NEW BRUNSWICK TEACHERS' PENSION PLAN

FUNDING POLICY

as of July 1, 2014

Amendment as of September 21, 2017

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I. PURPOSE OF THE PLAN AND FUNDING POLICY

The purpose of the New Brunswick Teachers' Pension Plan (the "**Plan**") is to provide a revised framework for the management and delivery of pensions to teachers in New Brunswick. The Plan will be subject to a risk management framework as described in this Funding Policy.

The primary focus is to provide a highly secure lifetime pension at retirement and maintain Scheduled Escalated Adjustments at their target level if the Plan can afford it. Furthermore, the intention is that recovery from lower than intended benefits including lower than Scheduled Escalated Adjustments may be provided depending on the financial performance of the Plan.

The Funding Policy is the tool used by the Board of Trustees to manage the risks inherent in the Plan. The Funding Policy provides guidance and rules regarding decisions that must, or may, as applicable, be made by the Board of Trustees around funding levels, contributions and benefits.

The Plan is based on the principle that the management of risks for a pension plan over time can best be achieved through actions on both sides of the balance sheet (i.e., liabilities and assets). It is also built around the concept of having sufficient contributions to accumulate a Contingency Reserve within the Fund, which is a cushion to increase benefit security and stabilize contributions.

This 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 valuation of the Plan and the application of the required risk management procedures to the Plan.

In addition, the Board of Trustees must regularly monitor the economic and demographic environments and make adjustments, where allowed, or provide recommendations to the Parties[1] as and when these are necessary, to maintain the Funding Policy current in a changing world.

The Plan is the result of a conversion of the plan under the *Teacher's Pension Act* (New Brunswick) ("**TPA**") pursuant to the *Teacher's Pension Plan Act* (New Brunswick) ("**TPPA**") which among other things repealed the TPA.

Capitalized terms used in this Funding Policy that are not defined herein have the meaning given to such terms in the Plan. In addition, the following definitions apply to this Funding Policy:

- **"Benefit Goal"** means the Base Benefits and Ancillary Benefits as defined under the terms of the Plan including the Scheduled Escalated Adjustments.

- **"Benefit Improvement"** means an escalated adjustment for past periods or an increase in other Ancillary Benefits allowed under the Funding Policy.

[1] In this Funding Policy, the **"Parties"** are the New Brunswick Teachers Federation (NBTF) / La Fédération des enseignants du Nouveau-Brunswick (FENB) (**"Federation"**), the Minister of Finance for New Brunswick ("**Minister**") and Her Majesty the Queen in Right of New Brunswick (**"Province"**).

- **“Contingency Reserve”** means the portion of the Fund in excess of the funding liabilities of the Plan after all Funding Correction Reversals have been made, up to a maximum of 10% of such funding liabilities, kept within the Fund for purposes of benefit security and contribution stability.

- **“Fund”** means the assets held in trust under the terms of the Plan to provide for the payment of benefits to all members as described in the Plan.

- **“Funding Correction”** means an action taken in accordance with this Funding Policy to address a deficit, including increasing contributions, reducing future Base Benefits or future Ancillary Benefits and reducing past Base Benefits or past Ancillary Benefits (TPPA definition)

- **“Funding Correction Recapture”** means a form of Benefit Improvement related to providing, for future payments only, some or all of the compounded difference between actual escalated adjustments provided in the past and the Scheduled Escalated Adjustments that would have been provided were it not for the need of Funding Corrections over the same period under the terms of this Funding Policy.

- **“Funding Correction Reversal”** means the reversal of contribution adjustments, Base Benefit reductions or Ancillary Benefit reductions (other than escalated adjustment reductions and escalated adjustments reductions below the Scheduled Escalated Adjustments under the Plan) with respect to future benefits and payments only.

- **“Funding Deficit Recovery Plan”** means the processes and steps described in Section IV of this Funding Policy.

- **“Funding Excess Utilization Plan”** means the processes and steps described in Section V of this Funding Policy.

- **“Funding Goal”** means achieving a closed group funding ratio of 110% when measured against the liabilities for the Benefit Goal at the valuation date (i.e. 100% of funding liabilities for the Benefit Goal plus a 10% Contingency Reserve).

- **“Permanent Benefit Change”** means a change that is intended to permanently change the formula for the calculation of the Base Benefits or Ancillary Benefits after the date of the change, including a change made in accordance with the Funding Excess Utilization Plan.

