



Financial statements

Shared Risk Pension Plan for Certain Bargaining  
Employees of New Brunswick Hospitals

December 31, 2012

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# Independent auditor's report

## To the Board of Trustees of the Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

We have audited the accompanying financial statements of the Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals which comprise the statement of financial position as at December 31, 2012, and the statement of changes in net assets available for benefits and statement of changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals as at December 31, 2012, and the changes in net assets available for benefits and changes in pension obligations for the year then ended in accordance with the Canadian accounting standards for pension plans.

Fredericton, Canada  
June 10, 2015

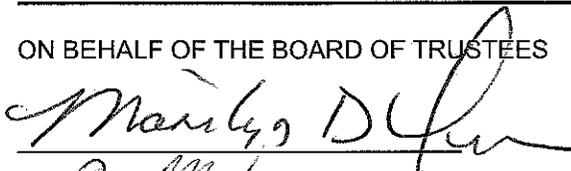
*Grant Thornton LLP*

Grant Thornton LLP  
Chartered Accountants

**Shared Risk Pension Plan for Certain Bargaining  
Employees of New Brunswick Hospitals  
Statement of financial position**

December 31,	2012	2011
<b>Assets</b>		
Investments, held by custodian (note 4)	\$ 1,225,803,409	\$ 1,109,757,598
Prepaid expenses	<u>10,640</u>	<u>2,230</u>
	<b>1,225,814,049</b>	<b>1,109,759,828</b>
Contributions receivable (note 5)		
Employee contributions	4,692,616	3,691,055
Employer contributions	4,567,871	3,463,167
Reciprocal transfers	<u>-</u>	<u>66,528</u>
	<u><b>1,235,074,536</b></u>	<u><b>1,116,980,578</b></u>
<b>Liabilities</b>		
Payables	1,221,291	961,843
Pension refunds payable	282,162	208,992
Commuted value payable (note 6)	2,442,417	2,787,646
Reciprocal transfer	<u>-</u>	<u>38,672</u>
	<u><b>3,945,870</b></u>	<u><b>3,997,153</b></u>
Net assets available for benefits	<u><b>1,231,128,666</b></u>	<u><b>1,112,983,425</b></u>
Pension obligations (note 7)	<u><b>1,217,800,000</b></u>	<u><b>1,496,989,000</b></u>
Surplus (deficiency)	<u><b>\$ 13,328,666</b></u>	<u><b>\$ (384,005,575)</b></u>

ON BEHALF OF THE BOARD OF TRUSTEES


See accompanying notes to the financial statements.

## Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

### Statement of changes in net assets available for benefits

Year ended December 31,	2012	2011
Contributions		
Employee current	\$ 32,444,779	\$ 26,295,057
Employee past	481,757	1,130,274
Employer current	32,453,655	26,295,875
Employer past	203,926	192,287
Reciprocal transfers	<u>(66,528)</u>	<u>1,213,852</u>
	<u>65,517,589</u>	<u>55,127,345</u>
Revenue		
Investment income (note 8)	37,777,640	30,089,433
Realized gain on sale of investments	31,003,249	32,136,964
Unrealized current period change in market value of investments	<u>32,092,361</u>	<u>(99,695,500)</u>
	<u>100,873,250</u>	<u>(37,469,103)</u>
	<u>166,390,839</u>	<u>17,658,242</u>
Expenses		
Benefit payments		
Retirement benefit payments	38,007,552	33,518,492
Termination benefit payments	2,238,410	3,026,075
Death benefit payments	567,486	2,119,630
Marriage breakdown	388,809	397,189
Reciprocal transfers	3,276	106,302
Phased retirement	<u>1,049,671</u>	<u>1,200,552</u>
	<u>42,255,204</u>	<u>40,368,240</u>
Fees and expenses		
Performance measurement service	100,754	80,670
Custodial fees	118,141	127,310
Investment management fees	3,079,945	3,120,425
Administration expenses (note 9)	1,759,210	1,613,124
Transaction costs	<u>932,344</u>	<u>633,470</u>
	<u>5,990,394</u>	<u>5,574,999</u>
	<u>48,245,598</u>	<u>45,943,239</u>
Increase (decrease) in net assets available for benefits	118,145,241	(28,284,997)
Net assets available for benefits, beginning of year	<u>1,112,983,425</u>	<u>1,141,268,422</u>
Net assets available for benefits, end of year	<u>\$ 1,231,128,666</u>	<u>\$1,112,983,425</u>

See accompanying notes to the financial statements.

