



Manitoba Telecom Services Inc.  
and Participating Subsidiaries  
Employees Pension Plan

# 2017

Pension Committee Report

## Introduction

This report provides information on the Manitoba Telecom Services Inc. and Participating Subsidiaries Employees Pension Plan (the “Plan”) for the year ended December 31, 2017. It has been prepared for employees, retirees and other beneficiaries of the Plan, and is based on official Plan reports that have been approved by the Board, filed with government authorities and presented to the Pension Committee.

## About your plan

The Plan is a contributory defined benefit plan federally registered under the Pension and Benefits Standards Act, 1985 (“PBSA”). On March 17, 2017, BCE Inc. purchased all the issued and outstanding common shares of Manitoba Telecom Services Inc., including assumption of the Plan. Since that time, the Plan is sponsored by Bell Canada (the “Company”).

Highlights include:

- Eligible employees contribute to the Plan by payroll deduction each pay period. These contributions are fully tax-deductible.
- The Company contributes the amounts necessary to ensure that the Plan can meet its obligations. The Company contributed \$74.4 million in cash to the Plan (including \$34.2 million of advance pension contributions) and the employees contributed \$7.2 million in 2017.
- At retirement, members are eligible for a pension benefit calculated using a defined benefit formula, which includes the average of your best five years of earnings multiplied by the number of years or partial years you have contributed to the Plan (referred to as “Credited Service”).
- The Plan provides for a cost of living adjustment (“COLA”) equal to two-thirds of the increase in the Canadian Consumer Price Index (“CPI”) to a maximum CPI increase of 4%. Additional cost-of-living adjustments may be granted if there is sufficient funding available from the COLA account.
- Members who terminate employment before they are eligible to retire are entitled to a deferred pension benefit.
- The Plan has been closed to new members since January 1, 2010.

For more information about the Plan, refer to the Plan website at [www.mtspensionplan.ca](http://www.mtspensionplan.ca).

For questions about information contained in this report, contact the Bell MTS pension team at [mtspensionplan@bellmts.ca](mailto:mtspensionplan@bellmts.ca).

## Plan Membership

The Plan's membership falls into three categories: active, deferred, and retirees and their beneficiaries. Active members are those employees who currently contribute to the Plan. Deferred members are former employees who have left their pension benefits in the Plan to be paid at a later date. Retirees and beneficiaries are those individuals who currently receive a pension from the Plan.

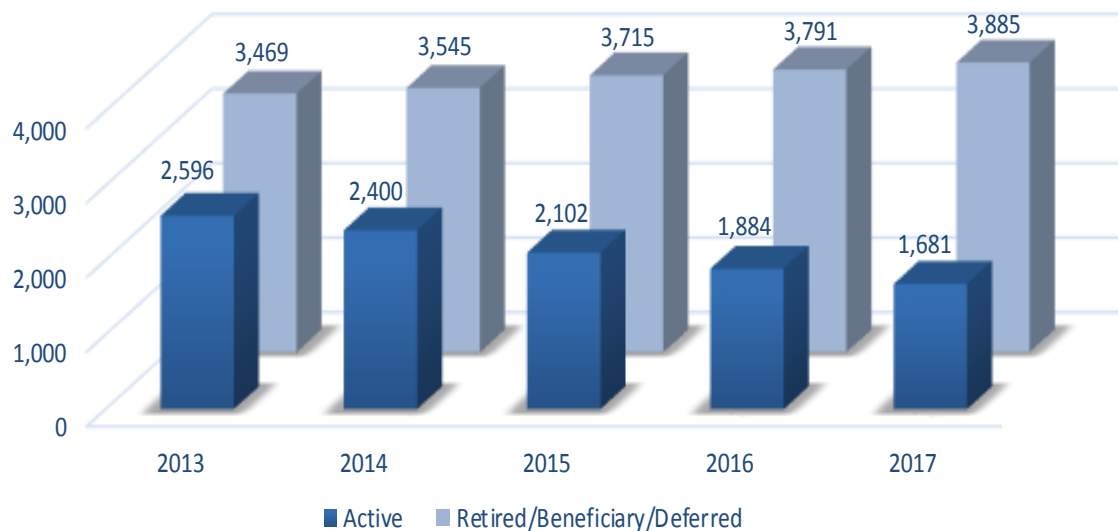
	Active Members	Pensioners	Beneficiaries	Deferred Pensioners
<b>As at January 1, 2017</b>	<b>1,884</b>	<b>2,762</b>	<b>464</b>	<b>565</b>
Retirement	(108)	139	-	(31)
Termination				
• Vested Pension	(62)	-	-	62
• Paid Out	(31)	-	-	(24)
Death				
• Survivor Pension	-	(27)	27	-
• Paid Out	(2)	-	-	(2)
• End of Payment	-	(37)	(10)	-
Other	-	-	(2)	(1)
<b>As at January 1, 2018</b>	<b>1,681</b>	<b>2,837</b>	<b>479</b>	<b>569</b>