- **“Scheduled Escalated Adjustment”** means an increase applied to Base Benefits and bridge benefit equal to 100% of the increase in the Consumer Price Index for Members who are contributing to the Plan and 75% of the increase in the Consumer Price Index for all other Members including retirees and Claimants, as provided for in Article VI of the Plan.

II. FUNDING AND RISK MANAGEMENT GOALS

The objective of the Plan is to provide the Base Benefits and Ancillary Benefits including Scheduled Escalated Adjustments as defined under the terms of the Plan.

The Parties understand that variability in results is inevitable given the investment risks the Board of Trustees need to consider and accept as part of the investment policy to achieve a rate of investment return sufficient to support the Plan's objectives over the long term. However, the goal is to manage this variability under the terms of this Funding Policy such that the Plan achieves a secure funding level and has a good chance of providing the intended benefits over time.

The two financial goals that underlie the objective of the Plan are the Funding Goal and the Risk Management Goal.

A. Funding Goal

The Funding Goal as defined in Section I is to achieve a closed group funding ratio of 100% plus a Contingency Reserve of 10% for a total of 110% when measured against the funding liabilities for the Benefit Goal at the valuation date.

The Funding Goal needs to align with the objective of the Plan and its measurement includes consideration of the Base Benefits and Ancillary Benefits paid by the Plan. As a result, the Funding Goal is deemed to be achieved when the Base Benefits and Ancillary Benefits including escalated adjustments expected to be paid for the future at the valuation date are at the level they would have been under the terms of the Plan had there never been any Funding Corrections in the past.

For greater certainty, the Base Benefits and Ancillary Benefit levels for purposes of measurement of this goal should be such that all past reductions in Base Benefits and Ancillary Benefits have been reversed (Funding Correction Reversal) and all past Scheduled Escalated Adjustments have been recaptured (Funding Correction Recapture) under the Funding Excess Utilization Plan in Section V.

This goal does not include lump sum payments for the difference between the intended benefits and the reduced payments during periods where such payments may have been reduced or lower than intended owing to the implementation of Funding Corrections under the Funding Deficit Recovery Plan in Section IV.

B. Risk Management Goal

The Plan, contribution rules and this Funding Policy were designed to achieve or exceed the risk management goal prescribed under the **TPPA** at conversion. The goal is described below.

The risk management goal is to achieve at least a 97.5% probability that the past Base Benefits at the end of each year will not be reduced over a 20-year period.

The goal is measured by taking into account the following:

1. the Funding Deficit Recovery Plan, except for reduction in past Base Benefits; and

2. the Funding Excess Utilization Plan, excluding permanent benefit changes.

The Funding Deficit Recovery Plan and the Funding Excess Utilization Plan are described below in Sections IV and V, respectively.

For the purposes of meeting the goal, Base Benefits include the accrual of service of Teachers over the projection period and any Scheduled Escalated Adjustments or reduced escalated adjustments provided based on the financial performance represented by each scenario tested.

If, through the testing process, a scenario allows for scheduled or other indexing in a given future year, this indexing amount becomes part of the Base Benefits.

The risk management goals are measured using an asset liability model with future economic scenarios developed using a stochastic process.

The model is run with at least 1,000 series of simulations of economic parameters; each for a period of 20 years. For each of these scenarios and for each year, the financial position of the Plan is measured. For each of these measurements, a decision consistent with the Funding Deficit Recovery Plan or the Funding Excess Utilization Plan, as applicable, is modeled with the exceptions noted under the goal above. This provides at least 20,000 observations from which to measure whether the risk management goal has been achieved.

An asset liability model using a stochastic process requires that a number of important modeling assumptions be made. These assumptions are described below:

- The economic assumptions are developed for each asset class and for key economic parameters based on a combination of past experience, the current economic environment and a reasonable range of future expectations. These assumptions are reviewed annually and updated as required. They are also subject to approval by the Superintendent of Pensions (the **"Superintendent"**) when a risk management goal test is required by the TPPA.