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**Shared Risk Pension Plan for Certain Bargaining  
Employees of New Brunswick Hospitals  
Statement of changes in pension obligations**

Year ended December 31, 2012 2011

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Pension obligations, beginning of year	<b><u>\$ 1,496,989,000</u></b>	<u>\$ 1,406,755,000</u>
Change in pension obligations		
Impact of conversion to a shared risk plan as at July 1, 2012	<b>(363,600,000)</b>	-
Experience losses on accrued benefit obligations	<b>(28,189,000)</b>	(18,796,000)
Normal cost and benefits accrued	<b>51,100,000</b>	57,236,000
Benefit payments	<b>(42,200,000)</b>	(40,368,000)
Interest	<b>83,900,000</b>	92,162,000
Cost of indexing	<b><u>19,800,000</u></b>	<u>-</u>
Pension obligations, end of year	<b><u>\$ 1,217,800,000</u></b>	<u>\$ 1,496,989,000</u>

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See accompanying notes to the financial statements.

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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### 1. Shared risk plan

Effective July 1, 2012, the Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals was converted to the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals. The new model, governed by the Board of Trustees, introduced changes to address the funding deficiency in the Plan. The Shared Risk Plan for Certain Bargaining Employees for New Brunswick Hospitals is reported as a continuation of the pre-existing Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals. The new shared risk model provides additional funding through increased member and employer contributions. It also introduces risk management procedures, funding goals and sharing of benefit risks to prudently manage the variability of funding results over time.

The shared risk pension model is unique in Canada and plans of this design are not defined in existing accounting standards. Under current standards, a pension plan must be accounted for as either a defined contribution plan or a defined benefit plan. Determining the appropriate accounting treatment for these plans requires a high degree of professional judgement. Based on research performed, enabling legislation and specific plan documents, management has concluded that the defined benefit method represents appropriate accounting treatment for the Plan at this time.

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### 2. Description of plan

The following description of the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals ("the Plan") is a summary only. For more information, reference should be made to the Plan Document.

#### (a) General

The Plan is a shared risk pension plan covering full-time and part-time employees who are members of the New Brunswick Nurses Union or the New Brunswick Union of Public and Private Employees (Specialized Health Care Professionals and Paramedical).

#### (b) Funding policy

Contributions are made by the Plan members and the Plan sponsor to fund the benefits as determined under the provisions of the Plan Document and Funding Policy.

#### (c) Pension benefits

The base benefits described in Article V of the Plan Document (summarized below) are the intended benefits under this Plan. Notwithstanding any other provision of the Plan, the Funding Policy will allow or require the Board of Trustees to make changes to the base benefits. Such changes may be positive or negative and will affect all classes of plan members.

- I. For each year (or part year) of pensionable service on and after July 1, 2012:  
1.4% X annualized pensionable earnings accrued during the year up to the YMPE for the year plus 2.0% X annualized pensionable earnings accrued during the year in excess of the YMPE for the year multiplied by number of hours worked (and contributed) / 1950 hours.

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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### 2. Description of plan (continued)

#### (c) Pension benefits (continued)

- II. For all pensionable service between January 1, 1990 and June 30, 2012:  
Pensionable service X 1.3% X best 5 year average earnings at June 30, 2012 up to the average YMPE at the same date plus pensionable service X 2.0% X best 5 year average earnings at June 30, 2012 in excess of the average YMPE at the same date.
- III. For all pensionable service prior to January 1, 1990:  
Pensionable service X 2.0% X best 5 year average earnings at June 30, 2012

All benefits (paid or payable) may be adjusted annually by any cost of living increases granted in accordance with the Funding Policy.

