

FLEX 2005 ENROLLMENT GUIDE



For Canadian FLEX Participants

NOTE: This document contains key information from the FLEX 2005 Benefits Site. It was mailed to employees who don't have access to the Nortel intranet and are unable to enroll online. Although the enrollment steps outlined in this guide do not apply to you as an employee with intranet access, you may still wish to print it and use it as a convenient reference document. This guide does not include information for employees living in Puerto Rico or Hawaii. You can access this information under the various sections of the FLEX 2005 Benefits Site.

NORTEL



Table of Contents

What's New	4
Flex At-a-Glance	8
Short-Term Disability	12
Long-Term Disability	13
Optional AD&D Insurance	15
Medical Benefits	17
Dental/Vision/Hearing Care Benefits	21
Health Care Reimbursement Account	23
Evaluating Your Health Options	26
Life Insurance	29
Employee Assistance Program	34
How to Enroll	35
Contact Information	39
Glossary of Terms	40

This FLEX 2005 Enrollment Guide is intended for employees who don't have access to the Nortel intranet and are unable to enroll online. It contains summary information to assist you with making your FLEX Benefits selections for 2005 and instructions for enrolling using your 2005 Personalized Enrollment Worksheet. If you require more detailed information, you may request a copy of the FLEX 2005 Handbook from Global Employee Services.

If there are any discrepancies between the information in this Enrollment Guide and the applicable Nortel benefits plan, the actual plan document will, in all cases, govern the details of the benefit coverage and the plan administration. In accordance with each plan and/or program, Nortel reserves the right to amend or discontinue the plan and/or program described in this Enrollment Guide at any time without prior notice to, or consent by, employees.

Note: Words in *italics* are defined in the Glossary of Terms at the back of this Enrollment Guide.

What's New

We're approaching that time when you're required to make important decisions about the benefits coverage that will meet your needs for the upcoming year. **The FLEX 2005 annual enrollment period will run from November 9 to November 23, 2004.**

To help you make your FLEX 2005 selections, this package includes:

- Your Personalized Enrollment Worksheet, which lists your current FLEX selections and 2005 options and costs
- This FLEX Enrollment Guide, which explains:
 - What's changing for 2005
 - Plan benefits and cost information
 - Information about who needs to enroll and the steps you need to take to successfully complete FLEX 2005 annual enrollment
- Enrollment reply envelope

Once enrollment begins, you'll be able to call or e-mail Global Employee Services (GES) if you have any questions about FLEX 2005. More detailed information about plan benefits is also included in the FLEX 2005 Handbook, which is available from GES.

Minimal Changes for 2005

Nortel is committed to providing you with a comprehensive and valued set of rewards. The FLEX Benefits Program is a key part of your rewards package. It's currently designed to give you comprehensive coverage and protection from many of the financial burdens that can result from serious illness or injury.

Two important goals of the program are to **offer you choices** that match your personal needs and to **have reasonable costs** that reflect the level of use and degree of coverage provided by our plans.

In line with these goals, we introduced changes last year, both to plan designs and to employee contribution levels. The good news is that these actions – and more importantly your efforts to manage your use of health care services – made a difference. That's why the plan design changes for 2005 will be minimal.

Plan Changes and Process Improvements

Nortel will introduce the following FLEX plan changes and process improvements in 2005:

- **Medical Plan changes:**
 - Annual out-of-pocket maximums for prescription drugs under the Basic and Comprehensive options will increase from \$839 to \$857 per person.
 - Semi-private *hospital* maximum will increase from \$200 to \$225 per day under the Comprehensive option.
 - Registered dietitians will be added to the list of practitioners included under Professional Services for all medical options.
 - Contraceptive patches and intra-uterine devices will be considered eligible expenses (subject to current \$300 annual maximum).
 - Maximum benefit for mastectomy bras and wigs required following chemotherapy will double from \$150 to \$300.
- **Coverage for eye examinations under the dental/vision/hearing options will be extended to once per year in provinces that no longer cover this expense.**
- **New Critical Illness Insurance will be offered outside of FLEX.** This new optional coverage provides a lump-sum payment (ranging from \$20,000 to \$100,000) that you can use any way you wish in the event that you are stricken with an eligible critical illness, such as cancer, heart disease or a stroke. This coverage available outside of FLEX is fully employee paid and is insured by Sun Life Financial. Details will be available on the FLEX Benefits Site on Services@Work or from Global Employee Services when enrollment begins on November 9. If you have Internet access, you can also go to www.sunlife.ca/sunaffinity for details and an online quote.
- **E-claims submission now available.** If you have Internet access, you'll now be able to submit vision, certain dental and HCRA claims online. That means no more filling in and mailing claim forms and waiting for a cheque to arrive in the mail. Just go to the Sun Life Financial Plan Member Services Web site at www.sunlife.ca/member and let the easy-to-use screens guide you through the process. You'll receive online notification of your claim status and, in most cases, the amount and details of your claim payment, which will be deposited directly into your bank account within 48 hours. You'll also receive an online Explanation of Benefits (EOB) notification from which you can link to the secure Sun Life Financial Web site to retrieve your EOB.

Employee Contributions

Medical and Dental/Vision/Hearing Care

Thanks to the efforts of Nortel employees to become better health care consumers and the changes we implemented last year, we've made progress in managing health care costs. However, health care costs – and the total cost of our program – continue to grow at a faster rate than inflation. We estimate the Company will spend more than \$17 million on health care costs in Canada this year, an average of about \$1,800 per employee.

In 2005, we will again target a Nortel/employee cost share of 87%/13%, as we did in 2004. At the same time, we're distributing costs among our various *dependent coverage* levels for medical and dental/vision/hearing care to help ensure that employees' contributions better reflect their use of the plans. As a result, there will be a cost decrease for "you only" and "you and your child(ren)" coverage, a small cost increase for "you and your spouse" coverage, and a larger increase for "you and your family" coverage. If you have a spouse who is employed and has coverage available through his or her company, it will be more important than ever to take a close look at the options and costs of your spouse's plan.

Health Options Cost Comparison

The table below compares 2004 and 2005 health option costs and health *FLEX Credits* for each dependent coverage level. Bracketed amounts represent additional health *FLEX Credits* you receive for that selection.

Annual Health Option Costs and Health FLEX Credits								
	You Only		You and Your Child(ren)		You and Your Spouse		You and Your Family	
	2004	2005	2004	2005	2004	2005	2004	2005
Medical								
Basic	\$(93)	\$(100)	\$(52)	\$(56)	\$(52)	\$(52)	\$(22)	\$(22)
Comprehensive	\$(21)	\$(23)	\$53	\$48	\$53	\$53	\$98	\$100
Plus	\$135	\$124	\$327	\$300	\$327	\$347	\$437	\$463
Select	\$245	\$224	\$550	\$504	\$550	\$582	\$737	\$781
Waive	\$(154)	\$(154)	\$(154)	\$(154)	\$(154)	\$(154)	\$(154)	\$(154)
Dental/Vision/Hearing								
Basic	\$(93)	\$(100)	\$(67)	\$(73)	\$(67)	\$(67)	\$(55)	\$(55)
Comprehensive	\$(12)	\$(13)	\$24	\$22	\$24	\$25	\$72	\$73
Plus	\$95	\$87	\$222	\$204	\$222	\$236	\$335	\$355
Waive	\$(208)	\$(208)	\$(208)	\$(208)	\$(208)	\$(208)	\$(208)	\$(208)

Looking for Ways to Save Money?

If you have health care coverage available to you through your spouse's employer, you may be able to save money by opting out of Nortel's plans and directing the extra FLEX Credits to the **Health Care Reimbursement Account (HCRA)**.

The HCRA covers eligible health care expenses that aren't covered elsewhere – including deductibles, copayments or other amounts not reimbursed by Nortel's plans or your spouse's plans. What's more, the HCRA can help you save on taxes because the money you set aside to cover your eligible health care expenses is not taxed (except in Quebec where HCRA claims are subject to provincial tax).

It's all about doing your research and selecting the options that best meet your needs at the lowest cost to you. See **Evaluating your Health Options** on page 26 for more information.

Optional Employee Life Insurance

We're reinstating the requirement to pay optional employee life insurance premiums in 2005 following a three-year premium payment break. There will also be a small increase in the premium rates in 2005 to reflect recent claims experience and changes in the demographics of our workforce. To lessen the impact on you, premium requirements for optional employee life insurance will be phased in over two years, so that you'll pay only 50% of the required premium in 2005 and 100% starting in 2006.