## Evolution of Membership

As of January 1, 2018, active members accounted for 30% of the total membership of 5,566, and retirees and survivor members receiving pensions made up 60%. The ratio of pensioners to active members was 1.97.

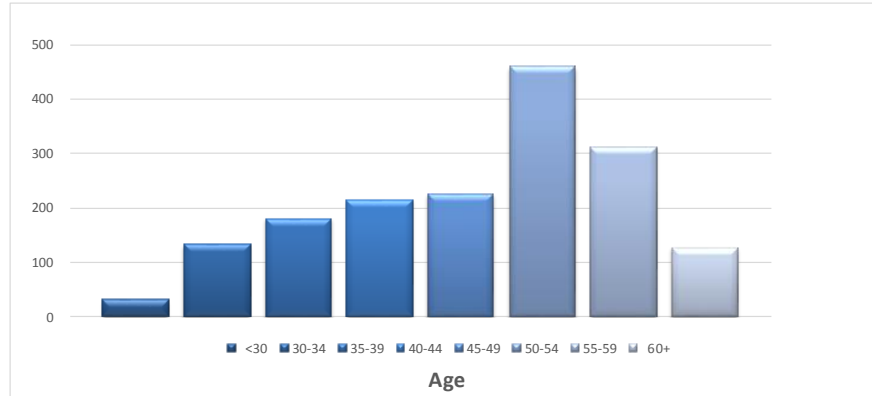
### Historical Active/Inactive Membership



# Active Members

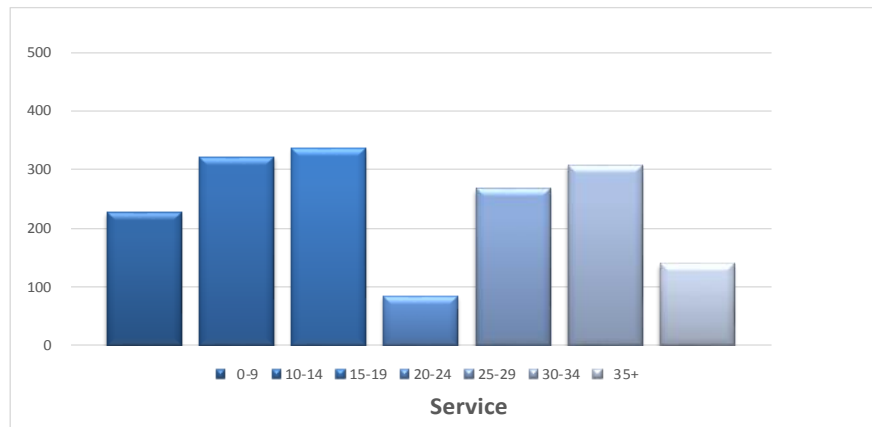
## Age Distribution

As of January 1, 2018, 10% of active members were under age 35 and 53% were age 50 and over. The average age of members was 48.6 years.



## Service Distribution (Continuous Employment)

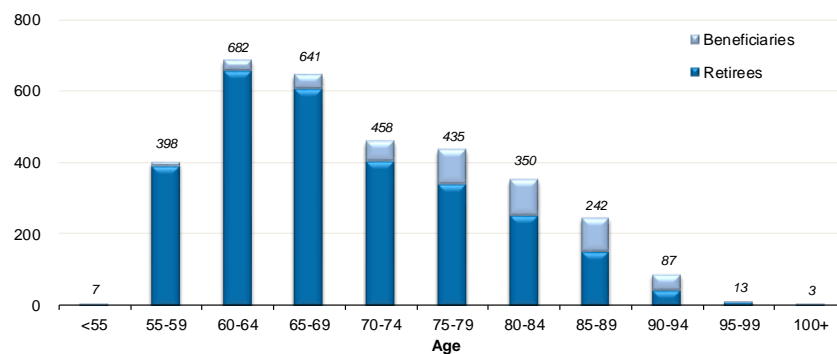
As of January 1, 2018, 20% of active members had less than 10 years of service, while 38% had 25 years or more of service. The average length of service was 20.3 years.



