sault Ste. Marie on November 6, 2018 where plain language information will be provided regarding the changes to the Pension Plans.

Details of Information Meetings

Information meetings will be held at the following place and time:

Where: Marconi Hall, 450 Albert St. West, Sault Ste. Marie Ontario

When: November 6, 2018 at **11am, 2pm and 4:30pm.**

Summary of Proposed Changes to the Pension Plans

At the information meetings, we will be discussing the following proposed changes to the Pension Plans. Note that these changes would require plan amendments and/or changes to the applicable legislation and regulations.

Hourly Plan and Salaried Plan Changes

- (1) **Benefits:** There will be no change to pension plan benefits, except as stated below.
- (2) **Funding:** New Algoma will be required to fund the Hourly Plan and Salaried Plan in accordance with Regulation 909 to the *Pension Benefits Act* (the “**General Regulation**”), subject to certain conditions, including:

- a. An actuarial valuation for each of the Salaried Plan and Hourly Plan shall be filed with the Financial Services Commission of Ontario (“**FSCO**”)¹, and the valuation shall set out certain information including: current service costs; funded status on a solvency, wind-up and going-concern basis; special payments that must be remitted to the plans; and any other information required by the General Regulation;
- b. There is a new formula to determine special payments into the Salaried Plan and Hourly Plan. Special payments² to the Hourly Plan and Salaried Plan shall, in the aggregate, be equal to \$31 million per year until both plans reach a solvency ratio of 85%.³ The special payments will be divided between each of the Hourly Plan and Salaried Plan *pro rata* based on each plan’s adjusted solvency deficiency⁴ as reflected in the last actuarial valuation;
- c. Between the Closing Date and the date when the April 1, 2018 valuation is filed, the aggregate required monthly special payments shall equal \$2,583,334.00; and,
- d. To the extent special payments to the Hourly Plan and the Salaried Plan are required under the New Algoma regulation and the General Regulation, the special payments will be capped at \$31 million per year, in the aggregate, for a period of 20 years after the Closing Date.

(3) **Indexation:** The indexation provisions of the Hourly Plan and Salaried Plan will be amended to continue post-retirement indexation of the Basic Pension’ as defined in

¹ The pension agreements with New Algoma provide for the filing of an initial actuarial valuation report for each plan, with an effective date as of April 1, 2018. Generally, valuations will be prepared with an effective date of April 1 for each year thereafter. However, the parties may agree to a new regular valuation date. Furthermore, New Algoma is permitted to file valuations with effect as of the start of New Algoma’s fiscal year.

² Special payments are payments required to fund any deficits, including going concern unfunded liabilities, solvency deficiencies, and any deficiencies or unfunded liabilities arising out of plan amendments, to the extent provided for in the various agreements with New Algoma relating to the Pension Plans. Any other benefit improvements that may be implemented in the future would not be covered by the \$31 million cap.

³ In accordance with general regulatory changes under the Pension Benefits Act effective May 1, 2018, solvency special payments are no longer required for pension plans with a solvency ratio above 85%.

⁴ The adjusted solvency deficiency of a pension plan is the amount of the solvency funding deficiency below 85%.

the pension plans, on July 1 of each year between 2018 and 2022 (inclusive). An agreement has been reached to revisit the indexation formula during this period.⁵