A member may elect a basic pension, providing a life pension with a guarantee period of 5 years, or one of four optional forms of pensions being: 1) life pension with a guarantee period of 10 years; 2) joint life and last survivor pension at 60%; 3) joint life and last survivor pension at 75%; 4) joint life and last survivor pension at 100%.

Normal retirement age is 65 at which time unreduced pension benefits are available with 5 years of continuous employment or 2 years of plan membership. Reduced benefits are available between age 55 and age 65 with 5 years of continuous employment or 2 years of plan membership. A member who elects to take an early retirement will also receive a temporary bridging benefit payable to age 65 equal to \$27 per month per year of pensionable service.

#### (d) Disability pensions

A disability pension is not provided for under the terms of the Plan.

#### (e) Death benefits

If a member dies prior to retirement and before completing 5 years continuous employment or less than two years of membership in the Plan, the benefit payable to the member's surviving spouse (or the member's beneficiary if there is no spouse) is a refund of the member's own contributions with accumulated interest.

If a member dies prior to retirement and has completed 5 or more years of continuous employment or has two years or more of membership in the Plan, the member's surviving spouse (or the member's beneficiary if there is no spouse) will receive a lump sum equal to the termination value amount the member would have received if the member had terminated service just before death.

If a member dies after retirement, the death benefit payable is determined in accordance with the provisions of the form of pension selected by the member at the time of retirement.

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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### 2. Description of plan (continued)

#### (f) Benefits on termination

A member who has less than five years of continuous employment and less than two years of membership in the Plan and is terminated will receive a refund of the member's own contributions with accumulated interest.

A member with 5 or more years continuous employment or 2 or more years of membership in the Plan who is terminated and who is not eligible to receive an immediate pension benefit may elect to receive a deferred pension commencing as early as age 55 or an amount equal to the termination value of the pension benefit as at the date of the member's termination. The termination value of the pension benefit is to be transferred on a locked-in basis to any registered retirement savings arrangement where the transfer is allowed under the Pension Benefits Act ("the Act"). Members who terminate their employment and are immediately eligible to receive a monthly pension benefit may elect an immediate or deferred pension.

#### (g) Income taxes

The Plan is a Registered Pension Plan as defined in the Income Tax Act and is not subject to income taxes.

#### (h) Reciprocal transfer agreements

The Board of Trustees may, in its discretion, from time to time, enter into reciprocal agreements with the sponsors of other pension plans. Effective April 19, 2013, the Board of Trustees entered into a new reciprocal transfer agreement between the Plan and the Pension Plan for Part-Time and Seasonal Employees of the Province of New Brunswick.

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### 3. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

Accounting standards for pension plans require entities to select accounting policies for accounts that do not relate to its investment portfolio or pension obligations in accordance with either Part I (International Financial Reporting Standards ("IFRS")) or Part II (Canadian accounting standards for private enterprises ("ASPE")) of the CPA Canada Handbook. The Plan selected to apply Part II for such accounts on a consistent basis and to the extent that these standards do not conflict with the requirements of the Canadian accounting standards for pension plans.

#### (a) Basis of presentation

These financial statements present the aggregate financial position of the Plan as a financial reporting entity independent of the plan sponsors and plan members. These statements are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual plan members.

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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### 3. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)

#### (b) Financial instruments

Financial assets and financial liabilities are recognized when the Plan becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

All financial assets and financial liabilities are initially measured at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial assets and financial liabilities are subsequently measured as described below.

#### *Cash and cash equivalents*

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash within three months of deposit.

#### *Investment assets and investment liabilities*

All portfolio investments are designated by the Plan as financial assets at fair value through profit or loss on initial recognition, and are recorded at fair value because the portfolio is managed and its performance is evaluated on a fair value basis, in accordance with the policies and directives that document the Plan's investment strategy and risk controls. The portfolio investments are held to provide for the pension obligations. The most relevant measure to assess whether the investments are sufficient to pay for the obligations is fair value.