## Retirees and Beneficiaries

### Age Distribution

As of January 1, 2018, the average age was 69.7 years for retirees and 79.1 for beneficiaries.



### Retiree Statistics

	New 2017 retirees		All retirees as of January 1, 2018	
	Female	Male	Female	Male
Average age at retirement	58.3	58.0	57.2	57.0
Average age at Jan 1, 2018			67.7	71.5
Total number of retirees	81	58	1,356	1,481

## Financial review

Actuarial valuation  
Financial position  
Evolution of the Plan's financial position  
Contributions  
Payments from the plan  
Cost of living adjustments  
Investments

### Actuarial valuation

In accordance with pension legislation, an actuary must calculate yearly the assets that are required to cover the value of accrued pensions and assess the amount of contributions needed to fund future benefits. There are two measures of a plan's financial situation: the going-concern valuation and the solvency valuation.

#### ***Going-concern valuation***

The going-concern valuation assumes that the plan will continue to exist indefinitely. The actuary must make assumptions regarding future events to determine the present value of the accrued pensions (liabilities). These assumptions include:

- economic factors such as future interest rates, inflation rates and salary increases;
- decrement rates such as expected mortality, withdrawal and retirement experience; and
- margins against adverse deviation

The liabilities are compared to the fund's assets. In order to not be overly influenced by fluctuating market returns, the assets are adjusted to smooth the impact of stock returns over the last four years. This is called the actuarial value of assets.

The going-concern financial situation is the difference between the actuarial value of assets and the going-concern liabilities.

#### ***Solvency valuation***

The solvency valuation assumes that the plan stops operating as of the valuation date.

Solvency liabilities are not calculated with long-term actuarial assumptions. Instead, they are based on current economic and demographic parameters and assume a settlement of all benefits at the valuation date.

The solvency financial situation is the difference between the market value of assets and the solvency liabilities, demonstrating the measure of benefit security if the plan would have been wound up at the valuation date.

## Financial position

An actuarial valuation report as of January 1, 2018, was filed with the government authorities. The report indicated the presence of an actuarial surplus of \$228.7 million on a going-concern basis while the solvency test performed as of the same date showed a surplus of \$140.0 million (including letters of credit held in trust for the Plan).

(in \$ millions)	January 1, 2018		January 1, 2017	
	Going-Concern	Solvency	Going-Concern	Solvency
<b>Assets:</b>				
Market value of assets	2,147.9	2,147.9	1,963.5	1,963.5
Smoothing adjustment	(47.3)	n/a	(37.6)	n/a
Provision for windup expenses	n/a	(2.7)	n/a	(1.5)
Letters of credit	<u>n/a</u>	<u>271.1</u>	<u>n/a</u>	<u>271.1</u>
Total assets	2,100.6	2,416.3	1,925.9	2,233.1
<b>Liabilities:</b>				
Active members	(505.8)	(769.6)	(483.5)	(881.8)
Retirees and other members	<u>(1,366.1)</u>	<u>(1,506.7)</u>	<u>(1,088.3)</u>	<u>(1,569.0)</u>
Total liabilities	(1,871.9)	(2,276.3)	(1,571.8)	(2,450.8)
<b>Surplus (Deficit)</b>	<b>228.7 *</b>	<b>140.0 *</b>	<b>354.1</b>	<b>(217.7)</b>
<b>Funded/Solvency Ratio</b>	<b>112.2%</b>	<b>106.2%</b>	<b>122.5%</b>	<b>91.1%</b>

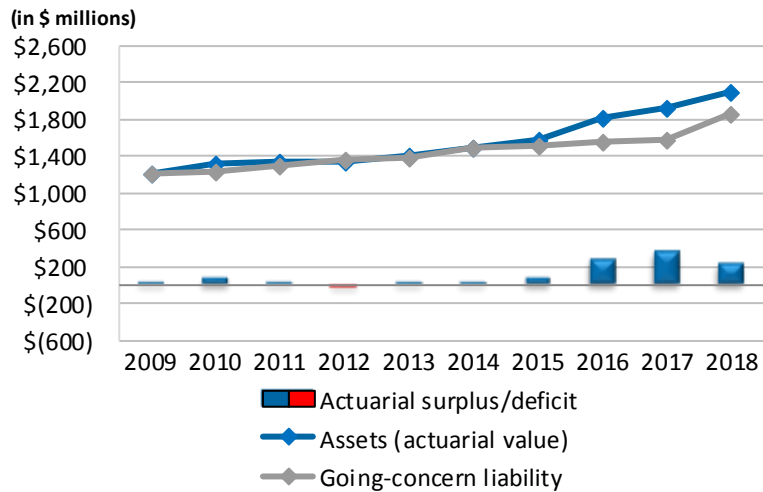
\* Including advance contributions of \$34.2M (Going-concern surplus of \$195.3M and solvency surplus of \$105.8M excluding advance contributions)