- (4) **Early Retirement Windows:** Early retirement windows allow members who retire within the specified period to receive enhanced early retirement benefits and a bridge pension under their respective plan notwithstanding that they have not reached age 60 and completed 10 years of credited service. Additional early retirement windows have been agreed to continue until 2022.
- (5) **PBGF Coverage:** The Pension Benefits Guarantee Fund (“**PBGF**”) is a special fund that was established by the Government of Ontario to cover certain pension benefits for certain defined benefit pension plans to a maximum of \$1,500 per month if they are wound up, there is a funding shortage and the funding requirements of the *Pension Benefits Act* (PBA) and regulations cannot be met (because the employer is insolvent),. The Hourly Plan and Salaried Plan do not currently have PBGF protection. When both plans reach a solvency ratio of 85% or higher, the PBGF will begin to apply.
- (6) **Exemptions:** The Hourly Plan and the Salaried Plan will be exempted from the following subsections of the PBA:
 - a. 57(3) – An employer is deemed to hold in trust for the beneficiaries the amount of employer contributions due and not paid into the pension plan. This sub-section will not apply in respect of special payments that came due between the start of the CCAA Proceedings on November 9, 2015 and the Closing Date and which were not paid during the CCAA Proceedings.
 - b. 57(4) – On wind up of a pension plan, an employer is deemed to hold in trust for the beneficiaries the amount of employer contributions accrued to the date of wind up of the pension plan but not yet due. This “deemed trust” can negatively impact an operating company’s ability to borrow, and thereby reduce its competitiveness. This exemption was required by New Algoma and its lenders to ensure that New Algoma can be properly financed.
- (7) **Funding Regime:** the parties to the Collective Agreements (USW Locals 2251 and 2724, respectively, and New Algoma) agree that neither will approach the Ontario

⁵ There is no requirement to provide indexation beyond 2022 under the amended Collective Agreements.

government for funding relief regulations without the consent of the others during the term of the new 2724 or 2251 Collective Agreements.

Wrap Plan Changes

- (1) **Benefits:** There will be no change to pension plan benefits.
- (2) **Funding:** As of the Closing Date, New Algoma shall cause the Wrap Plan to be valued and funded in accordance with the Regulations under the *PBA*. However, if the Wrap Plan has a solvency ratio of less than 100%, the required monthly Special Payments will be the lesser of:
 - a. the aggregate total of the prior month's benefit payments from the Wrap Plan fund; and
 - b. \$416,667.

This works out to a maximum of approximately \$5 million per year in funding for the Wrap Plan.

- (3) **Exemptions:** The Wrap Plan will be exempted from the following subsections of the *PBA*:
 - a. 55(1) – A pension plan must provide for funding sufficient to provide pension benefits in accordance with the *PBA* and the regulations. This exemption is required because of the permanent \$5M annual cap on funding;
 - b. 57(3) – An employer is deemed to hold in trust for the beneficiaries the amount of employer contributions due and not paid into the pension plan. This exemption is required by New Algoma and its lenders to ensure no deemed trust arises with respect to contributions that came due or that come due before the Closing Date, but which are not paid by Algoma during the CCAA Proceedings;
 - c. 57(4) – On wind up of a pension plan, an employer is deemed to hold in trust for the beneficiaries the amount of employer contributions accrued to the date of wind up of the pension plan but not yet due. This “deemed trust” can negatively impact an operating company's ability to borrow, and thereby

reduce its competitiveness. This exemption was required by New Algoma and its lenders to ensure that New Algoma can be properly financed;

- d. 69(1)(d) of the PBA and s. 28.2 of the General Regulation under the PBA – The Superintendent by order may wind up a pension plan if all or substantially all of the members of the pension plan cease to be employed by the employer. This exemption is required to remove the discretion of the Superintendent to order a wind up as this circumstance is currently met because of the unique nature of the Wrap Plan, namely that all of the members of the Wrap Plan are retirees or former employees and have ceased to be employed by the employer.

(4) **Deemed Employer:** A special regulation will deem New Algoma an “employer” under the PBA for the purposes of the Wrap Plan to allow New Algoma to assume and to make contributions to the Wrap Plan as if it was the “employer”.

(5) **Interim Wrap Arrangements:** A legislative amendment to the PBA is required to effect certain of the changes described above (“**Wrap Pension Regulation Condition**”), and it is not expected that both the legislation and the regulations with respect to the Wrap Plan will have been proclaimed into force by the Closing Date. In order for the Transaction to close on the Closing Date, the parties have agreed to interim arrangements regarding the Wrap Plan (the “**Interim Wrap Arrangements**”).