Please see page 29 of this Enrollment Guide for 2005 optional life insurance rates. Remember that you'll only be required to pay 50% of the applicable premium rate for optional employee coverage in 2005.

Get Ready to Enroll

The FLEX 2005 annual enrollment period is November 9 to November 23, 2004.

If you're going to be away during this two-week period, contact Global Employee Services (GES) before you leave.

You can reach GES toll-free at 1-800-676-4636 ESN 352-4636. You may also contact GES via external e-mail at gesna@nortelnetworks.com.

In preparation for enrollment, check out the **Enrollment Checklist** on page 36. Then follow the **Four Steps to Enrollment** on page 38.

Remember that if you don't enroll, you'll be left with your 2004 coverage under the FLEX Benefits Program at 2005 costs.

FLEX At-A-Glance

How FLEX Works

You have the opportunity to choose among a wide variety of benefits to meet your and your family's needs. You're eligible to make these benefit choices:

- When you're a new hire,
- During the *annual enrollment period*, and
- If you experience a *status change*.

You automatically receive coverage for core benefits – which are fully paid by Nortel. You cannot opt out of core coverage. In addition, you can choose to purchase optional benefits that provide a higher level of coverage than your core benefits.

Your FLEX 2005 Benefits At-A-Glance

Core Benefits – Nortel automatically provides these benefits to you

- Employee life insurance equal to 1 X your annual *FLEX Earnings*
- Short-term disability (STD) coverage equal to 100% of your pre-disability FLEX Earnings for 13 weeks, then 70% of your pre-disability FLEX Earnings for an additional 13 weeks.
- Long-term disability (LTD) coverage equal to 50% of your pre-disability FLEX Earnings after you've been disabled under STD for 26 consecutive weeks.
- Employee Assistance Program (EAP) that provides free confidential short-term counseling services through an EAP counselor and work/life services

Optional Benefits – You can enroll in these optional benefits

- Optional STD coverage that increases your benefit to 90% of your pre-disability FLEX Earnings for weeks 14 through 26 of your disability
- Optional LTD coverage that increases your benefit to 70% of your pre-disability FLEX Earnings when you have been disabled under STD for 26 consecutive weeks
- Optional accidental death and dismemberment (AD&D) insurance for yourself only or for you and your family.
- Optional medical coverage (you cannot opt out unless you have comparable coverage elsewhere)
- Optional dental/vision/hearing care coverage (bundled coverage – you cannot separate)
- Optional employee and dependent life insurance.

Paying For Benefits

The Company pays the full cost of your core benefits and subsidizes the cost of your medical and dental/vision/hearing care benefits. In addition, the Company provides you with *FLEX Credits* that you can use toward the purchase of optional benefits (except optional life insurance, which may only be purchased with *after-tax dollars* through payroll deductions).

For 2005, you'll receive FLEX Credits equal to 0.39% of your *FLEX Earnings*, plus any health FLEX Credits provided for certain medical and dental/vision/hearing care selections.

The cost of your plan options depends on a variety of factors, including the type of benefit and coverage level selected. See your Personalized Enrollment Worksheet for details.

If your selections cost more than your FLEX Credits: You pay the difference with after-tax-dollars through payroll deductions.

If your selections cost less than your FLEX Credits: You can either direct your unused FLEX Credits to the *Health Care Reimbursement Account (HCRA)* or receive them as additional taxable pay throughout the year.

Did you know?

Most of Nortel's FLEX benefits, including short-term disability, long-term disability, medical and dental/vision/hearing care, are self-insured. This means that Nortel plays a role similar to that of an insurance company for its employees. In other words, the Company assumes the risks and pays the claims directly from its net income or retained earnings. The insurance company only provides administrative services such as claims processing.

Update Your Dependent Information!

Even if you choose to waive medical and/or dental/vision/hearing care coverage, it's important that all your dependents are listed accurately, since this information may be required for other benefits (e.g., spousal life insurance, AD&D insurance). Also, your dependents must be listed accurately to have easy access to the Employee Assistance Program (EAP).

When you're ready to enroll for 2005, you can update your dependent information on your Personalized Enrollment Worksheet.

Eligibility and Coverage

Eligibility

Current employees of Nortel Limited and Nortel Technology Corporation not covered under the provisions of a collective labour agreement and Quebec-based employees of Nortel covered under the COEU Collective Labour Agreement are eligible to enroll in FLEX, provided they are:

- Covered by a *provincial health insurance plan* or an equivalent plan,
- Employed either on a regular full-time or on a regular part-time basis,
- Regularly scheduled to work 18 hours or more a week, and
- Not employed on a fixed-term contract.

If you're eligible to enroll in FLEX, your dependents may also be eligible. Your eligible dependents include your spouse and children, as defined in the **Glossary of Terms** on page 40.

Dependent Coverage Levels

You may choose from several dependent coverage levels for medical and dental/vision/hearing care:

- You only,
- You and your *children* and/or your spouse's children,
- You and your *spouse*, or
- You and your family (spouse and children and/or spouse's children).

You can choose one dependent coverage level for your medical option and a different dependent coverage level for your dental/vision/hearing care option.

If More Than One Family Member Works for Nortel

If you and your spouse both work at Nortel and are eligible for FLEX, you'll both receive full *FLEX Credits* and may select separate optional coverage.

For life insurance and AD&D insurance, you can enroll as an employee or as a *dependent*, but not both as an employee and a dependent. In addition, only one of you can enroll your eligible children as dependents.

For medical and dental/vision/hearing care, you could select medical coverage for you and your family and waive dental/vision/hearing care coverage, leaving your spouse to select dental/vision/hearing care coverage with his/her FLEX Credits. Or, one of you could select "you and family" coverage under medical and dental/vision/hearing care and the other could receive his/her FLEX Credits as additional taxable pay or allocate them to the *Health Care Reimbursement Account* to help cover out-of-pocket health expenses not covered under FLEX. Remember, if you wish to coordinate claims between yourself and your spouse, you must both select "you and spouse" or "you and family" coverage.

If any of your *children* work for Nortel and are eligible for FLEX, they must enroll as employees. They are not eligible for coverage as your dependents.

When Coverage Begins

Any changes you make to your existing FLEX selections during this year's *annual enrollment period* will be in effect from January 1 to December 31, 2005, subject to eligibility and the Company's right to make changes to plans, or to terminate them. You can't make changes to your coverage during the year unless you have a status change.

The effective date of any changes you make may also be affected by the following:

- Life insurance and long-term disability (LTD) coverage that require *evidence of insurability (EOI)* will be effective on the date that coverage is approved by Sun Life Financial.
- If you're on short-term disability (STD) on January 1, 2005, regardless of your annual enrollment selections, your 2004 STD, LTD, optional life insurance and optional AD&D insurance selections will remain in effect until you return to work for 60 consecutive days.

Short-Term Disability

Short-term disability (STD) benefits replace a portion of your income if you're totally disabled for five consecutive days (or the equivalent of your standard work week) due to an approved illness or injury for which you provide supporting medical documentation. STD benefits are payable for up to 26 weeks of absence and are administered for Nortel by Medcan Health Management Inc..

After 26 consecutive weeks, you may become eligible for long-term disability (LTD) benefits (see page 13).

Core STD Coverage

The Company provides you with core STD coverage – at no cost to you – as follows:

If you are disabled for...	You receive coverage equal to...
First 13 weeks	100% of your pre-disability <i>FLEX Earnings</i>
Weeks 14-26	70% of your pre-disability FLEX Earnings

Optional STD Coverage

If you want to increase your STD coverage, you can select optional STD coverage, which provides:

If you are disabled for...	You receive coverage equal to...
First 13 weeks	100% of your pre-disability FLEX Earnings
Weeks 14-26	90% of your pre-disability FLEX Earnings

Cost of Optional STD

In 2005, the cost of optional STD coverage will remain unchanged at 0.05% of your FLEX Earnings. Personalized information about your optional STD cost can be found on your Personalized Enrollment Worksheet.

Long-Term Disability

If you're still disabled (according to the definition of disability) after 26 consecutive weeks, you'll begin receiving long-term disability (LTD) benefits. Nortel's LTD benefits are self-insured, which means the Company pays all LTD claims directly from its net income or retained earnings. Sun Life Financial is the LTD *plan administrator*.

Core LTD Coverage

The Company provides you with core LTD coverage – at no cost to you – equal to 50% of your pre-disability *FLEX Earnings*.