The risk management goal is tested as at the effective date of the initial actuarial valuation report, which in accordance with the TPPA may be up to 6 months prior to the conversion date (July 1, 2014 – the "**Conversion Date**"). In addition, the risk management goal will be tested when each actuarial valuation report is prepared. Other than at Plan inception, the result of this test is used to determine the change in the risk profile of the Plan during each inter-valuation period. It may be used by the Board of Trustees to assess whether there are opportunities or needs to alter the Investment Policy. It may also be used for communication with Plan members as the Board of Trustees feels is appropriate at the time. The funding actuarial valuation at the same date will determine the actions the Board of Trustees are required to take, or can consider, as applicable, under the terms of this Funding Policy.

The risk management goal must be achieved or exceeded:

- As at the effective date of the initial actuarial valuation report for the Plan;
- At the date a benefit improvement is made, other than an improvement in scheduled escalated adjustments;
- At the date a permanent benefit change is made;
- At the date contribution adjustments that exceed those provided under Section III are implemented.

III. CONTRIBUTIONS

The contributions required by the Plan include the contribution schedule agreed to by the Parties and contribution adjustments as may be required by the Funding Policy. The contribution schedule includes an allowance above the normal cost of the Plan to provide for the accumulation of a Contingency Reserve.

A. Teacher and Employer Contributions

The contribution rates for the 15-year period starting with the Conversion Date are as shown below. The contribution rates for year 16 and later are as defined below the table. The "Employer" for purposes of this Funding Policy includes the Province and any entity that employs a teacher eligible to participate in the Plan.

TABLE III.1 - Contribution Schedule Agreed to by Parties

Year	**Teachers**			**Employer**		
	Below YMPE	Above YMPE	Approx. Average	Below YMPE	Above YMPE	Approx. Average
1	8.5%	10.2%	9.0%	11.5%	13.2%	12.00%
2	9.0%	10.7%	9.5%	11.5%	13.2%	12.00%
3	9.5%	11.2%	10.0%	11.5%	13.2%	12.00%
4	10.0%	11.7%	10.5%	11.5%	13.2%	12.00%
5	10.0%	11.7%	10.5%	11.5%	13.2%	12.00%
6 to 10	10.0%	11.7%	10.5%	10.75%	12.45%	11.25%
11 to 15	10.0%	11.7%	10.5%	10.00%	11.70%	10.50%
16 and later	As defined below			As defined below		

Effective as of the date that is 15 years after the Conversion Date, contributions shall be reset as set out below.

(a) The aggregate contribution amount shall be determined as follows:

(i) The average Teacher contribution rate produced by the Teacher contribution formula of 9.25% of Earnings for Earnings up to the YMPE and 10.95% of Earnings above the YMPE shall be determined at such time and 9.75% shall be added to such amount. The sum shall then be divided by two (each a "**Contribution Amount**").

(b) The aggregate contribution amount shall be split as follows:

(i) The new Teacher contribution rate shall be determined by adjusting the Contribution Amount below and above the YMPE as appropriate at that time; and

(ii) The Employer will match Teacher contributions by contributing the Contribution Amount.

Subject to paragraph B.3 below, these contribution rates are to remain as shown in the table, unless altered by:

- Contribution adjustments triggered under the Funding Policy;
- A reduction required under the Income Tax Act (the "**ITA**");
- A permanent benefit change resulting in a contribution rate change as may be agreed to by the Parties and subject to the requirements of the Pension Benefits Act ("**PBA**"), Regulation 2012-75 under the PBA (the "**Regulation**"), TPPA and the ITA;
- Other changes to the Plan beyond those contemplated by this Funding Policy and only if agreed to by the Parties and subject to the requirements of the PBA, Regulation, TPPA and the ITA.

B. Contribution Adjustments

Adjustments to the contribution rates in Table III.1 shall be made by the Board of Trustees based on the conditions set out below.

1. *Contribution Rate Increases*

The Board of Trustees must trigger an equal increase in the Teacher and Employer contribution rates of up to 1.5% of Earnings (3% total) if the following conditions are met:

- the closed group funded ratio of the Plan, as defined by the TPPA, falls below 100%,; and
- the required increase in contributions exceeds 1% of payroll (0.5% each for Teachers and the Employer), taking into account contributions in excess of the funding normal cost over 15 years.

The calculation above shall be based on a three year moving average of the results.

If the conditions above are met, the contributions shall be increased in steps as shown in Table III.2 below.