The Interim Wrap Arrangements are intended to provide similar treatment to the Wrap Plan during the interim period as if the Wrap Terms were implemented on the Closing Date, while at the same time balancing the small risk that the Wrap Pension Regulation Condition is not satisfied after the Closing Date because, although unlikely based on all indications, the necessary legislation is not passed. The Interim Wrap Arrangements would be implemented through, effective on the Closing Date, an agreement among the parties (the “**Wrap Interim Agreement**”) and an Order of the Court approving such agreement and granting related relief (the “**Wrap Order**”).

- a. The funding obligation of New Algoma will remain the same as described above during the interim period, except that instead of funding into the Wrap Plan, New Algoma will make the payments during the interim period into a separate escrow account, which payments will be held in escrow to be contributed to the Wrap Plan:
 - i. upon satisfaction of the Wrap Pension Regulation Condition; or

- ii. if the Wrap Pension Regulation Condition is not satisfied by the agreed date, upon winding up of the Wrap Plan.
- b. All references to the Wrap Plan in any collective agreement or related document will be of no force or effect until the Wrap Pension Regulation Condition is satisfied.
- c. The Wrap Order will:
 - i. direct New Algoma to provide the above funding;
 - ii. confirm that New Algoma is not the “employer” of the Wrap Plan (within the meaning of the PBA) and has no liabilities or obligations in respect of the Wrap Plan other than those described in the Wrap Interim Agreement until such time as the Wrap Pension Regulation Condition has been satisfied and New Algoma has assumed the Wrap Plan; and
 - iii. grant a super-priority Court-ordered charge over the escrow account in favour of the Wrap Plan beneficiaries pending contribution into the Wrap Plan, which will ensure the Wrap Plan has security over the funds in the escrow account in priority to all other potential creditors.
- d. The Wrap Interim Agreement will include agreements that:
 - i. subsection 57(3) of the PBA will not apply to the Wrap Plan or Algoma with respect to any contributions due to the Wrap Plan prior to the Closing Date;
 - ii. the Wrap Plan will be permanently exempt from the application of subsection 57(4) of the PBA;
 - iii. the parties will not assert in the CCAA Proceedings or any other proceedings or any other forum:
 - 1. a deemed trust claim in respect of the Wrap Plan or Algoma with respect to any contributions due to the Wrap Plan prior to the Closing Date;
 - 2. a deemed trust claim in respect of the Wrap Plan on any wind up thereof; or
 - 3. a deficit claim in respect of any funding deficiencies existing in the Wrap Plan as of the Closing Date (except in respect of any wind up of the Wrap Plan);
- e. In order to allow for legislation and regulations satisfying the Wrap Pension Regulation Condition to be promulgated, the Wrap Order will extend the stay

of proceedings granted under the Initial Order in respect of the Wrap Plan until: the Wrap Pension Regulation Condition has been satisfied; or the Court, following a motion on notice to the parties, issues an order lifting the stay. No party may apply to the Court to lift the stay for a period to be agreed after the Closing Date.

- f. If the Wrap Pension Regulation Condition is satisfied, New Algoma will assume the Wrap Plan and the terms agreed to will apply, all payments made into the escrow account will be contributed into the Wrap Plan, and the Wrap Special Regulation will apply to the Wrap Plan.
- g. If the Wrap Pension Regulation Condition is not satisfied, the Wrap Plan may be wound up, in which case New Algoma's obligations will be limited to ensuring that the solvency ratio at wind up is the same as the solvency ratio on the Closing Date.

Conclusion

We look forward to seeing you at the upcoming information sessions, where we will explain the proposed changes to the Pension Plans in greater detail and in plain language.

If you have any questions, please contact us at **AlgomaRetirees@upflaw.ca**. In addition, we welcome your comments regarding these proposals by email before November 12, 2018.

Yours truly,

Ursel Phillips Fellows Hopkinson LLP



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