Optional LTD Coverage

If you want a higher level of LTD coverage, you have the option to purchase optional LTD coverage equal to 70% of your pre-disability *FLEX Earnings*.

Optional LTD

coverage also includes cost-of-living adjustments to help protect against the effects of inflation. After two years of receiving LTD benefit payments, the full amount of your disability payment will be increased each January by the lesser of 60% of the Consumer Price Index or 6%.

If you're currently enrolled in core LTD coverage and want to increase to optional LTD coverage in 2005, you'll have to provide *evidence of insurability (EOI)*. Your optional LTD coverage will not become effective until the date Sun Life Financial approves your application.

If you're currently enrolled in the optional LTD Plan, you will not have to submit EOI if you want to continue your optional LTD coverage in 2005.

Cost of Optional LTD

In 2005, the cost of optional LTD coverage will remain unchanged at 0.45% of your *FLEX Earnings*. Personalized information about your optional LTD cost can be found on your Personalized Enrollment Worksheet.

Evaluating Your Disability Options

Here are some things you might ask yourself about your disability coverage needs when you enroll in FLEX:

- What expenses would you have to pay if you couldn't work? Would core coverage be sufficient to meet your expenses, or not?
- What other sources of income would you have if you became disabled? For example, do you have a working spouse whose income would help to meet your expenses?
- Do you have disability coverage available from any other source? If so, remember that your benefits from Nortel will be reduced by any benefits you receive from certain other sources.
- What is your state of health? If you want to increase from core to optional LTD coverage, you'll have to provide **evidence of insurability (EOI)**, and your optional coverage won't become effective until the date Sun Life Financial approves your application.

Optional AD&D Insurance

Optional accidental death and dismemberment (AD&D) insurance provides coverage in the event of accidental death or loss of a limb or sight. Optional AD&D insurance is totally employee-paid. You can use *FLEX Credits* and/or *after-tax payroll deductions* to pay for this coverage.

You can select coverage for yourself only or coverage for yourself and your eligible dependents, as follows:

For You*	For Your Family		
	Spouse	Child(ren)	Spouse and Child(ren)
<ul style="list-style-type: none"> • 1 x FLEX Earnings • 2 x FLEX Earnings • 3 x FLEX Earnings • 4 x FLEX Earnings • 5 x FLEX Earnings 	<ul style="list-style-type: none"> • 60% of your optional AD&D coverage amount 	<ul style="list-style-type: none"> • 20% of your optional AD&D coverage amount for each child 	Spouse: <ul style="list-style-type: none"> • 50% of your optional AD&D coverage amount Each child: <ul style="list-style-type: none"> • 15% of your optional AD&D coverage amount

* Your coverage amount will be rounded up to the next higher \$1,000, to a maximum of \$1,500,000.

Cost of Optional AD&D

In 2005, the cost of optional AD&D insurance will remain unchanged, as follows:

- Employee only: \$0.02 per \$1,000 of coverage per month
- Family: \$0.032 per \$1,000 of coverage per month (regardless of the number of eligible dependents you have)

Evaluating Your AD&D Insurance Options

Remember, AD&D coverage is not the same as:

- **Life insurance** – AD&D pays a benefit only if your death is accidental. If you've selected AD&D coverage and you die as the result of an accident, AD&D benefits will be paid to your beneficiary in addition to your life insurance.
- **Disability coverage** – If you're injured in an accident, AD&D insurance may pay a one-time benefit. Short- and long-term disability plans replace part or all of your income for an extended period.

Here are some things you might ask yourself when considering your AD&D insurance needs:

- What expenses would your family have to pay if you died suddenly, or suffered a serious disabling injury?
- How would your finances be affected if this happened to one of your eligible dependents?
- What other insurance coverage do you and your family members have?

Medical Benefits

Your *provincial health insurance plan* covers many basic health care expenses, including standard ward hospital accommodation, physicians' and specialists' services and diagnostic procedures.

Nortel's FLEX Benefits Program offers four Company-subsidized medical options (Basic, Comprehensive, Plus and Select) designed to supplement your provincial health insurance.

You can select medical coverage for:

- You only,
- You and your *children* and/or your spouse's children,
- You and your *spouse*, or
- You and your family (spouse and children, and/or spouse's children).

Or you can choose to opt out of medical coverage if you (or, for Quebec residents, you and your family) have medical coverage from some other source, such as your spouse's employer. However, you need to complete a Medical Coverage Waiver form and return it to Global Employee Services by the date indicated on the waiver. If you don't complete this waiver, you'll automatically be covered under the Basic medical option for you only (you and your family if you're a Quebec resident).

Cost of Medical Options

Your cost for medical coverage depends on the option and dependent coverage level you select. See the **Health Options Cost Comparison** on page 28 of this Enrollment Guide and your Personalized Enrollment Worksheet for details.

Take Note

It's important that you review and familiarize yourself with the medical options available to you and your family. While Nortel provides you with information to help you make informed choices, it's ultimately your health care and your responsibility to make the best decisions during the annual enrollment period and throughout the year. See **Evaluating your Health Options** on page 26.

Your Medical Options

This table summarizes your FLEX medical options. To be eligible for reimbursement, expenses must be *medically necessary* for the treatment of disease or injury and prescribed by a physician (unless otherwise specified) and claims must be submitted within 18 months of the service date.

Benefit	Basic	Comprehensive	Plus	Select
Percentage paid for covered services	80%	90%	100%	100%
Prescription drugs <ul style="list-style-type: none"> • <i>Generic drugs</i> • <i>Brand-name drugs</i> 	<ul style="list-style-type: none"> • Covered under all four options • Covered under all four options, only if there is no generic equivalent on the market or substitution is not permitted by the physician 			
• <i>Drug formulary</i>	Basic, Comprehensive, and Plus options: New drugs are not covered under the plan unless approved by at least one provincial plan first			New drugs covered automatically, subject to plan provisions
• <i>Prior authorization</i>	Required for five categories of drugs, plus the drug Wellbutrin™			Required for two categories of drugs
Annual deductible for all eligible medical expenses (except drugs) <ul style="list-style-type: none"> • Individual • Family 	None None	\$40 \$80	None None	None None
Per-prescription copayment	\$7	\$7	\$7	None
Dispensing fee maximum per prescribed drug	\$7	\$7	\$7	\$7
Annual out-of-pocket maximum (Once you've paid this maximum per year, the balance of prescription drug expenses will be paid at 100%)	\$857 per person ¹	\$857 per person ¹	None	None
Hospital coverage <ul style="list-style-type: none"> • <i>Acute and convalescent care</i> 	None	Semi-private room rate, up to \$225 per day for acute and convalescent care, and up to 90 days per calendar year for convalescent care	Semi-private room rate for acute and convalescent care, and up to 90 days per calendar year for convalescent care	Semi-private room rate for acute and convalescent care, and up to 90 days per calendar year for convalescent care
Ambulance	Ground transportation and emergency air ambulance			

Benefit	Basic	Comprehensive	Plus	Select
Professional services	Maximums per individual per year			
• Chiropractor²	One combined maximum of \$300 for these professionals	\$300	\$500	\$500
• Osteopath		\$300	\$500	\$500
• Chiropodist		\$300	\$500	\$500
• Speech therapy³		\$300	\$500	\$500
• Naturopath		\$300	\$500	\$500
• Massage therapy³		\$300	\$500	\$500
• Podiatrist		\$300	\$500	\$500
• Acupuncture⁴		\$300	\$500	\$500
• Dietician³		\$300	\$500	\$500
Psychologist	\$350	\$750	\$1,000	\$1,000
Physiotherapy³	\$350	\$750	\$1,000	\$1,000
Private duty nursing • Maximum per calendar year	\$10,000	\$12,500	\$15,000	\$15,000
Out-of-province (within Canada) emergency medical expenses and travel assistance while traveling for personal reasons⁵	21 days maximum	31 days maximum	90 days maximum	90 days maximum
Overall maximum per person	\$1,000,000 lifetime¹			

1 For Quebec residents, please note that all plan options covering eligible prescription drugs are designed to meet the current requirements of Bill 33.

2 Under the Comprehensive option, chiropractic expenses are covered only after provincial health insurance plan maximums have been reached – except in provinces such as Ontario where chiropractic services are no longer covered. Chiropractic coverage under the Plus and Select options begins at the first visit, where permitted by law. Information regarding your province's maximums and processing requirements can be located on your province's government Web site.