Table III.2 – Contribution Increases			
Amount of required Funding Correction	**Increase in Teacher Contributions**	**Increase in Employer Contributions**	**Total Increase in Contributions**
Between 1.00% and 1.24%	0.50%	0.50%	1.00%
Between 1.25% and 1.74%	0.75%	0.75%	1.50%
Between 1.75% and 2.24%	1.00%	1.00%	2.00%
Between 2.25% and 2.74%	1.25%	1.25%	2.50%
2.75% and above	1.50%	1.50%	3.00%

The contribution rates increase shall take effect no later than twelve (12) months following the funding valuation date that triggered the need for the contribution rates increase. The contribution rates increase shall be removed no later than twelve (12) months following a funding valuation date that reveals that the Plan's contribution rates as specified in Table III.1 are sufficient to fully fund any unfunded liability over no more than 15 years.

As mentioned in the Funding Deficit Recovery Plan in Section IV, if the maximum increased contributions are in effect for six consecutive years and no additional Funding Corrections have been implemented, the escalated adjustments shall be reduced as described below in Section IV to a level that produces a financial result equivalent to the level of contribution rate increases.

2. *Contribution Rate Reduction*

The Board of Trustees shall trigger a reduction in contribution rates if a valuation reveals a funding level of greater than 115%. The reduction in contribution rates shall take effect no later than twelve (12) months following the funding valuation date that triggered the need for the change.

Both the Employer contribution rate and the Teacher contribution rate shall be decreased in equal amounts of up to 1.5% of Earnings each.

The reduction in contribution rates shall be removed no later than twelve (12) months following a funding valuation date that reveals a closed group funded ratio below 110%.

3. *Contribution Rate – Change in Plan Membership*

A change in membership not contemplated when the plan was established could have a material impact on future plan performance, positively (if membership is increased) and negatively (if membership is decreased). As a result, it is prudent for the Board of Trustees to test the impact on required contributions of a material change in membership and inform the Parties of the results.

Consequently, if at any time, the Province announces an increase or a decrease in the number of Teachers employed of more than 5% over a period not exceeding 5 years, the contribution rates defined in Table III.1 shall be re-calculated. Such re-calculation shall be completed by no later than the end of the year following the filing of the next funding valuation and reported to the Parties and the Superintendent.

C. Income Tax Act Limit

In the event that all actions contemplated under the Funding Excess Utilization Plan in Section V have been implemented and the contributions to the Plan still exceed the limit allowed under the ITA, then the contribution rates shall be further reduced for both the Teachers and the Employer to the limit allowed under the ITA.

D. Sharing of Contributions

All contributions shall be shared between Teachers and the Employer based on the rules set out above. Contribution holidays may only be taken in the event they are required under the ITA. In the unlikely event that the ITA required a contribution holiday, the contribution holiday would apply equally to both Teachers and the Employer; provided that if the Employer contribution rate is in excess of the Teachers contribution rate at the time of such contribution holiday, any such contribution holidays must be applied first to the Employer contributions until such time as the Employer and Teachers contributions are equal. Once the contribution levels are equal, any further contribution decreases shall be applied equally to the Teachers and the Employer.

E. Expenses

All expenses pertaining to the administration and investment of the Plan and Fund shall be paid by the Fund, unless otherwise agreed by the Parties. For the purposes of the risk management procedures, the funding policy discount rate is set net of all assumed Plan expenses.

IV. FUNDING DEFICIT RECOVERY PLAN

The Board of Trustees must implement the Funding Deficit Recovery Plan if the closed group funded ratio of the Plan falls below 100% and when measured over a three year moving average the required Funding Correction exceeds 1% of payroll, taking into account contributions in excess of the funding normal cost over 15 years.

Once triggered, the Board of Trustees shall submit a report to the Superintendent describing how the Board of Trustees is dealing with the underfunding of the Plan. In addition, the Board of Trustees shall inform Plan members and the Parties of the Funding Corrections being implemented and the effect and timing of these actions on the contributions and benefits.

A Funding Correction that is not a contribution increase is assessed as a percentage of payroll based on the sum of effect of the reduction on liabilities amortized over 15 years and the reduction of normal cost at the funding valuation date that required the Funding Deficit Recovery Plan to be triggered. As an example of the measurement for this item, assume a reduction in benefits that reduces the liability in current dollar terms by $100 M and the normal cost by 1% of payroll. A $100 M decrease in liability currently represents about 1.5% of payroll over 15 years. Such a change would amount to a Funding Correction valued at 2.5% of payroll for purposes of this item.