## Evolution of the Plan's financial position

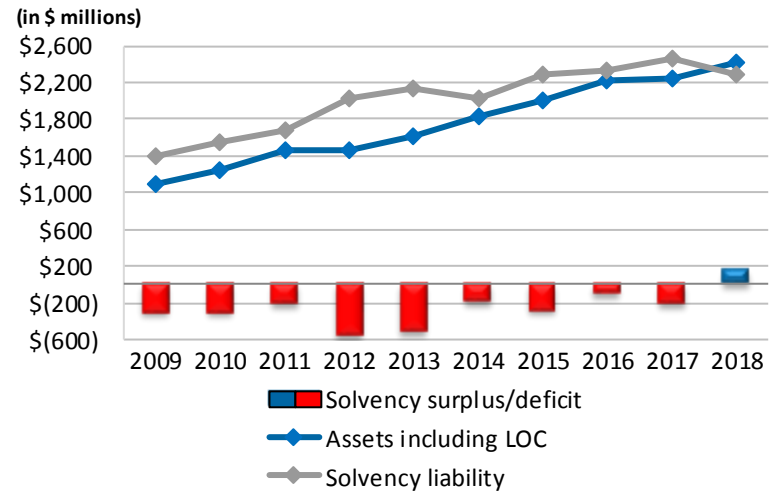
### Going-concern basis

The going-concern valuation looks at a plan's funded status on the basis that the plan will continue to operate indefinitely. The purpose of a going-concern valuation is to recommend the orderly funding of a plan to accumulate assets to provide for the plan's benefits in advance of their actual payment. Using this long-term perspective of the Plan, the going-concern actuarial surplus has decreased from \$354.1 million as of January 1, 2017, to \$228.7 million as of January 1, 2018.



### Solvency basis

The solvency valuation assumes that a plan stops operating as of the valuation date. It is intended to test whether the plan has sufficient assets to pay all benefits that have been earned by members to that date. Using this short-term measure of the Plan's financial situation, the solvency test performed as of January 1, 2018 showed a solvency surplus of \$140.0 million, compared to a solvency shortfall, or deficit, of \$217.7 million as of January 1, 2017.



## Contributions

### *Employee contributions*

Employee contributions to the Plan are based on the employee's pensionable earnings as follows:

- 5.1% of earnings up to the YMPE, and
- 7.0% of earnings over the YMPE.

Employee contributions totaled \$7.2 million in 2017.

### *Company contributions*

The Company's annual contributions depend on the Plan's financial situation and are determined based on results of the actuarial valuation. In addition to contributions covering the ongoing normal cost, when the Plan has a going concern or solvency deficit the Company is required to make special contributions to eliminate the deficit(s) over a legislated period of time. When the Plan has both a going concern and solvency surplus, the Income Tax Act dictates the maximum Company contributions permitted.

In 2017, the Company contributed a total of \$74.4 million to the Plan.

Bell Canada remits to the Plan all required employee and company contributions in accordance with federal pension legislation. In its capacity as Plan custodian and trustee, RBC Investor and Treasury Services monitors on a monthly basis that the contributions are made within the required timeframe.