3 Requires a referral from a physician. Note that, in Ontario, physiotherapy services are no longer covered under the provincial health insurance plan.

4 Services must be performed by a licensed physician (MD) or a licensed acupuncturist approved by the provincial regulating body in your province. In 2004, only British Columbia, Alberta and Quebec have provincially regulated acupuncturists. This may be extended to other provinces in the future.

5 On any given trip within Canada, you're covered only for the time period specified for each option. This means that the Basic option pays benefits if an emergency occurs during your first 21 days out of province (within Canada); the Comprehensive option pays for the first 31 days; and the Plus and Select options, for the first 90 days.

Consumer Tips

Since the Company's health benefits are self-insured, Nortel – not an insurance company – pays the difference between the employees' share of covered expenses and the cost of the services. Despite the responsibility of paying costs directly, self insurance is less expensive in the long run than an insured health care plan, and it provides more flexibility in developing plan features and services. But it means that your utilization of health care services has a direct impact on Nortel's bottom line.

The key to better and more effectively managing the rising cost of health care is for employees and the Company to work together. Employees can help by becoming better consumers and understanding how their decisions (and behaviors) during enrollment and beyond shape the ultimate program cost and what benefits are offered each year. For its part, the Company will provide information and other resources to educate employees on how they can better manage their use of health care services.

What Can You Do?

Here are a few things that you can do to begin making a difference:

- When selecting health coverage, carefully evaluate your personal situation in terms of health care needs and whether cost or level of coverage is the higher priority.
See **Evaluating Your Health Options** on page 26.
- Use lower-cost health care alternatives whenever available and medically appropriate.
- Whenever you receive an invoice from a dentist or other health care provider or an Explanation of Benefits (EOB) from your plan, review the charges to make sure they align with the services provided.
- Make sure all of your doctors are aware of everything you're taking – not only prescription drugs, but also over-the-counter medicines and dietary supplements, including vitamins.
- Follow your doctor's recommendations, observe good health habits and get appropriate preventive care to help stay healthy.

Dental/Vision/Hearing Care Benefits

Nortel's FLEX Benefits Program offers three Company-subsidized dental/vision/hearing care options (Basic, Comprehensive and Plus). You can select any option you wish, regardless of which medical option you choose. However, dental, vision, and hearing care are bundled together as a package, so you can't select dental coverage alone, vision coverage alone, or hearing care coverage alone. You can select this coverage for:

- You only,
- You and your *children* and/or your spouse's children,
- You and your *spouse*, or
- You and your family (spouse and children, and/or spouse's children).

Or you can choose to opt out of dental/vision hearing care coverage if you wish.

See **Evaluating Your Health Options** on page 26 for information to help you select the dental/vision/hearing care options that's right for you.

Cost of Dental/Vision/Hearing Care Options

Your cost for dental/vision/hearing care depends on the option and dependent coverage level you select. See the **Health Options Cost Comparison** on page 28 of this Enrollment Guide and your Personalized Enrollment Worksheet for details.

Your Options

This table summarizes your current dental/vision/hearing care options. Note that eligible expenses are covered only up to *reasonable and customary* levels and dental coverage is based on the current *fee guide* for general dental practitioners. Claims must be submitted within 18 months of the service date to be eligible for payment.

Benefit	Basic	Comprehensive	Plus
Dental Coverage			
<i>Deductible</i>	None	None	None
Coverage for preventive services (such as exams, cleanings and fluoride treatments for children)	100%	100%	100%
Coverage for restorative services (such as fillings and extractions)	80%	80%	90%
Coverage for oral surgery	Varies depending on type of service		
Coverage for endodontics (treatment of roots) and periodontics (treatment of gums, including periodontal surgery)	80%	80%	90%
Coverage for major services (such as crowns, dentures, and bridges)	N/A	50%	50%
Coverage for orthodontia (treatment to correct tooth or bite alignment)	N/A	50%	50%
Maximum per person per year (excluding orthodontia)	\$1,000	\$2,000	\$2,500
Lifetime maximum per person for orthodontia	N/A	\$2,000	\$3,000
Dental Fee Guide (general practitioners)	Current	Current	Current
Vision Care Coverage			
Coverage for eligible expenses*	N/A	90%	100%
Maximum benefit per calendar year for each dependent child under age 19 and every 2 calendar years for each adult	N/A	\$200	\$300
Hearing Care Coverage			
Purchase and repair of hearing aids, excluding batteries	80%	90%	100%
Maximum benefit per person every two years	\$500	\$750	\$1,000

* Vision care eligible expenses include the purchase and repair of eyeglasses, prescription sunglasses and contact lenses necessary for the correction of vision when prescribed by an optometrist or an ophthalmologist, as well as eye examinations by an ophthalmologist or optometrist to the extent not covered by your provincial plan.

Some provinces have changed coverage for eye exams to once every two years or eliminated coverage altogether, as is the case in Ontario. Your optional dental/vision/hearing care coverage will cover eye exams once per calendar year, if coverage for an eye exam is not available under your provincial plan in that calendar year.

Health Care Reimbursement Account

Once you've selected your optional coverage under FLEX, you may have some *FLEX Credits* left over. For example, you may have decided not to select any optional medical or dental/vision/hearing care coverage because you have more than enough coverage under your spouse's plan. You can allocate unused FLEX Credits to the Health Care Reimbursement Account (HCRA) and use them on a before-tax basis to cover health-related expenses not covered elsewhere, including *deductibles*, *copayments*, spousal plan premiums and other eligible out-of-pocket healthcare expenses. The *Canada Revenue Agency (CRA)* doesn't permit you to contribute your own money toward an HCRA.

You can use the HCRA to reimburse yourself for expenses that are listed as "eligible" under the Income Tax Act. The CRA does not allow reimbursement for some types of expenses, for example, health club memberships, humidifiers and hot tubs. Also, if you're reimbursed for health care expenses through the HCRA, you can't claim medical expense income tax credits for the same expenses when you file your federal income tax return.

If you have Internet access, visit the CRA Web site at www.cra-arc.gc.ca or request a copy of publication IT519R2-CONSOLID, Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction, for a complete list of eligible expenses.

You may allocate unused FLEX Credits to the HCRA, or take them as taxable pay throughout the year, but not a combination of both. The minimum amount you can allocate to the HCRA is \$1 per pay period. If you don't advise where to direct any unused FLEX Credits during the *annual enrollment period* or when you make a *status change*, and you're not currently enrolled in the HCRA, your credits will automatically be allocated as taxable pay.

Unique Features

The HCRA has several unique features that make it an effective way to pay for healthcare expenses:

- You can use your FLEX Credits allocated to the HCRA on a before-tax basis, which increases the purchasing power of these FLEX Credits (In Quebec, amounts reimbursed from your HCRA are subject to provincial income tax.)
- You can claim any health-related expenses that would be tax-deductible and listed in the Income Tax Act (Canada) and its Regulations and Interpretation Bulletins. This is a much broader list of expenses than those covered under the Basic, Comprehensive, Plus, or Select options under FLEX.
- You can file a claim against your total annual allocation at any time – even though technically, the allocation to your HCRA is on a per-pay period basis.
- You can claim eligible expenses for yourself, your spouse or any dependents for whom you're financially responsible, as defined by the Income Tax Act. This could include your dependent parents or other dependents.
- You can claim your *deductible, copayments*, and any amounts you must pay after the Company-paid reimbursement level under FLEX.

How Does the Before Tax Feature Help Me?

Assume you have unused FLEX Credits of \$150. If you choose to receive these FLEX Credits as extra pay, they will be taxed. If you're in the 30% tax bracket, you'll receive about \$105 of the original \$150. The other \$45 will go to government tax. If you deposit the same \$150 in a HCRA instead, you can use the full untaxed amount to pay for any out-of-pocket health-related expenses. The result is wiser use of your FLEX Credits. You make your FLEX Credits go further through improved tax effectiveness.

Special Rules

There are some important rules about the HCRA, of which you need to be aware:

Use It or Lose It

The *Canada Revenue Agency (CRA)* will allow *FLEX Credits* to be treated on a before-tax basis only if this benefit is deemed to be a private health services plan. To qualify for this distinction, there must be an element of risk associated with the provisions of the plan. The risk is associated with the use of your FLEX Credits and/or medical expenses. CRA allows a plan to either carry forward FLEX Credits or carry forward expenses. The Nortel plan operates on a carry forward expense basis.