For purposes of the Funding Deficit Recovery Plan, the ultimate funding target is a 100% closed group funded ratio including the Scheduled Escalated Adjustments for the future.

After depletion of the Contingency Reserve, the Funding Deficit Recovery Plan shall consist of the following Funding Corrections in the order of priority as listed below:

1. Contributions towards the Contingency Reserve used to offset deficits;

2. Increase contributions as allowed under Section III of this Funding Policy.

    a. If the maximum increase in contributions of 3% has been applied and further Funding Corrections are required, then proceed to Step 3.

    b. If increased contributions as per Section III.B.1 and this step have been in place for 6 consecutive years and no other Funding Corrections have been required during the same period, then an additional Funding Correction, equal in amount to the total increased contributions for year 7 under this step (maximum of 3% of payroll), is required as follows:

        i. Apply Step 3 up to the amount of additional Funding Correction required;

        ii. If the correction in Step 3 is not sufficient to cover the additional Funding Correction required, then proceed to Step 4 for the balance of the additional Funding Correction required after deducting the amount of the Funding Correction under 2.b.i above.

3. Reduce the level of escalated adjustments for future service only (affects only the Teachers);

4. Reduce the level of future escalated adjustments for the post-retirement period for all retirees and Claimants;

5. Change other benefits for Teachers only, such that the amount of savings equates to no more than 10% of payroll, using the measurement approach for a Funding Correction as described above. Such reductions in benefits, at the discretion of the Board of Trustees, can include some or all elements in the list below but are not necessarily limited to these actions:

    a. Reduce the level of escalated adjustments for the past service of Teachers prior to retirement,

    b. Change the retirement rules including eligibility for a reduced or unreduced pension, for future service only,

    c. Reduce the benefit levels for future service (provided the reduction does not result in Teachers contributions exceeding the funding normal cost), and

    d. Change the non-vested retirement rules including eligibility for a reduced or unreduced pension for past service;

6. Reduce Base Benefits for past service for Teachers provided such reduction is deemed appropriate by the Board of Trustees taking into account the principles of sustainability, affordability, benefit security, transparency and inter-generational equity. If Step 7 is not implemented, such reduction shall not exceed the reduction of benefit levels for future service applied in Step 5. If Step 7 is implemented, such reduction must be at least equal to the reduction in benefits under Step 7 and shall apply to both past and future Base Benefits and Ancillary Benefits;

7. As a last resort, reduce accrued Base Benefits for retirees and Claimants to the extent necessary to bring the Plan back to 100% funded over a period of 15 years.

The above Funding Corrections shall be taken one by one until such time as a closed group funded ratio of 100% is expected be achieved in no more than 15 years following the valuation date. Further Funding Corrections are triggered when a 100% closed group funded ratio of the Plan, taking into account contributions in excess of the funding normal cost over 15 years, cannot be achieved with the cumulative effect of all previous Funding Corrections, such goal being measured annually and follow-up Funding Corrections to take effect as per the timelines below.

The timing of the changes shall be as follows:

- For the changes set out under steps 1-5, no later than twelve (12) months following the date of the funding valuation report that triggered the need for this level of Funding Corrections.

- For steps 6 and 7, no later than eighteen (18) months following the date of the funding policy valuation report that triggered the need for Base Benefit reductions.

The measurement date is the date of the funding valuation report that triggered the need for the Funding Correction or Funding Corrections taken under the Funding Deficit Recovery Plan.

Priorities for Funding Correction Reversals

The priorities for Funding Correction Reversals are an integral part of the Funding Deficit Recovery Plan. Any such reversal would affect only future contributions and future payments for retirees and Claimants and future service only for Teachers. For greater certainty, benefit reductions affecting past service at the date of the Funding Correction under Steps 6 and 7 above can be reversed but only in respect of future payments.

If one or more of Steps 5(b) through 7 are implemented, then priority must be given to reversing these changes in reverse order of application before any future escalated adjustments are granted. The reversal can occur within 12 months of a funding valuation report that reveals that the Plan can reach a 100% funded level over 15 years after accounting for the cost of the reversal.