Interest, dividend income, realized gains and losses and unrealized gains and losses on all portfolio investments are included in investment income. Interest and dividend income is recognized in the period earned. Realized gains and losses and unrealized gains and losses are recognized in the period in which they arise. All purchases and sales of securities classified as portfolio investments are recognized using trade-date accounting.

The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

All investment assets and investment liabilities are measured at fair value at the date of the statement of financial position in accordance with IFRS 13 Fair Value Measurement in Part I of the CPA Canada Handbook. Fair values of investment assets and liabilities are determined as follows:

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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### 3. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)

1. Short-term notes and deposits are valued at cost plus accrued interest which approximates fair value.
2. Currency forwards are financial contracts the value of which is derived from the value of underlying assets, indices, interest rates or exchange rates.
3. Bonds and other fixed income securities are valued at closing bid prices. Where the bid price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.
4. Pooled funds are valued at the unit value supplied by the pooled fund administrator and which represent the Plan's proportionate share of underlying net assets at fair value determined using closing bid prices.
5. Equities are valued at quoted year end closing prices. Where the bid price is not available or reliable, fair value is determined using accepted industry valuation methods.

Transaction costs are not included in the fair value of investment assets and investment liabilities either on initial recognition or on subsequent re-measurement. Transaction costs are included in the statement of changes in net assets available for benefits as part of expenses incurred in the period.

Investment income, excluding changes in the fair value of investment assets and investment liabilities, and changes in the fair value of investment assets and investment liabilities are presented in the statement of changes in net assets available for benefits.

#### *Contributions and other receivables*

Contributions and other receivables are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. A provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence that the Plan will not be able to collect all of the amounts due. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

#### *Financial liabilities*

Financial liabilities are measured subsequently at amortized cost using the effective interest method.

#### **(c) Pension contributions**

Contributions from Members and the Hospitals are recorded in the period that payroll deductions are made, and accrued up to year-end for payroll periods that extend to the subsequent fiscal year.

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# **Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals**

## **Notes to the financial statements**

**December 31, 2012**

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### **3. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)**

#### **(d) Pension obligations**

Based on current standards, the Plan is a defined benefit plan established for members. The pension obligations recognized in the statement of financial position are the actuarial present value of accrued pension benefits determined by using the accrued benefit (or unit credit) actuarial cost method in accordance with the requirement of paragraph 14(7)(a) of Regulation 2012-75 under the Act and actuarial assumptions which reflect management's best estimate for the future.

#### **(e) Net investment income**

Income from investments is recognized on an accrual basis and includes dividend income and interest income, net of investment manager fees.

#### **(f) Realized and unrealized gain or loss on investments**

Realized gains or losses on sale of investments are the difference between the proceeds received and the average cost of investments sold.

Unrealized gains or losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

#### **(g) Translation of foreign currencies**

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year-end date with any resulting foreign exchange gain or loss included in net investment income.

#### **(h) Estimation uncertainty**

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, revenue and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, revenue and expenses are discussed below.

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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### 3. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)

#### *Fair value of financial instruments*

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

#### *Pension obligations*

An independent actuary estimates the pension obligations using assumptions provided by management; however, the actual outcome may vary due to estimation uncertainties. The estimate of \$1,217,800,000 (2011-\$1,496,989,000) is based on the flowing demographic assumptions: retirement age, mortality, rates in terminations and disability incidence rates. The economic assumptions used in the estimate are the rate of return on assets (which is also used as the discount rate), rate of salary increases, pension cost of living indexation rate, real rate of return, and inflation.

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<b>4. Investments, held by custodian</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Investments		
Short term	\$ 40,854,521	\$ 38,916,314
Fixed income	396,242,752	360,169,625
Equities	765,974,594	703,018,638
Derivatives	(227)	-
Accrued income	2,487,793	2,517,265
Cash	20,609,194	5,927,353
Commitments derivatives	<u>(365,218)</u>	<u>(791,597)</u>
	<b><u>\$ 1,225,803,409</u></b>	<b><u>\$ 1,109,757,598</u></b>

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

### 5. Contributions receivable

All of the Plan's contributions receivable have been reviewed for indicators of impairment. No contributions receivable were found to be impaired at year end.