Once you set up an account for the year, you can't make changes in your FLEX Credit allocation amount until the next annual enrollment period. The only exception is when you have a status change.

For eligible expenses incurred between January 1 and December 31 of the FLEX plan year, you have until March 31 of the following year to submit claims for reimbursement from your HCRA allocation. You'll forfeit any FLEX Credits allotted for a given year that remain in the HCRA after March 31 of the following year.

CRA doesn't permit cash-out of unused amounts.

If you have an HCRA and if you record a *status change* such that you'll be selecting HCRA again, you have 31 days to submit claims against your existing balance in the HCRA.

Carry Forward of Eligible Expenses for One Year

If you have more eligible expenses in a given year than FLEX Credits allocated to your account for that year, you may carry forward into the next year expenses for which you weren't reimbursed. You may be reimbursed for these expenses from FLEX Credits you allocate to your HCRA for the following year. This way, you can determine how much of any unused FLEX Credits to allocate to your HCRA to cover unpaid health expenses from the previous year.

Take Note

Make sure you've coordinated benefits with your spouse's plan first (if applicable) before you use up any FLEX Credits under your HCRA.

Evaluating Your Health Options

You can choose from a range of medical and dental/vision/hearing options designed to meet different needs and circumstances. You also have the option to waive coverage and receive health FLEX Credits instead – something to consider if you have access to coverage through your spouse's employer.

Despite the range of choices, the majority of Nortel employees have traditionally selected the most costly health options. For the 2004 FLEX plan year, about 60% chose either the Plus or Select medical options and 64% chose the Plus dental/vision/hearing option.

Now that it's time to enroll again, why not take the time to reconsider your options and make sure you pick the ones that make the most sense for you? We suggest that you:

- Review your claims history to see how much Nortel has paid on behalf of you and your family during the last 12 months for medical and dental/vision/hearing expenses. If you don't have intranet access, you'll receive a Claim Statement in the mail from Sun Life Financial.
- Consider your estimated medical and dental/vision/hearing care needs and expenses for the coming year.
- Review the coverage provided under your Nortel options and the related costs or FLEX Credits. In addition to your Personalized Enrollment Worksheet, you can refer to the **Health Options Cost Comparison** on page 28 for a comparison of 2004 and 2005 costs for each option.
- Consider any other coverage available to you. Don't forget, if you and your family members are covered under more than one plan, even if you and your spouse both work at Nortel, the coordination of benefits provision allows you to coordinate payment of claims under each other's plans.
- Select the plans, options and dependent coverage levels that work best for you.

A Claims Story...With a Twist

If you want maximum benefits coverage for you and your family, you may be tempted to choose the highest cost options. However, this story of two Nortel employees who take different approaches to meeting their family's needs may change your way of thinking.

Suppose Employee A and Employee B each has a working spouse and two eligible dependent children. In addition to their Nortel FLEX Benefits Program, both have access through their spouses' employers to medical and dental/vision/hearing care coverage that is identical to our current Comprehensive options. And both families have the same eligible expenses in 2005.

Employee A selects family coverage under the Nortel **Plus** options for medical and dental/vision/hearing care and waives all coverage under the spouse's plan.

Employee B selects family coverage under the Nortel **Comprehensive** medical and dental/vision/hearing care options and also enrolls in family coverage under the spouse's plan.

Review the table on page 28 to see how, by taking advantage of the coordination of benefits provision, Employee B receives 100% coverage for all eligible expenses at **\$821 less cost** in 2005 than Employee A.

This illustration is based on the following assumptions:

- 2005 costs for "you and your family" coverage under the Nortel medical and dental/vision/hearing plans
- Employee B's spouse selects family coverage through his or her employer that is identical to the Nortel Comprehensive medical and dental/vision hearing care options
- The annual cost for family coverage under the spouse's plan is \$350
- Employee A and Employee B have the same expenses in 2005

How Coordination of Benefits Works

If you and your spouse have coverage under each others plans, the person with the claim submits the claim to his/her own plan first. If there is a remaining balance to be paid, you can submit a claim, with your Explanation of Benefits (EOB), to the other plan for assessment of any additional payments. If you have claims for your eligible dependent children, always submit claims first to the plan of the parent whose birth date (month, day) is earlier in the calendar year.

	Employee A – Plus			Employee B – Comprehensive		
	Nortel Pays	Employee Pays	Employee Pays	Nortel Pays	Spouse's Plan Pays	Employee Pays
Medical Expenses						
Prescriptions						
• Employee – 8 Rx	\$ 600.00	\$ 544.00	\$56.00 ¹	\$ 489.60	\$ 110.40 ²	\$ 0.00
• Spouse – 6 Rx	\$ 300.00	\$ 258.00	\$42.00 ¹	\$ 67.80	\$ 232.20 ³	\$ 0.00
• Children – 4 Rx	\$ 200.00	\$ 172.00	\$28.00 ¹	\$ 45.20	\$ 154.80 ³	\$ 0.00
Physiotherapist						
• Spouse	\$ 800.00	\$ 800.00	\$0.00	\$ 116.00	\$ 684.00 ⁴	\$ 0.00
Dental/Vision/Hearing Expenses						
Oral Exams						
• Employee	\$ 200.00	\$ 200.00	\$0.00	\$ 200.00	\$ 0.00	\$ 0.00
• Spouse	\$ 200.00	\$ 200.00	\$0.00	\$ 0.00	\$ 200.00	\$ 0.00
• Children	\$ 400.00	\$ 400.00	\$0.00	\$ 0.00	\$ 400.00	\$ 0.00
Crown						
• Employee	\$ 500.00	\$ 250.00	\$250.00	\$ 250.00	\$ 250.00	\$ 0.00
Vision Care	\$ 350.00	\$ 300.00				
• Employee	\$ 400.00	\$ 300.00	\$50.00	\$ 200.00	\$ 150.00	\$ 0.00
• Spouse			\$100.00	\$ 200.00	\$ 200.00	\$ 0.00
Total Expenses	\$3,950.00	\$3,424.00	\$ 526.00	\$1,568.60	\$1,752.00	\$ 0.00
Annual Plan Option Cost						
Nortel Plans						
• Medical			\$ 463.00			\$ 100.00
• Dental/Vision/Hearing			\$ 355.00			\$ 73.00
Spouse's Plans			\$ 0.00			\$ 350.00
Total Cost		\$3,424.00	\$1,344.00	\$1,568.60	\$2,381.40	\$ 523.00

1 employee pays \$7 copayment per prescription

2 spouse's plan pays eligible expenses not covered by Nortel's plan (including \$7 copayment)

3 spouse's plan pays 90% of eligible expenses after \$7 copayment per prescription and Nortel's plan pays the balance

4 spouse's plan pays 90% of eligible expenses after \$40 deductible and Nortel's plan pays the balance

Please note:

- This is just an example. Each individual has a unique set of needs and circumstances and the cost of spousal plans will vary. However, by analyzing your personal situation and re-evaluating your options, you may find that you can receive equivalent or better coverage for less cost.
- This example does not take into account the earnings-related FLEX Credits available to Employee A and Employee B. For example, assuming both employees have annual FLEX Earnings of \$80,000, both will receive earnings-related FLEX Credits of \$312 (\$80,000 X 0.39%), which can be used to offset the cost of Nortel medical and dental/vision/hearing coverage or allocated to a Health Care Reimbursement Account and used to pay spousal plan premiums and other eligible out-of-pocket expenses.
- Coordination of benefits provisions stipulate that the plan paying second will not pay more than it would have paid if it was first payer.

Life Insurance

Your life insurance helps protect your family's finances if you die. You automatically receive core coverage equal to your 1 X your annual *FLEX Earnings*, fully paid for by Nortel.

You can supplement your core coverage by purchasing optional life insurance with *after-tax payroll deductions*. You can purchase optional coverage for yourself, your *spouse* and your eligible dependent *children*.

Core Coverage

Core coverage provides your beneficiary with a benefit amount equal to 1 X your annual FLEX Earnings, rounded to the next \$1,000, if you die while you're covered. For example, if your annual FLEX Earnings are \$60,300, your core coverage is \$61,000.

If you're an active employee on January 1 following the year you turn 65, your core coverage will be reduced by 50%. Upon retirement, you may receive retiree life insurance coverage based on the plan you are participating in under the Capital Accumulation and Retirement Program.