Steps 2 to 4 and Step 5(a) can be reversed at the same time, when the Plan can get back to a 100% funded level over the 15 years following the valuation date without the effect of Steps 2 to 4 and Step 5(a) on the Plan's projected funding level at the end of 15 years following the valuation date.

The above Funding Correction Reversals shall be taken one by one until such time as they have all been reversed and shall be implemented when the conditions set forth in the Funding Excess Utilization Plan in Section V are met.

Funding Correction Reversals shall have priority over the establishment of a Contingency Reserve, the implementation of contribution reductions as defined in Section III.B.2, and Benefit Improvements.

V. FUNDING EXCESS UTILIZATION PLAN

The Funding Excess Utilization Plan describes the actions the Board of Trustees must take or consider when the closed group funded ratio exceeds 100%.

A. Funding Correction Reversals

The Funding Correction Reversals in the priority order and in the manner established under the Funding Deficit Recovery Plan can be implemented when the closed group funded ratio after each Funding Correction Reversal is expected to reach 100% within 15 years, based on contribution levels at the funding valuation date.

B. Contingency Reserve

Any excess funds over and above the funding liabilities of the Plan, after all Funding Correction Reversals have been made, shall be referred to as the Contingency Reserve, up to a maximum amount of 10% of the funding liabilities of the Plan. The Contingency Reserve is kept within the Fund.

C. Other Actions

When the Contingency Reserve is at its maximum level, the Board of Trustees shall take the following actions in the order of priority as they appear below:

1. Establish an additional benefit security and contribution stability buffer of 5% of the funding liabilities.

2. Apply contribution reductions as required under Section III.

3. If the closed group funding ratio exceeds 120% including the 10% allocation to the Contingency Reserve, implement a Funding Correction Recapture. Step 4 below cannot be considered until the Funding Correction Recapture completely re-establishes, for future payments only, all shortfalls in actual escalated adjustments relative to the Scheduled Escalated Adjustments as if they had been applied each year and compounded up to the funding valuation date.

4. If all of the above steps have been taken, the Board of Trustees may propose benefit changes for implementation provided such proposed benefit changes meet the following criteria, as certified by the Plan actuary and if necessary, the investment or risk manager, as may be applicable at the time:

    i. Include a 50% allocation of available excess funds to risk management purposes based on best practices at the time the changes are proposed. This could include purchasing insured annuity or longevity contracts, de-risking of assets or holding additional reserves;

    ii. Exceed the risk management goal for benefit security by at least 1.5% from the level prescribed by the TPPA;

iii. Do not negatively impact the expected future Scheduled Escalated Adjustments of the benefits credited up to the date of the proposed change;

iv. Are aligned with the purpose of the Plan;

v. Have broad allocation so as not to be limited to a small subset of the Plan membership;

vi. Provide benefits that are competitive with prevailing pension plan design practices in the public sector of comparably sized provinces at the time the changes are proposed; and

vii. Meet with the approval of the Superintendent and comply with the TPPA, PBA, Regulation and other applicable laws at the time.

Such proposed changes must be submitted to the Parties in a report that attests that the foregoing criteria have been met and the Parties shall have 30 days to have the report peer reviewed by a third party to validate the proposal before the proposed changes become effective.

If, within the 30-day period, either Party notifies the other Party and the Board of Trustees that it disagrees for whatever reason with the changes proposed by the Board of Trustees (the date of such notification being the **"Objection Date"**), then the changes shall not be implemented. The Parties shall have 90 days after the Objection Date to reach an agreement on an alternative proposal that meets the foregoing criteria and which is acceptable to the Parties. If an agreement is not reached by the Parties within 90 days after the Objection Date, then the Parties shall submit the dispute to the person appointed by the Board of Trustees under Section 14.3 of the Plan to cast the deciding vote in the event that the Board of Trustees is deadlocked (the **"Facilitator"**), who shall conclusively decide on the appropriate change(s) in accordance with the following procedure:

(1) Within 10 days of the conclusion of the 90-day period following the Objection Date, the Parties shall jointly refer the dispute in writing to the Facilitator.

(2) Within 20 days of the referral of the dispute to the Facilitator, the Parties shall each make written submissions to the Facilitator with respect to their positions.

(3) Within 10 days after the conclusion of the 20-day period in step (2) above, each Party shall submit to the Facilitator any written response to the other Party's submissions.