	<u>2012</u>	<u>2011</u>
Employee - current	\$ 4,561,134	\$ 3,456,810
Employee – past	<u>131,482</u>	<u>234,245</u>
	<u>4,692,616</u>	<u>3,691,055</u>
Employer – current	4,562,362	3,463,167
Employer – past	<u>5,509</u>	-
	<u>4,567,871</u>	<u>3,463,167</u>
Reciprocal transfers	-	66,528
	<u>\$ 9,260,487</u>	<u>\$ 7,220,750</u>

### 6. Commuted value payable

Due to the Plan's funding deficiencies, a motion was passed at the September 15, 2009 pension committee meeting to apply a transfer ratio to future commuted value payouts. As determined by the valuation, the percentage to be paid at date of initial payout was 47.1% and the remaining balance was to be paid no later than 5 years from the initial payout.

As of July 1, 2012, commuted value is no longer paid under the Plan, therefore, during the October 29, 2012 Board of Trustees meeting, a motion was passed to instruct the Pension and Employee Benefits Division of the Department of Human Resources to pay out the residual commuted values payables to members who had funds withheld as per the transfer ratio. The pension commuted value payables include accumulated interest.

### 7. Pension obligations

Prior to the July 1, 2012 conversion to a shared risk pension plan, the present value of accrued pension benefits was determined using the projected unit credit method pro-rated on services and actuarial assumptions which reflect management's best estimate for the future. An actuarial valuation was performed as of December 31, 2010 by Morneau Shepell, a firm of consulting actuaries, and was then extrapolated to June 30, 2012. For more complete information, reference should be made to the actuarial valuation. The following is a summary only of the significant actuarial assumptions used in the June 30, 2012 extrapolation.

Interest		6.60%
Mortality		UP-94 Fully Generational using Scale AA
Salary increases	2011	3.00%
	2012-2013	0.00%
	Post 2013	3.25%
Inflation		2.50%
Pensioner cost-of-living increases		2.50%

Upon conversion, the present value of accrued pension benefits was calculated using the accrued benefit (or unit credit) actuarial cost method in accordance with the requirement of paragraph 14(7)(a) of Regulation 2012-75 under the Act.

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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### 7. Pension obligations (continued)

The pension obligations as at December 31, 2012 are equal to the present value of benefits earned by members for services prior to December 31, 2012. The pension obligations do not take into account the impact of any future salary increases or the impact of any future cost-of-living adjustments that may be granted by the Board of Trustees in accordance with the Plan terms and the Funding Policy.

The actuarial assumptions used in the funding policy valuation reflect current economic conditions and the adoption of the shared risk model under the Act. An initial actuarial valuation was performed by Morneau Shepell as of the conversion date, July 1, 2012, followed by an actuarial valuation as at December 31, 2012, the Plan's year end.

This approach provides a targeted benefit plan to members with a high degree of certainty, but without an absolute guarantee.

Significant long-term assumptions used in the December 31, 2012 valuation are:

Interest	5.75%
Mortality	2014 Public Sector Mortality Table (CPM 2014 Publ) projected using Improvement Scale B (CPM-B) with size adjustment factors of 106% for males and 116% for females

The next actuarial valuation for funding purposes is expected to be performed as of December 31, 2013.

Pension obligations, December 31, 2011	\$ 1,496,989,000
Benefits accrued January 1, 2012 to June 30, 2012	27,900,000
Net interest on accrued benefits, January 1, 2012 to June 30, 2012	50,000,000
Benefits paid January 1, 2012 to June 30, 2012	<u>(20,300,000)</u>
Pension obligations, June 30, 2012	1,554,589,000
Experience losses (gains) on accrued benefit obligations at July 1, 2012	(13,889,000)
Impact of conversion to a shared-risk plan as at July 1, 2012	<u>(363,600,000)</u>
Funding policy liabilities as at July 1, 2012	1,177,100,000
Normal cost for last six months of 2012	23,200,000
Benefit payments for last six months of 2012	(21,900,000)
Interest on above components	33,900,000
Cost of indexing effective January 1, 2013	<u>19,800,000</u>
Pension obligations, December 31, 2012	1,232,100,000
Experience losses (gains) on accrued benefit obligations at December 31, 2012	(14,300,000)
Funding policy liabilities as at December 31, 2012	<u>\$ 1,217,800,000</u>