If you leave Nortel, there is an option to convert your coverage to an individual policy within 31 days of your termination date. See **Conversion Option** on page 32 for more information.

Optional Coverage

In addition to the core coverage provided by the Company, you may purchase optional life insurance for yourself, your spouse and your dependent child(ren) – payable with *after-tax dollars*.

If both you and your spouse work for Nortel, you can enroll as an employee or as a dependent, but not both as an employee and a dependent. In addition, only one of you can enroll your eligible children as dependents.

You're required to submit *evidence of insurability (EOI)* if you want to increase the amount of your current optional employee life insurance, unless you have a *status change*. If you have a status change, EOI is only required for increases of more than one increment or for total amounts over 3 X FLEX Earnings or \$1 million, whichever is less. You're also required to provide EOI for your spouse if you wish to increase your spouse's current coverage to more than \$50,000.

Cost of Core Coverage

Effective January 1, 2005, the monthly rate for core life insurance is \$0.35 per \$1,000 of coverage.

Nortel currently pays the premium for core employee life insurance, and you pay the taxable benefit, which is based on the rate.

Optional Employee Life Insurance

You may choose from the following coverage levels:

- Core plus 1 x FLEX Earnings,
- Core plus 2 x FLEX Earnings,
- Core plus 3 x FLEX Earnings,
- Core plus 4 x FLEX Earnings (requires *evidence of insurability (EOI)*),
- Core plus 5 x FLEX Earnings (requires EOI).

This means – for example – if you select core plus 1 x FLEX Earnings, you are essentially receiving a total coverage of two times your FLEX Earnings.

Optional life insurance is also rounded to the next higher \$1,000. For example, if your annual FLEX Earnings are \$60,300 and you choose 2 X FLEX Earnings, your optional coverage is \$121,000.

The combined maximum amount of core and optional life insurance coverage cannot exceed \$3 million.

Optional Dependent Life Insurance

You may purchase optional life insurance coverage for your spouse and dependent child(ren), as outlined in the table below:

Spouse	<ul style="list-style-type: none">• \$ 10,000• \$ 25,000• \$ 50,000• \$100,000• \$150,000• \$200,000	<ul style="list-style-type: none">• \$250,000• \$300,000• \$350,000• \$400,000• \$450,000• \$500,000
Each dependent child(ren)	<ul style="list-style-type: none">• \$ 5,000• \$ 10,000• \$ 15,000• \$ 20,000• \$ 25,000	

Evidence of insurability is required for spousal life insurance in excess of \$50,000.

Cost of Optional Coverage

Employee and Spouse

Optional life insurance rates for you and your spouse are based on gender, age on December 31 of the plan year, and life insurance “smoker status.”

You’re eligible for the non-smoker rate if you have not smoked or used a tobacco product for 12 continuous months. The same applies to your spouse. Nortel does not require proof of your non-smoking status, but if you’re discovered to be a smoker and are paying non-smoker rates, you or your beneficiary could be denied life insurance benefits. Notify Global Employee Services immediately if you and/or your spouse change from non-smoker to smoker status anytime during the year.

Here are the 2005 optional life insurance premium rates. Each rate shown is the cost per \$1,000 of coverage. **Note that you’ll only pay 50% of your required premium if you choose to purchase or continue participating in optional employee life insurance in 2005. Starting in 2006, you’ll be required to pay 100% of the required premium.** Your Personalized Enrollment Worksheet will show your actual 2005 cost for coverage for you and your spouse (if applicable).

Employee/ Spouse’s age on Dec 31, 2005	Smoker				Non-Smoker			
	Male Monthly	Male Bi-Weekly	Female Monthly	Female Bi-Weekly	Male Monthly	Male Bi-Weekly	Female Monthly	Female Bi-Weekly
Under 25	\$0.0690	\$0.0318	\$0.0391	\$0.0180	\$0.0391	\$0.0180	\$0.0299	\$0.0138
25-29	\$0.0690	\$0.0318	\$0.0391	\$0.0180	\$0.0391	\$0.0180	\$0.0299	\$0.0138
30-34	\$0.0782	\$0.0361	\$0.0391	\$0.0180	\$0.0391	\$0.0180	\$0.0299	\$0.0138
35-39	\$0.0886	\$0.0409	\$0.0690	\$0.0318	\$0.0391	\$0.0180	\$0.0391	\$0.0180
40-44	\$0.1369	\$0.0632	\$0.0978	\$0.0451	\$0.0782	\$0.0361	\$0.0587	\$0.0271
45-49	\$0.2542	\$0.1173	\$0.1472	\$0.0679	\$0.1369	\$0.0632	\$0.0978	\$0.0451
50-54	\$0.4106	\$0.1895	\$0.2346	\$0.1083	\$0.2450	\$0.1131	\$0.1472	\$0.0679
55-59	\$0.6647	\$0.3068	\$0.3715	\$0.1714	\$0.3910	\$0.1805	\$0.2542	\$0.1173
60-65	\$0.9580	\$0.4421	\$0.5083	\$0.2346	\$0.5670	\$0.2617	\$0.3623	\$0.1672

Take Note

If you leave the Company, you should review your need to convert to an individual life insurance policy. If you have a medical condition that would preclude you from obtaining an individual policy later or from obtaining the same amount of group coverage with your new employer due to medical requirements, you may want to take advantage of the conversion option.

Here's an example. Ellen's spouse is a 37-year-old, non-smoking male. She wants to buy \$100,000 of life insurance coverage in his name. Ellen is paid bi-weekly.

$\$0.0180$ (from the table) X $(\$100,000 \div \$1,000) = \$1.80$ every two weeks

Children

If you select coverage for your dependent children, the coverage amount is the same for each covered child and the cost is the same regardless of the number of children you cover. In 2005, your cost to cover all your eligible children is \$0.475 per \$5,000 of

coverage. For example, if you choose \$25,000 of coverage, your cost is:

$\$0.475 \text{ X } (\$25,000 \div \$5,000) = \2.38 per month

$\$2.38 \text{ X } (12 \div 26) = \1.10 per pay (based on 26 pay periods)

Conversion Option

If you leave the Company, you have the right to convert your current core and optional employee life insurance coverage to an individual policy without being required to submit *evidence of insurability (EOI)*. The amount you can convert is your current level of coverage subject to a maximum conversion amount of \$200,000 for each of core life and optional life insurance coverage. You must apply and pay the first month's premium before the expiration of 31 days (the conversion period) from the date you leave the Company. If you die during the conversion period, your beneficiary will receive the benefit payable under your core and optional employee life insurance coverage (if applicable), even if you don't apply for an individual policy.

The cost of your new policy will be based on individual insurance rates in force at your current age. The type of individual policy available, its plan provisions and rates are determined by Sun Life Financial and have no relationship to the group contract that covers FLEX Benefits. You can contact Global Employee Services for a "Notice of Conversion" form and obtain additional information about conversion from Sun Life Financial at 1-800-786-5433.

You may also convert your optional dependent life insurance coverage for your spouse to an individual policy without the need for EOI. The amount you can convert is your spouse's current level of coverage subject to a maximum conversion amount of \$200,000. Once again, the application and payment of the first month's premium must occur before the expiration of the 31-day conversion period. If your spouse dies during the conversion period, you'll receive the benefits payable under the optional dependent life insurance coverage for your spouse. There is no conversion option for your dependent life insurance coverage for your children.

Evaluating Your Life Insurance Options

You automatically receive core life insurance coverage of 1 X your annual FLEX Earnings from Nortel, and you have the option to purchase additional coverage for you and your eligible dependents.

Determining the life insurance coverage you need to secure your family's financial future can be a complicated matter. Some use four to six times annual earnings as a guideline, while others argue that there is no set rule because each individual's circumstances differ. Careful planning is the key.

Here are some factors you need to consider when determining how much life insurance coverage is enough for you:

- Do you have dependents who rely on your income? If so, how much will they need to meet future expenses (mortgage or rent payments, food, clothing, child care, education, etc.)?
- Do you have other long-term debts that need to be paid?
- Do you have any personal life insurance policies outside the Company? If you have a mortgage, do you have mortgage insurance?
- Do you have other significant assets or sources of income that your dependents can count on?
- What is your state of health? If you want to increase your life insurance coverage, you'll have to provide **evidence of insurability (EOI)**, and your increased coverage won't become effective until the date Sun Life Financial approves your application.

Employee Assistance Program

You and your eligible dependents automatically receive access to the Employee Assistance Program (EAP/WorkLife Services) — at no cost to you. You do not have to enroll to have this benefit.