(4) Within 30 days after the conclusion of the 10-day period in step (3) above, the Facilitator shall conclusively decide on appropriate changes, which must be within the guidelines of the Funding Policy, and shall notify the Parties of his or her decision in writing.

The Board of Trustees shall implement the alternative proposal agreed upon by the Parties or the binding decision of the Facilitator which must fall within the guidelines of the Funding Policy, as applicable.

The fees and expenses of the Facilitator, and any costs of the facilities used by the Parties to negotiate an alternative proposal under this paragraph C.4, shall be paid in equal proportions by the Parties.

The Parties agree that the *Arbitration Act* (New Brunswick) shall not apply to any negotiation of an alternative proposal by the Parties or to any decision made by the Facilitator contemplated under this paragraph C.4.

5. Further reduce contributions as described in Section III C and D, if required under the Income Tax Act.

The timing of the above actions, subject to any additional time required under 4, shall be the first of the year that is twelve (12) months after the date of the funding valuation report that triggered the actions.

D. Excess Funds Available for Utilization

A Benefit Improvement (Steps 3 and 4 above) can be made under the Funding Excess Utilization Plan when the closed group funded ratio exceeds 120%. The amount available for utilization for the Benefit Improvement is 1/5th of the funds that make up the excess of the closed group funded ratio at the valuation date over 110%. For a benefit improvement other than an improvement in Scheduled Escalated Adjustments, the improvement may only be made if it can be demonstrated to the satisfaction of the Superintendent that the risk management goal described in Section II.B of this Funding Policy will be met.

VI. ACTUARIAL ASSUMPTIONS

The Plan's actuary shall conduct a funding valuation as at a date that is no more than six months before the Conversion Date. The next funding valuation shall be required no later than December 31st, 2016. Funding valuations are required at least once every three years unless the termination value funded ratio (as defined in the TPPA) of the Plan falls below 90%, in which case annual funding valuations are required. Going concern valuations for Income Tax Act purposes are required at least once every three years.

In years when a funding valuation is not prepared, a cost certificate will be prepared in accordance with Regulation 91-195 under the PBA, to estimate the closed group funded ratio.

Funding Valuations for Funding Policy Decisions

The actuarial assumptions used for the funding valuation, and factors to consider regarding changing such assumptions, are discussed in this section.

A. Discount Rate

The initial discount rate as at January 1, 2014 shall be 6.25% per annum with an inflation rate assumption of 2.25% per annum (or 4.00% per annum when net of inflation). Given changes in economic conditions and in order to remain in compliance with the Canadian Institute of Actuaries' requirements for the selection of discount rates, the discount rate is reduced to 5.85% per annum with an inflation rate of 2.25% per annum (or 3.60% per annum when net of inflation), effective August 31, 2016.

The intent is to leave the discount rate stable. The discount rate may be changed if required by the Superintendent; standard published by the Canadian Institute of Actuaries, applicable laws or if there are changes in the economy or Investment Policy or other relevant factors that in the Plan actuary's opinion warrant a change in the discount rate.

B. Mortality

Effective August 31, 2016, the mortality table for the Plan shall be the 2014 Public Sector Mortality Table (CPM-2014 Publ) published by the Canadian Institute of Actuaries in February 2014 adjusted to 90% for both males and females, and using generational projection scale CPM-B. The above adjustments were determined following a mortality study specific to the Plan using experience from 2005 to 2015.

The mortality basis shall only be changed if required by the Superintendent or the Canadian Institute of Actuaries to reflect improvements in life expectancy beyond those contemplated by the last table used, or if recommended by the Plan's actuary to reflect the latest available information on life expectancy.

C. Retirement Patterns

The retirement pattern assumptions were those used in the pre-conversion plan, adjusted to reflect the anticipated effect of the retirement rules considered in the costing.

The assumptions described above are intended to remain in effect for a minimum of two years. Changes in assumptions after that time are the sole responsibility of the actuary based on accepted actuarial practice and consistent with the purposes of the Plan (i.e., no margin for adverse deviation in the discount rate unless changes contemplated to the asset mix increase the risk profile of the Plan from the level immediately prior to the proposed change as measured based on the risk management rule).

Changes in assumptions as may be required from time to time shall not result in a change in the contribution schedules under Section III. For greater certainty, the contribution levels described in Section III shall remain unchanged even if a change in assumptions might have resulted in a different level of contributions had these assumptions been used as at July 1, 2014.