### *Letters of credit*

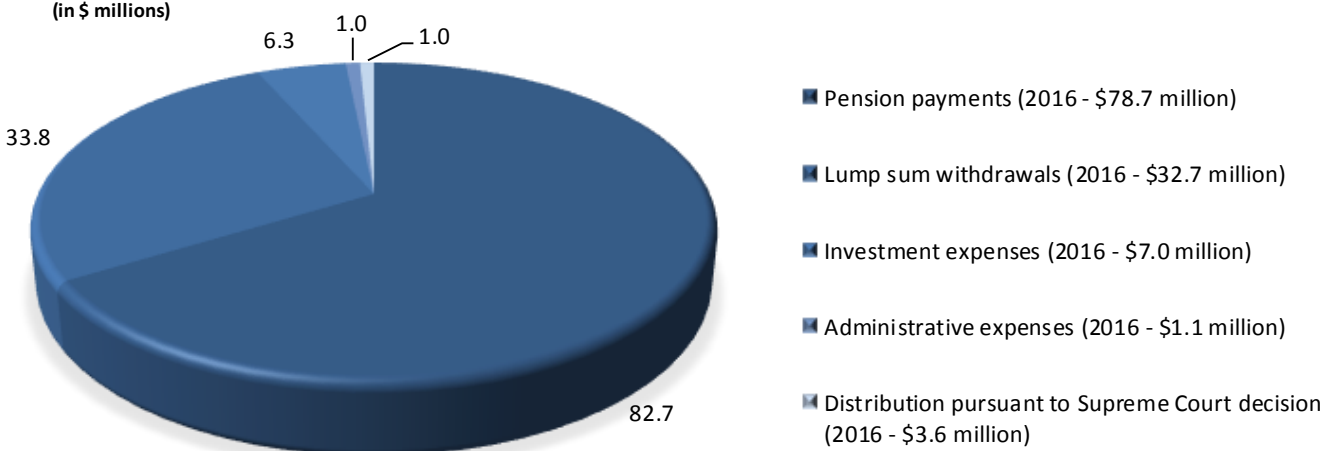
Regulations under the PBSA provide that letters of credit may be used, up to a maximum of 15% of solvency liabilities, to meet solvency special payment requirements for federally regulated pension plans. A letter of credit is issued by a financial institution and provides security to the pension plan up to its face value in the event the plan sponsor defaults on the funding obligations to the pension plan. The letters of credit held by the trustee on behalf of the Plan automatically renew each year and cannot be withdrawn or reduced by the Company unless they are either replaced with cash funding or it is determined in an actuarial valuation that the letters of credit, or a portion thereof, are no longer required.

The letters of credit held on behalf of the Plan as at December 31, 2017 totaled \$271.1 million.

(in \$ millions)	2017
▪ <b>Unused advance contributions at Jan 1/17</b>	16.5
• New advance contributions in 2017	60.0
• Used to satisfy 2017 deficit funding requirements	<u>(42.3)</u>
▪ <b>Unused advance contributions at Jan 1/18</b>	<b>34.2</b>
▪ <b>Employer Normal Actuarial Cost</b>	<b>15.8</b>
▪ <b>Deficit funding</b>	<u><b>24.4</b></u>
<b>Total Employer Contributions</b>	<b>\$74.4</b>

# Payments from the Plan

In 2017, disbursements in the amount of \$124.9 million were made from the Plan as follows:



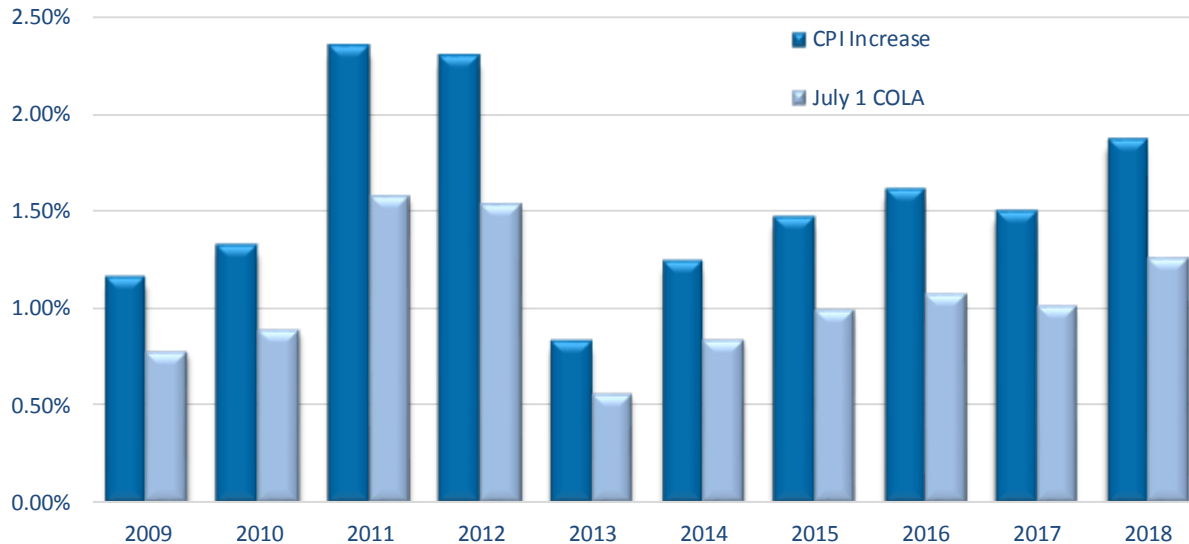
## January 30, 2014 Supreme Court of Canada Ruling