EAP counselling and worklife services are provided by FGI. Services include expert counselling and access to research and referral for child/elder care, legal/financial assistance, education, and lots more.

Online information resources such as educational information, helpful Web links, assessment tools, online requests for services and much more are available. If you would like more information on EAP counseling or other EAP work/life services, visit the FGI Web site at **www.fgiworldmembers.com**. When you reach the site, you will need to enter the user name (nortel) and password (networks). Alternatively, you can call FGI at 1-888-859-5263 (English) or 1-888-859-5256 (French).

How to Enroll

The FLEX 2005 annual enrollment period is **Tuesday, November 9 – Tuesday, November 23, 2004**. During this time you will have the opportunity to choose among a wide variety of FLEX options to tailor a benefit package to your personal needs.

If you're going to be away during the two-week enrollment period, you must contact Global Employee Services to make alternative arrangements.

Mark These Key Enrollment Dates On Your Calendar!

Date	What This Means to You
Tuesday, November 9	Enrollment Begins – begin using the materials in your enrollment package to familiarize yourself with the 2005 changes.
Tuesday, November 16	Enrollment is Almost Over – if you haven't yet enrolled by this date, you have one more week to make your decisions for 2005...begin taking action so you don't miss the deadline.
Tuesday, November 23	Enrollment Ends – you must enroll by this date or you'll be left with your 2004 coverage under the FLEX Benefits Program at 2005 costs.
Saturday, January 1, 2005	FLEX 2005 Selections Become Effective – any selections you make during the FLEX 2005 annual enrollment period cannot be changed until the next enrollment period unless you experience a <i>status change</i> .

Enrollment Checklist

Use this checklist as a guide to make sure you've completed the necessary action steps before making your selections for 2005.

- ✓ Read the enrollment materials to learn about what's changing and understand your options for 2005.
- ✓ Review the Claim Statement sent to you in the mail by Sun Life Financial. This will help you understand how you've been using the program and whether you want the same level of coverage for 2005.
- ✓ Review your current selections and costs on your 2004 Confirmation Statement. While you're at it, review your dependent information and determine if it needs updating. Even if you choose to waive coverage under the medical and dental/vision/hearing care options, it's important that all your dependents are listed accurately.
- ✓ Review the costs. Your 2005 personalized costs appear on your enclosed Personalized Enrollment Worksheet.
- ✓ If you have a spouse, check any benefits coverage offered by your spouse's employer to see if your spouse should enroll in his/her employer's plan before seeking coverage as a dependent under the Nortel program. You should also read **Evaluating Your Health Options** on page 26.
- ✓ Decide if you want or need to enroll. You need to enroll if you want to make changes to your current coverage, update your dependent information or change the life insurance "smoker status" for you or your spouse.
- ✓ Contact Global Employee Services if you still have questions after reviewing the enrollment materials.

If You Have Internet Access

You can review an up-to-date claims history online on the Sun Life Financial Web site at any time. Just go to www.sunlife.ca/member, sign in with your Sun Life Financial Access ID and password, click on your Group Contract Number (25654), then select *Claims*, then *Claims History*. If you don't have an Access ID and password, go to the site, select Register and follow the online instructions. Alternatively, you can call the Nortel Customer Care Centre at 1-800-229-7089, Monday to Friday, 7am-8pm, Eastern Time.

Do I Need to Enroll?

The FLEX 2005 *annual enrollment* period gives you the opportunity to enroll in a number of optional FLEX benefits, including medical, dental/vision/hearing care, optional life insurance, optional AD&D insurance, and optional short-term and long-term disability coverage. To determine if you need to enroll, ask yourself – Do I want to:

1. Select a new medical option for 2005?
2. Select a new dental/vision/hearing care option?
3. Make changes to any other current coverage? Remember, if you have optional employee life insurance coverage, you'll be required to pay premiums in 2005.
4. Select or make changes to my dependent coverage?
5. Update my dependent information?
6. Change my or my spouse's "smoker status" for life insurance purposes?

If you answered “**yes**” to any of the above questions, you need to enroll this year. See **Four Steps to Enrollment** on page 38.

If You Don't Enroll

If after considering the above questions you decide you don't want to make changes for 2005, you still need to locate your Personalized Enrollment Worksheet in your enrollment package to review your current coverage and confirm that your dependent information is correct.

Remember that if you don't enroll, your 2004 coverage will continue at 2005 costs. If you had unused FLEX Credits after you enrolled last year that you allocated to the Health Care Reimbursement Account (HCRA), and the same selections would result in unused FLEX Credits in 2005, these Credits will be directed to your HCRA for 2005 (minimum \$1 per pay period). Otherwise, you'll receive any unused FLEX Credits as taxable pay throughout the year.

If you decide you don't want to make changes for 2005, there's no action required on your part. You'll receive a Confirmation Statement in the mail confirming your 2005 coverage and costs.

REMINDER: If You Need to Update Your Dependent Information, You Must Enroll!

Even if you choose to waive medical and dental/vision/hearing care coverage, it's important that all your dependents are listed accurately, since this information may be required for other benefits.

You can update your dependent information on your Personalized Enrollment Worksheet.

Four Steps to Enrollment

Once you've reviewed the enrollment materials, familiarized yourself with the 2005 changes and completed all the steps on the Enrollment Checklist, you're ready to enroll! Just follow these steps.

Four Steps to Enrollment	
STEP 1:	Pull out your Personalized Enrollment Worksheet included in your enrollment package. This document lists your 2005 options and costs.
STEP 2:	Complete your Personalized Enrollment Worksheet to make changes to your dependent information or to make new FLEX selections.
STEP 3:	Mail your completed Worksheet in the enclosed reply envelope or fax it to Global Employees Services at 919-905-9303. Include a phone number where you can be reached if a Global Employee Services representative needs to contact you. Retain a copy of your Personalized Enrollment Worksheet. If you faxed your completed Worksheet, also retain a copy of the fax receipt confirmation for your records.
STEP 4:	Watch the mail at home for your Confirmation Statement. You should receive it shortly after the annual enrollment period ends. Review your Confirmation Statement to make sure that it correctly reflects the coverage you selected. If there are errors, contact Global Employee Services immediately. If you don't receive a Confirmation Statement by December 5, 2004, contact Global Employee Services. Keep your Confirmation Statement for future reference.

Your selections are effective from January 1, 2005 to December 31, 2005 and you will not be able to make any changes during the year unless you experience a *status change*.

Contact Information

	Phone Number	Web Site Address
FLEX Benefits Enrollment Tool		https://eflex.us.nortel.com:49185
For a NorPASS Password	NT4-HELP ESN 684-4357 1-800-684-4357	http://norpass.ca.nortel.com
Services@Work		http://services-canada.ca.nortel.com
Global Employee Services	ESN 352-4636 919-992-4636 Toll-free 1-800-676-4636 Fax 919-905-9303 or ESN 355-9303	Email Internal: GES, North-America External: gesna@nortelnetworks.com
Short-Term Disability Coverage		
Medcan Health Management Inc.	1-888-522-7368	General - www.medcan.com Claims - https://secure.medcan.com/login.asp
Health Care, Life Insurance, AD&D Insurance, and Long-Term Disability Coverage		
Sun Life Financial	1-800-229-7089	http://www.sunlife.com
Preferred Vision Services (PVS)	1-800-668-6444	
Home and Auto Program		
BELAIRdirect	Ontario and Quebec residents : 1-866-423-5247 All other provinces: 1-866- 845-4464	
Employee Assistance Program (EAP)/ WorkLife services		
Family Guidance Group Inc.	1-888-859-5263 (English) 1-888-859-5256 (French)	www.fgiworldmembers.com username "nortel" and password "networks"
Canada Revenue Agency		
		http://www.cra-arc.gc.ca

Glossary

Here are some brief explanations of terms that you'll find in your FLEX enrollment materials.

After-tax dollars (after-tax payroll deductions)

Money that is counted as employment income for the purposes of income tax calculation. If you don't have sufficient Company-provided FLEX Credits to pay for your chosen optional benefits, the difference will be paid out of your salary after the appropriate tax deductions. Optional employee or dependent life insurance coverage may only be bought with after-tax dollars.