Going Concern Valuations for ITA Purposes

The discount rate shall contain a provision for adverse deviation such that the Plan, based on the Investment Policy at the valuation date, has at least a 75% chance of exceeding the nominal discount rate over the next 20 years. For purposes of this calculation, a change in the asset mix under the Investment Policy after the valuation date but before the report date shall be considered a change in the Investment Policy at the valuation date.

VII. ANNUAL REVIEW

The Funding Policy shall be reviewed each year in accordance with the requirements of the TPPA, PBA, and Regulation. The annual review of the Funding Policy consists of two elements as follows (discussed below):

1. Process for application of the Funding Policy; and
2. Identification of potential changes to the Funding Policy that may be required or appropriate.

B. Application of Funding Policy

The Funding Policy shall be applied by the Board of Trustees as follows:

1. The actuarial assumptions shall be reviewed when a funding actuarial valuation report is prepared.
2. An initial funding actuarial valuation report shall be prepared at a date that is no earlier than 6 months before the Conversion Date.
3. A funding actuarial valuation report shall be prepared no later than December 31, 2016 and then at least once every three years unless the termination value funded ratio of the plan falls below 90%, in which case annual funding valuations are required.
4. Cost certificates will be prepared in years where a funding valuation report is not prepared.
5. Calculation of the closed group funded ratio at each funding policy valuation and when each cost certificate is prepared.
6. Based on the results of step 5, identification of Board of Trustee action or actions including Funding Corrections required or possible under this Funding Policy.
7. Test of risk management goals as required under the Funding Policy assuming the action or actions in step 6 are taken; and if the risk management goals are met, move to step 9.
8. If the test in step 7 reveals that the risk management goals are not met, then consider if changes to the asset mix under the Investment Policy are warranted.
9. Report to the Superintendent that the annual review of the Funding Policy has been completed, report to the Superintendent regarding the application of the risk management procedures to the Plan, provide other information to the Superintendent as required, and fulfill any other TPPA, PBA, and Regulation requirements.
10. Report to Members and the Parties.
11. Implement actions that are permitted or required based on the above steps.

The Board of Trustees may have to take action in between annual reviews, as follows:

- The TPPA requires that if the Province intends to significantly increase or reduce the number of members of the Plan, the Board of Trustees must be notified and must assess the financial impact on the Plan and make recommendations on any required corrective measures.

- The PBA requires that if there is a known significant increase or reduction in the number of current or future members of the Plan, the Board of Trustees must as soon as practicable file with the Superintendent the results of the application of the risk management procedures to the Plan and the required adjustments to the Base Benefits, the Ancillary Benefits, and the contributions, as applicable.

C. Identification of Potential Changes to the Funding Policy

The Board of Trustees shall annually review this Funding Policy to identify changes required to either improve clarity of the Funding Policy or remain current with changing demographic or economic circumstances.

The Board of Trustees may make the following changes to the Funding Policy:

1. Changes that are needed to comply with a law or regulation; or

2. Subject to 1 above, any other changes that are not related to or do not affect the parameters set out in Schedule “A”.

All other changes to the Funding Policy must be approved by the Parties.

VIII. APPROVAL AND EXECUTION

The Parties have approved this Funding Policy.

IN WITNESS WHEREOF, each of the signatories hereto has caused this Funding Policy to be signed by its respective duly authorized officers or representatives this ________ day of ______________________, 2014.

HER MAJESTY THE QUEEN
IN RIGHT OF THE PROVINCE OF
NEW BRUNSWICK

Per: ______________________________

Name:

Title:

THE MINISTER OF FINANCE FOR THE
PROVINCE OF NEW BRUNSWICK

Per: ______________________________

Name: Hon. Roger Melanson

Title: Minister of Finance

New Brunswick Teachers
Federation/Fédérations des enseignants du
Nouveau-Brunswick

Per: ______________________________

Name:

Title:

Per: ______________________________

Name:

Title:

SCHEDULE “A”

The Parameters

- Teacher Contributions (Section III(A))
- Employer Contributions (Section III(A))
- Contribution Adjustments (Section III(B))
- Sharing of Contributions (Section III(D))
- Expenses (Section III(E))
- Funding Deficit Recovery Plan (Section IV)
- Funding Excess Utilization Plan (Section V)