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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<b>8. Investment income</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Canadian equities	\$ 13,509,722	\$ 13,626,810
Foreign equities	7,577,201	2,376,587
Fixed income	16,166,250	13,654,907
Short term investments	416,884	359,686
Securities lending income	<u>107,583</u>	<u>71,443</u>
	<b><u>\$ 37,777,640</u></b>	<b><u>\$ 30,089,433</u></b>

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<b>9. Administration expenses</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Administration fees	\$ 959,002	\$ 933,328
Audit fees	30,905	18,960
Actuarial and related consulting	576,008	496,521
Legal fees	<u>193,295</u>	<u>164,315</u>
	<b><u>\$ 1,759,210</u></b>	<b><u>\$ 1,613,124</u></b>

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### 10. Related party transactions

The Plan is provided with certain services from departments of the Province of New Brunswick. These related party transactions are in the ordinary course of business and measured at amounts agreed to by the parties.

During the year, the Plan was charged \$470,239 (2011 – \$455,764) for employee salaries and benefits and \$79,468 (2011 – \$51,866) for information technology services.

Other services provided without consideration during the year include human resource functions.

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### 11. Funding policy

As a result of the conversion to a shared risk plan, a Funding Policy was established at inception in accordance with section 100.4(1)(b) of the Act.

The Funding Policy is the tool used by the Board of Trustees to manage the risks inherent in a shared risk plan. The Funding Policy provides guidance and rules regarding decisions that must, or can, be made by the Board of Trustees around funding levels, contributions and benefits.

The Funding Policy describes the timing and the actions that the Board of Trustees must take, or consider, as applicable, based on the results of the funding policy actuarial valuation of the Plan and the application of the required risk management procedures to the Plan.

The initial contribution rate cannot be less than 15.6% of earnings as defined in the Plan text.

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# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

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### 11. Funding policy (continued)

The initial contribution rate for members is 7.8%. These contributions are to remain the same unless contributions adjustments are triggered under the Funding Policy.

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### 12. Investment in Plan Sponsor

As at December 31, 2012, the Plan held \$2,299,507 in securities issued by the Province of New Brunswick.

As at December 31, 2011, the Plan held \$3,855,136 in securities issued by the Province of New Brunswick.

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### 13. Risk management

In the normal course of business, the Plan is exposed to a variety of financial risks: credit risk, interest rate risk, currency risk, liquidity risk and other price risk. The value of investments within the Plan's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market news related to specific securities within the Plan. The level of risk depends on the Plan's investment objectives and the type of securities it invests in.

For all of the risks noted below, there has been no change in how the Plan manages those risks from the previous year.

#### Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Plan. Where the Plan invests in debt instruments, this represents the main concentration of credit risk. The market value of debt instruments includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Plan. All transactions executed by the Plan in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at December 31, 2012, the Plan invested in debt instruments with the following credit ratings:

<u>Debt instrument by credit rating</u>	<u>Percentage of value</u>	
	<u>2012</u>	<u>2011</u>
AAA	9.39%	47.74%
AA	27.95%	12.44%
A	25.10%	12.95%
BBB	13.71%	8.91%
BB	0.14%	0.58%
B	0.43%	1.12%
CCC	0.00%	0.01%
Not Rated	4.07%	2.96%

# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

### 13. Risk management (continued)

<u>Short Term Investments</u>	<u>Percentage of value</u>	
	<u>2012</u>	<u>2011</u>
R-1 (High)	6.40%	5.71%
R-1 (Middle)	1.34%	2.58%
R-1 (Low)	0.00%	0.07%
Not Rated	2.06%	3.61%
 <u>Assets held within managers' fixed income pooled funds</u>		
Other	0.05%	0.00%
US Equity	0.00%	0.02%
Cash	9.36%	1.30%

Credit ratings are obtained from Standard & Poor's, Moody's, Fitch or Dominion Bond Rating Service. Where one or more rating is obtained for a security, the lowest rating has been used.