In 2017 the Plan distributed \$1.0 million in payments to estates, retirees, or other persons with an interest in the Plan, including associated expenses. As of January 1, 2018, \$1.3 million remains of the original \$140.9 million which was available for distribution and payment of distribution expenses. In accordance with the terms of the court order and settlement agreement, further member rights to these funds expired on February 6, 2017, with the exception of former members with a deferred vested entitlement under the Plan. The company will continue to pay entitlements to these former members as they come forward.

## Cost of living adjustment

The Plan provides for a guaranteed COLA increase to pension payments each year. This guaranteed COLA is equal to two-thirds of the increase in CPI to a maximum CPI increase of 4%. COLA increases are granted each July. In 2017, retirees received a COLA increase of 1.00% which was two-thirds of the 2016 CPI increase of 1.50%. In 2018, retirees will receive a COLA increase of 1.25% which is two-thirds of the 2017 CPI increase of 1.87%.

*Cost of living adjustments over the last 10 years*



As at July 1, 2018, the compounded cost-of-living adjustments for pensioners over the last 10 years have totalled 11% (average 1.0% per year).

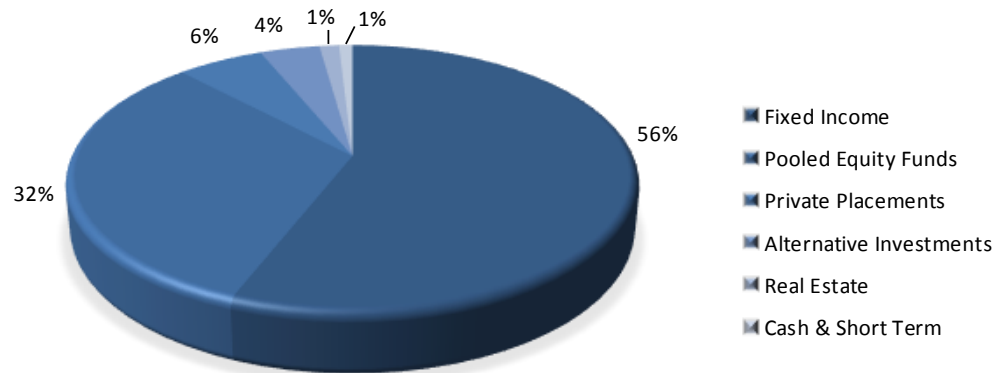
## Investments

### *Investment policy and guidelines*

The market value of assets of \$2,147.9 million is invested according to an investment policy established by the Pension Fund Committee (“PFC”) which is a standing committee of the Board of Directors.

The policy provides for an investment approach that balances financial risk and return. The investment policy includes guidelines that define the acceptable level of risk by establishing the minimum and maximum percentages of assets that may be invested in each of the various asset classes. The Plan’s investment manager, Bimcor, determines the asset mix within these guidelines.

The Plan has a diversified asset mix through its participation in the BCE Master Trust Fund and pooled equity funds managed by Bimcor. The Plan’s asset mix as at December 31, 2017 was as follows:



### **Investment performance**

The investments of the Plan posted a one-year return of 11.6% in 2017, benefitting from strong equity market returns, particularly funds invested outside of Canada. For the 4-year period ending on December 31, 2017, the average annual rate of return was 9.2%, gross of investment expenses.

