Shared Risk Plan for Certain Bargaining Employees of N.B. Hospitals

Dear Retiree,

Lately there has been a lot of information in the media with respect to shared risk pension plans. More specifically, retirees of the *Public Service Superannuation Act* (the "*PSSA*") have been expressing concerns over the possibility of the *PSSA* converting to the shared risk pension model.

As a retiree of the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals (the "CBE Shared Risk Plan"), it is important that you understand how the shared risk pension model applies to retirees. As previously communicated to you, your old pension plan, the Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals (the "CBE Pension Plan") was converted to a shared risk plan on July 1, 2012.

The following questions and answers have been developed to provide you with information on how the shared risk pension model impacts you.

Why did my pension plan convert to the shared risk model?

As had been communicated to you by the CBE Pension Committee leading up to the conversion, the former CBE Pension Plan was no longer sustainable as it had a large deficit that was likely to continue to grow. The financial position of the former CBE Pension Plan was largely the result of lower than expected investment returns and an increase in life expectancy of its members (i.e., people are living longer). In order to address these challenges, the former CBE Pension Plan had to make changes or it would have had to start reducing benefits.

It is worth noting that the issues that were being faced by the former CBE Pension Plan were no different than those being faced by many other pension plans in Canada and around the world.

How do the changes affect me as a retiree?

With the conversion of the former CBE Pension Plan to the CBE Shared Risk Plan last year, there were two changes that are important to you as a retiree:

ISBN : 978-1-55471-613-5

- Annual cost of living increases are conditional under the CBE Shared Risk Plan and not automatic as they were under the former CBE Pension Plan; and
- There is a very low probability that your monthly pension (base benefits) could be reduced.

What do you mean by "conditional cost of living increases"?

Annual cost of living increases (provided January 1st) are not automatic under the CBE Shared Risk Plan as they were under the former CBE Pension Plan. Under a shared risk plan, annual cost of living increases are conditional and based on the funding position of the pension plan. In other words, if the CBE Shared Risk Plan has a large enough surplus, full cost of living increases up to the full increase in the Consumer Price Index ("CPI") will be provided.

If the pension plan is unable to provide the full cost of living increase (could be partial or no increase) in a given year, the amount of the cost of living increase not provided is carried forward and can be provided as a "catch up" in a year when there is a large enough surplus in the pension plan.

A pension plan under the shared risk model is designed so that there is a high probability that cost of living increases can be provided in most years. It is expected that cost of living increases of at least of 75% of CPI will be provided under a shared risk pension plan over the long term.

On January 1, 2013 your CBE Shared Risk Plan provided a cost of living increase of 2.4% (full CPI) to retirees (prorated for members that retired during 2012).

What do you mean by "your monthly pension (base benefits) could be reduced"?

While there is no pension model that can entirely eliminate any chance that pension benefits can ever be reduced in the future, a shared risk pension plan is designed to ensure a higher than 97.5% probability that your monthly pension would not be reduced. However, in the unlikely event that a severe, prolonged economic depression did occur, there is the potential that your monthly pension

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could be reduced. In most of these scenarios, your monthly pension would be reduced for only a temporary period of time. The first priority if your monthly pension were ever reduced would be to restore your benefits once the pension plan returned to surplus position.

It should be noted that the CBE Shared Risk Plan had a targeted funding position for shared risk purposes of 117% (i.e., the plan was in a surplus position for shared risk purposes) on July 1, 2012.

Under the shared risk pension model, the CBE Shared Risk Plan would have to be in a deficit position for two years before any action would be taken to reduce benefits. In addition, there would be a number of steps that would have to be taken to improve the funding status of the plan (e.g., contribution rate increase, lower benefits for active members) before your monthly pension would ever be reduced. Reducing your monthly pension would be a last resort. However, if your monthly pension had to be reduced for a period of time, you would receive plenty of notice before any reduction in your monthly pension would occur. It would never come as a surprise to you.

It is important to once again note that if changes to the former CBE Pension Plan (your old pension plan) did not occur, the problems with the former CBE Pension Plan would have become more severe and drastic measures would have been necessary to fix the issues in the future. The CBE Shared Risk Plan (your new pension plan) is designed to ensure that pensions are more secure than ever before, including the monthly pension that you are receiving as a retiree.

For more information on the shared risk pension model, please visit the following Government of New Brunswick website:

http://www2.gnb.ca/content/gnb/en/corporate/promo/pension.html

Sincerely,

The Board of Trustees for the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals

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