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Plan invests in interest-bearing financial instruments. The Plan is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

As at December 31, 2012, the Plan's exposure to debt instruments by maturity and the impact on net assets had the yield curve shifted in parallel by 25 basis points with all other variables held constant ("sensitivity analysis"), is as follows:

Debt instruments by maturity date	<u>Market Values</u>	
	<u>2012</u>	<u>2011</u>
Less than 1 year	\$ 59,706,792	\$ 93,488,764
1-3 years	28,643,164	106,501,012
3-5 years	56,023,550	46,277,167
Greater than 5 years	276,499,915	153,594,214
Other	<u>43,701,246</u>	<u>5,351,984</u>
	<u>\$ 464,574,667</u>	<u>\$ 405,213,141</u>
Sensitivity	<u>\$ 8,482,323</u>	<u>\$ 4,100,659</u>

In practice actual trading results may differ from the above sensitivity analysis and the difference could be material.

# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

### 13. Risk management (continued)

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Plan.

The Plan is exposed to the following currencies:

	2012		2011	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
US Dollar	\$ 132,353,841	10.80	\$148,447,536	13.36
Euro	45,353,117	3.70	40,447,143	3.64
Japanese Yen	16,335,531	1.33	16,867,665	1.52
Pounds Sterling	7,103,306	0.58	5,473,183	0.49
Swiss Franc	6,303,183	0.51	6,578,161	0.59
Swedish Krona	5,438,171	0.44	3,919,485	0.35
Hong Kong Dollar	3,802,049	0.31	4,412,051	0.40
Others	8,349,739	0.68	7,577,010	0.70

This amount is based on the market value of the Plan's financial instruments. Other financial assets and financial liabilities that are denominated in foreign currencies do not expose the Plan to significant currency risk.

As at December 31, 2012, if the Canadian dollar strengthened or weakened by 1% in relation to the respective exchange rates, with all other variables held constant, net assets would have an increase or decrease, respectively, of approximately \$2,250,389 (2011 - \$2,337,222).

In practice actual trading results may differ from the above sensitivity analysis and the difference could be material.

#### Liquidity risk

Liquidity risk is the risk that the plan does not have adequate liquid resources to meet its present payment demands and to purchase investments in a timely and cost-efficient manner. Liquidity risk is a normal part of Plan operations but can be heightened by market events or investment specific circumstances.

The hedge fund is the only significant or unusual liquidity risk known at present to the Plan. The Plan's investment in the hedge fund represents 3.83% of the total investments (4.32% in 2011). The hedge fund may not have sufficient cash available to pay out redemption requests on a particular date. To reduce this liquidity risk exposure, the hedge fund has implemented a 40 day redemption notice period for investors. Shares of the hedge fund generally may be redeemed on the first day of the month with 40 calendar day's prior written notice.

# Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the financial statements

December 31, 2012

### 13. Risk management (continued)

#### Other price risk

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). All investments represent a risk of loss of capital. The portfolio managers moderate this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Plan's investment objectives and strategy.

The maximum risk resulting from financial instruments is determined by the market value of the financial instruments. The Plan's overall market positions are monitored on a daily basis by the portfolio managers. Financial instruments held by the Plan are susceptible to market price risk arising from uncertainties about future prices of the instruments.

Note 4 classifies securities by market segment.

The impact on net assets of the Plan due to a 1 percent change in the benchmark, using historical correlation between the Plan's return as compared to the Plan's benchmark return, with all other variables held constant, as at December 31, 2012 is estimated to be 0.96%, or \$11,789,934 (2011 - 0.83%, or \$9,214,764).

The historical correlation may not be representative of the future correlation, and accordingly the impact on net assets could be materially different.

#### Fair value disclosures

The Plan has designated all of its investments to be held for trading. Accordingly, investments are valued at fair value with changes in fair values over time recognized in net income. The determination of fair value is dependent upon the use of measurement inputs with varying degrees of subjectivity. Quoted market prices are the most reliable input for fair value measurement and are referred to as a Level 1 input. Level 2 inputs include prices of comparable investments where a quoted market price for the specific security is not available. Level 3 inputs are subjective factors not observable in a public market. The levels of input for valuation of the Plan's investments are shown in the following tables.