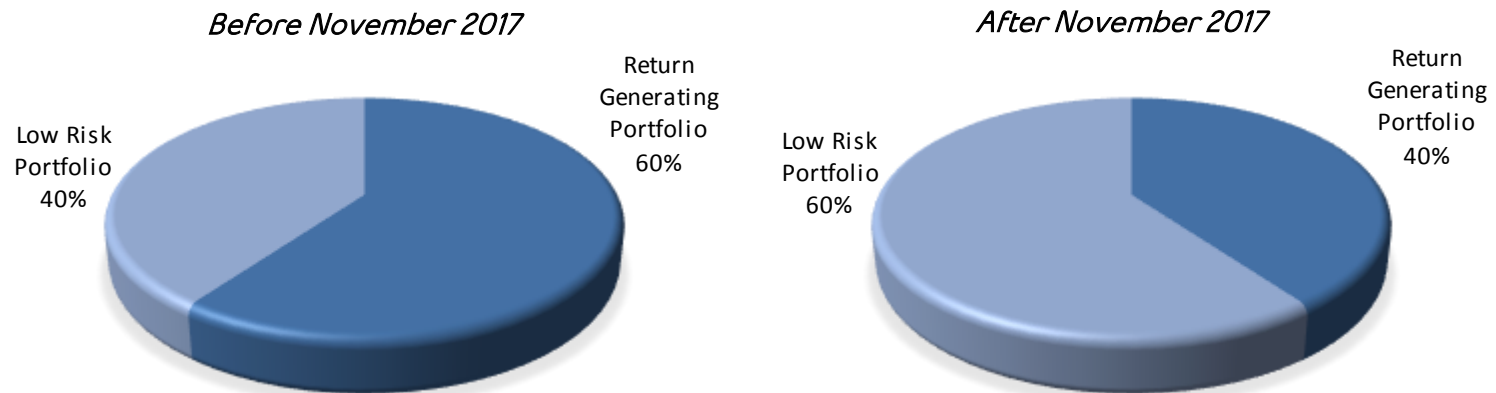
## Investments (cont'd)

### ***Pension plan risk management***

The Plan has adopted a financial management risk framework to reduce risk and volatility while maintaining or improving the funded position of the Plan. The pension plan is being “de-risked” in a disciplined and systematic way by dividing the fund into two components:

- The Low-Risk Portfolio (“LRP”), where the objective is to closely match the return of the liability
- The Return Generating Portfolio (“RGP”), where the objective is to generate return exceeding the liability while assuming an acceptable level of risk

Subject to the PFC’s approval, assets are moved gradually from the RGP to the LRP as the plan matures and the solvency position improves.



### *About the investment manager*

Bimcor is a wholly-owned subsidiary of Bell Canada and oversees the pension assets on behalf of the pension funds of Bell Canada and its various subsidiaries and affiliates.

Bimcor manages pooled fund products in equities and fixed income securities. Bimcor selects and directs external firms, both domestically and abroad, to manage specialty mandates on behalf of pension funds.

## Plan governance

Who's who  
Pension Committee  
Pension Benefit Administrator

### Who's who

Administrator	Roles
Bell Canada Board of Directors	<ul style="list-style-type: none"><li>• Responsible for sound administration of Plan and fund</li><li>• Adopt Plan changes</li><li>• Appoint investment managers and custodian/trustees</li><li>• Receive Pension Fund Committee and Pension Management Committee reports on activities</li><li>• Adopt overall governance policy (including control systems)</li></ul>
Pension Fund Committee (PFC)	<ul style="list-style-type: none"><li>• Approve funding and investment policies</li><li>• Approve fund's financial statements</li><li>• Appoint fund auditors and actuary</li><li>• Oversee administration and investment of Plan and fund</li><li>• Review any change to the Plan, as proposed by management, and recommend for approval any change requiring Board action</li></ul>
Senior Management	<ul style="list-style-type: none"><li>• Advise Pension Fund Committee on policy with respect to administration, funding and investment of fund</li><li>• Oversee fund investment and administration, including employee communication</li><li>• Monitor administration and fund management performance</li></ul>
Pension Management Committee (PMC)	<ul style="list-style-type: none"><li>• Responsible for certain administrative, investment and governance functions delegated by the PFC</li></ul>
Employer/Plan Sponsor	<ul style="list-style-type: none"><li>• Deduct and remit contributions to the fund</li><li>• Provide accurate information required by administrator/agents</li><li>• Act through Board of Directors</li></ul>

## Who's who (cont'd)

Agents	Roles
Actuary (BCE Inc.)	<ul style="list-style-type: none"> <li>• Develop and recommend funding policy to senior management</li> <li>• Prepare actuarial valuation reports</li> <li>• Process government filings</li> </ul>
Pension Benefit Administrator (CSSB)	<ul style="list-style-type: none"> <li>• Maintain pension records for each plan participant</li> <li>• Administer the payment of benefits</li> <li>• Issue at least annually statements to participants and upon termination, retirement or death</li> </ul>
Investment Manager (Bimcor)	<ul style="list-style-type: none"> <li>• Invest Plan assets</li> <li>• Develop and implement an investment strategy</li> </ul>
Custodian and Trustee (RBC Investor and Treasury Services)	<ul style="list-style-type: none"> <li>• Maintain fund assets in trust</li> <li>• Settle and maintain records of all investment transactions</li> </ul>
Auditors (Deloitte LLP)	<ul style="list-style-type: none"> <li>• Audit fund's financial statements</li> <li>• Review accounting systems, internal controls, and related data</li> <li>• Advise management of opportunities to improve Plan's accounting operations</li> </ul>