Before-tax dollars

Money that is not counted as employment income for the purposes of income tax calculation. Company-provided FLEX Credits are not counted as employment income if they are used to buy medical, dental/vision/hearing care, short-term disability, long-term disability, and accidental death & dismemberment (AD&D) coverage, or deposited in a Health Care Reimbursement Account (HCRA) and used to cover eligible health expenses. (In Quebec, amounts used to buy optional AD&D, medical, dental/vision/hearing care and amounts reimbursed from the HCRA are subject to provincial income tax.)

Beneficiary

The person (or people) you choose to receive your benefits if you die while you're covered by the life insurance or accidental death & dismemberment insurance plans. You can name more than one person as a beneficiary if you specify how the benefit should be divided among them.

If you're a man residing in Quebec and you designated your legal spouse or your children as beneficiaries before October 20, 1976, you must obtain their written consent to change the beneficiary. The same applies to all Quebec residents of either gender who have identified their legal spouse as beneficiary since that date, unless they specified that the designation was revocable.

Brand-name drug

A prescription drug sold under a trademarked name. Brand-name drugs are typically sold at a higher cost than generic drugs.

Canada Revenue Agency (CRA)

The federal agency formerly known as Revenue Canada. The CRA administers federal tax laws that apply to benefit plans. For example, the CRA sets rules regarding health spending accounts such as the Nortel Health Care Reimbursement Account. For more information, visit the CRA Web site at <http://www.cra-arc.gc.ca>.

Children

Dependents who are:

- Your natural children,
- Legally adopted by you or placed with you for adoption,
- Your stepchildren,
- Your legal foster children, or
- Your responsibility as a legal guardian.

Children must be unmarried, financially dependent on you for support, covered under the provincial health plan or equivalent plan, and either:

- Under age 21,
- Under age 25* if in full-time attendance at an accredited school, college or university, or
- Physically or mentally handicapped, regardless of age (as long as the disability began before age 21, or before age 25* if they were full-time students at the time).

*For Quebec residents, Bill 33 legislation stipulates that eligible dependent children are covered for prescription drugs listed under the Régie de l'assurance-maladie du Québec (RAMQ) formulary, to the age of 26 if in full-time attendance at an accredited, school, college or university.

Copayment

A specified dollar amount you're required to pay when you receive drug benefits under the Basic, Comprehensive, and Plus medical options.

Covered expenses

Charges for health care services and supplies for which the plan pays benefits.

Deductible

The amount you're required to pay out of your pocket before the plan begins paying for covered expenses.

Dependent

For your life insurance, medical, and dental/vision/hearing care coverage, dependents include:

- Your spouse (see definition of spouse) and
- Your children (see definition of children).
- For the Health Care Reimbursement Account, a dependent is:
 - Your spouse (see definition of spouse) or
 - Any member of your household with whom you're connected by blood relationship, marriage, or adoption and for whom you may claim a medical expense tax credit on your income tax return.

Drug formulary

A list of drugs that are covered by the FLEX program for the Basic, Comprehensive, and Plus medical options (but not the Select Option). The FLEX formulary consists of all drugs covered as of December 31, 2004. A new drug is not added until at least one of the provincial drug plans adds the drug to its list of covered drugs.

Emergency

A sudden, serious, and unexpected medical condition that requires (or you have good reason to believe requires) immediate attention to prevent death or functional loss. Apparent heart attacks, loss of consciousness, excessive bleeding, severe or multiple injuries, or serious burns are all examples of an emergency.

Evidence of insurability (EOI)

Before you're accepted for life insurance coverage or optional long-term disability coverage, the insurance company may require you to complete a medical questionnaire to make sure you're in good health. Depending on the information you provide, you may be required to submit further medical information. If a medical exam is required, you're responsible for your own expenses.

Core life insurance:

EOI is required for amounts over \$600,000.

Optional life insurance for the employee:

- When you are first eligible to select optional life insurance, EOI is required for total amounts over 3 X FLEX Earnings or \$1 million, whichever is less.
- EOI is also required if you wish to increase your coverage during the *annual enrollment period*, unless you have a *status change*. If you have a status change, EOI is only required for increases of more than one increment or for total amounts over 3 X FLEX Earnings or \$1 million, whichever is less.

Dependent life insurance:

EOI for your spouse is required if the total amount exceeds \$50,000. This limit applies when you are first eligible to select this coverage or when you request increases at annual enrollment or because of a Status change. EOI is not required for any coverage selected for your children.

Optional LTD:

You will have to provide EOI if you select optional LTD coverage during the annual enrollment period and did not already have optional LTD coverage in 2004.

FLEX Credits

Company-provided contribution that is intended to assist employees in buying optional coverage.

Currently, each employee gets FLEX Credits equal to 0.39% of FLEX Earnings to apply toward the purchase of optional benefits, and/or to put into a Health Care Reimbursement Account, and/or to take as taxable pay. Employees can get additional health FLEX Credits if they waive medical and/or dental/vision/hearing care coverage, select any of the dependent coverage levels under the Basic option, or select "you only" coverage under the Comprehensive or Basic options.

FLEX Earnings

Your annual base salary from Nortel. If you're eligible for sales incentives, your FLEX Earnings include your base salary and targeted incentives as defined each year by the Company.

For a part-time employee, FLEX Credits and costs are based on a 25-hour work week. Payment of FLEX Earnings-related benefits (life insurance, AD&D insurance, STD and LTD) are paid based on actual salary.

If you're enrolling:	Your FLEX Earnings are your base salary as of:
• During annual enrollment or due to a Status change	• September 24, 2004
• As a new hire	• Your hire date
• Part-time to full-time or vice versa	• The effective date of your employment status change

FLEX Earnings don't include:

- Overtime pay,
- Shift differentials,
- Relocation payments, or
- Bonuses.

Generic drug

A prescription medicine sold under its chemical name. Generic drugs are typically sold at a lower price than brand-name drugs.

Health Care Reimbursement Account (HCRA)

An account to which Company-provided FLEX Credits are allocated to reimburse yourself for eligible health care expenses on a before-tax basis. If you're a Quebec resident, amounts reimbursed from your account will be taxed at the provincial level.

Medically necessary

Broadly accepted and recognized by the Canadian medical profession as being effective, appropriate, and essential in the treatment of a sickness or injury, in accordance with Canadian medical standards.

Out-of-pocket maximum

The highest amount you have to pay out of your own pocket toward covered prescription drug expenses annually. Your deductibles and the portion of eligible drug expenses that you pay count toward satisfying the out-of-pocket maximum. Any amounts you pay above reasonable and customary limits, the dispensing fee maximum, and drugs not covered by the plan don't count toward the out-of-pocket maximum. When you have reached the out-of-pocket maximum, the plan pays 100% of your covered drug expenses for the rest of the calendar year, up to the plan's maximum benefit amount. (In Quebec, there is no maximum for drugs on the Régie de l'assurance-maladie du Québec (RAMQ) formulary.)

Plan administrator

The company that administers payment of benefit claims for Nortel.

Prior authorization

A process that requires certain drugs to be adjudicated and pre-approved before you can claim them under FLEX.

Provincial health insurance plan

Health insurance provided by the province. This insurance varies by province, but generally covers standard hospital ward accommodation, physicians' and specialists' services, and diagnostic procedures.

Reasonable and customary

A charge for a covered expense under the medical plan that is the normal fee made by a licensed practitioner for a similar service and does not exceed the normal charge made by most providers in the geographic area where the service is provided.

Spouse

The person to whom you're legally married, and/or contracted in a civil union (for Quebec residents), or an unmarried partner of either gender, who:

- Is not related to you by blood that would prohibit legal marriage,
- Is age 18 or older,
- Shares responsibility for your living expenses and general welfare,
- Has been living with you for at least 12 consecutive months in a conjugal relationship,
- Is covered under a provincial health insurance plan or an equivalent plan.

Status change

A change in your personal situation that affects your benefit needs and triggers a 31-day period during which you can change your FLEX selections outside of the annual enrollment period. The list of Status changes includes but is not limited to:

- Marriage, and/or civil union (for Quebec residents), or completion of 12 months of continuous cohabitation with a domestic partner of either gender,
- Divorce, dissolution of a civil union (for Quebec residents), legal separation, or discontinuation of a domestic partner relationship,
- Birth, adoption or change in custody of a dependent child,
- Loss, commencement or change in your spouse's employment affecting benefits coverage,
- Your child's change in dependent status, and
- Death of spouse or dependent child.







© 2004 Nortel.

*Nortel, the Nortel logo, and the Globemark are
trademarks of Nortel.
Printed in Canada.

FLEX 2005 Enrollment Guide