The following fair value hierarchy table presents information about the Plan's assets measured at fair value on a recurring basis as of December 31, 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 491,323,031	\$ 227,375,208	\$ -	\$ 718,698,239
Fixed income	262,225	394,807,762	1,172,765	396,242,752
Cash and short term	29,276,283	32,187,205	-	61,463,488
Hedge fund	-	-	46,911,137	46,911,137
	<u>\$ 520,861,539</u>	<u>\$ 654,370,175</u>	<u>\$48,083,902</u>	<u>1,223,315,616</u>
Accrued income				<u>2,487,793</u>
Total investments				<u>\$ 1,225,803,409</u>

# Shared Risk Pension Plan For Certain Bargaining Employees of New Brunswick Hospitals

## Notes to the Financial Statements

December 31, 2012

### 13. Risk management (continued)

The following fair value hierarchy table presents information about the Plan's assets measured at fair value on a recurring basis as of December 31, 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 592,954,798	\$ 62,656,786	\$ -	\$ 655,611,584
Fixed income	269,749	359,872,230	27,644	360,169,623
Cash and short term	10,964,469	33,781,179	99,730	44,845,378
Hedge fund	-	-	46,613,748	46,613,748
	<u>\$ 604,189,016</u>	<u>\$ 456,310,195</u>	<u>\$46,741,122</u>	<u>1,107,240,333</u>
Accrued income				<u>2,517,265</u>
Total investments				<u>\$ 1,109,757,598</u>

A reconciliation of the changes during the year for those investments that are measured at fair value using level 3 input are as follows:

	<u>2012</u>	<u>2011</u>
Balance beginning of year	\$ 46,741,122	\$ 52,667,896
Purchases	1,153,360	99,734
Sales	(107,941)	(99,934)
Gain	4	4
Net transfer into and/or out of level 3	-	-
Change in unrealized appreciation (depreciation)	<u>297,358</u>	<u>(5,926,578)</u>
Balance end of year	<u>\$ 48,083,903</u>	<u>\$ 46,741,122</u>

### 14. Capital management

The Plan employs a capital management plan, a Statement of Investment Policies and Goals ("SIP&G"), that is reviewed annually by the Board of Trustees. The SIP&G formulates investment principles and guidelines which are appropriate to the needs and objectives of the pension plan.

Subject to limitations, the SIP&G investment guidelines outline that the Pension Fund may invest in any or all of the following asset categories and subcategories of investments either directly or through pooled funds, which hold only these investments; Canadian Equity, Foreign Equity, Fixed Income and Cash or Cash Equivalents and various alternative investments including real estate commodities, infrastructure and private equity.

The proportion of investment in each asset class is subject to restrictions including maintaining the following asset mix; 5% - 15% investment in Canadian equities, 10% - 25% investment in international equities (including US equities), 40% - 60% investment in fixed income, and 10%-30% in alternative investments.

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# **Shared Risk Pension Plan For Certain Bargaining Employees of New Brunswick Hospitals**

## **Notes to the Financial Statements**

**December 31, 2012**

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### **14. Capital management (continued)**

The Pension Fund or any portion allocated to any Fund Manager must be well diversified across industry sectors and capitalization ranges. No one equity holding shall represent more than 10% of the book value of the aggregate of the Canadian, US or International equity portfolio respectively. Policy guidelines have been established to ensure the Pension Plan holds fixed term investments with a credit rating of BB or higher. Short-term securities will be limited to those of the highest quality to minimize risk, namely those with a minimum rating of R1. The SIP&G outlines the acceptable target asset allocation range to be managed by each manager. The manager asset allocation percentages are monitored quarterly and managers are rebalanced back to the maximum allocation, if necessary.

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### **15. Comparative figures**

Certain of the comparative figures have been reclassified to conform with the presentation adopted for the year ending December 31, 2012.

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