## Who's who (cont'd)

Governments	Roles
Canada Revenue Agency [Income Tax Act]	<ul style="list-style-type: none"><li>• Set requirements for Plan registration</li><li>• Establish limits on pensions paid out and contributions</li><li>• Provide tax framework for retirement savings</li></ul>
Office of Superintendent of Financial Institutions [Pension Benefits Standards Act, 1985]	<ul style="list-style-type: none"><li>• Protect members' rights</li><li>• Promote fairness and ensure security and viability of employer's pension promise</li><li>• Verify that information is being provided to members in accordance with legislation</li></ul>
Members	Roles
Pension Committee	<ul style="list-style-type: none"><li>• Promote awareness and understanding of Plan among members</li><li>• Review, for information purposes, Plan's financial, actuarial, and administrative aspects</li></ul>

The company follows Canada's Personal Information Protection and Electronic Documents Act, known as the privacy legislation. To ensure your personal information is treated in a secure and confidential manner, the company has established standards for all parties involved in the administration of the Plan.



For more information, go to [www.bce.ca/governance](http://www.bce.ca/governance) and select **Board Members and Committees**.

## Pension Committee

The Pension Committee reports to Bell's Pension Management Committee, as delegated by the PFC. The Pension Committee met twice in 2017. In accordance with its mandate, the Committee reviewed the results of the funding actuarial valuation and the COLA actuarial valuation, and reviewed the Plan's investment performance and other administrative aspects of the Plan.

The members of the Pension Committee as of June 2018 (date of last Pension Committee meeting) are:

Independent Chair	
John Smith	Investment Advisor, John Smith Wealth and Investment Management
Employer Representatives	
Jamie McMurray	Controller
Don Rooney	Director Labour Relations, Environment Health & Safety
Laurie Stewart	Director, Residential Customer Field Services Winnipeg Area
Nikki Keating	Director Finance, Bell Canada
Union Representatives	
Bob Linsdell	TEAM Representative
Debbie Marantz	Unifor Representative
Don Senkow	IBEW Representative
Elected Retiree Representative	
Larry Trach	

## Pension Benefit Administrator

For more information on your personal retirement or termination benefits, contact the Pension Plan's administrative services provider, the Civil Service Superannuation Board ("CSSB"):



1200 – 444 St. Mary Avenue  
Winnipeg, Manitoba R3C 3T1  
Phone: (204) 946-3200 or 1-800-432-5134  
Fax: (204) 945-0237  
Email: [askus@cssb.mb.ca](mailto:askus@cssb.mb.ca)



## Glossary

### Accrued pension

The actual pensions earned as of January 1, 2018. For active members, it is the pension they would be entitled to receive at retirement age, based on current average pensionable earnings and years of service. For retirees and survivors, it is the pension they are currently receiving. For members entitled to a deferred pension, it is the pension they are entitled to receive at retirement age, based on average pensionable earning and years of service at their termination date.

### Actuarial surplus (deficit)

The difference between the value of the Plan's assets and its liabilities. It can be either positive (surplus) or negative (deficit).

### Adverse deviation

A deterioration in the Plan's experience or in the financial markets that modifies the long-term expected results based on the assumptions and produces an increase in the pension costs.

**Alternative investments** include **hedge funds**; funds using a range of investment techniques and investing in a wide array of assets. Hedge funds are designed to reduce risk, to generate a higher return for a given level of risk or to generate a consistent level of return, regardless of what the market does.

### Equities

Primarily investments in common shares of Canadian, U.S. and international companies, designed to provide long-term capital appreciation. Returns of non-Canadian equities can be affected by fluctuations in foreign currency exchange rates.

**Fixed income** includes **nominal bonds**; bonds whose value does not adjust to compensate for the impact of inflation, and **real return bonds** a portfolio invested in bonds where the return is indexed to inflation, thus mitigating the inflation risk of the investment.

### Private placements

A portfolio invested in equity capital that is not quoted on a public stock exchange. Private equity consists of investments made directly into private companies.

### Short-term Investments

A portfolio invested in high quality, short-term instruments maturing within one year, designed to provide liquidity, income and capital preservation over the short term.

### Real Estate

A portfolio invested primarily in buildings and property. Real estate investments generate income from rental income and increases in asset value.